Yorkshire Finance Leaders

INTELLIGENT PERSPECTIVES FROM BREWSTER PARTNERS RECRUITMENT GROUP | ISSUE 12 · FEBRUARY 2019

Top tips to retain your best people

What makes you unique

Hazel Griffiths

Chief Financial Officer, Fulcrum

People management and employment –

What key challenges does 2019 hold?

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Yorkshire Finance Leaders

What's happening?

A warm welcome to our first Yorkshire Finance Leaders edition of 2019. Last year was an eventful time for UK business and politics, and this year is proving to be no different. Whilst careful planning and a certain degree of caution for what lies ahead is important, I hope that despite these uncertain times, things in your business remain optimistic and continue to move forwards.

Following a refresh in our brand and a number of structural changes, our business is surging forward and approaching the year with momentum after another record breaking year in 2018.

2019 sees our second year as sponsors of the Yorkshire Finance Leaders Awards, and our first year as sponsors of ICAEW Chartered Accountants Sheffield & District, as well as our continued association with the Chartered Accountant's students societies across the region.

This month also saw the release of our 2019 Accountancy & Finance Salary Report, which outlines some of the key trends across the region.

I would personally like to thank everyone who has contributed to this edition. We feature Andrew Rayment, Employment Partner at Walker Morris LLP, who has written a piece on 'People management and employment – What key challenges does 2019 hold?' Also included is Hazel Griffiths, CFO at Fulcrum Plc in our article 'What Makes You Unique?'

Businesses are finding it more difficult than ever to recruit and retain talent, with rises in salaries, improvements in company benefits and well-being initiatives, all playing a part in higher rates of staff retention.

Whilst the job market in the UK continues to improve - with an all-time high employment rate of 75.7% - there are still significant challenges in the professional recruitment market. Businesses are finding it more difficult than ever to recruit and retain talent, with rises in salaries, improvements in company benefits and well-being initiatives, all playing a part in higher rates of staff retention.

We feature an interview with Rebecca McNeil, CEO of Close Brothers Motor Finance, as well as a feature on staff retention and engagement.

I hope you enjoy this edition of YFL and find it an interesting read. All of your feedback and comments are welcome as always.

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People management and employment –

What key challenges does 2019 hold?

We caught up with Andrew Rayment, Employment Partner at law firm Walker Morris LLP, to talk about key employment issues likely to be faced by finance teams over the coming year.

"Employment law and regulation has always been a fast-moving area and that, combined with current Brexit uncertainty, means that employers need to stay vigilant for forthcoming HR issues or risks that might affect their bottom line", comments Andrew Rayment. He adds, "These are unprecedented times and 2019 is set to be a challenging year for business given the level of uncertainty and uncharted trading conditions. But business must go on. Finance (very often working hand in hand with the HR function) plays a critical role in alerting the Board to risk, shaping strategy and ensuring that HR objectives remain in line with dynamic business objectives".

Continues overleaf

People management and employment – What key challenges does 2019 hold? continued

So, what HR-related challenges need to be on the finance radar in 2019?

GAME-CHANGING NEW IR35 RULES FOR CONTRACTORS IN THE PRIVATE SECTOR FROM 6TH APRIL 2020

Significant changes to IR35 rules on 'off-payroll' working are set to come into force from 6th April 2020 in the private sector (having already been rolled out in the public sector from April 2017). This is a 'game-changer' for companies whose workforce model involves engaging contractors through personal service companies (PSCs).

So, what exactly will the change be?

IR35 rules ensure that people working as contractors through a PSC, who would have been employees if they had been engaged directly by the hiring company, pay broadly the same Income Tax and National Insurance contributions (NICs) as if they were employed. HMRC estimates that only 10% of individuals working in this way apply the IR35 rules properly, and it says this costs the Exchequer hundreds of millions of pounds in lost tax revenues every year.

The IR35 rules changes are an attempt to address this challenge. From 6th April 2020, the company engaging the contractor will become responsible for deciding whether IR35 applies to a given situation and, if it deems that it does, ensuring that income tax and employee NICs are deducted from payments made to the contractor.

Put simply, if the hiring company considers that IR35 applies, it is the company (and not the contractor) that will be responsible for operating PAYE on the fees that it pays to the contractor. This change has already been rolled out in the public sector (in April 2017) and HMRC reports this has led to increased tax revenues.

The new rules will apply to large and medium sized companies. It is likely that the threshold of 250 or more staff (as currently applied in the public sector) will be used, although this has yet to be formally confirmed in regulations.

Practical steps

Affected companies should carry out an impact assessment on the change including an audit of:

- The numbers and categories of contractors currently engaged (including those engaged through an agency).
- The terms of the contracts under which they are working.
- The likely IR35 status of each individual contractor.

The change may lead to additional costs so thought needs to be given as to which party will bear any increase. If the cost is to be passed on to the contractor, then this will need to be negotiated with them in good time.

On a practical note, companies should check that payment software, processes and systems are able to operate PAYE and NICs whilst, at the same time, ensuring that the contractor receives the correct net payment and VAT.

This change deals only with employment status of contractors for tax purposes, so companies can rest assured that payment of a consultant under this new regime will not automatically deem them to be an employee or worker for employment law purposes.

That said, companies do need to remain on guard against treating independent contractors as if they are employees (for example by subjecting them to the same obligations and controls as employees, providing them with tools and equipment or integrating them into team structures) because this can lead to a presumption of employment or 'worker' status leading to exposure to employment claims. This leads us neatly on to our next point...

Beware of 'hidden' workers and latent pay claims

As recent headlines have shown (Uber, Citysprint, Pimlico Plumbers to name a few) 'self-employed' contractors can very often turn out to be classified in law as 'workers' or even full employees. Workers have certain employment rights such as the right to be paid the national minimum wage (NMW), to receive paid holiday and the right to be auto-enrolled in a workplace pension.

The 2017 European Court of Justice decision in 'Sash Windows Workshop v King' raises the stakes even higher. It held that a 'self-employed' contractor (who was found, in actual fact, to be a worker) was entitled to be paid for all the statutory holiday he had accrued during his time with the employer. He had not previously taken any holiday because he didn't think he was entitled to it (wrongly thinking himself to be self-employed). This exposure could go back as far as 1998 when the Working Time Regulations were introduced in the UK.

As ever, forewarned is forearmed. If you think that you have some off-payroll individuals in your organisation who present a risk of being classified as workers or employees, then take specialist legal advice. It may be possible to take steps to mitigate any latent exposure and put in place controls to prevent the risk from Reoccurring.

Prepare for uncertain trading conditions ahead

One thing is for sure, 2019 is going to bring uncertain trading conditions. What steps can be taken to manage uncertainty and potentially increased costs whilst remaining on 'the right side' of employment law?

The good news is that with appropriate planning and forethought it is possible to make changes to workforce structures and working patterns with the objective of increasing flexibility and resilience, reducing costs and absorbing increased costs into sustainable budgets. This is where your employment law advisers can add real value. Some of the options available include:

Workforce flexibility

- It may be expedient to use zero-hours, annualised or lower base hour contracts or to restructure shift patterns and premiums. Savings might be made by staggering shift start and finish times and existing overtime arrangements may need to be reassessed.
- Think about supervisory structures. Are they top-heavy? If so, consider flattening structures to reduce the number of higher paid supervisors. Non-supervisory staff could be given additional responsibilities and new, higher expectations of non-supervisory staff could be introduced, perhaps in return for additional benefits or flexibilities. Many employees may welcome structure flattening exercises as they often lead to a more engaged, democratic workforce culture.
- Consider whether current contractual arrangements and shift patterns provide the right amount of flexibility for your organisation and to identify any potential payroll savings.

Always take legal advice if significant changes to contracts of employment or overtime arrangements are envisaged. The cost and time involved in Tribunal claims can outweigh the financial benefits of a change. If you recognise a trade union, consider whether it is worth initiating a discussion with it at this stage about the realities stemming from the increased payroll costs.

Getting value for money from staff

- As pressure on margins continues to increase it will be as important as ever that employers are getting the best possible value from staff. Performance management procedures need to be effective and managers and supervisors need to be well versed on how to use them.
- Conversely, ensure that staff performing above expectations are recognised and that staff retention strategies are working effectively.
- Competition for quality staff is increasing and many employers are seeking to differentiate themselves by providing new and innovative reward and recognition programmes.

Redundancies

If redundancies are anticipated ensure, in advance, that existing redundancy procedures are fit for purpose. If collective redundancies are envisaged, then there are certain timescales that must be followed (penalties for breaching these are high). It's imperative to start laying the groundwork and timelines for collective consultation in good time before the process begins.

Corporate Governance Reforms

Finally, make sure you are up to speed with the Companies (Miscellaneous Reporting) Regulations 2018 which came into force on 1st January 2019 and apply in relation to the financial years of companies beginning on or after 1st January 2019.

The new Regulations require directors of a company with 250 or more UK employees to report on the extent of the company's employee engagement, large companies to provide a statement of their corporate governance arrangements, and for some to publish, as part of the directors' remuneration report, the ratio of their CEO's total remuneration. The Regulations also require a statement in the strategic report outlining how directors are considering stakeholders when carrying out their duty to promote the success of the company.

Establish who in the business will have ownership for ensuring that the requirements for corporate governance reporting are met. This is may well be jointly handled by Finance and HR.

Conclusions

There is a lot to think about and plan for and this is a good time to sit down with HR and other affected business functions to plan out workforce strategy for the coming year.

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WALKER MORRIS

Close Brothers Motor Finance

Top tips to retain your best people

With rising recruitment costs and the challenge of finding the best talent and fit for your business, it's crucial that employers do the best they can for their colleagues and keep hold of their best people as a result. Close Brothers Motor Finance share their top tips for retaining employees and explain what it's like to be part of the team.

#1 Show you care

At Close Brothers Motor Finance, we promote a culture of recognition, with monthly and annual awards for employees nominated by their peers for individual and team contributions.

We are lucky to have many colleagues who have worked with us for a number of years. For those people, we offer long service awards including extra holiday entitlement and an invitation to a special recognition dinner.

Charity support is a huge focus here and we offer financial matching for employee charity work and volunteering. It's just one more way we show we care.

#2 Be flexible

Work is something you do, not somewhere you go. We encourage a range of formal and informal working arrangements as well as investing in our technology to support employees being able to work away from the office.

If you need to leave early to pick your car up from the garage or have a longer lunch break to watch your child in a school performance, this is OK!

#3 Have fun and enjoy the simple things

It's not all about grand gestures; sometimes the little things make all the difference. At Close Brothers Motor Finance we have 'dress down Fridays', monthly office buffets, an annual all expenses paid conference and, not to mention, 'bring your dog to work' day!

We also give everyone an extra day off for Christmas shopping and last year, to celebrate our 30th anniversary, we gave everyone their birthday off too.

Our social intranet platform enables us to connect with people across the business as individuals. This allows us to have fun as a wider team and share the things that matter to us.

#4 Be ambitious

People want to work for a business with drive and direction. We are currently embarking on a huge change programme and have the advantage of being small enough to be agile but large enough to invest in large projects.

We are committed to providing people with opportunities in career development through promotions and secondments, allowing us to maximise on the talent we have within our teams.

We're a commercially successful business with ambitious targets and we empower our people to have a 'can do' attitude that drives performance.

#5 Consistency is key

A business based on strong foundations is key to providing stability for its employees. Our company values have stood the test of time, with a business model based on service, expertise and relationships.

Over the last 30 years we have proven to our customers and partners that we are there when it matters and here for the long term. Whilst we have fun, we are risk-adverse and prudent in our lending which has allowed us long-term success and loyalty within our core markets.

Continues overleaf

Top tips to retain your best people continued

Rebecca McNeil took over as CEO at Close Brothers Motor Finance in April 2018.

In the interview below, she speaks about her motivations for joining the business, what makes Close Brothers Motor Finance a great place to work and her plans to retain the best people.

Q. What attracted you to join the business?

The Close Brothers Group has a very clear strategy and knows what it is and what it isn't. More than that, it invests in its businesses and, while providing them with all resource benefits a FTSE 250 bank can provide, it ensures they are very much their own businesses with their own culture and direction.

Q. What do you think stands Close Brothers Motor Finance apart from other financial services businesses as an employer?

We believe strongly that the colleague comes first. If you look after your colleagues, they will look after your customers and, in turn, our shareholders. Too often the bottom line comes first, and while we're still willing and able to make tough decisions when we need to, we always think about our people as a priority.

Q. What has surprised you as an employee of Close Brothers since you joined?

The business has such an open culture, there is no hierarchy and having come from a 'big bank' it's refreshing to see far less bureaucracy; when we put our minds to it, we can really get stuff done!

Q. What colleague-focused changes have there been in the last 12 months?

Close Brothers Motor Finance is going through a huge programme of investment and that means a lot of change. While we won't change our 'what makes us special in the market' - our service, relationships and expertise - we are transforming our processes to deliver that proposition faster and better. That means a lot of change for our colleagues, so we're having to be mindful of how we do that in the right way.

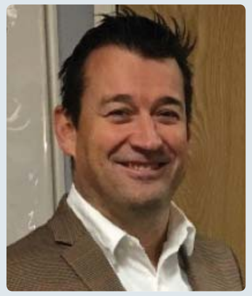
Q. Why do you think Close Brothers Motor Finance is a great place to work?

The energy in the business is amazing. Our teams are so passionate about the industry and our dealer partners, so there's a real drive to make things better - we try to keep up with them.

Q. What do Close Brothers Motor Finance do well to retain their best people?

We're working really hard to ensure our teams get the best training and development possible. They invest a huge amount of effort in this business, so it's our leadership team's job to ensure that they get something back. We also offer some great benefits to our colleagues including private healthcare, a competitive pension scheme, shopping discounts, emergency back-up care, holiday purchase options… there really is something for everyone!

Over the last 30 years we have proven to our customers and partners that we are there when it matters and here for the long term. Whilst we have fun, we are risk-adverse and prudent in our lending which has allowed us long-term success and loyalty within our core markets.



"I have previously had 20 years working in a world leading bank and whilst they always encouraged new ideas, the process of going through layers of reporting lines made it both exhausting and time consuming. I love working for Close Brothers Motor Finance because we still have those scales of size but all our decision makers are based within one head office. Everyone is within reach and its rewarding to receive quick and efficient responses that then conclude in swift action. Very motivational."

Steve Ginty, Senior Sales Manager.

"The huge business transformation that is currently taking place is what attracted me to come and work for Close Brothers Motor Finance. When you look at how much investment Close Brothers Bank is putting in to support future growth plans, it is very attractive in a difficult market. Having been here for over a year now, I believe it's a high integrity, low ego business; very different to some of the others I've worked for where there certainly were lots of hierarchies and egos in play! Here, everyone is very accessible and highly personable".

Jaco Wilsenach, COO.

Close Brothers
Motor Finance

Part of the FTSE250 Close Brothers Group, Close Brothers Motor Finance works with over 8,000 dealer partners to offer flexible finance solutions to customers looking for a new or used car, motorcycle or light commercial vehicle. With headquarters in Doncaster, they employ over 450 people with offices across the UK and Channel Islands.

We're proud to be a leading finance company with 30 years of continuous presence in the market

Founded in 1988, we have become a leading, independent point of sale finance company with a successful reputation within the motor finance industry.

Our sole mission is to make it easier for more customers to buy their next vehicle from our dealer partners and last year, we helped over 80,000 customers get on the road.

We work with over 8,000 trusted dealer partners

Our dealer partners range from small independents, to large multi-franchised dealerships and manufacturers, which means we can work closely with you and your chosen dealership to offer you a finance package to suit your needs. Working together to be the specialist motor finance provider of choice.

Corporate Social Responsibility

At Close Brothers Motor Finance, we have our own dedicated Corporate Social Responsibility (CSR) committee who meet monthly. The committee is made up of people from across the business and we also have a dedicated CSR Champion in each location to support all activities locally.

FULCRUM

WHAT MAKES YOU UNIQUE?

Hazel Griffiths, Chief Financial Officer

Hazel joined the Group in September 2015 as Group Financial Controller. Prior to joining Fulcrum, Hazel held a series of senior leadership and transformational change management roles including Divisional Head of Finance at Hargreaves Plc and Change Manager at the Arcadia Group.

Hazel began her career with KPMG, gaining a wide range of experience encompassing public companies, private equity owned businesses and private groups across a variety of sectors predominantly involved with property, construction and retail.

In the seven years spent working at KPMG she gained cross-functional knowledge, having worked in audit and transactional services in the UK and Australia. Hazel is a member of the Institute of Chartered Accountants in England and Wales.

Continues overleaf

What makes you unique? continued

1. You have reached CFO at a very early stage in your career, how have you been able to achieve this?

Firstly, I never set out with the intention of becoming a CFO. My route to the role I am in now included a lot of hard work, some luck, and perhaps most importantly a desire to apply myself to improving the business I am in at the strategic level, regardless of which role I happened to occupy at the time.

I don't see my lack of a preordained goal to become CFO as a weakness, as it is inevitable that you will only find out about your own strengths and preferences as you progress throughout your career. I've also found that the best way to achieve that progression is to deliver lasting, meaningful and positive change to the organisation you're working for. If you prioritise this over any specific promotion goals then I believe your career progression will look after itself.

Another important skill to have is knowing the correct time to move on from a business. My career path probably doesn't fit the recommended model. For me, it's time to leave when you know you've delivered all you can for an organisation, whether you've been there one year or ten.

2. What is it like working as CFO in an AIM listed business?

There really is no such thing as a typical day! One day I may be in London, discussing our performance with investors, the next I may be conducting an operational review with the team.

The variety of the role is definitely one of the things that keeps me interested, though I'd say the main benefit is involvement at the strategic level, making decisions on acquisitions, integrations and new markets.

3. What lead you to choose a career in accountancy?

Once again, this was not something that I set out with a specific intention to do. I had graduated with a degree in Chemistry from Durham University and was looking to start a professional career with some structured training, ideally in a large organisation where I could develop and work my way up the career ladder.

I found that the intensity and workload of my degree set me up well to work in a demanding professional services environment. I joined KPMG in September 2005 and spent 7 years there completing my ACA and working my way up to Manager. Having trained in audit I dealt with some major clients including Persimmon Homes, and I was involved of the listing of WanDisco.

I had a secondment to Australia for four months, which was a fantastic experience. After this I felt I was ready to take on senior finance roles in industry.

4. How did you find the transition from Big 4 into industry?

I was ready to make the move, and I saw the step into industry more like another project rather than a major career change or progression.

At KPMG I was used to cross functional secondments and short sharp projects such as acquisitions. I was ready to start applying what I had learnt in the profession to add value to a specific organisation. Starting in the Big 4 had given me the experience that I needed to get the roles I wanted, so it was the right time to go for it.

5. What does the future hold for Fulcrum?

Our strategic plan includes developing our electrical business to reach the same high standards, in customer satisfaction, market presence and performance, as our gas business currently enjoys.

Electric is a growth market, and as such it's an exciting place to be. We're pursuing innovative new solutions such as smart metering which will enable us to grow in a way that is sustainable (in more ways than one!) as well as profitable.

FULCRUM

Connecting the Nation

Fulcrum provides all-in-one utility solutions that are designed to meet the utility infrastructure needs of its clients, nationally. It is a multiple award winning business and has a track record of excellence, underpinned by its aim to be the UK's most trusted utility services partner.

The Group operates a direct delivery model and the breadth of utility services it delivers across the nation is unmatched. This includes utility connections for single properties to large and complex utility infrastructure projects of national significance.

The Group is also one of only a few businesses in the UK that can then adopt and own the gas and electricity utility infrastructure it designs and builds, providing it with assets that deliver an ongoing income stream.

Find out more about fulcrum: www.fulcrum.co.uk

6. What is your advice to anyone looking to become a CFO in the future?

Don't set yourself a ticklist of targets, and don't limit yourself by job title. Look at what you enjoy and what you're good at rather than what the business can do for you.

If you focus on the value that you can add to your organisation then you will progress in your career, one way or another. Perhaps most importantly, I'd always value teamwork and working positively to help others over office politics and networking. Perhaps you can fight your way to the job you want, but I wouldn't.

Of course I can't promise that this approach will lead to you becoming a CFO, but that may be because somewhere along the way you found a role that you'd rather do instead. If you focus on what you can deliver, rather than the political side of career progression then I feel that you're more likely to be able to look back on a career well spent, where you've been valued by those you've worked with and where you've hopefully been able to do some good along the way.

LTIPs
(Long-term incentive plans)

In an increasingly competitive market place for top talent, I have had a range of businesses enquiring recently about what they can do as a means of retaining their key staff and increase the level of engagement in the company's overall strategy.

LTIPs were once seen as something that only CEOs in large PLC's had access to, but in recent years we have seen a sharp increase in their adoption in privately run businesses.

In recruitment we often refer to, in certain market conditions, as it being a 'candidate led market', where the demand far exceeds the availability of candidates who possess specific skills, or who have a particular track record and career that is especially attractive to employers.

This means that businesses are needing to work harder than ever before to retain their top talent as competition and interest from other employers heightens.

We have seen salaries increase steadily for senior finance leaders, but LTIPs provide a means of improving retention, and 'locking in' their top talent, particularly when working towards specific objectives or milestones.

Anne Brady
Associate Client Director, Brewster Partners

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Long-term incentive plans (LTIPs) continued

What are LTIPs?

Long-term incentive plans are performance-driven incentive programs based on a pre-specified time period that can provide a potentially significant award in addition to base salary and annual incentive or bonus.

We see them fall into two major categories:

- Multi-year plans covering fixed or rolling performance periods of three to five years.
- Career-based plans in which the benefits accrue over the individual's working career, to be paid on termination or retirement.

Many LTIPs are tied to a company's strategic plan, with performance metrics that match specific milestones related to compounded growth, operational effectiveness, market share, etc.

What are the benefits of LTIPs?

There are a number of significant advantages to implementing LTIPs:

Employee retention

Regulations require that LTIPs must contain a "substantial risk of forfeiture." Along with the attainment of performance metrics, the most common requirement is continued employment. This then subjects the participants to the loss of a portion of (or all) accumulated LTIP awards if they decide to leave.

Focus on desired results

The objective of any incentive plan is the successful achievement of one or more pre-determined performance goals. Establishing goals upfront allows the participants to look over the horizon and focus on the target.

Balance of short and long-term decision-making

A common criticism of incentive programs is that 'non-owner' participants are only concerned with short-term (annual) results. An LTIP allows participants to share in the long-term results, and therefore almost dictates that participants consider the consequences of their short-term decisions on developments over the long term.

Sharing in the company's growth

A very important concern of many executives is that the hard work and investment they put into a company's long-term success will not accrue for them. The LTIP allows them to share in the company's value proposition by tying their rewards to that success, as though they were owners. This is particularly significant when a privately owned company needs to recruit externally for a member of its leadership team.

The long-term incentive component can serve as an attraction tool, especially in a turnaround situation. Conversely, the absence of this pay element may detract from the company's ability to hire well-qualified leaders.

How do LTIPs work?

The design feature that is most attractive to private companies is that the awards are typically paid in cash.

Although there is nothing preventing privately held companies from using non-tradable equity shares, usually it is a lose-lose proposition—participants are not attracted to a device that is restricted, non-liquid and has unpredictable value, while most owners are not interested in creating minority shareholders.

The primary attraction of LTIPs is that privately held companies have tremendous freedom in their design. Non-equity LTIPs can be designed to meet the company's values, objectives, existing systems and capabilities. Both the performance periods and measures are extremely flexible, and typically relate to the company's strategic plan and vision.

How do we develop LTIPs?

Designing an LTIP requires a number of items. These include:

- Commitment by the owners (including equity shareholders).
- Acceptance of a compensation philosophy, covering exactly what and how the compensation works.
- A strategic plan or at least an understanding of what is expected in the future.
- A well-thought-out approach.
- The willingness to communicate targets and results to incentive program participants.

LTIP Objectives

The overall objectives of a long-term incentive plan will influence which design is most appropriate. Common objectives include:

Attract Talent:

to attract the right employees, a company will want to consider how to be competitive in its sector– considering both publicly-traded and private incentive structures and choosing a strategy that makes them stand out to potential candidates.

Performance:

to strike a balance between measures of success for the company (and its shareholders) and what the employee has an influence over in the long term. For many organisations, equity compensation plans can effectively support the objective of coalescing the management team around a common goal, and share in the company's long-term growth.

Alignment with Shareholders:

to ensure participants have sufficient risk tied to a company's success, and to reinforce a culture of ownership.

Retention of Key Personnel:

to ensure sufficient retention mechanisms are in place (e.g., through deferral of compensation and vesting / forfeiture conditions).

LTIPs can be a fantastic tool and act as a differentiator when attracting the top talent. However, the performance conditions need to be fair, and the structure and terms of the compensation needs to be properly communicated. They are different for each company, so if you are offered one, make sure you know exactly what it entails and how you will receive it, and if you are offering one to your senior executives and directors, make sure you have developed a clear proposition that allows your employees to understand fully any risk they are incurring, and any investment (monetary and performance-based) that they will be expected to make.