

Private Business

a private business forum publication

March 2010

Is the UK supporting enterprise?

We ask the three main political parties for their views.

Stay ahead.





Welcome to the spring issue of *Private Business*.

We hope that you enjoyed our inaugural issue back in December.

The new year brings new challenges, and in this issue we hope to provide you with some sound advice on how ‘UK plc’ can return to the market place as a viable place for investment, industry and business. We have provided all three of the main political parties with the opportunity to outline how they intend to boost the UK economy, and – most importantly – how they plan to support, encourage and nurture British private businesses. With a General Election just around the corner, these plans have never been more crucial to the business community.

We also talk to Paul Drechsler, CEO of Wates Group, the family-owned construction company, to hear his thoughts on UK construction and how the industry can be hugely beneficial to both the economy, the climate change agenda and society as a whole. This is followed by a more detailed look at sustainability and climate change, where we ask whether private companies are doing enough to meet their carbon-reduction goals.

The regulatory, economic and tax environments are constantly evolving for those who are non-domiciled in the UK and in this edition we ask whether non-doms are responding adequately to these changes. To start this second issue, we take a look at the end of UK GAAP and the emergence of the new ‘IFRS for SMEs’, a move that has implications for both small and large businesses.

Our Private Business Forum series of events began on 21 January 2010. Events were hosted in London and Birmingham where the results of our Enterprising UK Survey 2009 were presented and discussed with prominent business leaders of private companies. You can read more about these events in our next issue.

As always, any feedback you have would be very welcome.

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The end of UK GAAP – which way now?

The Accounting Standards Board's proposed plan to replace UK GAAP by 2012 has left most UK companies with a major decision to make. Should they wait and adopt the new IFRS for SMEs, or does it make more sense to choose full IFRS now?

The decision of the UK Accounting Standards Board (ASB) to potentially adopt International Financial Reporting Standards for Small and Medium Entities (IFRS for SMEs) from 1 January 2012 spells the end of UK GAAP. Although IFRS for SMEs is simpler than full IFRS (which has been compulsory for listed companies since 2005) in terms of accounting and disclosures, it may not be the right choice for many companies.

Sam Taylor, assurance director at PricewaterhouseCoopers Reading office explains:

“The decision for many companies is much more than an accounting one. This situation is unique because, unlike the listed companies that moved to IFRS in 2005, companies now have an option to pick the set of standards that will suit them best.

“The impact on distributable reserves, cash tax payments, covenants and guarantees as well as the future direction of the company and the wishes of stakeholders, should be the key factors driving the decision. Only when these impacts have been assessed properly can a company effectively conclude which set of standards is right for them.”

Based on the experience of listed companies in 2005, Sam expects many companies to wait until the last minute to make their transition but warns that delaying the decision may be detrimental. Tom Woodcock, tax director, also in PwC's Reading office expands:

“We have seen several companies voluntarily adopt full IFRS since 2005 to take advantage of beneficial taxation or distributable reserves positions. Many others have concluded that while these benefits existed they were outweighed by the upheaval of implementing a new basis of accounting.

“The change now is that this upheaval is definitely going to happen, be it now or in 2012, so companies should take full advantage as soon as they can.”

Sam also offers hope to those apprehensive of transitioning to a new set of accounting standards.

“The change now is that this upheaval is definitely going to happen, be it now or in 2012.”

“In many instances the fear is of the unknown, and is often unfounded. A number of the transitions to full IFRS that we have been involved in recently have been relatively more straightforward than our clients had expected. UK GAAP is now more closely aligned to IFRS than it was in 2005, and so with a little hand holding the process may not be a difficult one. Whether the choice is IFRS or IFRS for SMEs, planning early is the key.”

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We asked the three main political parties for their views on UK enterprise. The following three articles lay out their plans, without editing by us, to give you the clearest possible overview of their thoughts on the future of UK enterprise.

Securing long-term growth for the UK



Ian Pearson MP, Economic Secretary to the Treasury, talks to us about the Labour Party's vision for boosting growth in the UK's private businesses.

Since the onset of the global economic crisis in 2007, the Government has taken decisive action to limit the impact of the downturn for businesses in Britain. As we now move to secure the recovery, we are continuing to provide targeted support to help businesses, but we also face a new challenge; how to secure long-term growth and continue to promote enterprise in the UK.

Before I say something about work in hand to help support future business growth, I want to reflect briefly on how we have supported enterprise so far.

One important measure has been the Business Payment Support Service, which helps businesses spread tax over an affordable timetable. To date it has helped over 160,000 businesses to spread over £4bn of tax payments. The Enterprise Finance Guarantee Scheme,

the 75% government guarantee on loans for businesses with £25million or less turnover, has seen over 9,000 businesses offered more than £700 million pounds. We also lowered VAT to 15% and the main rate of capital allowances was doubled to 40% for 2009/10, benefiting 65,000 firms. These measures, along with others, provided support when it was needed most.

Recent surveys, including the PwC survey on enterprise, have suggested there is a growing optimism within businesses and renewed confidence for the future. We cannot be complacent, however, and take away support when it is still needed. This is why we announced in the Pre-Budget Report the extension of a number of key services that have supported enterprise, helping them until the recovery is secured.

The Business Payment Support Service has been made permanent. This will help the service build on the support it has given businesses that collectively employ more than 1.2 million people.

We have frozen the small companies rate of corporation tax at 21% until April 2011, which will support 850,000

small companies. We also announced the extension of the temporary increase in the threshold for empty property relief. For 2010-2011 an estimated 70% of empty properties worth less than £18,000 will be exempt from paying the business rates.

We are aware that some businesses, especially small and medium, are still encountering difficulties getting loans. To combat this we are continuing the Enterprise Finance Guarantee (EFG) for an additional 12 months, which will support an additional £500 million in lending through until 1 April 2011. This scheme has been responsible for saving or creating 37,400 jobs, and more than half of businesses judged their EFG loan to have been critical in achieving the purpose for which it was intended. It has not been publicised nearly enough but UK banks have secured over £1.39 billion of loans for small business from the European Investment Bank (EIB). Nearly 3,000 small to medium enterprises (SMEs) have had over £700 million of low cost loans approved through this facility. As more companies work to future growth strategies these loans could provide the sort of long-term cheap debt finance many of them will need.

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The Government is firmly on track to deliver £4 billion of EIB finance to SME's by 2011.

We have taken action to increase confidence for businesses accessing bank finance. Lloyds and RBS have agreed to increase their lending to businesses and we will continue to monitor their performance closely.

As we emerge from the recession there will be new opportunities for enterprise. This is why the Government has announced a set of plans to support investment, innovation and infrastructure, whilst ensuring businesses continue to have access to finance for growth. These have been set out, both in the Pre-Budget Report, and the recent publication of *Going for Growth: Our Future Prosperity*.

Last December, following the conclusions from the Rowlands Review, we recognised that there was a gap in the provision of growth capital to SMEs needing finance in the range of £2-10 million. From our estimates there are around 32,000 viable and growing businesses, which may not be able to secure the growth capital they need. This is not acceptable and is why we are establishing a Growth Capital Fund. We are in discussions with the City, who are equally committed to creating a world class and fully commercial Growth fund and we will be able to announce the initial investors and fund structures later this year.

We are also creating a UK Innovation Investment Fund, and at the Pre-Budget Report we were able to give further details on the funding. The private sector will match any contribution from the Government, and following a very positive response from private investors

the fund will be launched with £325 million shortly. This will directly benefit UK technology-based companies.

I know businesses raise concerns around the burden of regulation. They want advice and support that is easy to use and simple to understand, but with over 3,000 publicly-funded business support products available in 2006, they said it was difficult to engage with the right ones. We have addressed this and pushed for a simpler set of products. Solutions for Business represents the simplified core portfolio of 29 business support products offered by Central Government, Local Authorities and Regional Development Agencies, with work being undertaken to bring the remaining products in line with the Solutions for Business portfolio by March 2010. And further steps are being taken as the Government is progressing its three tax simplification reviews, of which you will hear further detail later in the year.

Government is now paying bills more promptly than ever before. The prompt payment initiative, which has been made permanent, requires payments from

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Government to suppliers to be made within 10 days, down from 30 days. Over 95.7% of payments are now made in this time scale.

On top of these measures, we are ensuring that the UK has the right infrastructure in place to stimulate enterprise in the business community. We announced a new advisory body ‘Infrastructure UK’. This will assess the UK’s long-term infrastructure needs and advise the Government on long-term national infrastructure priorities, including how we support a transition to a low carbon economy.

All these measures show not only our commitment to support business and enterprise through what has been the most difficult financial crisis we have seen since the 1930s, but a commitment to help UK firms invest, grow and compete successfully in the future.

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Freeing enterprise



In this article **Mark Prisk MP, Shadow Business Minister**, sets out how a Conservative government would free enterprise in the UK to start, grow and prosper.

The first task of an incoming government after the election, regardless of party, will be to rebalance the public books. That's why George Osborne has made it clear that a Conservative government, if elected, would move quickly to set out a robust and credible fiscal plan. The longer the debt is allowed to grow, the harder it will be to reduce it.

However, it will also be vital to enable the UK economy to once again grow and that means freeing enterprise, including private businesses. After all, there are 4.8 million private enterprises and they employ more than half the private sector workforce.

And having run my own business for ten years, I understand that government doesn't create wealth. Business does. Government's role is to create the best environment in which you can start, invest in and grow your enterprise.

That means a clear, long-term framework, not short-term fixes.

So how would a Conservative government help encourage the formation of new businesses? At present, it takes twice as long to form a company here, as it does in the USA. And, having done so, many businesses avoid taking staff on, because of the costs involved.

So, to kick-start business formation we will cut out many of the forms it takes to start a company and move to a one-click registration system. This will make the UK one of the fastest places to start up. And any new business started in the first two years of a Conservative government will pay no employer national insurance on the first ten employees it hires during its first year.

But what would a Conservative government do to help existing businesses? Here are three important areas for change: tax, finance and regulation.

Reforming tax

First, we would reform the tax system to make it simpler, more predictable and cheaper to comply with.

Since 1997, the tax system has become hideously complex, with the length of the tax code of regulations doubling. The result is a system that is difficult to understand, expensive to comply with and nearly impossible to administer.

However, a complex tax system doesn't just cost time and money, it also distorts business investment. For example, when the Labour Government first introduced research & development (R&D) tax credits it did so in such a way as to heavily distort R&D practices and it took three separate Budgets to resolve the problem. That meant the rules were different for four consecutive tax years – just what business doesn't need.

So a Conservative government would reform the system to make it simpler, fairer and more consistent. Thus we would establish an Office of Tax Simplification whose task will be to systematically simplify the entire system, tax by tax, over the coming Parliamentary term.

The benefit to business is twofold. First, it saves both time and money. Second, the headline tax rates will fall, enabling business to invest.

Thus, by simplifying corporation tax and by stripping out the complex range of allowances and reliefs we will cut the headline rate of corporation tax from 28p to 25p, to once again make us competitive. Similarly, we will reform small company corporation tax, enabling us to avoid Labour's planned tax rate rise to 22p and return the rate to 20p in the pound.

Accessing finance

But if tax needs reform, what about improving access to finance?

continued 

Despite the claims of the leading banks, there remains a gap between their rhetoric and the financial reality for many businesses. Unfortunately, the current government's response has failed to overcome the problem.

For months now we have argued that the Government's schemes are too complex, and too narrow. Many businesses find they are either too small for one scheme, or too large for another.

That's why we argued that, during the recession, there should have been a single national loan guarantee scheme. Worth £50bn it would have provided the opportunity to underpin conventional bank lending, and be applicable to viable firms of whatever size and in whatever sector.

Now, as we hopefully head towards recovery, other problems are emerging with the current government's schemes. So Conservatives are considering carefully how we can improve access to finance for industry, if we are elected to government. We believe the system can be simpler and clearer and we want to look at both long-term debt finance and equity investment.

It's why we have worked with the Stock Exchange and others to support the establishment of a new Environmental Opportunities Index. By making London the global centre for green tech finance, we believe it would also help many related businesses to flourish in the UK.

But we need to do more. And that's why, over a year ago, we pressed the case for a Future Fund, to help

expand the availability of equity investment in this country. Some of you will remember the old Investors in Industry model, or 3i as it became known.

We think this may again have considerable merit and we are already looking at how, in practice, this might be made to work, to the advantage of business, small medium and large.

Reversing the tide of regulation

The third change a Conservative government would bring would be in reversing the tide of over-regulation.

Under Labour, the burden of regulation has risen evermore quickly. Indeed it now stands at the equivalent of 14 new regulations every working day. This has to stop.

That's why we have set out a comprehensive plan to change the machinery and culture of government, which currently sees regulation as the first option, when it should be the last resort. The details of this de-regulation plan can be found on the business page of www.conservatives.com, but here are two examples.

We will start by enforcing a stringent system of One In One Out, where any new law must include a cut in old laws which together produce a net reduction of 5% in the regulatory burden. Civil servants need to understand that it's the overall cost to small business which is so crippling.

Then, we will tackle the regulators. Under Labour the number of regulators has soared, to over 150. They're too large and the cost of compliance is strangling good

firms. So we will apply a 'sunset clause' to all regulators. During the first term of a Conservative government we will ask each of them to explain to us why they should exist. At all.

And our aim will be clear and simple. By the end of the next Parliament, we want to have fewer regulators, we want them to be smaller and they must cost you less.

There is no doubt that this country faces serious threats to our economic and social well being. Yet I believe these threats can be overcome. If we change direction.

That means tackling the public sector deficit now. It means reforming the tax and regulatory system to free business from needless red tape and uncertainty. And it means creating the long-term framework in which business is able to create the wealth and the jobs on which this country relies.

It won't be easy. But then, nothing worthwhile ever is.

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Boosting and supporting UK enterprise



In this article **John Thurso MP, Shadow Secretary of State for Business**, outlines how a Liberal Democrat government would invest in the future of UK enterprise.

A thriving entrepreneurial business sector is vital to create the wealth needed to support the public services that the nation relies on. A principal task of government is to help make that happen.

Successive government's over reliance on the City has ended in a cataclysmic collapse in the banking system and the worst UK recession since 1921. This was caused by a massive reliance on debt and complex financial instruments at the expense of the real economy. A successful financial services industry is important but it must be the servant of commerce and industry, not the master of speculation.

The Liberal Democrats want to rebuild the UK economy, making it much more sustainable by encouraging a diversified economy across both sectors and regions. Our vision is to create a thriving, fair and balanced

economy, offering sound jobs through the production of goods and services that people need and want.

Our policies are based on the fundamental principal that a competitive market is the best way to nurture enterprise and to ensure fair access to goods and services. However, there are areas where market forces alone do not act optimally without government involvement. Our vision is to deliver an economic environment that allows enterprise to flourish, with government acting as an enabler rather than a participant in its own right.

Supporting access to finance

The dominance of financial services in the UK economy has crowded out true enterprise and caused a lack of capital available for investment by industry, particularly smaller businesses. Lending to businesses by banks is likely to fall significantly short of target. This trend will continue. A clear lesson of the crisis is the need for more equity and less debt on the balance sheet.

It is now time to move on from temporary schemes encouraging lending and to build a lasting framework that provides debt and equity finance on reasonable terms to businesses. We believe that a competitive banking sector, together with properly regulated financial markets, is the best way to ensure that businesses have access to the finance that they need to develop and grow. We will therefore split low risk retail banking from high risk investment banking so that the UK, once again, has a banking industry that is focused on lending to businesses to support economic growth.

It is also clear that the market is failing to provide adequate equity funding, particularly for small to medium enterprises (SMEs). There are many people who are interested in investing in local businesses but they lack a suitable mechanism to do so. We, therefore, propose of consulting on two mechanisms to connect local entrepreneurs with local wealth:

- Local Enterprise Funds – tax efficient investment vehicles to provide seed capital to start-up/early-stage businesses as they commercialise their ideas.
- Regional Stock Exchanges – regional platforms matching local investors with growing SMEs. They will provide SMEs with cost-effective access to equity through a proportionate regulatory regime and an operating model that meets the needs of smaller companies.

Together these policies would make a significant long-term contribution to the economic growth of both the regions they are situated in and the UK as a whole.

Creating the climate for business to thrive

Businesses are hamstrung by an ever-growing tide of regulation, an uncertain tax regime and unfocused business support. We will reduce 'red tape' and manage the introduction of new regulations by ending the gold-plating of European directives, adopting a 'one in one out' policy, using sunset clauses and introducing independent checks on the costs of regulations.

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We will also refocus the work of Regional Development Agencies (RDAs) by replacing them with Regional Enterprise Boards charged solely with helping businesses to grow. RDAs undertake a number of valuable programmes, but they have lost focus as their remit has become ever wider and more complex. Successful RDAs operate where there is a clear community of economic interest, which will be reflected in our Regional Enterprise Board structure.

A fairer basis of taxation

No political party can responsibly promise overall tax cuts to the business community, given the size of the public deficit. However, the taxation system can be made to work better for business – we will simplify taxation, and set out a clear vision to provide a stable platform upon which businesses can plan.

We would reduce the small companies corporation tax rate funded by the abolition of complex reliefs. The Government continues to hang the threat of an increase in the rate of corporation tax over small businesses, having deferred it twice so far; this is not the time to increase the burden on the small businesses needed to pull the country out of recession.

We would also reform business rates to a fairer system where rates are based on site values rather than rental values, encouraging businesses to invest in their premises rather than penalising them. We would also ensure that the burden is spread more equitably between small and large retailers and that small company relief is given automatically so that all businesses receive what they are entitled to.

Investing in the future

We will help to create green jobs by incentivising eco-friendly home improvements, supporting the expansion of renewable wind technologies, insulating schools and bringing disused homes back into use. These opportunities will not just affect big business; businesses of all sizes, from the largest multinational to sole traders, have a part to play. In the longer term we will create a National Infrastructure Bank to support investment in infrastructure, including world class renewables. We will promote the supply of skilled engineers and scientists through a national bursary scheme.

Given the scale of change that will arise from the transition to a low carbon economy, now is the time to re-engineer the connections between our universities and knowledge base and the productive capacity of UK plc. The UK has an excellent track record of generating innovative new ideas that could meet these challenges, but frequently fails to develop these to the point of commercial production. Government needs to rethink how it facilitates and tackles the funding gap between research bench and commercial prototype.

Government needs to actively support the expansion of enterprise in rebalancing our economy. The UK needs to be at the forefront of market changes, anticipating future needs as they emerge and offering solutions to gain first mover advantage.

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Building for the future – long-term growth and stability in the construction industry

What are the challenges faced by the construction industry today and over the next ten years? With construction playing such a vital role in the UK economy, answering this question and understanding the future of the sector has never been more pressing, so *Private Business* was eager to hear the views of one of the industry’s leading figures; **Paul Drechsler**, the chairman and chief executive officer of the Wates Group.

Press and media coverage of the construction industry has been somewhat negative and doom-laden over the past 12 to 18 months. Do you feel that a more positive outlook is needed by the sector if construction is to flourish?

“Let’s start with the UK construction sector: it’s probably seen a fall in demand in 2009 of about 20 to 25%. A significant portion of that has been in the private house-building sector, obviously, and I think what that does is raise fundamental questions about the quality of the industry and the degree to which the industry is well understood. One of the things that we’ve done recently is publish a report on the UK construction industry that I think brings out a number of very significant factors to consider:

“The UK construction industry accounts for, in total, about 10% of GDP, employs nearly three million people and involves about 300,000 firms – many of which are small and a significant number of which are private and family companies. There’s a strong evidence base that demonstrates that the UK construction industry is one of the most effective sectors in the whole of the UK to invest in to promote economic growth: in fact, every £1 invested in construction generates an additional value of £2.84, excluding about another 56p of tax benefits.

“So it’s a very good sector to invest in; there’s a very tangible impact on the UK because most of that investment is UK-sourced – over 90% of all the spend is from products and materials sourced within the UK – and, very importantly, it is probably the most effective sector to invest in, in terms of employment. It’s rapid employment creation for very often – but not totally, obviously – low-skilled people and, therefore, is a highly effective way to avoid massive unemployment and, in particular, long-term unemployment of young people (see the breakout box on page 15 for details of the report).”

We are interested to know how you define ‘investment’, per se, when talking about the industry as a whole.

“What I mean is capital projects that require construction skills. Whether it is Government spend directly, or private sector spend stimulated by good government policy, it’s an excellent area for capital investment in the UK. It’s particularly relevant at a time when the economy is going through a more difficult period because what we can do is minimise the impact in terms of unemployment.

“To all of us who are in the industry: be proud of this industry’s contribution and its impact on society and the economy.”

“So, it’s a fantastic industry sector to be in and it’s vital that people understand its positive impact on the economy. On top of that, there’s one other thing that I would say; when you look at all of the points I’ve mentioned, you’re excluding the long-term value in terms of the impact on society. So, for example, if you build a better school and that contributes to an improvement in education standards, the £2.84 added value that I talked about escalates to beyond £5 for that £1 of investment. So a lot of capital products actually have additional benefits to society. To all of us who are

continued 

in the industry: be proud of this industry’s contribution and its impact on society and the economy.”

Given the important part that you clearly believe construction has to play in the well-being of the economy, we were interested to know how the survey you mentioned was commissioned.

“The survey was originally commissioned by the Wates Group, who took it into the UK Contractors Group and the CBI [Confederation of British Industry]. The report was prepared by another company and issued by the CBI. The start point is that the nation has very good reasons to value and be proud of the UK construction industry.

Opportunities clearly exist for construction outside of the somewhat stagnant housing market. What other areas should the industry be focusing on?

“If you look to this industry, wherever you’re participating, the most significant challenge that you have in the short to medium term is that of uncertainty; uncertainty about public policy and uncertainty about where public investment will be made. I think there are two dimensions to this: first of all, what are the issues and priorities that the nation has? I would suggest there is nothing more important than education. If you want to transform the UK economy, transform its education infrastructure and its education system.

“The second challenge and, therefore, the driver of challenge and opportunity for the industry, is that of climate change. There’s no way the UK, as a nation, can meet its climate change obligations without significant and active participation from the UK construction industry. I think that’s really important as a challenge and consideration.

“And the third big challenge is a relentless demand for value by society and by customers. From a Wates Group point of view, while for much of our 112 year history we’ve actually been in private house building, we discontinued that completely a few years ago other than as an investor. What we have done is prioritise customers with whom we have a value proposition that’s relevant to them. So, in the private sector, we have focused very strongly on the retail sector, where we are number one or two in terms of retail fit-out in the UK. We are focused on commercial developers, particularly those who are developing new commercial property or refurbishment of buildings. And the third area in the private sector is care homes.

“If you look at the public sector side, which is about 50 to 60% of UK construction spend, we are very focused on three areas: education, which we’re passionate about; social housing, which we really care about; and prison refurbishment and new build. They are the principle areas that we focus on, other than regional frameworks where local authorities, collaborating together, want long-term partners to deliver their solutions.

“What I would say, is that success in this industry is about being focused and being specialist. I don’t think in the long term that there is room for companies to do everything; I think you’ve got to be excellent. In order to deliver value for your customers you have to really understand their markets, really understand their products and you’ve got to partner with suppliers and supply chains who are the source of innovation. So whether it’s innovation for value, or innovation for the environment or innovation for better environments for working in, you’ve got to engage with your suppliers to do that. Delivering solutions for customers is all about collaboration.”

“What we’re focused on is delivering certainty for our customers. Our mantra is: on time, on budget, every time, safely and with high levels of customer satisfaction.”

We were interested to know which came first for Wates Group; was it the desire to work in areas that were of social benefit, or was it the realisation that focusing on niche markets was the best way to bring value to their customers?

“A few years ago we took a very fundamental look at the UK construction industry and evaluated each and every segment of expenditure, we looked at Wates’ strengths and capabilities and we prioritised and decided where we would focus. We used multiple criteria; they were about ability to deliver value, ability to understand customers, consistency with our values and where we had areas of strength.

“What we’re focused on is delivering certainty for our customers. Our mantra is: on time, on budget, every time, safely and with high levels of customer satisfaction.”

Good reputation and quality of service are clearly key attributes that any company should aspire to. For you, what is the best way to build long-term partnerships with your customers?

“It’s quite interesting; this is probably the only industry on planet Earth that has the ability to fail to deliver for its customers to such a high degree. We’re [Wates] focused very much on delivering the promise; whatever we commit to do with our customers, we want to deliver on that promise. That’s about time, it’s about value, it’s about quality and it’s about satisfaction.

“After every project we do a satisfaction survey and we do an annual independent third-party survey to determine how we’re perceived to be performing by our customers, how they rate us compared to the best of our competitors, where we seem to be strong and where we seem to be weaker, which gives us the opportunity to prioritise our efforts for the following year. If you don’t have any customers, then it’s very difficult to build a business!”

Do you believe that reduced access to finance from the banks and cash from investors will have a significant impact on growth in the industry?

“Two points initially: First of all, the industry has already seen a decline of 20% in 2009, but I would say we are a far cry from being out of the recession. For many of the major construction companies, 2009 was living off projects that were won in 2007 or 2008, so I would say there are still plenty of choppy waters ahead.

“I’m not sure that we’ve seen a massive up-lift in Government investment in 2009. It hasn’t fallen as much as it is quite likely to do in the next three to five years, which is one of the reasons why the business case for construction is such an important case to make because at least if we are going to decide to cut back on investment and capital projects, we should understand the full opportunity cost in terms of employment and social impact; and that’s what I think is important. I do think that sustaining capital investment in construction projects can make a very big difference to the economy, socially as well as economically.”

And how do you feel that public sector cuts will affect the construction industry?

“With the best will in the world there is less money to go around in the public sector, so it’s inevitable that this will impact the construction industry. My philosophy is that great companies can succeed in the face of adversity; I think we [Wates] have an excellent value proposition even if the market fell substantially. I still believe we have the capabilities and the skills to grow market share. In 2009 I think we trained over 300 people in how to sell and promote the Wates offer to customers, so they understand how to communicate better with customers, how to get customers to understand the value that we can bring to them.”

Given that the CBI survey has been seen by Government, do you believe that those in government have enough relevant experience of business to bring about real change.

“Firstly, I think this report makes the business case very clearly and very coherently. Secondly, without question, the CBI has the ear of the most influential people in Government and opposition. So there’s no doubt in my mind that the CBI are an excellent organisation for promoting the business case.

continued 

“On the other side of it, I think we’ve probably had more Government construction ministers in the past five years than Italy has had prime ministers in the past 50 years! So having somebody on the other side to understand is a big challenge. There’s recently been the appointment of a chief construction officer, which gives us somebody in Government who understands the industry. In the medium-term, though, we have to work on backing two horses because we don’t know what the outcome of the election is.”

What challenges, specifically, do you see for the construction industry over the next ten years? How can long-term growth be achieved?

“I think the most substantial challenge, is the point I made earlier about uncertainty. No business can really run efficiently with impressive innovation if it doesn’t know where future market demand will be. Uncertainty would be the number one challenge, and I suspect that this will be with us for no less than the next three years. With the election, people will take a year or two to decide if they are facing north or south and then we’ll see the emergence of clarity.

“The second is by far the biggest challenge for mankind; that of climate change. Buildings play a major role in CO² emissions and there’s a huge challenge in reducing all CO² emissions from all existing assets. So that climate change challenge is a very significant one and will provide opportunity as well as threat to those people who are in the industry.

“And the third challenge, which I think is relentless, is the demand for value. The way to deliver value in the construction industry is to really understand your markets, really understand your customers and have a long-term visibility of the forward order book so your investment in research & development (R&D) is aligned to a coherent market need. And that, in a way, is one of the real challenges, because the way to deliver value is through long-term visibility and continuity. It’s very difficult to deliver value if you’re chopping and changing course regularly, if you haven’t got a clearly understood and articulated demand and if you can’t get the different parties to collaborate. So there’s no seismic shift in value if customers aren’t part of the solution.”

Picking up on your point about the importance of the climate change agenda, do you feel that the construction industry has fully understood the importance and the opportunities that this area offers?

“I don’t think there’s any question whatsoever that the industry understands that delivering the climate change goals can only happen with the intimate involvement of the industry. But it will also be frustrated by the question ‘How do you develop solutions if you don’t know if you’re going to be building schools, or hospitals, or roads, or nuclear power stations?’ i.e. if you can’t sort out the planning system. You can’t deliver innovation in a stop/start mode: innovation comes from rapid change and rapid improvement and rapid implementation, otherwise by the time you implement your innovation, you are already out of business.

“You need certainty and visibility. The other thing to remember is that value comes from ‘repeatability’; so the more you have in common as standard from one solution to the next, the more value you can get. Whilst every school can be totally different, every school can have a great deal in common. And I think the more you get standardisation, the more you can get economies of scale, whether it’s schools, or social housing, or hospitals.”

As a family-owned business, how do you feel Wates Group will face these challenges differently to your competitors?

“I think it’s a great advantage being a family business. We’ve been around for 112 years: customers can be confident that we’re going to be around for another 112 years. So there’s certainty. There’s a value set that goes with a family business, so all those values of respecting people and communities and integrity etc. that’s for real. When we enter a contract, you enter into a contract with a family member who stands right behind it, so you get that tremendous depth of commitment and understanding for the long term.

continued 

“The other thing to remember is that private companies – family companies – are a major part of the UK economy:

“I think it’s a great advantage being a family business. We’ve been around for 112 years: customers can be confident that we’re going to be around for another 112 years.”

65% of the employees of UK private companies are from family companies; 30% plus of GDP is coming from private companies; private companies employ a total of 9.5 million people. There’s a very strong case for the promotion and support of family businesses in the UK. They are the very heart of innovation, the very heart of business development and they are probably able to demonstrate more clearly that they are more advanced in the areas of diversity than other companies.

“So the private sector, the private family company sector is very substantial. I think they’ve demonstrated a consistency of adherence to values in good times and bad and, in case the Chancellor is reading this, 15% of all his receipts come from private family companies!”



way the construction industry operates, what would it be?

“I think what I would change more than anything is the quality and depth of understanding about the benefits of the industry to society, to the economy and to the long-term health of the nation. If you can transform education, you can change the nation. That’s the only way to put ‘great’ back in Great Britain.

“I think if you look today, trust in business is lower than it has been for decades. If you look at surveys, trust in chief executives is at an all-time low. So never has genuine corporate responsibility been more important. We should be asking companies: what are they doing for communities? What are they doing for education facilities? What opportunities are they creating for social enterprises? How are they making a positive difference in society? I think this where the agenda and the high ground will be over the next decade.

“In all these areas business has a fantastic opportunity to make a huge contribution: it can make low cost and high impact contributions into education, into challenging communities into helping the people who need it the most, business is well placed to do that as a partner to local authorities and government.

“Business is beneficial, it’s just that it could be a lot more beneficial. Imagine if every school in the UK had a partnership with a cluster of local businesses, who were able to support it. There’s many different ways that business can provide support and if every school in the country had that, we’d be in a great place!”

continued 

Paul clearly has great belief in the potential contributions that UK construction can make to the nation. With this kind of enthusiasm and drive, it's clear that Wates Group will be playing a major role in building for a better future, both for the industry and for Great Britain as a whole.

Disclaimer: The information and opinions contained in this article are those of interviewees, and do not necessarily represent those of PricewaterhouseCoopers LLP.

“If you can transform education, you can change the nation. That’s the only way to put ‘great’ back in Great Britain.”

Construction in the UK Economy – The Benefits of Investment

This report is a joint venture between the UK Contractors Group (UKCG) and the Confederation of British Industry (CBI) and was conducted during August and September 2009.

The study’s objectives are to clearly demonstrate the impacts of the UK construction industry on the UK economy and UK society as a whole, and to highlight the benefits of investing in construction.

Key areas include:

- the significant contribution that construction makes to the UK economy, both at a national level and in supporting the regions;
- the key contribution that construction makes to UK employment; and
- the enabling role that construction plays in realising a range of broader economic and social objectives.

A full copy of the report can be downloaded from the UKCG website at www.ukcg.org.uk

Following on from Paul's points on climate change, you can read more about the climate change agenda and the Carbon Reduction Commitment in the next article on page 16.

Are you ready for new carbon regulation?

The Sunday Times recently quoted the *Ends Carbon Brand Emissions* report, stating that “private companies behind some of Britain’s most popular consumer brands are lagging behind quoted firms in their efforts to track and reduce their greenhouse gas emissions.”

With an increasing focus on moving towards a low carbon economy, all companies are having to cast an eye over their carbon output, reduction and management strategies. And, in April this year, regulation will come into force for any company that spends over and above £500,000 a year on electricity, with a league table being published highlighting those that are bad emitters, and those that are good.

Which one are you?

What is the CRC?

The CRC is a mandatory cap and trade scheme for non-transport CO₂ emissions from UK organisations. The scheme targets large energy users – the Government believes 5,000 of the UK’s largest



organisations will be affected. Whilst the scheme is revenue neutral to Government, it will transfer money from the worst performers to the best. There will also be reputational considerations as all participants will be ranked in a published league table, based on efforts to reduce emissions.

Despite recent amendments, it is still likely that private equity (PE) funds or groups of privately-owned businesses will have to participate in the scheme. The regulations use the Companies Act 2006 to determine ‘parent’ organisations and undertakings. Consolidation must be done at the ‘parent’ organisation, rather than following accounting guidelines. In this article, ownership structures that will need to consolidate for these regulations are referred to as CRC groups.

If a CRC group, based either in the UK or overseas, has a ‘controlling interest’ in companies that pay UK utility bills, it will need to consolidate energy consumption across those undertakings to determine whether the aggregate usage meets the qualification threshold. The qualification criteria is 6000MWh electricity consumption through half-hourly meters, which is equivalent to a spend of approximately £500,000.

How does the scheme work?

From April 2011, qualifying organisations will buy allowances in an annual sale from the Government to emit CO₂ from non-transport sources of carbon dioxide; mainly electricity, gas and oil used for heating.

continued 

Each participant will report emissions each year and will be ranked according to their success in improving energy efficiency. The results will be published in a league table. The Government will return the money paid in allowances each year with a bonus or penalty, based on the league table position of the participant.

How will this effect privately-owned companies?

The most important issue for companies owned by a CRC group is that companies that would fall under the qualifying criteria on their own may qualify as part of the larger entity. There is nothing that the management can do to change the qualifying status of their CRC group situation beyond a change in control or ownership. The most important step for the management is to understand the status of the owning entity in relation to the regulations.

If the CRC group meets the qualifying criteria, then there are a number of issues for the management of companies within the group to consider. Firstly, there will be a requirement to provide cash to fund the purchase of allowances. Secondly, the level of net benefit or cost will depend on the performance of the whole group in reducing emissions. Thirdly, the group will be in published league tables, which could have repercussions for companies looking to respond to the concerns of stakeholders on climate change issues. It is possible that these issues could cause tension between the different companies in the group, as those affected by the CRC are generally autonomous companies.

So how can companies and CRC groups respond?

The time critical issue is to gather the data for the registration period, which runs from April to September 2010. Larger CRC groups have the option of disaggregating parts of their organisation to participate separately, but only where this does not allow companies to avoid qualifying for the CRC. This could be the simplest solution to the problem, but may not be possible for many groups.

Where CRC groups cannot disaggregate, the group management and company management will need to prepare to comply with the regulations. A number of tasks must be completed at the company level, such as the collection of both qualifying carbon dioxide emissions and total CRC eligible emissions. At the group level there needs to be an agreement on how the companies will complete the joint tasks to achieve compliance, how the cost burden for this will be shared and the overall aims for the performance of the group.

Preparations for the scheme will be critical in minimising the effects on both companies and the CRC groups as a whole. Firstly, the penalties for failing to comply are significant, so ensuring that the group is prepared is important. Secondly, the financial impact of the regulations will be partly determined by the ability to accurately forecast the allowances needed for the group.

Establishing the capabilities to prepare and comply effectively is essential. Where CRC groups minimise management activities carried out at group level and

delegate these to companies, this will be a challenge. An alternative to adding staff and developing this capability at group level is to use the PwC CRC compliance service. Other advantages of this approach include predictable operational costs and access to leading-edge carbon markets advice.

The time to act is now

Whichever solution is adopted, companies and CRC groups need to get the solutions in place quickly. There are very few working days left before registration opens in April 2010 – the clock is ticking.

You can read more about the Carbon Reduction Commitment Energy Efficiency Scheme on our website at www.pwc.co.uk/privateequityandsustainability

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Making the most of non-dom opportunities

Last year HM Revenue & Customs (HMRC) issued further guidance on how individual taxpayers may assess their domicile status. The published guidance is not only more detailed than that previously available, but also represents a change of emphasis by HMRC in accepting whether one is, in fact, non-UK domiciled. This article summarises the implications of the updated guidance and reminds us of some commonly used planning opportunities for non-UK domiciled private business owners.

No more rulings

HMRC will no longer provide formal domicile rulings. Until 25 March 2009, HMRC accepted initial non-domicile claims on form DOM 1 but they will no longer do so. Individuals are instead expected to self-assess their domicile status as part of their tax return, on a year-by-year basis.

This approach formally opens the door for HMRC to query an individual’s domicile status over time rather than being bound (at least morally) by a previous ruling. HMRC’s guidelines specifically state that any ruling originally given under the old system may become a less useful indicator over time. Whilst strictly speaking this was always true, it does nevertheless signal a change of approach by HMRC and a renewed willingness to scrutinise non-domicile claims.

Assessing domicile status

In the absence of rulings from HMRC, all individuals who assess themselves as non-UK domiciled should consider the guidance (and recent case law) carefully or seek professional advice to establish their domicile status. An opinion from an adviser could be helpful when one’s non-domiciled status is disputed by HMRC.

Firm intentions

Individuals, especially second and third-generation UK residents, may wish to consider carefully why they consider themselves to be non-UK domiciled. For instance, it is HMRC’s view that long-term residents of the UK (who consider themselves non-UK domiciled) need to be able to demonstrate “a clearly foreseen and reasonably anticipated contingency” at which point an individual intends to leave the UK. Where an individual remains in the UK beyond the occurrence of that contingency, HMRC will be very reluctant to accept that the individual has an intention to leave the UK and would argue that such an individual is UK domiciled.

Any continuing intention to leave the UK would need to be clearly evidenced. This process may have to be periodically revisited.

Burden of proof

HMRC considers that an enquiry into a person’s domicile is likely to be wide-ranging in scope, incorporating an in-depth examination of a person’s background, lifestyle and intentions over the course of that person’s and his/her family’s lifetime. There will be

continued 

a need to build a complete picture of an individual's background and hence the range of potential documentary evidence that HMRC may ask to see is long. Examples of information which may be requested include details of property transfers, details of religious and cultural connections, documents on citizenship and nationality and details of children's location and education.

The incidence of enquires into domicile status appears to have increased since the second half of 2009.

Planning ahead

So is this the end of the road for non-domiciled entrepreneurs? Far from it.

The £30K charge

In our experience, most non-UK domiciled individuals do not need to pay the £30,000 remittance basis charge every year to benefit from domicile related-tax planning. Many use roll-up arrangements so that the frequency of income receipt (on offshore interest bearing accounts, for instance) is reduced, for example, from once a year to once every three years.

Family inheritance planning

For inheritance tax purposes, HMRC accepts that persons of an Indian, Pakistani, French or Italian domicile are not affected by the '17 out of the last 20

years' rule which otherwise deems an individual to be domiciled in the UK¹. Such individuals may improve their inheritance tax exposure by planning ahead and making use of the relevant double tax treaty.

Individuals who have been resident in the UK for less than 17 years can also make use of inheritance tax planning opportunities.

Selling the business

The most significant capital gain realised by most entrepreneurs in their lifetime is usually when they sell their business. It is still possible to structure matters so that there is no tax to pay on capital gains relating to sale proceeds that are not required in the UK.

Having an appropriate company structure could also benefit non-domiciled employees who have a stake in the business such as share options or outright share ownership.

Investing in UK property

It is still possible to invest in UK real estate using offshore trusts to obtain tax-free roll up of capital gains and tax-free access to capital proceeds provided beneficiaries do not personally require the capital proceeds in the UK. Capital gains tax need only be paid if, and when, proceeds are brought into the UK.

Protecting tax on bonuses

Entrepreneurs can also use offshore non-registered retirement benefit schemes to receive retirement benefits, tax-free in certain circumstances. Such structures are increasingly being used by private companies to pay bonuses for services rendered without paying them outright to the directors.

There is no doubt that there are plenty of planning opportunities. With the 50% top rate of income tax effective from 6 April 2010 and possible rumoured increases in the capital gains tax rate, the cost-benefit ratio is set to improve even further.

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¹ The new technical guidance on domicile can be found at <http://hmrc.gov.uk/CNR/res-dom-tax-amends.htm> (see bullet 8).

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