

**Yorkshire**

# Finance Leaders

INTELLIGENT PERSPECTIVES FROM BREWSTER PARTNERS  
RECRUITMENT GROUP | ISSUE 15 • APRIL 2020

## HMRC confirms delay of IR35 changes

Steve Talbot, Global Employment Services Partner at BDO

Why are employers who pay

## the National Minimum Wage

still being fined by HMRC?

What makes you unique?

# Mark Lister

Regional Finance Director, Industrial Wood  
(Europe) Division, Sherwin-Williams

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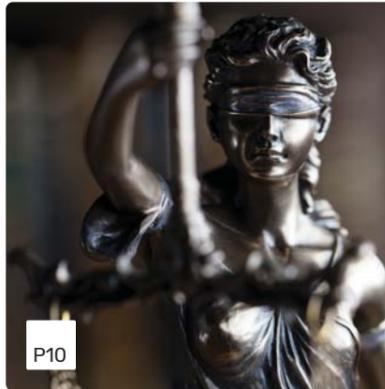
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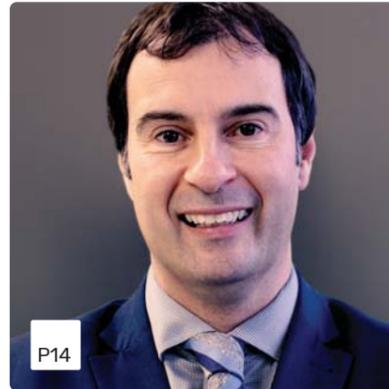
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What's  
happening?

**If you had told me at the start of March that I would be writing the introduction to this quarter's Yorkshire Finance Leaders magazine in the fourth week of a lockdown in the UK, I don't think many people would blame me for thinking you were slightly over-exaggerating the threat of the COVID-19 crisis on our country and the economy.**

Yet here we are, after what has been an unprecedented period, and the prospect of at least another three weeks under these conditions, with potentially many more weeks, months or years of an uncertain future for many businesses across the region.

My immediate thoughts for anyone reading this are that I hope your business is adapting and coping as well as it can do in these uncertain times, and my thoughts are with anyone who has faced significant personal and professional challenges.

of furloughed staff, to deferring the next quarter's VAT payments. This will undoubtedly lead to many businesses being able to survive and rebuild their business plans for the future, however with such unprecedented measures, the devil will always be in the detail, and time will only tell the extent of the challenge to ensure payments are made accurately and on time.

In this edition of our magazine, which has been the product of three months' hard work by my team and some of




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**I am also a firm believer that during times like this, it is the role of business to keep the momentum drums beating, and where possible we should focus on the positive steps we can take and look towards the ways society and businesses can improve and adapt.**

Whilst it is important to recognise this, I am also a firm believer that during times like this, it is the role of business to keep the momentum drums beating, and where possible we should focus on the positive steps we can take and look towards the ways society and businesses can improve and adapt.

The UK government announced their £350bn worth of measures (equivalent to 15% of our GDP), ranging from extending the business rates holiday to all firms in the hospitality sector, to the Jobs Retention Scheme where HMRC will cover 80% of the wages

our key clients and advisors, we feature articles from BDO on the IR35 (now delayed for 12 months), Walker Morris on the National Minimum Wage, Mark Lister from Sherwin-Williams, Michelle Cook from Wolffkran Limited, as well as Dale Spink and Chris Burns from Brewster Partners.

I hope this magazine will prove useful and informative reading for you (and perhaps will provide a useful distraction while many of you will no doubt be reading this whilst working from home, juggling work and the new look family life with the kids being at home too!)

As always we would love to hear from any of you regarding any feedback or comments, or if we can help in anyway.

**Keep Safe • Stay Connected**

# The benefits of an effective recruitment & selection policy



by Chris Burns, Client Director, Brewster Partners, Accountancy & Finance Recruitment

Recruitment can sometimes be frustrating with all of the policies and procedures that there are to follow. There is a vacancy in your team and you want it filling as soon as possible to get your team back up to full capacity, but it's not always that easy.

Although it can sometimes seem like another hoop to jump through, having an effective recruitment and selection policy ensures a transparent and fair recruitment process that helps HR/Recruitment professionals to select the right candidate.

But what exactly are the main benefits of having an effective and rigid Recruitment and Selection policy:

## Transparency in the process

Following policy procedures means that all parties involved are well informed where they are at every step in the recruitment process, thus giving everyone confidence that the end result will be met. Transparency is also very encouraging for a candidate, keeping them informed at every possible point increases their confidence of the business they are about to join.

## Allowing for merit-based hires

With an effective procedure in place, the risk of any level of discrimination can be totally eradicated. It means that each application is considered in the same way, regardless of the sex, gender, nationality, race or age of the candidate. It also provides a level of reassurance to the candidate involved as it means they can take legal action at any point if they feel their application is being discriminated against.

## Consistency

If a recruitment process isn't consistent naturally it will give inconsistent and inaccurate results. To avoid this it is essential to ensure that the recruitment and selection process is the same for every candidate to prove their effectiveness. We advise that a standardised, pre-developed process is applied at all times. Finally, references should always be taken with every hire, again to achieve a level of consistency.

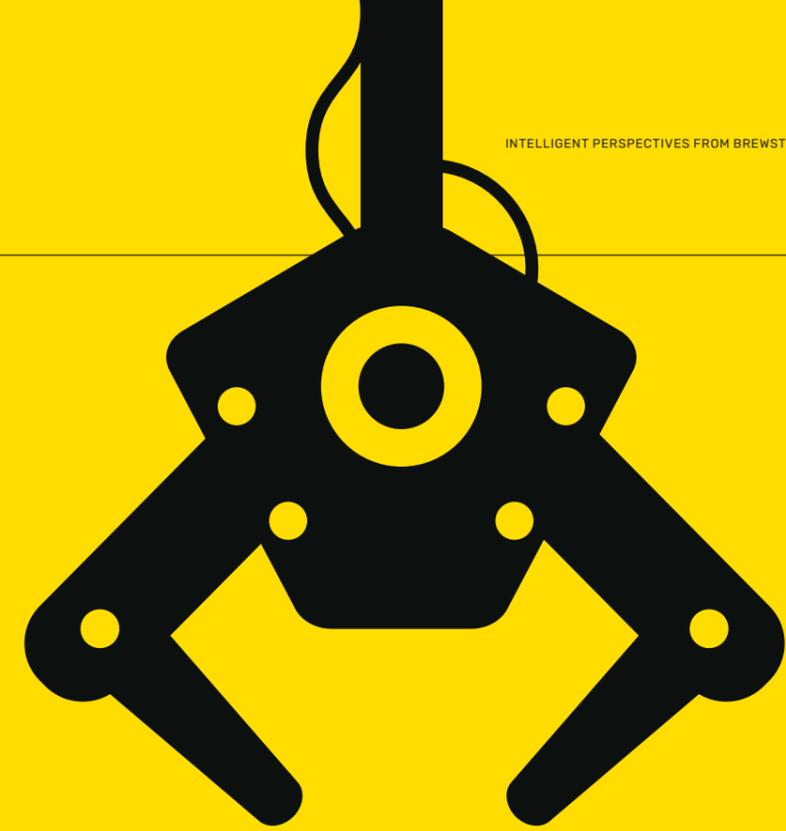
## Credibility

When a business is displaying and practicing an effective recruitment and selection policy, it demonstrates to potential employees that they have a high level of credibility and will encourage them to apply. Sadly, in this day and age there are an abundance of companies that transpire to be fake.

## Help to write job descriptions

With an effective recruitment and selection process, businesses can easily put together job descriptions that are accurate and clearly highlight which tasks will be performed for a particular role.

In conclusion, recruiting the right staff into your business is crucial as it helps reduce staff turnover and can result in faster growth for your business. A huge part of getting this right lies with a successful and efficient recruitment and selection policy.



# HMRC CONFIRMS DELAY OF IR35 CHANGES

By Steve Talbot, Global Employment Services Partner at BDO



**INSIDE IR35?**

Michelle, 24, Freelance  
Graphic Designer, London



**OUTSIDE IR35?**

Jeff, 29, Payroll Officer,  
Bristol



**INSIDE IR35?**

David, 42, Site Manager,  
Manchester



**OUTSIDE IR35?**

Kim, 48, HR Manager,  
Edinburgh



HMRC has confirmed that the proposed IR35 changes will not be implemented in April 2020, instead, the new rules will come into action from April 2021.

Currently, where an individual is engaged via a PSC and the contract, invoice and payment is all with the PSC, specific tax legislation applies; known as IR35. This has provided employers ('end users') with comfort that they may not have to deduct PAYE/NIC on payments to the PSCs. The onus is on the worker to determine whether the IR35 rules apply to the engagement and to operate IR35

if they are deemed to be an employee for tax purposes. HMRC consider that the workers are not operating this correctly so are making a change.

For services provided after April 2021, new rules mean that the end user will now be responsible for determining whether the IR35 rules apply. The IR35 rules will apply where an end user determines a

worker should be classed as an employee for tax purposes and there is a PSC in the chain. The new legislation does not change the employment status principles, it simply moves the onus for determining employment status to the end user benefiting from the services supplied by the worker engaged through a PSC somewhere in the supply chain.

Continues overleaf →

The BDO Leeds office provides award winning audit, tax and business advisory service to clients throughout Yorkshire and the North East. We work with clients in every major business centre including Leeds, Newcastle, Sheffield, Hull, York, Harrogate, Wakefield, Huddersfield, Bradford, and Doncaster.

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## HMRC confirms delay of IR35 changes continued

### What are the changes from April 2021?

Under the new rules, businesses must consider whether there are any PSCs in their supply chains. If there are PSCs in the supply chain and the business is considered the end client; that business will be responsible for considering the employment status of each worker working through a PSC. However, there is an exemption for engagers that are 'small'. A company will be small if it satisfies two or more of the following:

- annual turnover not exceeding £10.2m,
- balance sheet total not more than £5.1m,
- no more than 50 employees.

When considering whether a company can be considered small, the whole group needs to be considered and not just the individual engaging entity.

The end client will also be responsible for issuing a Status Determination Statement ("SDS") to the worker and the next entity in the supply chain in respect of each engagement.

Ultimately, where the IR35 rules apply, the entity engaging with the PSC (the "fee payer") should operate PAYE/ NIC including employers' NIC and the apprenticeship levy on the payments made to the PSC.

The end user will need to be able to evidence that they have taken reasonable care when determining the employment status of their workers. They also need to have a process to deal with appeals from the worker. Once an SDS is issued, the worker can appeal against the determination. If they appeal, the end user has 45 days to respond with evidence as to why they believe the worker is caught by the new rules. The end user has not met their IR35 obligations unless they can evidence they have taken reasonable care.



### Key considerations – what do I need to do?

Businesses should be preparing for the new rules ahead of 6 April 2021. Set out below are some of the key considerations and steps that should be taken:

#### 1. Understand your supply chains –

end users should understand their supply chains and the interaction between the various off payroll regimes. The various types of regulations should be considered in the following order of priority.

- a) Employment status regulations
- b) Agency regulations
- c) Managed Service Company regulations
- d) IR35 regulations
- e) Construction Industry Scheme regulations.

#### 2. Understand the facts of the engagement –

this should consider the who, why, where, what and when of the engagement. This should include matters such as financial risk, mutuality of obligation, control and other key employment status tests.

**3. Categorise workers** – workers should be grouped into manageable populations where appropriate, which may allow a sample check approach for status determinations. However, this may not be possible as employment status should be considered for each individual.

**4. Assessment and testing** – a review of the facts and an assessment of the appropriate off payroll regulations should be undertaken with SDSs produced, where appropriate.

**5. Implement policies** – HMRC strongly recommends that companies adopt a strategic policy for off payroll engagements. There is a requirement to be able to evidence to HMRC that reasonable care has been taken.

**6. Procedures** – Procedures should be introduced and appropriate personnel should understand their responsibilities and actions. Procedures should include using appropriate tools to assess employment status, documenting findings to provide evidence to HMRC, undertaking sample reviews of engagements and monitoring contracts on a regular basis.

**7. Communications** – To agencies, PSCs and workers.

**8 Appeals** – End users need to ensure that for any appeals they are in a position to respond to the worker with backup to support their decision where employment status is challenged.

### Common misconceptions

There is a lot for businesses to consider in respect of the changes from April. There are also many misconceptions around employment status with some personnel misunderstanding what is really important and how the need to look at the full picture to form a view is paramount to achieving good tax practices. Some of the common misconceptions are mentioned below.

Common misconceptions	Considerations
The worker can work for other companies and therefore the worker must be self-employed and the IR35 rules do not apply. Or The worker only provides services one day a week and therefore the worker must be self-employed.	Each engagement must be assessed individually, regardless of the fact that a worker provides services to other companies or only works one day a week. It is possible for a worker to have more than one employment or to be part time.
The worker is engaged through an agency and therefore I do not have any responsibilities and do not need to consider the IR35 rules.	The IR35 rules need to be considered by the end user if there is a PSC anywhere in the supply chain.
The worker is providing construction services and deductions are made under CIS regulations therefore I do not need to consider the new IR35 rules.	The IR35 rules should be considered prior to the CIS regulations.
The contract states that the worker is self employed therefore the IR35 rules do not apply.	HMRC would base any status determination on what happens in practice rather than what is stipulated in the contract. HMRC's approach to establish the fact pattern for an engagement often includes interviewing workers in order to understand the arrangements in place.
The worker is engaged on a project basis and therefore must be self-employed.	There are several indicators of employment status and all facts of the arrangement need to be considered when making a status determination.
'I can provide a substitute per my contract therefore I must be self-employed'	The mere right to provide a substitute is immaterial, the main factor is whether a substitute has ever been provided in practice.
The worker has completed a determination and it states that they are self-employed.	As the end user, the onus is on you to determine employment status by undertaking the appropriate testing.

To help with not falling foul of some of the misconceptions, and in order to challenge the status quo on employment status, why not start with the following questions:

- Why is the worker not an employee?
- Should they be a part time employee/fixed term employee?
- Do they do the same as my employed staff? If so what is the difference between them?

### Final thought

**Employment status is not an easy subject, the onus is now on the end user to determine the employment status of their workers. The risk of getting it wrong is high given the complexities of employment status and blanket approaches should be avoided.**

When you compare this to the cost of getting it wrong; this leaves businesses with a real financial headache. Determine a worker to be self-employed and face the potential costs of PAYE/ NIC if you get it wrong. Determine employed, and face the risk of the worker appealing and having to undertake additional work to evidence your decisions or potentially lose the worker.

There are no easy decisions here. However, if you have not yet tackled this issue, there is still time to do so.



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BDO LLP is one of the UK's largest accountancy and business advisory firms providing services to ambitious businesses within the UK and worldwide.

Why are employers who pay

# the National Minimum Wage

still being fined by HMRC?

**The UK's National Minimum Wage (NMW) was introduced 20 years ago, so why are employers suddenly struggling to comply with the regulations that govern it?**

Yes, they have become more complicated over that time, there are now five rates: Apprentices, under 18s, 18-20s, 21-24 and over 25s. The rate for over 25-year-olds was rebadged as the 'National Living Wage' in 2016 (not to be confused with the voluntary living wage set by the Living Wage foundation). The NMW rates increase year on year but are well publicised and there should be no excuse for an employer failing to apply the new rates. However, ultimately, it is not that straightforward. The majority of employers who we have seen audited by HMRC (HM Revenue & Customs) for NMW compliance have been fined in some respect, despite paying the correct amounts, and in many cases, in fact paying more.

HMRC has been tasked with auditing companies to ensure compliance with the regulations and has received an increased budget, resulting in more than double its number of enforcement officers. Any company with hourly paid employees is likely to be in the sights of HMRC, but with certain industries being of particular interest, including hospitality, retail and manufacturing. The government has also created the position of Director of Labour Market Enforcement, part of the jurisdiction of the role is to look at how NMW compliance is enforced and whether stiffer penalties (which are already significant) should be imposed.

Continues overleaf →



## National Minimum Wage – Why are employers who pay NMW still being fined by HMRC? continued

### So why are employers who pay the correct rates still being found to breach the NMW Regulations?

It is not simply a case of meeting the increased costs, which may be complicated enough and have knock on effects for employees such as reductions in premiums and headcount cuts, but even when paying the correct rates an employer could still be in breach of the complicated regulations. The 'intention' of the employer is not a defence, nor is ignorance of the detail of the Regulations.

Employers policies and practices are unintentionally getting them into hot water with HMRC. We have seen numerous examples of this, some key areas of risk are highlighted below:

- **Pay that counts towards NMW** – employers need to be careful that they are only including the following in NMW calculations: salary, incentive pay if it relates solely to performance (for example Commission) and bonuses. Employers should not be including the following: overtime pay, shift premiums, tips and gratuities, allowances, benefits in kind, advances of loans or pensions payments.
- **Work uniform** – If an employee has to supply any part of their own uniform (including shoes) the cost of purchasing these items should be deducted from their pay when calculating NMW. What this means is that the employee must receive the NMW after that deduction. We have even seen the cost of a pair of socks be considered under this category. Compliance with a dress code does not constitute a deduction for NMW purposes, as long as it is genuinely a code (with sufficient flexibility) and does not in fact prescribe that specific items should be worn.
- **Working time** – An employee's 'working time' might seem straightforward – you would think that you simply calculate the time spent on shift doing the job. But additional activities at the start or end of a shift can also count toward working hours, such as security searches, team briefings, or drug and alcohol tests – the time spent going through these processes will also be working time and should be paid at the NMW rate. Similarly, if employees work through an unpaid break, this becomes working time for which they should be paid NMW.
- **Travel time** – may also be caught where it is travel between assignments or travelling to meetings or training.
- **Changing time** – If you require employees to get changed at work (for example for food hygiene reasons or to change into PPE) the time it takes them to get changed should be included as working time and they should receive NMW for it. We have even seen this applied for the time it takes to put on a pair of gloves at the beginning of a shift.
- **Training** – where it is a requirement of their role, time spent in training must be paid at NMW rates, this includes any inductions.
- **Salary Sacrifice** – where an employee is a member of a salary sacrifice scheme, including ones for the payment of pension or childcare vouchers, then they must receive the NMW rate after this deduction has been made. If instead the deduction drops them below NMW, even though they have opted into the scheme, this will be considered a breach of the Regulations. The result of this is that the higher paid employees may be able to benefit from the tax efficiency of a salary sacrifice scheme that the lower paid employees cannot.
- **Deductions** – HMRC will consider that other areas of deduction, even where it is "opted into" by the employee will reduce NMW pay, for example, payments into savings schemes, social clubs, meals and even the purchase of items from the employer where this is done by way of a deduction from pay. Again, NMW will need to be met after these deductions.
- Similarly, any other payment, which whilst not necessarily opted into by the employee constitutes a deduction from their pay, such as a payment for a locker or the deduction of an administration fee for an attachment of earnings order.
- **'Salaried Hours' contracts** – if you pay employees a monthly salary, HMRC will only categorise this as a 'salaried hours' contract if it contains an 'ascertainable' number of hours that the employee is expected to work in the year – expressed in the number of hours per month or year. It should not refer to hours per week (which most do). If the contract is not truly a salaried hours contract an employee must receive NMW for every hour they have worked in a month and this cannot be averaged out over the year. This will particularly cause problems for employers who have peaks and troughs of work or seasonal variances.
- **Provision of accommodation for example for hotel employees** – the employer can only charge £52.85 per week as rent. If you charge more than this, the additional amount will count as a deduction from the NMW rate, as will charges for utilities or deposits relating to the accommodation.
- **Work experience/placements** – there are only certain prescribed types of work experience that you do not need to pay NMW for, so if you offer work experience, you need to check it falls within one of these exceptions.
- **Record keeping** – It is a criminal offence under the NMW regulations not to maintain proper records showing that the NMW has been paid by the business for at least the last three years. There is also a presumption that an employee has not been paid the NMW unless an employer can prove to the contrary.

The above is just some of the areas that employers have been caught out by HMRC for breaching the Regulations, there are many others.

### Why would you be audited and what happens in an audit?

An audit by HMRC can arise either following a complaint or simply because you are a target sector and it is 'your turn'. You are likely to receive correspondence from HMRC advising you that you have been selected for an audit, however, Enforcement Officers do have the authority to simply turn up unannounced. They also have the authority to speak to your employees and remove documents from site, again without warning.

An investigation will start with an initial meeting with your assigned HMRC

Enforcement Officer, where you will be asked a series of questions relating to your policies, practices and record keeping. The Officer will then follow up with a request for you to respond in writing to certain questions and to provide copies of certain policies and records.

The Officer may then request to arrange interviews with your employees, this could be across numerous sites and you will not be able to be present. Following the interviews and their initial review of information requested, they may send follow up requests and then they

will report back their findings, including informing you of any potential breaches they have identified. You will then have the opportunity to respond either with your agreement or reasons why you disagree (ideally supported by evidence). This negotiation part of the process may involve various iterations.

Finally, HMRC will confirm the result of the audit and issue any penalty notice (see below).



### What are the potential penalties for a breach?

1. HMRC will order the business to make arrears payments to all employees and ex-employees who have been underpaid, going back six years ('the Underpayment').
2. HMRC will impose a penalty of up to 200% of the total Underpayment. I.e. you will make the arrears payments to each employee and ex-employee and then will pay twice the total amount again as a penalty to HMRC.

This penalty is capped at £20,000 per relevant employee and so has the potential to become a major fine.

3. HMRC will order that any breaches are corrected going forwards.

You are likely to have heard of the 'Naming and shaming' regime, whereby employers were named on a published list for findings of breaches by HMRC. However, this has temporarily been

suspended, but is expected to return in 2020 and this has the potential to cause reputational damage.

Focus on compliance with NMW is likely to remain an area of interest to HMRC and the press for the foreseeable future. We therefore recommend that you review your employment contracts and practices for compliance now.

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# WHAT MAKES YOU **UNIQUE?**

**Mark Lister, Regional Finance Director, Industrial Wood  
(Europe) Division, Sherwin-Williams**

Mark has 16 years experience in the Industry having joined Sherwin-Williams following their acquisition of the Sayerlack business from Arch Chemicals.

His career started (in Internal Audit) at English, Welsh & Scottish Railways Ltd (now DB Cargo Ltd) in 1995, where he stayed for 6 years, progressing to a Financial Controller. Then moving on to progressively senior roles at Pegler Yorkshire, Coldseal and Montracon.

At Sherwin-Williams, Mark has worked not just in the UK, but also in Sweden, Italy, Ireland, US, France and Spain. Whilst essentially being a Finance person, Mark spends more time in the business partnering area where he adds value across a wide spectrum of the business.

Continues overleaf →

**SHERWIN-WILLIAMS.**



## What makes you unique? continued

### 1. What led you to choose a career in Accountancy?

**I am from a family of Accountants (my Grandfather had a family practice), however after completing my Business Studies degree, I chose the route of Finance in industry.**

The route through Finance was slightly different to the norm as I've generally been an Accountant in more Commercial and Operational business surroundings.

Tackling the MBA at a young age (graduated at 30) before completing my Chartered Accounting qualification, I hope, gives me a different approach to solving problems & influencing/motivating the business with a more entrepreneurial approach backed up by a very strong technical finance background.



As I would advise any young Accountants in playing a long game, I looked to build my foundation of experience, hence my move (away from Commercially focused financial roles) from EWS Railways into a Financial Accounting role in a Manufacturing business (by joining Pegler Yorkshire).

With such a culture change, it was a challenge, though the aim was to strengthen my adaptability & flexibility in dealing with different business situations.

My time spent at Coldseal (a 'traditional' double glazing company!) was invaluable; a business going through a period of transition, was a very interesting experience and it provided a fantastic grounding (in a direct SME).

In 2004, I moved to Arch Chemicals, a US based Chemical manufacturer & progressed into a couple of FC roles which enhanced both the technical accounting side (from a UK, European and US reporting aspect) and more importantly the commercially focused business partnering role. There, I helped drive accounting/business improvements across different countries as well (Spain, France, China, Singapore, US, Brazil, South Africa)

I then joined Sherwin-Williams in April 2010 as we moved across through an acquisition to another US MNC.

### 2. What is your largest achievement in career year to date?

**Academically, it was really satisfying to obtain both my professional qualification and MBA.**

My A-level results in leaving school should have been better, so I was determined to achieve more, academically. The professional qualification gives me such a strong technical background, whilst the MBA enhances my 'partnering' approach to my current role.

Work-wise, Sherwin-Williams is a culture and a team where we never rest on our laurels.

I am presently serving as the regional lead on a large systems project, and also supporting our local team within their modules. This work is focused on process and data for both our line of business and Corporate teams. It's a great global team project where I'm honoured to play a key role.



### 3. You work for a very large US Multi-National business; does this give you the opportunity to work internationally?

**I've been very lucky, in that the last 16 years, through various roles, I've spent a lot of time outside of the UK, working with local teams in Sweden, Italy, Ireland, US, France, Spain etc where I've led projects to assist with business improvement.**

It's been enjoyable to engage with the teams to successfully deliver various goals that ultimately allow us to serve our customers better.

This skill set is then very transferable, as working within different cultures and businesses gives me a real empathy on how to approach more challenging tasks.

### 4. What is the future for FD roles?

It all depends on the size of business, as very large businesses sometimes favour the route of shared service functions, so it's a case of working closely to ensure the financial integrity remains as robust, whilst using efficiencies saved to integrate the financial teams within the Commercial and Operating parts of the business to drive decision making & aim to match pound notes against all business decisions.

### 5. What do you most enjoy about your role?

**We try to ensure we stay close to customer demands by keeping tight to the local market. Through the large variety of business demands and dynamics, can be a whirlwind, when we remain focused on the needs of our customers and suppliers, we are able to stay the course!**

Finance has a footprint in the vast majority (either from data, process or reporting aspect); so it is essential that my role partners & leverages experience in start to finish 'cross-functional' areas, to collaborate with the Commercial & Operations teams, to deliver business process improvements and to ensure data integrity to assist/drive robust business decisions.



### 6. What advice would you give to a young accountant?

**As mentioned previously, build the experience and education. Put yourself forward for project works within the business, take the opportunity to travel, get on courses (not just financial).**

Get involved with the other parts of Finance, such as M&A, Tax, Investments, Credit etc... it may not be regular parts of a current role, however it will differentiate you, if you can speak to many different subjects.

On a personal basis, listen, absorb and also be heard when you need to be. 'have a seat at the table'.

Finally, don't be afraid of change... in my experience, I haven't had more than 2 quarters without something fundamentally different taking place, which is a fast pace, so be prepared; embrace and then drive change itself.



### 7. How do you maintain a good, healthy Work/Life balance?

**Despite such a busy and rewarding work schedule, I also manage to replicate the same at home too!**

Married, with a young family (our 2nd arrived in July 2018), it is great to experience such pleasures as first words, first steps, happy faces etc. The young children are also in the "football way" already, in regularly attending games at the Keepmoat Stadium to watch Doncaster Rovers.

I also still find the time to watch the England national team home & away, including the 2018 World Cup, 2019 Nations League finals & am looking forward to this year's European Championships.

Any further spare time would be taken up by walking our Airedale Terrier, going to concerts or more travel... No time to slow down... not yet!



## SHERWIN-WILLIAMS.

The SHERWIN-WILLIAMS COMPANY was founded by Henry Sherwin and Edward Williams in 1866. Today, the company is a global leader in the development, manufacture and sale of coatings and related products with more than 33,000 employees and business in 109 countries.

As one of the leading manufacturers in the world who can provide a full range of professional coatings products and services, Sherwin-Williams coatings products provide extensive solutions for protecting and beautifying surfaces. Service facilities across the region

ensure extensive product availability and consistent, accurate colour matching.

### Sherwin-Williams

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# FUNDING MARKETS

by Kevan Shaw, Director, Castle Square Corporate Finance

From our perspective at Castle Square Corporate Finance, 2019 was a strong year in the Mergers and Acquisitions markets, in spite of uncertainty caused by Brexit, political turmoil in the UK and the general election.



We saw strong deal activity across all kinds of transactions including, Management Buy-Outs, corporate acquisitions and disposals, refinancing and growth capital fundraising, backed by both debt and Private Equity.

An unusually large proportion of the transaction types that we saw was in terms of companies looking to raise funds for growth, either for new products/ideas or to fund growth in market leading products gaining traction in 'new economy' areas, such as technology or renewable energy.

Valuations of good quality companies were robust across all transaction types and the funding markets were particularly strong, having been so for a good few years now. UK based clearing banks, have been actively lending as a whole for a number of years now, with the number of banks

pushing out cashflow led term debt to companies with strong and cash generative profit streams, rather than the lending focus being on fully secured asset backed debt, being in the majority, rather than the minority.

However, in recent months and notably since the general election brought clarity in Brexit, a couple of the clearing banks operating in the UK that are headquartered elsewhere in Europe, seem to be adopting a more cautious stance, but for no particular reason other than waiting to see how Brexit pans out in terms of its impact on the UK economy.

Fortunately, this stance is very much a minority one, with availability of debt in the UK funding markets currently at unprecedented levels in terms of liquidity, the number of active lenders and the range of debt funding options available.



**Kevan Shaw, Director, Castle Square Corporate Finance**

Kevan created Castle Square Corporate Finance in October 2009, during which time, he has advised on vast Merger & Acquisitions deals, including Management Buy-Ins/Buy-Outs, Development Capital Fundraisings and Disposals.

## Funding Markets continued



## So what debt options are available to UK corporates?

In addition to cashflow led debt typically via up to five-year term loans, most UK clearing banks carry a full range of Asset Backed Lending (ABL) products to fund working capital, for example, Invoice Finance, Stock Finance, and trade finance, all will be active in property lending.

However, there are an ever-growing number of challenger banks attempting to disrupt the traditional banking market. These funders lead with innovative lending solutions, which typically involves

Some of these Asset Backed Lenders also now offer cashflow led loans as top up lending, albeit on shorter lending timeframes than the banks. A number also are able to deploy loans under the Enterprise Finance Guarantee Scheme, where a proportion of the loan is backed by security from government.

Over that last five years or so, we have also seen significant liquidity created in the UK debt markets via the rise of debt funds, where numerous institutions have

The debt funds can focus more on lending to medium sized or larger corporate entities.

In terms of smaller companies, debt funding options, in circumstances where a traditional bank will not lend, include the regional growth funds and a number of IT led lending platforms providing unsecured loans at the sub £500,000 level alongside peer to peer lending platforms.

If equity is needed for a transaction or for growth capital, the Private Equity markets are equally strong.

For established companies there is an ever-increasing number of Private Equity firms approaching us, having raised new funds and looking for opportunities. There are Private Equity options for all sizes of equity funding requirements, large or small, should debt options not be available or appropriate.

Not all companies will be able to attract Private Equity, as, while there is significant liquidity around in this aspect of the equity market, Private Equity firms tend to back companies that are investment ready in terms of having strong managements teams, quality product and service offerings, growth prospects in the right markets and with robust systems and infrastructure.

Fast growing early stage companies also have funding options via the Venture Capital Trust (VCT's) markets. In 2019 and into 2020, there have been and are ongoing significant VCT fundraisings as investors are attracted to by the 30% tax relief on investment.

2019 was a buoyant year in terms of corporate finance activity. In 2020, we have already seen an increase in the number of fast-growing companies approaching us about funding for growth, long may this trend continue.

keeping things simple by providing term loans and revolving credit facilities to fund acquisition, growth and working capital, instead of the traditional banking model which would split the lending into multiple streams of asset backed facilities.

There are also more specialist Asset Backed Lenders active in the market than ever. These companies provide a stronger ABL offering than the banks in terms of delivery of quantum of facilities, flexibility and a fuller range of ABL products. Some also offering more complex funding lines into niche areas such as construction finance, funding against valuations of work done.

raised funds in the same way as Private Equity institutions, but with the strategy of deploying in long-term debt offerings.

While this kind of debt is more expensive than more traditional banking or ABL debt, with costs typically 8 – 10%, it offers real positives in terms of structure, to support Buy-Outs, acquisitions or growth capital, in that, depending on the approach of a particular fund, key features are:

- It is cashflow led finance, rather than focusing on security or assets
- Cash is provided by loans or revolving credit facilities, so offers simplicity
- The clearing banking stays with the incumbent lender
- The debt can amortise over up to 8 years
- Loans can include repayment holidays
- Debt can be structured partly or wholly on long terms bullet repayment

The investment criteria of VCT's is determined by legislation, and in order to qualify for the generous investor tax relief, the criteria pushed VCT funds towards smaller, earlier stage and hence higher risk investments, which in turn provides a liquid equity market for eligible businesses.

One thing worth a final mention on the banking markets, is that the attitude and approach of the traditional UK based clearing banks changes significantly in Private Equity transactions, with debt structures focused more on cash flow led finance and longer-term debt structures.

For example, in a typical Private Equity sponsored deal, up to two thirds of any debt can be on a bullet repayment, sometimes up to seven years in terms, with only one third of the debt amortising over a typical five-year period.

If there is a Private Equity Sponsor present in a transaction, typically there will be a buy and build acquisition strategy or an organic growth story, so significant amounts of amortising debt would be counterproductive and therefore the bullet based structures allow a company to generate cash to fund acquisitions or growth.

quality and safer debt, generating a yield, in what by its nature will be a quality business, with a quality management team, backed by an investor with 'deep pockets' if follow on funding is needed.

So, overall, the funding markets are buoyant, 2019 was a buoyant year in terms of corporate finance activity. In 2020, we have already seen an increase

Over that last five years or so, we have also seen significant liquidity created in the UK debt markets via the rise of debt funds, where numerous institutions have raised funds in the same way as Private Equity institutions, but with the strategy of deploying in long-term debt offerings.

On their part banks are willing to lend longer term and without tangible asset security as they see this kind of debt as

in the number of fast-growing companies approaching us about funding for growth, long may this trend continue.

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Sheffield based Castle Square Corporate Finance offer pro-active corporate finance advice to clients throughout the UK, tailoring our service to our clients and their markets, giving us an enviable record of successfully completing deals, including acquisitions and mergers, Management Buy-Outs and Buy-Ins, finance raising and disposals.

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## WHAT MAKES YOU **UNIQUE?**

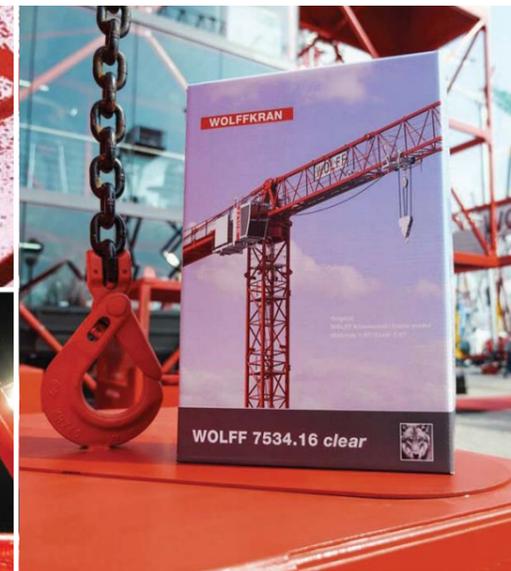
**Michelle Cook, Head of Finance, Wolffkran Limited**

Michelle has worked in Finance since 1993 and in 2003 joined HTC as an Assistant Accountant. In 2007, she became CIMA qualified advancing to Management Accountant, and in January 2015 was promoted to Financial Controller. From November 2018 she has taken on the role of Head of Finance at Wolffkran Limited.

As the leader of the pack, WOLFFKRAN since sets standards in technology and service, integrates state of the art drive technology in its cranes, and continuously develops new models – for more efficiency and safety during transportation, assembly and operation on the construction site.

With its own rental fleet of approx. 700 cranes, WOLFFKRAN is one of the largest providers in this area today. It underlines the flexibility and dynamism of the crane construction specialist, who serves customers nationally and internationally as a manufacturer and service provider.

**WOLFFKRAN**

What makes you unique? *continued*

## Q1.

## What led you to a career in accountancy?

At 18 I was not really sure what career path I wanted to take, my first role was a Receptionist/Accounts Assistant which gave me an insight into Accounts which I found to be of interest to me.

I did not set out with a defined plan to be a Financial Controller, nor Head of Finance for that matter, but I always wanted to learn and accepted when given opportunities for self-development, which in turn resulted in a natural career progression.

## Q2.

## What made you decide to follow the AAT route rather than go to University/Graduate route?

It was something I just fell into really, it wasn't that I had a preference for one over the other. Again in my first role a colleague of mine recommended doing GCSE Accounts to see if this was definitely the route I wanted to take. After completing this I carried on to do A-level Accounting which gave me at the time exemptions from the first stage of AAT. I wanted to continue my studies and gain the qualification that would open doors to other opportunities. Upon completion of AAT I obtained exemptions from the first stage of CIMA.

I do feel like I had the best of both worlds by gaining working experience whilst studying at the same time.

## Q3.

## What are some of the major challenges you have encountered during your time at HTC?

I joined HTC in 2003 as Assistant Accountant shortly after the company had relocated to Sheffield. During my time at HTC the company has encountered some phenomenal highs from being exceptionally busy, along with some devastating lows from the aftermath of the economic downturn between 2008 and 2013 sadly resulting in redundancies.

In May 2015 tower crane manufacturer Wolffkran acquired HTC, this was an exciting time for HTC to become a fully integrated part of the Wolff family and not only filled the employees with restored confidence but customers too.

## Q4.

## What challenges do you think the business will encounter in the next 12 months?

The implications of Brexit for the UK Construction industry still remains unclear, however a no-deal Brexit would cause numerous problems when it comes to importing and exporting goods.

The new VAT reverse charge that will apply from 1st October has caused a few concerns, in particular ensuring that our accounting system is updated to deal with the reverse charge and making sure all staff who are responsible for VAT accounting are familiar with the reverse charge and how it will operate. We also aim to switch to monthly VAT returns to minimise the effects on cashflow.

## Q5.

## Would you change anything about your career if you had the chance?

I do think I took the long way round with regards to my studies while I was finding my feet; however, the path I chose has been character building and given me an exposure to a variety of roles and duties within the finance department which has given me the tools to coach my team and the confidence to lead the department.

I'm not advocating that we all move to a four-day week but we can certainly take the learning from what these companies are doing with smart work and smart rest.

## Q6.

## What advice would you give anyone considering accountancy as a career?

Get as much exposure to different roles and gain as much experience as possible and from this you will understand what you are good at and find the role to which you are best suited.

I always advise my colleagues to take every opportunity for self-development that is available to them whether that be training courses, as Wolffkran is very supportive in offering its employees training which benefits both the company and the individual, or gaining experience in learning different roles by offering to help another member within the team during busy periods.

If your focus is more on what you can do for a company than the other way round then you will in turn progress in your career.

# BREXIT

## IT HAPPENED, APPARENTLY



by Dale Spink, Client Director, Brewster Partners, Accountancy & Finance Recruitment

After years of dominating the news and discussions, lectures from Facebook politicians and armchair economists from both sides of the fence, even stories of marriage breakdowns over which way you voted; Friday the 31st of January was a momentous day I remember well - having finally received my monthly salary after enduring what felt like a 90 day month.

Also, three and a half years after the referendum and after three extensions at 11.00pm on January 31st 2020 we exited the EU, seemingly quietly with little drama. Where were all the strikes, the collapsed businesses, the street brawls, the mass exit of EU nationals flooding the airports? In some ways it reminded me of the millennium bug.

So what does it mean for UK businesses? For now, we are in a transitional period and in reality very little has changed. It's too late to revoke article 50, Brexit is happening that is not up for dispute and it is now over to Boris Johnson and his team of advisors to negotiate new trade deals with Europe and the rest of the world, by the 31st December 2020.

For some companies there is concern yet very little preparation seems to have been done to look at potential risks. Others have had teams of analysts seemingly looking at every possible outcome to their business based on any and every trade term with every country for the next thousand years. One thing history teaches us is that whatever industry you are in, your competition will be looking into ways to exploit something new.

The UK is now in a position to negotiate new trade deals with Europe and the rest of the world and the reality is that this could be something we could prosper from.

Perhaps credit needs to be given to our resilience as a nation, after all less than a decade ago most of us were working through the biggest recession since the Second World War. Whichever way you voted and whatever your opinion on the decision, Brexit has happened and we get on with it.

However, instead of thinking about any potential negative impact, how many businesses are wondering what opportunities this could present to them?

As a recruiter I meet stakeholders of a range of businesses from family owned SMEs to large PLCs as well as international organisations and I see a broad mix in terms of Brexit preparation and opinion.

The UK is now in a position to negotiate new trade deals with Europe and the rest of the world and the reality is that this could be something we could prosper from. I would love to see Yorkshire businesses leading the way with new trading opportunities with the rest of the world and I hope to see businesses involved with negotiations and reaping the benefits of new international relationships. Yes, in a market with skills shortages and with precarious GDP growth we need to prepare for any adverse impacts Brexit may present but let's not lose the pioneering spirit of our Pilgrim Fathers - Yorkshire is open for business.

In an uncertain world...

# one thing is for certain

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