



Outsourcing – the one-stop solution to your international expansion?

When seeking to set up a business presence in the UK, what does entering into an outsourcing arrangement for finance and administrative processes entail? **Kulwarn Nagra**, Head of Corporate Services, and **Lynne Hunt**, Senior Manager – Business Services Group of **Rawlinson & Hunter**, address some common concerns

OUTSOURCING – WHAT DOES IT MEAN TO YOU?

According to Wikipedia, a precise definition of outsourcing has yet to be agreed upon. Therefore it is not surprising that the term is used inconsistently and can mean a variety of different things to different people. Often initial reactions to the term “outsourcing” are negative as it is considered synonymous with offshoring, call centers and loss of jobs. These connotations are certainly incorrect insofar as US inbound companies to the UK are concerned.

Essentially, outsourcing refers to how things are done rather than what is done. Put simply, it is the process by which a business delegates some of its in-house operations and processes to a third party.

OUR VIEW ON OUTSOURCING

Outsourcing is, in our view, the process that takes away the compliance and other administrative headaches from the directors and owners of a business, thereby enabling them to focus on their core business activities and competencies. Usually, outsourcing is thought of simply in terms of accounting and financial processes. However, this thinking is too narrow.

Outsourcing of the accounting function represents the very basic compliance service that an outsourcing partner needs to provide to ensure the minimum statutory requirements of running a company are met. These should not be underestimated as, for example, there are some 20 pieces of paper (or actions) that need to be completed to get a company up and running in the UK. This basic compliance service could be defined as the “fundamentals” and would

THE FUNDAMENTALS

The basic compliance service will tend to include:

- Full accounting records
- Management accounts
- Group reporting
- Statutory financial statements
- VAT returns
- EC Sales lists and Intrastats
- Cashflow reporting
- Budgeting
- Payroll services
- Corporation tax compliance
- Business registrations
- Company secretarial matters
- Bank account opening

include payroll, VAT (sales tax), management accounts, group reporting, statutory accounts, corporation tax returns etc. What differentiates a good outsourcing organization from a poor one is whether it can help beyond the “fundamentals”.

Often clients, especially inbounds to the UK, need additional support with, for example, getting the business registered with the tax and other authorities, opening a bank account, managing and handling cash payments, HR and IT support.

Above all, businesses making their first move into the UK typically need advice on UK business culture and divergences from the US environment.

A good outsourcing partner will, in effect, provide you with a virtual CFO service and access to a range of specialists that a business in its infancy usually cannot afford.

TYPICAL QUESTIONS

Here are some of the typical questions an inbound company has about outsourcing its finance and administrative processes:

HOW CAN OUR MANAGEMENT TEAM, WHICH ONLY HAS EXPERIENCE OF MANAGING A BUSINESS IN THE US, AVOID FALLING FOUL OF UK BUSINESS RULES AND PRACTICES?

It is important that the outsourcing partner which an inbound company chooses has experience of dealing with inbound companies from the US. Its staff need to be aware of the cultural differences, as well as the different legal rules and accounting terms (ie, the US general ledger compared with the UK nominal ledger; receivables compared with debtors, restrictive surplus compared with undistributable reserves.... the list is endless).

One particular area of difficulty often relates to share options, where employees of UK companies with a US parent are offered participation in the group share option plan. Without modification to the plan to make it a UK tax authority-approved share option plan, income tax and national insurance is liable through the Pay As You Earn system on the share option gains upon exercise of the options by UK employees, making this unattractive for both the employees and the UK company employer.

WHAT ARE THE IMPLICATIONS OF EMPLOYING STAFF IN THE UK?

Employment law in the UK is very different to that in the US and local knowledge is an absolute pre-requisite. Inbound companies will require assistance with con-





tracts of employment and procedures and some form of at least rudimentary staff handbooks, together with the running of the payroll. In addition, basic HR support will be needed, which can be especially important if any disciplinary or other issues arise with employees.

The UK has complex employment laws regarding the procedures that need to be followed in different situations, for example, with an underperforming employee. Not following these procedures can be an extremely expensive mistake, both in cash terms and senior management time.

OPENING A BANK ACCOUNT IS PRESUMABLY ONE OF THE FIRST STEPS THAT WE WILL NEED TO UNDERTAKE – WILL IT BE RELATIVELY STRAIGHTFORWARD?

The simple answer to the first element of this question is yes. However, it is fair to say that the difficulty in opening a bank account, especially involving overseas investors, should not be underestimated. However, a good outsourcing organization should, through its relationships with various banks, be able to speed up the process of opening an account by knowing the information that will be required by the banks in respect of the owners and directors of the business.

Once the bank account is opened, often senior individuals within the outsourcing organization can act as the authorised signatories for the bank accounts, subject to defined restrictions. This allows the parent company finance function to devolve this responsibility to senior individuals in a regulated organization rather than to its UK employees, especially at a time when the employees have no history with the company and/or the company is at an embryonic stage.

WHAT ASSISTANCE IS AVAILABLE TO FULFIL OUR IT REQUIREMENTS WHEN SETTING UP AN OFFICE IN THE UK?

A good outsourcing firm will have a number of IT specialists who may not only support their own internal systems, but also assist clients in a variety of ways. Once the basic networks and systems have been set up, these specialists can provide support through a combination of remote login screens, to assist with day-to-day queries, and client office visits to deal with more complex matters. In addition, they can advise on systems selection matters, together with, in some instances, actually buying the hardware and software on the client's behalf so that they can take advantage of volume discounts.

WILL THE OUTSOURCING ORGANIZATION BE ABLE TO ASSIST WITH OFFICE SPACE?

The answer to this question will often depend on your requirements. Some outsourcing partners will be able to offer office space to clients to use, either on a temporary or full-time basis, whilst suitable office space is located. Their offices are also frequently available for client board meetings. In addition, a UK company needs to have a registered office and a large number of clients will use the outsourcing organization's office as their registered office address. Dovetailed to this service is usually a full company secretarial outsourcing service, whereby all of the company's statutory books and records are maintained at those offices.

HIGHER-ADDED-VALUE ACTIVITIES

These activities go beyond the "fundamentals" and will tend to include advice and support to the CFO on:

- Cultural differences
- Legal and accounting differences
- Employment and HR matters
- IT networks, systems and training
- Corporation tax planning
- Transfer pricing matters
- Statutory audits
- Sales invoicing and collections
- Supplier payments
- Office space
- Personal tax
- Share option plans

HOW IS THE EFFECT OF THE TIME DIFFERENCE BETWEEN THE US AND THE UK – AND HENCE THE IMPACT ON ACCESS TO THE UK ACCOUNTING RECORDS – MITIGATED?

Not all outsourcing contracts awarded to UK outsourcing organizations are necessarily carried out in the UK by UK employees – some work may be outsourced to third parties overseas. Clearly this can exacerbate the time difference issue. Furthermore, as a consequence, the UK team assigned to a client may lack an intimate knowledge of the client's affairs. Therefore it is important to ascertain the precise location from which the services will be provided.

A good outsourcing partner will have developed an Extranet facility that allows authorized users (for example, members of the US finance team) to log onto the Extranet and have access to different reports. These reports can range from payroll, management accounts, VAT returns, corporation tax returns and any other information that is required. It goes without saying that this information needs to be maintained securely. An Extranet provides a highly secure alternative to e-mailing documents to clients and also means that "version control" is possible. In addition, often access can be arranged for authorized individuals to log onto the outsourcer's accounting systems remotely, review the company's records and run reports on a 24/7 basis.

FINALLY, THE QUESTION PROBABLY IN THE BACK OF YOUR MIND – IS THE OUTSOURCING ROUTE THE CORRECT ONE FOR US AS AN ORGANIZATION?

This is something that only you can decide. However, our clients' experiences have been that outsourcing provides real added value and helps them focus on their higher-added-value activities rather than get bogged down with lower-added-value compliance and day-to-day administrative burdens. Of course, as the business grows, there will come an appropriate time when it makes sense that some or all of the functions should be moved in-house. We have advised several clients in this position and helped them to recruit, train and then transition to an in-house finance team, reducing our involvement steadily in a controlled manner.



It is often the case that certain activities are moved in-house and our services are retained for the more technical areas or, for confidentiality reasons, matters such as running the payroll. In such situations we maintain a close relationship with our clients.

As the relationship has been built up over a number of years, our staff are highly thought of by our clients and are therefore then often asked to provide cover for holidays or gaps in client staffing.

OUR CONCLUSION REGARDING SUCCESSFUL OUTSOURCING

The case for outsourcing, especially for US inbound companies to the UK, is overwhelming. After all, even in the most basic scenarios, it offers the opportunity to benefit from the ideal finance function. A function that has exactly the skills that you require – no more and no less; does exactly what you want, precisely when you need it; solves problems that arise, whatever the subject; never resigns, goes on vacation or takes time off for illness and, lastly, does not occupy your valuable office space.

The key to successful outsourcing is in the choice of the outsourcing partner. The partner should be capable of handling not only the “fundamentals” but also supporting the higher-added-value activities. The working relationship should be based on a true spirit of partnership and your outsourcing partner must offer the right personal chemistry – after all, it is effectively an extension of your own organization – and a can-do attitude.

We very much hope that this short article has addressed your initial questions and allayed any concerns you may have had about entering into an outsourcing arrangement. However, we recognize that this is a big step, especially as it probably underpins your first move outside the US.

Therefore, please contact either Kulwarn Nagra (Head of Corporate Services at Rawlinson & Hunter) or Lynne Hunt (Senior Manager – Business Services Group at Rawlinson & Hunter) if you have any further questions or would like to discuss your outsourcing options and strategy.

RAWLINSON & HUNTER

CHARTERED ACCOUNTANTS

For more information about the Rawlinson & Hunter outsourcing service visit:

Website: www.rawlinson-hunter.com



Kulwarn Nagra, Head of Corporate Services

“Your outsourcing partner should be capable of handling not only the fundamentals, but also supporting the higher-added-value activities and provide you with a virtual CFO service and a range of specialists, which you could not otherwise afford to employ.”

Kulwarn Nagra

Head of Corporate Services

Direct line: +44 (0)20 7842 2130

Office: +44 (0)20 7842 2000

E-mail: kulwarn.nagra@rawlinson-hunter.com



Lynne Hunt, Senior Manager – Business Services Group

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Lynne Hunt

Senior Manager – Business Services Group

Direct line: +44 (0)20 7842 2025

Office: +44 (0)20 7842 2000

E-mail: lynne.hunt@rawlinson-hunter.com

