

# FINANCIAL PLANNING PROFESSIONAL

## Editorial

The Budget this year was late, but not without surprises, and has unleashed some complicated 'anti-forestalling provisions' for registered pension scheme input. These are a precursor to the withdrawal of higher rate relief in 2011. Our Foundations article summarises the main points from the Budget and we will cover anti-forestalling in more detail in a separate article in the next few months.

Our thanks go to David Harris for an article explaining the different share classes which can arise under a split capital investment trust. David has long experience of investment trusts and this

is a very useful article, dealing with an under-used investment.

We begin a short series on pension fund investment, looking at the issues which arise under defined benefit schemes. Trustees have become very aware in recent years of the importance of having a sound investment process in place, and although almost all will use professional advisers in this field, they need to be in a position to consider advice critically. We will discuss defined contribution schemes (both occupational and personal) next month.

Finally, we look at managing conflict situations in our Training and Supervision article. These situations are bound to arise, and dealing with them effectively is vital.

## FOUNDATIONS

# Spring Budget 2009

There is always an air of expectancy on Budget Day and this year was no exception. There are usually surprises, and the Chancellor delivered on these too. As always, we can only cover some of the major effects – there were 93 HMRC Budget Notes, running to 220 pages, and even these did not cover all aspects.

## INCOME TAX

The income tax allowances and bands for 2009/10 are as announced in the Pre-Budget Report in December, and details of the main items are shown in the table on the right.

Further changes have been put in place for the future however. In particular, it had been planned to introduce a 45% tax rate for taxable income above £150,000 from 2011/12. Instead, the new rate will be 50% (42.5% for dividend income) and it will apply from 2010/11.

The rate for trusts will be aligned with the new highest rates and the

	2008/09	2009/10
Personal allowance	£6,035	£6,475
Age allowance (65-74)	£9,030	£9,490
Age allowance (75 and over)	£9,180	£9,640
Blind person's allowance	£1,800	£1,890
Married couple's allowance (if born before 6 April 1935)	£6,625	£6,965
Income limit for age allowance	£21,800	£22,900
Minimum married couple's allowance	£2,540	£2,670
Basic rate limit	£34,800	£37,400
Starting rate band (savings income only)	£2,320	£2,440

tax charges which can apply under registered pensions, for example where there is an unauthorised payment, will also be altered to reflect the new position.

The proposal to scale back the personal allowance for those with income over £100,000 will come into effect, as expected, in 2010/11, but the detail has been changed. The allowance

## CONTENTS

### EDITORIAL • 1

### FOUNDATIONS • 1

Spring Budget 2009

### FROM COMPETENCE TO EXPERTISE • 3

Share classes within Split Capital Investment Trusts

### FOR THE SPECIALIST • 5

Pension fund investment – part 1

### TRAINING AND SUPERVISION • 6

Managing conflict

### SELF-TEST QUESTIONS • 8

FINANCIAL PLANNING  
PROFESSIONAL

is published by

**Finance Industry Training Ltd**

12 Mountbatten Road

Poole BH13 6JE

email: [info@fitfortraining.co.uk](mailto:info@fitfortraining.co.uk)

Available monthly



Editor: David Wicks

will be reduced by £1 for each £2 of income in excess of £100,000, until it reaches zero. (Previously the reduction was to be made in two stages, so although more onerous, the revised basis is a little simpler.) The measure of income for this purpose is the same as that used in calculating reductions in Age Allowance.

Although not mentioned in the Budget, the increases to NI contributions in 2011/12 will proceed as announced in December.

## PERSONAL TAXES

The CGT annual exemption is £10,100 for individuals in 2009/10, and, as already announced, the IHT nil rate band is £325,000.

## PENSIONS

There were persistent rumours before the Budget that higher rate relief on pension contributions could be withdrawn. Although the Chancellor stopped short of withdrawing all higher rate relief, it was announced that relief on pension savings would be restricted from 6 April 2011 for those with income (not just earnings) in excess of £150,000. There will be a sliding scale, but for those whose income exceeds £180,000, pension input will only qualify for relief from basic rate tax (20%).

Because the change is not effective immediately, there could have been a potential for individuals to increase contributions now to benefit from higher rate relief while it is still available. In order to avoid this, or at least control it, there are to be 'anti-forestalling measures' introduced. These apply from 22 April 2009 and will affect only those with incomes of £150,000 or more in the current tax year or either of the previous two tax years. Individuals in this category whose pensions savings are increased beyond their level before the Budget (referred to as the protected input level), and whose pension input exceeds £20,000 per year, will find themselves subject to a special annual allowance tax charge of 20% on the increase. For personal contributions, this will have the effect of restricting tax relief to basic rate.

Note that the reference is not to contributions by the individual, but to pension savings or input. This will include personal and employer contributions to defined contribution arrangements, and the value of accrual (as calculated for annual allowance purposes, based on a 10:1 valuation factor) under defined benefit schemes.

The provisions are complicated and the information issued so far is not entirely clear, particularly as regards the position in 2011. However, it seems that when the substantive change in 2011 takes effect, it will affect all input rather than just individual contributions, and with no protected input level. There will certainly need to be a period when the operation of the new rules is considered in detail, with industry consultation.

The anti-forestalling rules are the immediate concern and one problem is determining what constitutes an increase above the normal pattern of contributions. The announcement states that under a defined contribution scheme, only established levels of regular contribution paid quarterly or more frequently will be regarded as the normal pattern. This will clearly disadvantage those who pay annual contributions. Under defined benefit schemes, the formula in place prior to the Budget will represent the protected input level.

It is worth noting that where a salary sacrifice is put in place on or after Budget Day, the sacrificed salary will be added back when determining the individual's income level under these rules.

All this seems less than helpful at a time when pension planning should be actively encouraged. It is worth considering that if the highly paid decision makers of the dwindling number of employers with defined benefit schemes feel that the schemes are no longer of benefit to them, they may not keep them in place for others.

The increased complexity is also unwelcome. It hardly seems worth introducing a simplified regime and then obscuring it with a multitude of complications introduced in what is still a very short period.

## ISAs

There was some good news in the announcement that ISA allowances are to be increased from £7,200 to £10,200, of which up to £5,100 can be invested in a cash ISA.

The increase will be introduced with effect from the tax year 2009/10 for those aged 50 or more, but the increased contributions can only be accepted from 6 October 2009. (The individual must be aged 50 or more when making the contribution, so someone whose 50th birthday falls on 1 February 2010, for example, could not use the increased allowance until that date.) The increase will be effective for 2010/11 for all, subject to the existing age requirements (age 16 for cash ISAs, 18 for stocks & shares ISAs).

## BUSINESS TAXATION

As already announced, the small companies' rate will remain at 21% for the 2009 financial year (although it is still to increase to 22% in 2010).

The ability to carry back trading losses to earlier years to obtain a tax refund has been extended for a further year and will now apply for company accounting periods ending in the period from 24 November 2008 to 23 November 2010. The rules allow losses to be carried back for up to three years (using later years before earlier years), subject to a limitation. It remains possible to carry back unlimited amounts for one year, but there is a limit of £50,000 on the amount that can be carried back further. Any loss which cannot be carried back can still be carried forward indefinitely.

For unincorporated businesses, the measure will now apply to trading losses for the tax years 2008/09 and 2009/10.

There is also a temporary 40% first year capital allowance on purchases of plant and machinery in the 12 month period beginning on 1 April 2009.

## CTFs

There was an announcement of a further government investment of £100 per year into the Child Trust Funds of disabled children, which is intended to boost the nest egg available to them at 18, in recognition of the greater financial

needs they may have.

### SDLT

The temporary increase in the Stamp Duty Land Tax threshold to £175,000 for residential property was extended until midnight on 31 December 2009.

In January, we published a table showing the effective dates of the main changes and this now needs amendment following the Budget. The extended table (left) groups together the dates at which the main changes will have effect. As the detail of the position on pensions relief becomes clearer, we will cover this in a focused article. ■

Date	Measure
3 September 2008	Increase in SDLT threshold to £175,000 for residential property
1 December 2008	Reduction in VAT rate to 15%
22 April 2009	Budget day Introduction of anti-forestalling rules on pensions
6 April 2009	Increases in income tax allowances and bands Alignment of UEL to start point of higher rate tax
6 October 2009	Increased ISA allowances available for those aged 50 or more
1 January 2010	Return of VAT rate to 17.5% Return of SDLT threshold to £125,000 for residential property
1 April 2010	Small companies' rate of corporation tax increases to 22%
6 April 2010	Reduction in personal allowances for those with income over £100,000 Introduction of 50% tax rate Increased ISA allowances available for all
6 April 2011	Restriction of pensions tax relief for those with income over £150,000 Realignment of NI threshold to personal allowance Increases in NI contribution rates

### FROM COMPETENCE TO EXPERTISE

## Share classes within Split Capital Investment Trusts by David Harris

Split Capital Investment Trusts (splits) were first introduced to private investors in the mid 1960s. They were designed as the Investment Trust sector's response to the then penal rate of personal income tax that saw a top rate of 83% plus an additional surcharge of 15% on investment income. This meant 98% tax in some cases!

In their initial, and simplest form, splits simply did as their title suggested and split shareholders' entitlement to income and capital. Instead of a company issuing, say, 1,000,000 ordinary shares entitling an investor to a dividend and, hopefully, growth in the share price, the company would issue 500,000 income shares and 500,000 capital shares. The income shareholders received all the income (as dividend) generated by the company (effectively doubling their income) but none of the capital growth, whilst the capital shareholders received no income but all of the growth generated within the company by the time it was wound up (virtually all splits have a predetermined life span) effectively doubling any capital growth. This 'gearing' of returns to shareholders was not caused by borrowing any additional monies within the company, but simply

by the company structure and associated issued share capital.

As years went by a much wider range of structures and share classes were developed which catered for a variety of investor needs in terms of both risk and potential return.

Each type of share within a split structure has a predetermined order of priority, both in terms of entitlement during the lifetime of the trust and also repayment at the wind up date. Investors must be aware of the class of share they own, the rights and entitlements of any prior charges, and of all the share classes that are in issue.

Splits also have varying investment policies and objectives. Different trusts will be exposed to different forms of investment risk, which, in turn, will affect the potential returns, and the investment risk characteristics, of the underlying share classes within the trust.

Splits are complex investment vehicles and investors need to ensure they understand the structure before they make an investment.

As stated, most split capital trusts have a limited life span and, almost certainly, at least one class of share within the split will have a limited life. This means that at a

particular date the trust will need to realise assets from the underlying investments to distribute to specific shareholders. It is important for any investor to understand that where a trust has a limited life, this may affect its ability to generate growth both in terms of income and capital.

At the wind up date, shareholders will be asked to agree to the wind up of the company enabling them to receive the predetermined or underlying value of their investment. It is, of course, possible that they will be given the option of continuing the life of the trust or rolling over their investment into a new or existing vehicle. Where the investment is rolled over an investor should not incur Capital Gains Tax at that time whereas if the investment is realised, any capital gains will, of course, be taxable in the normal way.

When the trust winds up, shareholders are repaid in order of priority, after repayment of any prior charges and expenses have been deducted.

Investors should note that although splits have a limited life, shareholders are not obligated to hold their shares until the final wind up date. Shares may be sold at the prevailing market price throughout the lifetime of the trust.

Each split is unique and therefore it is important that investors understand the entitlements of any prior charges and of each share class within the split structure. The following descriptions give an explanation of the various types of share class available within the Split Capital Trust sector.

### PRIOR CHARGES

A prior charge is an amount that must be paid before any claims on the assets and income of the trust can be met. Such a charge could be the result of bank debt, loan stock or higher ranking classes of share.

Prior charges will always be first for payout as the trust winds up.

### ZEROS

Zero dividend preference shares, or zeros, are a share class with a limited life. They offer a capital return that takes the form of a predetermined (though not guaranteed) redemption value at the wind up date. It is important to recognise that this capital return is not guaranteed and is dependent upon sufficient assets being available for distribution. Zeros have no right to receive dividend income.

Zeros are preference shares and, as such, will usually rank ahead of income, ordinary income and capital shares for repayment after prior charges have been met.

### INCOME SHARES

There can be several types of income share which will vary in their entitlements to income and will also offer various capital entitlements at wind up. These income and capital entitlements will vary between different split structures. Income shares aim to provide income generated from the trust's underlying assets and paid in the form of dividends. Income entitlement could include either a targeted fixed dividend, an entitlement to receive all of the income generated by the trust, or a share of the revenue alongside other shares in the split structure. At wind up, income shares have predetermined capital entitlements which could be either their original issue price or any value below that

level. Remember that the predetermined capital entitlement for the income shares will rank behind payment of any prior charges.

### ORDINARY INCOME SHARES

Ordinary income shares offer a combination of the potential for high and rising income, and also the potential for capital growth, albeit at a higher relative investment risk to other classes of share.

Ordinary income shares are sometimes known as highly geared ordinary shares or income and residual capital shares. They have no predetermined capital value but, in addition to income during the lifetime of the trust, at wind up they would be entitled to all the surplus assets available after prior charges have been paid out.

Ordinary income shares are usually linked in a trust structure with zero dividend preference shares and will rank behind these and other prior charges for capital repayment at the trust's wind up.

### CAPITAL SHARES

These offer potential for above average capital growth but will have a higher relative investment risk than any other class of share within the split structure. Capital shares are entitled to all the surplus assets at wind up after repayment of any bank debt and prior claims of all other share classes.

### UNITS AND WARRANTS

Some splits will arrange for a combination of their share classes to be traded together in what is known as a 'unit'. In essence, a unit is often considered and analysed in the same way as an ordinary share of a conventional investment trust.

Some investment trusts can issue warrants (a security but not a share) which gives the holder the right, but not the obligation, to purchase shares at a predetermined price on a predetermined date in the future.

### GEARING

There are two types of gearing that may be associated with splits: one is financial gearing and the other structural gearing.

Trusts are able to borrow money to invest in further shares and

securities in the expectation that the returns on the additional investments will exceed the costs of the borrowing. This is known as financial gearing. If a trust uses financial gearing, markets rise and the underlying returns on the trust's assets are in excess of the costs of the borrowing, then the return to the investor will be enhanced. However, if the performance of the trust's assets is poor, then the loss suffered by the investor will be magnified due to the effects of gearing and the costs of borrowing.

Trusts have flexibility in the ways that they implement financial gearing. They may issue debentures, preference stock, convertibles or, alternatively, simply rely on bank borrowing. If a trust has financial gearing, it is very important to establish the characteristics of that borrowing. The costs and type of borrowing will ultimately impact on the return an investor receives on share classes within the trust.

Whilst not all splits will be financially geared, they will undoubtedly provide structural gearing to individual share classes through their capital structure. This structural gearing is due to the predetermined entitlement and order of priority for repayment of shares at the wind up. The returns for each class of share capital are governed by the effects of the entitlements of the prior charges and other share classes. The number of share classes within a trust and their individual entitlement will determine the level of structural gearing involved.

The different classes of split capital investment trust shares can be very useful in building an investment portfolio due to their differing investment risk profiles. Splits that are both well structured and managed are transparent and highly flexible investment vehicles. The ability to invest in a range of securities that offer different profiles of return is something that gives both investors and their advisers the opportunity to add value to a portfolio in a different and often innovative manner. ■

*David Harris is an independent consultant in investment matters*

## FOR THE SPECIALIST

# Pension fund investment – part 1

This article begins a short series on pension fund investment, and in this issue we concentrate on aspects affecting defined benefit schemes. This is much more about the investment process than trying to provide a 'one size fits all' answer to the question of where to invest. The responsibility for the investment of the scheme monies lies with the trustees, and is arguably one of the most demanding aspects of their role. Trustee responsibilities have grown considerably in recent years and there is a formal requirement, laid down in legislation, that trustees must have sufficient knowledge and understanding to discharge those responsibilities.

As in other aspects of the trustee role, this does not mean having to become personally expert, and professional investment managers will generally be appointed. However the trustees must be in a position to understand the basis of the advice they are given, to question it where necessary, and to monitor the performance of the managers.

## THE PROCESS

Investing the often very substantial assets of a scheme requires a sound investment process to be in place. The Myners principles were announced in 2002 to provide a basis for this process, following a review by Paul Myners which had identified shortcomings in the expertise and organisation of investment decision making by pension fund trustees.

These principles were updated following a review conducted by the NAPF (National Association of Pension Funds) at the request of the DWP. This has resulted in a reduced number of high level principles, supported by guidance on good practice, published in October last year.

The detail of the revised principles can be found on the Treasury website

[www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

under consultations. The titles of

the principles describe the elements of the process and are as follows:

Principle 1:	Effective decision making
Principle 2:	Clear objectives
Principle 3:	Risk and liabilities
Principle 4:	Performance assessment
Principle 5:	Responsible ownership
Principle 6:	Transparency and reporting

The decision making aspect requires that decisions are taken by persons or organisations with the necessary skills. The Pensions Act 1995 requires trustees to take proper advice on investment, but the principles also reiterate the need mentioned above that the trustees must also be able to evaluate and question the advice they receive.

## OBJECTIVES

Principle 2 states that the trustees should set out objectives and benchmarks for investment, taking into account various factors. These include the scheme's liabilities, the nature of which will vary significantly from scheme to scheme. For example, liabilities in respect of active members of a final salary scheme are linked to earnings and therefore earnings inflation is an important influence.

Liabilities for deferred members on the other hand are subject to statutory revaluation, which is generally linked to the RPI, though capped at 5% pa (2.5% for accrual from 6 April 2009), but with different rules for Guaranteed Minimum Pension (GMP).

Current pensioner liabilities are also primarily linked to price inflation. Benefits accrued on or after 6 April 1997 must increase in line with the RPI, but subject to a cap of 5% pa (accrual to 5 April 2005) or 2.5% pa (if later). Benefits accrued before 1997 are subject to different escalation requirements in the case of GMP benefits, and benefits in excess of GMP may not escalate at all.

The trustees need to consider

how their liabilities are likely to vary in future. Ideally, investment growth will be closely matched to liabilities, though this can be difficult to achieve. However, even this brief analysis of factors affecting liabilities shows that there is no universally correct answer to the question of asset mix, given that the make-up of liabilities will vary from scheme to scheme.

The trustees also need to consider other aspects, including the strength of the employer covenant to pay contributions and the attitude to risk of the employer as well as the board of trustees.

They need to consider whether to adopt a passive or active management approach, taking account of the effect costs will have. For example, active management will be more costly than passive management, but needs to deliver outperformance if those extra costs are to be justified.

Allied with these considerations is the issue of risk and liabilities covered by Principle 3. Good practice will mean considering the extent to which there can be tolerance of underperformance resulting from market conditions. The trustees must consider also whether their approach is reasonable taking into account the employer's willingness and ability to pay contributions.

A further factor is the risk of lightening mortality and its effect on scheme liabilities.

## ASSESSMENT

There must also be a process of assessment of performance, and this is covered by Principle 4. This should include assessment of the trustees in relation to the discharge of their responsibilities regarding investment, as well as the performance of investment managers.

Assessment needs to be against the objectives and benchmarks set and the basis of the assessment will need to have been specified and communicated to investment

managers in advance. It is important that the basis is realistic; consistent and significant outperformance relative to stock market indices is extremely difficult to achieve. Where it is achieved, it may necessitate a relatively high level of risk. As recent events have shown, a high risk strategy may work for a time, but can rebound with a vengeance if market conditions shift unexpectedly.

Measurement periods also need to be considered carefully. Too short a period is unlikely to provide results which differentiate good from bad to any great degree and indeed may result in managers taking a short term, possibly overcautious, view. Conversely, too long a period may make it difficult for the trustees to take action in time if things start to go wrong.

### RESPONSIBLE OWNERSHIP

Pension funds can wield great influence, because they are often very substantial shareholders in companies and Principle 5 states that the trustees or their managers should adopt the Statement of Principles issued by the Institutional Shareholders' Committee. The Statement relates to the importance of engagement with investee companies, in order to get best value in respect of the investment. The best practice guidance alongside the Myners Principles

suggests that there should be an explicit strategy setting out the circumstances in which the trustees will use their shareholding to try to influence an investee company.

There is also a requirement on the trustees of pension schemes to communicate to members the extent to which they take account of Socially Responsible Investment (SRI) considerations in determining their strategy. This does not go so far as requiring them to take SRI into account, but if they do not, they must communicate this fact.

### TRANSPARENCY & REPORTING

The final Principle states that the trustees should always act transparently, and communicate fully with stakeholders, which would include the employer and the members of the scheme. Part of this will be fulfilled by the statutory obligation on trustees introduced under the Pensions Act 1995 to prepare and publish a Statement of Investment Principles, having taken investment advice and also having consulted with the employer.

The Statement must include details of the kinds of investment held and the balance between them, as well as information on risk and expected return. The Statement must be reviewed at least every three years.

However, best practice will involve greater communication, for

example via a website or helplines.

### OUTCOME

The outcome of the process should be an investment process which is clear, with defined objectives, and which is actively monitored and communicated. In the past it was often said that defined benefit schemes should invest largely in equities and property to provide the best opportunity to outperform earnings inflation. It is much less clear that this should be the approach today.

In the past, schemes often had positive cashflow, with contributions outstripping benefit payments, but this is far less usually the case now, so greater care needs to be taken to avoid being forced to encash assets when market values are low. Also, as schemes have matured and liabilities for deferred and current pensioners have become proportionately greater relative to liabilities for current members, the required strategy will often have become more focused on price than earnings inflation.

The responsibility on trustees is great therefore and they need to arrive at an approach which reflects the position of their particular scheme.

Next month, we look at defined contribution schemes, and consider what different influences are at play. ■

## TRAINING AND SUPERVISION

# Managing conflict

Conflicts of one sort or another are common and unavoidable in a work environment (and indeed in the home and in the wider community). Dealing with and managing conflict is therefore an important part of everyday life. It is important to approach the situation in a considered manner.

It is worth saying that conflicts are not necessarily a bad thing, provided they are dealt with effectively. The result of a conflict can be the development of processes which represent an improvement for all, and often new thinking is stimulated. At the least,

the outcome can be a clearing of the air. However, the conflict must be addressed and dealt with if a positive result is to be achieved.

The effects of conflict in the workplace can be far reaching. There can be a damaging effect on motivation and morale, and sometimes considerable amounts of time and energy can be spent discussing the problem, taking sides and gathering support. The effectiveness of the team can be damaged if there is a lack of cooperation between members, and the business as a whole can be affected if there is conflict between

business areas. The manager will need to step in and decide the approach to take.

### CAUSES

There are many potential causes of conflict and it is an important first stage to identify the cause and nature of the problem. Amongst the most common are:

**Roles:** individuals need to know what their role within an organisation is, and may feel they need to be protective of their perception of that role if they feel that others are encroaching on it

**Objectives:** it is important that

people understand the objectives of the business and how those objectives impact on the objectives of their own role

**Values and beliefs:** we all have values and beliefs which frame the way we live our lives, and it is hard to accept actions or attitudes in others which conflict with them

**Methods:** sometimes conflict arises from individuals seeking to implement different approaches, possibly towards the same goal

**Information:** individuals may feel that they are being kept in the dark, and perhaps that other people know more than they do about a situation; this can lead to ill-will and suspicion

Identifying the cause of a conflict is likely to involve asking questions of those involved. This is a factfinding exercise, and should be conducted with an open mind. It is easy to jump to conclusions, particularly if part of the conflict has been witnessed at first hand. However, to have the best chance of finding out the real cause, the factfinding must identify all sides of the argument.

If it appears to one of the parties that this is not so, this may mean that they become closed with the result that the cause is not uncovered, but instead remains festering.

The problem, once identified, should be addressed, but in a fair manner, divorced as far as possible from the personalities of those involved, and on the basis of a shared understanding of what the problem is.

## ACTIONS

There are various possible approaches, which can be summarised as follows:

**Collaboration:** the intention here is to work together to achieve a consensus on what will be the best outcome for all parties; this is not easy to do, but getting to a win/win situation, where everyone benefits, is likely to lead to a long lasting and effective outcome

**Compromise:** this is a commonly used approach, and can provide a means of achieving an acceptable outcome quickly, so avoiding the conflict continuing for a long

period; however, compromise often misses the best solution and it may feel as if no one wins

**Imposition:** the manager uses their power to impose a solution, which resolves the position quickly; the difficulty with this approach is that there are likely to be winners and losers as a result, and the losers may continue the conflict or seek to actively retaliate

**Accommodation:** here one side in the conflict concedes their position, which can be an effective approach if the outcome is less important to the person(s) giving ground, or where one side realises that they are in the wrong; the result can be goodwill, and perhaps a situation where the goodwill gesture can be returned by the other party at some later time

**Avoidance:** this is often a sign of a weak management response which fails to reach a conclusion, but essentially hopes that the problem will go away of its own accord; avoidance is seldom seen as an effective approach and the result can be that the conflict continues, with the manager less able to resolve it because of a loss of credibility

Choosing the best approach will be a matter of considering the possible outcomes. Generally there will be some common ground between the parties involved and some shared needs or desires. Sometimes the parties may not have fully realised where their interests lie – this can be particularly true when change is involved and perhaps the root of the conflict is in part a fear of that change. The manager may therefore need to spend time helping both sides to see where their best interests lie and where there is common ground.

Brainstorming possible solutions can be a productive part of the process, particularly if there are a number of participants in the conflict.

## MOVING ON

The solution put in place will have expected outcomes, and these should be understood by all. They should be recorded and then monitored – there will be growing dissatisfaction if a solution

is not favoured by some of the participants, does not deliver the expected outcomes but then is not changed.

For the future, it is not likely that conflicts can be avoided entirely, but it is a good idea for managers to think whether anything they have done, or not done, has created or contributed to the problem. Prevention, as far as possible, is likely to be better than cure, and a few points to consider are:

**Managing expectations:** sometimes people develop unrealistic expectations and are then disappointed when those expectations are not realised; managers sometimes contribute to this by painting an over-optimistic picture of the future and should always avoid doing so

**Treating people openly and fairly:** there are sometimes matters which cannot be discussed openly with those being managed, but if people feel they are generally being treated openly and fairly, there is less likely to be fertile ground for conflicts to spring up

**Explaining:** managers should explain what lies behind decisions, how objectives have been set and so on, so people are not left feeling they are out of the loop

**Identifying common goals:** as far as possible, a team and indeed a business as a whole should have common goals, even though the contribution made towards the goals by different individuals and groups will differ; it is far easier to see what others are doing and how their actions impact if the goals are shared

As mentioned at the start of this article, conflict can be positive, but too much of it is almost bound to damage the workplace environment and affect many more staff than those directly involved. ■

### ANSWERS TO SELF-TEST QUESTIONS

(see page 8)

#### Foundations

1.c, 2.b, 3.a, 4.d, 5.b

#### From Competence to Expertise

6.c, 7.b, 8.b, 9.d, 10.a

#### For the Specialist

11.d, 12.a, 13.c, 14.c, 15.a

## Self-Test Questions

These questions will help you to check your understanding of the articles that appear in this Newsletter. For each question there is only one correct answer. The answers are given at the foot of page 7.

**1** What will be the highest rate of tax on dividend income in 2010/11?

- a. 32.5%
- b. 40%
- c. 42.5%
- d. 50%

**2** From 2011, for high earners, relief on pension input will be:

- a. Abolished
- b. Restricted to basic rate
- c. Restricted to 40%
- d. Allowed at a maximum of 50%

**3** The anti-forestalling measures for pension input will only apply to those whose earnings exceed £150,000 and total pension input exceeds:

- a. £20,000 per year
- b. £25,000 per year
- c. £30,000 per year
- d. £35,000 per year

**4** What will be the maximum permitted investment into an ISA during 2009/10 for an individual aged 61?

- a. £7,200
- b. £8,200
- c. £9,200
- d. £10,200

**5** For a sole trader who makes a loss of £40,000 for the tax year 2009/10, what is the maximum period over which the loss can be carried back for tax purposes?

- a. Two years
- b. Three years
- c. Four years
- d. Five years

**6** If a split capital investment trust issues income and capital shares, capital shareholders usually receive:

- a. Some income and geared-up capital growth
- b. Some income and guaranteed capital growth

- c. No income but geared-up capital growth
- d. No income but guaranteed capital growth

**7** At the planned wind up date of a split capital investment trust, shareholders are given the choice of winding up or extending the life of the trust. Would any capital gains be taxable at that time?

- a. Yes, in both cases
- b. Only if the trust is wound up
- c. Only if the life of the trust is extended
- d. No, not in either case

**8** The intended capital return for zero shareholders on the wind up date of a split capital investment trust is:

- a. Predetermined and guaranteed
- b. Predetermined but not guaranteed
- c. Linked to a market index and guaranteed
- d. Linked to a market index but not guaranteed

**9** A split capital investment trust issues zeros and ordinary income shares. The entitlement to capital repayment of ordinary income shares on wind up generally ranks:

- a. Before bank debt and zeros
- b. Before bank debt but after zeros
- c. After bank debt but before zeros
- d. After bank debt and zeros

**10** Split capital investment trusts can employ:

- a. Both financial and structural gearing
- b. Financial but not structural gearing
- c. Structural but not financial gearing
- d. Neither structural nor financial gearing

**11** Revisions to the Myners Principles have resulted in:

- a. An increased number of principles which are detailed
- b. A reduced number of principles which are detailed
- c. An increased number of principles which are high level
- d. A reduced number of principles which are high level

**12** Changes in liabilities in respect of benefits for current pensioners under a final salary scheme are primarily linked to:

- a. Price inflation
- b. Earnings inflation
- c. Stockmarket performance
- d. Gilt yields

**13** Are the trustees of a pension scheme required to take SRI considerations into account in determining their investment strategy?

- a. Yes, in all cases
- b. Only if the members vote for them to do so
- c. No, but they must disclose whether or not they do so
- d. No, they are prohibited from doing so

**14** The Statement of Investment Principles for an occupational pension scheme must be reviewed at least:

- a. Every year
- b. Every two years
- c. Every three years
- d. Every five years

**15** Whose responsibility is it to prepare and publish the Statement of Investment Principles for an occupational pension scheme?

- a. The trustees
- b. The sponsoring employer
- c. The investment manager
- d. The scheme actuary