# MENZIES
BRIGHTER THINKING

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# MANUFACTURING MAGAZINE

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**Welcome to our latest newsletter. It has been great to see that UK manufacturing continues to thrive, contributing over £200bn per annum to the UK economy, despite increasing energy costs and rising interest rates. In this edition, we will explore some of the challenges and opportunities facing the industry:**

- What **ESG** means for your business and how by embedding a strategy now, you can de-risk your business for the future whilst also creating efficiencies that will strengthen your business today.
- Installing **solar panels** on your roof space is one way to **increase ESG ratings**, whilst mitigating risk from volatile energy prices. We explore the incentives available to you, and how to plan your investments for accelerated returns.
- We highlight government **R&D tax incentives** that could help to improve manufacturing productivity through investments in new innovations and technology.
- Acquiring another business can be an excellent strategy for accelerating growth. In our **acquisition readiness** article, we look at the critical factors you will need to consider for a successful venture.

Finally, after 6 years of leading Menzies Manufacturing sector, whilst I will remain a key member of the team, I am stepping aside to hand over the reins to Charlotte Langdon, a long standing member of the manufacturing team who brings with her a wealth of ideas and new initiatives to bring even more value to our manufacturing clients.

We do hope you enjoy this edition.

FOOD manufacture excellence AWARDS 2024

**We are delighted to once again be the Headline Sponsor for the 2024 Food Manufacture Excellence Awards!**

It is set to be another fantastic event, celebrating the successes in the industry.

***Why not enter? You can view more information and enter here***

## INTRODUCING CHARLOTTE LANGDON
## NEW HEAD OF MANUFACTURING SECTOR AT MENZIES

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It is with great pleasure that I take on the role of Head of Manufacturing at Menzies from Caroline. Having been in the team for a number of years, I am excited to take the lead and continue to develop our expertise in this sector.

I have taken a larger role in the manufacturing team over the last couple of years, assisting with the judging for the Food Manufacture Excellence Awards and presenting an award. This has provided the opportunity to get to know more businesses in the sector and to understand both the challenges they are facing, and the amazing things they are doing.

Day to day I focus on looking after a portfolio of clients, many of whom are manufacturing companies and groups, advising owners of SMEs and larger companies and providing accounting, audit and consultancy services.

I started my Menzies journey as a fresh-faced graduate, and after qualifying I transitioned into our in-house technical team, advising the wider client facing team on more complex accounting matters. Six years ago I moved back to a client facing role in the audit team. It was a natural move for me to become part of the manufacturing sector team, combining my technical expertise and operational knowledge of manufacturers to solve problems for my clients.

# ESG - THE BENEFITS OF EMBEDDING A STRATEGY FOR YOUR MANUFACTURING BUSINESS

**If you are in the manufacturing sector, there is no escaping ESG (Environmental, Social and Governance). Producing products sustainably is no longer an optional benefit, but a necessity to remain competitive in the market and mitigate future risk. Manufacturing is responsible for 10-15% of the UK's GHG emissions (Greenhouse gases), which necessitates significant environmental responsibility for the sector.**

As well as facing unprecedented economic factors, manufacturers are dealing with increasing expectations from stakeholders, who are becoming more environmentally and socially aware. This is impacting both supplier and customer relationships as well as employees who are prioritising working for companies that can demonstrate ESG credentials. Greenwashing has been an issue for some organisations who are grappling with embedding a meaningful strategy; box ticking simply doesn’t work as the ESG economy matures and organisations need to be careful about damaging their reputation.

## Currently SME Manufacturers still have a choice around ESG compliance

Although SME manufacturers are not currently being forced to comply with ESG policies, being part of a supply chain means that companies who do have ESG reporting mandates are ‘choosing’ suppliers who can demonstrate their ESG credentials and therefore it is becoming essential in order to remain competitive.

Companies are really starting to feel the heat and if they haven’t already put an action plan in place, the pressure is now on to start thinking about it. However, companies that are taking a positive approach and creating an agenda that balances People, Planet and Profit are starting to realise that a well-co-ordinated ESG strategy can have benefits for their organisations, rather than just being a headache.

## What are the benefits?

- Looking at energy efficiencies can not only improve ESG performance, but also create savings that can be reinvested into innovation projects or improve cashflow. For example, some companies have created significant savings by investing in Solar panels on their warehouses.

- A strong ESG strategy can drive innovation and help companies identify new business opportunities. For example, by developing more sustainable products and processes, companies can create new markets and differentiate themselves from competitors.

- Investment in R&D can also have financial rewards. By taking advantage of government tax incentives for qualifying projects, companies can improve cashflow and increase competitiveness at the same time.

- Embedding an ESG strategy now, will give your organisation the best opportunity to capitalise on the competitive advantages available, whilst satisfying stakeholders and creating efficiencies that deliver long-term savings that can be re-invested. A meaningful ESG strategy will also future proof your organisation, ahead of any future government mandates.

## How can Menzies help?

We have a full range of services and support available, including help with the following:

***Environmental***

- Carbon footprinting
- Energy Saving Opportunity Scheme (ESOS) and Streamlined Energy Carbon Reporting (SECR) compliance
- Carbon reduction plans
- Advice re offsetting and green energy contracts
- Specific environmental tax advice
- Assurance & benchmarking engagements
- Cashflow & ROI reviews
- Energy consultancy

***Social***

- Employee engagement
- Culture, purpose, values & strategy planning
- Employee benefits services
- Employment tax solutions – tax efficient staff rewards
- Organisational development & leadership review
- HR compliance

***Governance***

- Structure & risk review
- Governance training
- Tax

***Financial information & reporting***

- Internal controls
- Systems advice
- Financial forecasting
- Key person protection

**Next Steps:**

If you would like to explore how our ESG offering could benefit your business, please get in contact with our ESG advisory team.

**We are currently offering a *free discovery consultation*. To book your session, get in touch today:**

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# IS IT TIME TO INSTALL SOLAR PANELS ON YOUR WAREHOUSE ROOFTOP?


> *Unused warehouse roofs could generate '15GW a year' in solar energy.*
>
> **- UKWA**

The manufacturing sector possesses approximately 45M square feet of warehousing space in the UK; a significant percentage of commercial roof space which could be utilised for energy production in the form of solar panel installations. According to the UK Warehousing Association, whilst the take up of solar panel installations has been slow, this is now starting to increase and gain momentum.

> Warehouse owners across the country are struggling to pay for gas-powered electricity from the grid, when they could be generating all the power they need and more from the roof of their buildings.
>
> **Clare Bottle, chief executive of UKWA**

If you are considering utilising your warehousing roof space to install solar panels, you will know that there are many potential benefits. Taking government tax incentives and available grants into consideration at the start of your journey is a smart move, to ensure you reap the returns in the quickest possible timeframes.

The installation of solar panels visibly demonstrates your businesses commitment to sustainability, but it also makes good financial sense. Some businesses are seeing up to 70% savings on their energy bills, whilst also mitigating risk from volatile energy prices and supply. Whilst many businesses are seeing ROI on solar panel installations within 3-5 years, taking advantage of government tax incentives can significantly offset installation costs to enable even faster returns.

The installation of solar panels is one way for manufacturing businesses to move towards hitting their obligations to the government's criteria for achieving net zero by 2050; which includes compliance with non-domestic minimum expected energy standards (MEES), which will require all non-domestic private rented properties to have an EPC level of at least level B, with an EPC level C rating required by 2027.

There are government incentives for the installation of solar panels which are eligible for special rate pool allowances, subject to the £1m annual investment allowance (AIA). This allows 100% relief on eligible assets such as plant, machinery and integral features, including solar panels. There is also a 50% first year allowance for integral features such as solar panels under the new 'full expensing' rules. These came in from 1 April 2023 and run until 31 March 2026 and can be used in conjunction with the AIA.

## EXAMPLE

The tax impact is shown as below where the full 50% first year allowance is available:

| | |
|---|---|
| Solar panels cost | £60,000 |
| 50% first year allowance | (£30,000) |
| AIA | (£30,000) |
| **Total relief** | **£60,000** |

In the above example the result is that the expenditure is fully deductible against taxable profits, and the 50% first year allowance preserves some of the AIA limit, leaving it available to allocate to other assets if required.

### Considerations

It is generally more tax efficient to use the company's AIA against special rate pool items in priority first, before allocating the remaining AIA to plant and machinery/main pool assets, (particularly which may not be eligible under the new 'full expensing' rules, such as second-hand items, or items purchased for hiring).

Timing of expenditure is key, and broadly speaking, if the payment for the expenditure occurs four months or more after the unconditional obligation to pay arises, which is most often the invoice date or delivery date, the expenditure is treated as occurring on the date of payment. Depending on the circumstances this may defer the tax relief available into the next accounting period.

### Grants

It's also worth checking whether any grants are available to fund the purchase of equipment. This site, *www.grantfinder.co.uk/funding-highlights/funds/energy* updates on a regular basis for other grants available.

The tax impact on making use of grants is that the value on which capital allowances are applied is reduced by the value of the grant.

### In conclusion

Installing solar panels on your warehouse roof space makes good business sense. By speaking with Menzies to get advice early in your process, you can be assured that all tax options will be considered so that your investment will deliver the best value for your business.

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# MANUFACTURERS - WHAT SHOULD YOU CONSIDER IN YOUR ACQUISITION JOURNEY?

**Whether you're considering expanding your geographical footprint, accelerating the growth of an existing revenue stream, acquiring new technology or looking at new ways to diversify, acquiring another business can greatly assist in accomplishing or accelerating these plans.**

## Are YOU ready?

When acquiring any business, to ensure success, there are a number of key factors that business owners need to consider before jumping in, including:

- Where is your business within its own life cycle?
- Have you conducted a full competitor analysis of your industry to understand your position within the market?
- How much capital are you willing to spend, and what options/combinations for financing your acquisition strategy have you considered, be it retained cash reserves, bank borrowing and/or private equity?
- Do you have adequate financial and human resources in place for any integration plans to succeed or to manage the acquired business if you envisage it will be operated on a standalone basis?
- Have you considered tax structuring and the impact of an acquisition on your existing tax profile? For example, could this result in accelerated tax cash outflows under the quarterly instalment regime or impact on ability to claim R&D relief under the SME scheme?
- Have you instructed suitable advisers that have the relevant experience of advising on acquisitions?
- Lawyers and accountants, including tax specialists, are critical in any acquisition, as well as the appointment of a dedicated individual (internal or external) to oversee the entire transaction on your behalf.

## Finding the right target to acquire

Once you have considered these points, the next step is finding a target(s) that is right for your business. At this point, you need to consider:

***Deal mechanics:***

- Are the reported profits in the accounts the same as the underlying profitability of the business? And perhaps more critically what is the future, sustainable profitability?
- What will the deal structure look like? Are you buying shares or just the trade and assets?
- What is the value of the business you are buying?
- Will there be a vendor earnout provision, and what will it be based on?
- What is the predicted timeline?

***Operational:***

- How does the target business complement your business and how will it be integrated?
- How does the customer profile compare to your business?
- What does the supply chain look like?
- What will happen with the current management team and its employees?

## MENZIES CORPORATE FINANCE

Our Corporate Finance team has in-depth experience in advising and supporting clients in the planning, negotiation, and completion of acquisitions. We can help you to decide if growth by acquisition is the best route for your business and work with you to overcome any potential obstacles. We provide hands-on support for management teams and funders including:

- Developing an acquisition strategy
- Identifying suitable targets
- Assessment of targets and pricing
- Preparation and review of business plans
- Preparation of financial forecasts and financial modelling
- Valuation reports
- Funding and capital raising
- Advising on alternative deal structures from tax and commercial aspects
- Approaching vendors to open negotiations
- Negotiating with the vendor
- Due diligence
- Transaction and project management to completion
- Implementation of post-acquisition plan

> Growth by acquisition can be a faster route than more general organic growth and can provide opportunities for business diversification.
>
> Acquisitions are, however, not without their challenges. Many fail to live up to expectations due to poor strategic fit, lack of an integration plan or failure to identify potential problems with the quality of earnings.

## Due Diligence - do you really know what you're buying?

You may think you know what you're buying, but how do you know for sure? Financial and tax due diligence is critical to avoid any unpleasant surprises post-acquisition. The early identification of areas of concern and risk, together with recommendations and advice, is an essential part of the acquisition process. Your due diligence advisers can provide thorough analysis on the following key areas:

- Assessment of historical and current performance, including its Key Performance Indicators
- Quality and sustainability of underlying profits
- Quality of financial information, in particular in respect to income recognition and valuation of stock & work in progress accounting policies and are these consistently applied
- Customer or supplier dependencies
- Cash generation
- Ageing profile of the plant and machinery and assessment of financial indicators that imply level of future capex requirements
- Underlying net working capital requirements and level of free cash or debt to be added or deducted from the agreed Enterprise Value in determining what is paid to the selling shareholders
- Tax risks, including: capital allowances entitlement, excessive Research & Development claims, PAYE risk in relation to subcontractors and VAT exposures in respect to any imports or exports
- Robustness of the financial projections and how they compare to historical and current results (if available)

## Post-acquisition: your 100-day plan to delivery

Ensuring a smooth integration immediately following completion is critical for maximising success of an acquisition and having a formal '100-day plan' can greatly assist. So, what key items should form the framework of this 100-day plan?

- Setting out the team members responsible for different areas of the 100-day plan along with clear deliverables and timeframes
- Detailing how and when the key issues or opportunities from the due diligence findings are going to be actioned
- Employee onboarding (communication of what is happening and what is in it for them is critical to get across from day one)
- What is the vision – communication to all key stakeholders is critical here, primarily being the employees, the customers and the key suppliers
- Integrating systems, including aligning accounting policies for income recognition, stock & work in progress valuation
- Ensuring Key Performance Indicators following the acquisition are monitored and acted upon and that cashflows, including tax cashflows, are carefully planned

## THE NEXT STEPS

**In summary, there are many key areas that need to be considered at various stages of the acquisition process and receiving expert guidance throughout is key to ensuring success.**

If you have any questions in relation to this article or require any advice in relation to your specific circumstances, please contact Ross Wiggins.

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# R&D RELIEF: REVAMPED

**Research and Development (R&D) tax relief is a highly valuable relief to promote and reward attempts by companies to achieve advances in scientific or technological fields or appreciable improvements in associated processes. The scheme is especially important to the manufacturing sector with 21% of the total claims made, and over £1.5bn of annual support received, by the sector in the latest statistics.**

The government has introduced changes to refocus the regime, ensuring that it is more effectively targeted towards profitable SME companies, whilst retaining a positive level of financial support for R&D intensive loss-making companies. With increased rates under the R&D Expenditure Credit scheme (RDEC), it is clear the government intends to support larger companies, where innovation could have a more significant economic impact. The changes also incorporate measures to reduce the risk of fraudulent claims. Please find a summary of key changes below:

- Increased tax savings for profitable companies through SME enhanced relief
- Tax repayment credit drops significantly for loss making companies, but R&D intensive companies are insulated from part of the reduction
- Increased tax benefit for organisations qualifying under RDEC scheme
- Adaption to qualifying criteria to recognise the importance of pure mathematics in fields such as software and AI innovation
- R&D project costs relating to cloud computing and digital data are now included
- Proposed restrictions for non-UK expenditure have been put on hold until 2024
- From August 2023 R&D claims will need to be submitted digitally and with more detail approved by a named officer
- Government is also reviewing whether to operate a merged scheme from April 2024, which could impact benefits and requirements for SME companies

| AREA | BEFORE 1 APRIL 2023 | AFTER 1 APRIL 2023 | COMMENT | IMPACT |
|---|---|---|---|---|
| **Rate of SME enhanced relief for qualifying costs** | 230% | 186% | For profitable companies paying corporation tax at standard rate of 25% (19% pre-April) the effective tax saving increases from £43.70 per £100 of spending to £46.50. | Tax saving increases by up to £2.80 per £100 of qualifying spending |
| **Repayment credit rate for most loss-making companies** | 14.5% of enhanced amount = £33.35 per £100 | 10% of enhanced amount = £18.60 per £100 | Loss making companies relying on claims for cashflow need to plan ahead for the financial shortfall. | Tax repayment credit drops by £14.75 per £100 of qualifying spending |
| **Repayment rate for innovative companies >40% expenditure is qualifying** | N/A | 14.5% of enhanced amount = £26.97 per £100 | Rate retained to support highly innovative and start-up companies that could drive economic growth. | Tax repayment credit drops by £6.38 per £100 of qualifying spending |
| **Large scheme (RDEC) rate** | 13% headline rate (10.5% post tax) | 20% headline rate (15% post tax) | Evidence of intention to focus relief towards encouraging innovation in larger companies where economic impact could be more significant and fraud risk is lower. | Benefit increases by £4.50 per £100 of spending |
| **Projects & expenditure in pure mathematics** | Non-qualifying | Qualifying | Enables claims on previously excluded projects and recognises the importance of mathematical work and modelling in fields related to software development and Artificial Intelligence. | Chance to broaden claims |
| **Cloud computing & digital data costs (inc. provision & maintenance)** | Generally excluded | Eligible | This will enable a number of businesses to enhance their claims. | Chance to increase expenditure being enhanced |
| **Restrictions for non-UK expenditure** | No specific restrictions | Proposed restrictions deferred until April 2024 | Positive to see these deferred but we expect these to be considered in conjunction with potential reforms to the whole regime that are being considered from April 2024. | Not applicable |
| **Submission requirements** | No specific requirements | From August 23 digital submission format with more detail and by named officer or 3rd party | Changes intended to:<br>- Improve quality of submissions and enable digital interrogation<br>- Hold individuals and agents accountable for submissions<br>- Reduce instances of fraud or poor practice within the scheme | Increases obligation on company and its advisers, reducing fraud & error |

## What action should companies take now?

Companies should take relevant steps, in conjunction with their advisers, to ensure they are well prepared to profit from, or minimise the impact, of the changes by:

- Actively monitoring projects to ensure that claim deadlines are not missed
- Reviewing ongoing projects to determine which will qualify for relief
- Review how project expenditure is tracked to improve effectiveness
- Identify cloud and data storage costs that could enhance claims
- Review impact on cashflows from changes to repayment claim rates to enable early action to manage financial pressures
- Review the impact of any loss of enhanced relief on offshore costs to determine whether you may want to change operational model

If you would like to discuss the scheme or the changes, our R&D team would be pleased to support you.

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# THE WINDSOR FRAMEWORK

## PROPOSED CHANGES TO NORTHERN IRELAND TRADING

**The Windsor Framework, agreed on 27 February 2023, amending the Northern Ireland Protocol, has resulted in various VAT and excise duty changes, to the movement of goods between Great Britain and Northern Ireland. It is designed to restore the smooth flow of trade within the UK market since Brexit, whilst addressing various problems affecting the availability of goods from Great Britain, therefore being advantageous to manufacturers, processors and distributors.**

Goods destined for the EU will remain subject to full checks, however, new data-sharing arrangements will be introduced, so that UK traders can move goods without tariffs, using standard commercial information and without physical checks, unless there is specific risk, through the 'green lane'. The Stormont Brake will act as a democratic safeguard.

### Goods movement

The Framework will establish a new UK internal trade scheme for the movement of goods, based on:

- Use of ordinary commercial data
- Commodity codes no longer being required
- Goods automatically treated as internal UK movements for tariff purposes
- No customs checks, unless intelligence-led operations underway
- No further processes being involved once goods have moved

The Framework will increase the number of businesses classed as internal UK traders and move goods 'not at risk' of entering the EU through three changes:

- UK businesses will be eligible, rather than having to be established in NI
- The turnover threshold for businesses freely moving goods destined for NI is increased to £2m
- Animal feed, healthcare, construction and not-for-profit businesses above the £2m threshold are still eligible

### VAT and excise

The Framework ensures NI will benefit from the same VAT and alcohol taxes applying in the UK. Other changes include:

- Reduced and zero rate limits removed in NI
- Products consumed in NI are now eligible for full flexibility on rates meaning new categories that can be applied for VAT purposes
- Exempting NI businesses from a range of EU rules, avoiding the need for many businesses to register for VAT under a 2025 EU Directive
- Avoiding a range of administrative requirements on SMEs

### Recent developments

The EU is continuing to put the Framework in place, with three regulations adopted in May 2023 relating to public, animal and plant health issues, medicines and certain steel products as follows:

- New sanitary and phytosanitary rules will make it possible to move agri-food retail products from GB to NI with minimal requirements, including inspection facilities and 'Not for EU' labelling to be introduced by 1 July 2025
- The movement of certain plants and agricultural machinery will become easier and the ban on seed potatoes will be removed
- All medicines will be available in NI at the same time as the UK and will be put on the market in accordance with UK rules
- New safeguards, including UK only labelling, will ensure medicines do not enter the EU
- Certain categories of steel will be able to transfer from GB to NI under the EU's tariff rate quotas
- NI companies will no longer need to pay the 25% tariff linked to the EU safeguard measures

### Possible concerns

The British Retail Consortium raised concerns over labelling of food products saying it is critical that labelling issues are resolved by October. Labelling will determine whether businesses can trade through the green lane. Goods remaining in NI labelled 'Not for EU' will be subject to minimal requirements. If it is unclear how to label, the green lane cannot be used and the red lane must be used. Since labelling can take months, supermarkets need urgent clarity.

In addition, a recent survey of logistics businesses showed most companies still have questions about how the Framework will work. Whilst a large majority welcomed the certainty and believed that administrative costs would be reduced, just under half were uncertain about whether the framework would increase the affordability of trading in NI. About a third of responders expressed concern about the stability of or simplicity for trading relationships. In particular, the UK's Road Haulage Association members were concerned about lack of clarity, needing comfort around the Trusted Trader Scheme, Trader Support Service, operation of the lanes and impact on groupage loads with mixed goods for delivery to different destinations.

If you would like to find out more about how the Windsor Framework could impact your business, please contact Sean:

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