



SPECTRUM ISSUE: 7 | JANUARY 2009

# spectrum

THE NEWSLETTER FROM RITSON SMITH

## The Perfect Storm?

The implications of the credit crunch begin to unfold



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## Introduction



In the last issue of Spectrum I mentioned we were beginning to see the impact of the credit crunch. Well, in the last five months the impact has certainly become visible to all as we have experienced a global financial crisis which was triggered by the collapse of the house price bubble, initially in the United States with foreclosures in the sub – prime mortgage market and subsequent bank losses across the world.

This led to an unprecedented loss of confidence and trust in the banking system which has resulted in a market reduction in available credit. There is no doubt that with a reduced amount of credit available and the cost of obtaining that credit increasing we are all going to find the next 12 months more difficult.

In this edition of SPECTRUM there is an article by Ewen Alexander looking at financial management in the current climate.

In order to collect additional revenues the Government have introduced new filing deadlines and penalties for late payment of tax and details of these are included within this issue. The new measures certainly can lead to punitive amounts being paid and we would all be well advised to remember the due dates and ensure payments are kept up to date.

Coincidental with the new Revenue regime we have introduced a Tax Investigation service which, subject to certain exclusions, provides for our professional fees to be paid in the event of an enquiry by the Inland Revenue. Given the random nature of cases being selected for enquiry this service has been taken up by a large number of clients. If you want to find out more about this then please do not hesitate to contact me.

To end on a positive note I would draw to your attention the client profile of AC Yule, a successful local company who are a household name, and to two recent corporate transactions with which we have been pleased to be associated; Nessco and EnerMech.

I am always encouraged by the number of responses I receive from readers of SPECTRUM and if there is any issue you wish to raise then I would be delighted to hear from you.

**Niall Farquharson**  
Managing Partner



## The Perfect Storm? by Ewen Alexander, Partner

So the credit crunch precipitates a recession and our Government's strategy to address the resulting economic difficulties, is to embark on a policy of what will be record borrowing - in the hope of spending their way to economic recovery. One cannot help but wonder if this is a strategy of going for broke!



Many would agree that such a policy is not one to be recommended for the average UK family; many of whom are now facing the inevitable consequences of too much debt as a result of several years of spending more than they have been earning – perhaps on the back of our Prime Minister's now discredited promise of No More Boom and Bust.

A few months ago, as the implications of the credit crunch were unfolding, there seemed to be a view around Aberdeen that the local business community might somehow be protected from the consequences of what was happening elsewhere in the country. That was against a background of a buoyant property market and oil at a record \$147 a barrel in July this year.

Only a few months on we have seen a softening property market, increasing numbers of lay-offs within the construction industry and the oil price collapse to around \$50 a barrel; potentially a number of planned offshore developments will be deferred simply because, at that price, the numbers don't make economic sense.

Many young management teams have only ever known good times and the current climate will leave many entrepreneurs facing unfamiliar territory. They will have to wrestle with a host of new

business issues if they are to successfully batten down the hatches and chart a path for their business to successfully ride out this economic storm.

What is certain is that there will be casualties. Those who survive will be the management teams who identify the danger signs early enough; factors such as falling sales, falling production, increasing stock levels, increasing overdraft levels, customers taking increasing credit. But identifying the hazards is only part of the challenge; management must take timely steps to address these issues.

That will require owners and managers to make some difficult decisions – and sooner rather than later. They will need to address issues such as cost control, staff numbers, handling customers and managing cash. The old adage 'He who hesitates is lost' perhaps rings truer than it has for a long time.

Wherever possible it has been our aim to seek out innovative and practical solutions for under-performing businesses. To find out how our Business Recovery team may be able to help you address some of the challenging business issues your business is currently facing, contact me at [era@ritson-smith.com](mailto:era@ritson-smith.com)

# Seeing Through the Smokescreen

by David Dowell, Senior Manager,

Despite the careful build-up of anticipation (and the usual prior leaking of the main points), the Pre-Budget Report (PBR) presented by Alistair Darling on 24 November 2008 unfortunately seems to be simply another chapter in the long litany of 'give with one hand, take with the other', fiscal smoke and mirrors.

In terms of its anticipated aim, i.e. boosting consumer and business demand to pull the country through the current woeful economic times, it is hoped that this is not destined to be a futile footnote to an era of squandered opportunities.

## Reduction in standard VAT rate

The main headline was the reduction in the standard rate of VAT from 17.5% to 15% with effect from 1 December for a temporary 13 month period. A guide has been issued by HMRC on how businesses should implement the change.

In essence, fees issued for uncompleted work at 30 November will attract VAT at 15% on the whole fee and thus there is no need to apportion the fee for time spent pre and post 1 December. The position for payments on account received prior to 1 December, which relate to uncompleted work on 30 November, is much more complicated and credit notes may need to be given to non-VAT registered clients for the 2.5% included in these payments.

## Corporation Tax

The Government's planned increase in the 'small companies' rate of corporation tax to 22% will be deferred until March 2010.

## Loan relationships

Where companies are connected i.e. under the same control, a creditor that formally releases a connected debtor from a trade debt is denied a deduction for the loss but the debtor may be taxed on its profit. That profit will no longer be taxed from 1 April 2009.

## Three Year Loss Carry Back

Businesses can currently offset trading losses against profits of the current year and, if there is still an excess, carry them further back against profits of the preceding year.

This situation is maintained but the PBR will now allow a maximum of £50,000 of remaining unused losses to be carried back to the preceding two years. This applies to both companies and unincorporated businesses where losses arise in accounting periods ending in the year to 23 November 2009 and in the tax year 2008/09 for unincorporated businesses.

## Income Tax and NIC

Alongside the headline grabbing announcement of the introduction of a higher rate of income tax of 45% for employees earning over £150,000, it should be noted that for all employees the rate of Class 1 NIC will increase by 1/2% to 11.5%. Furthermore, the additional rate of NIC paid by higher rate tax payers, will increase by 1/2% to 1.5%. Both increases apply from 2011/12.

## Pension Schemes

The increases in the lifetime allowance up to £1.8m and the annual allowance of £225,000 up to 5 April 2011 will not be increased during the five years to 5 April 2016 and is a measure that will hurt some higher paid employees and directors.

## Cars

For expenditure incurred on or after 1 April 2009 (6 April for unincorporated businesses) the rules that restrict the amount of capital allowances for cars costing more than £12,000 will be abolished, and replaced by new provisions that will allocate the car to one of the two general plant and machinery pools (10% or 20%) depending on its level of CO2 emissions. The 10% rate will apply to cars with emissions over 160g/km.



## Corporate Tax

### Income Shifting

The threatened action against shifting income from one person to another paying a lower rate of tax is to be deferred although it will be kept under review. This situation usually occurs where one half of a married couple or civil partnership generates most of the profits.

### General

It is noticeable that the main tax cuts in the PBR are only temporary measures whilst the increases in 2011/12 and beyond are designed to remain. Furthermore, if the purpose of the above tax cuts (which on a day-to-day basis are relatively insignificant) is to stimulate spending in the economy, it seems counter-intuitive to reinstate the fuel price adjuster to negate the cut in VAT on petrol and diesel, given that this takes a large proportion of people's disposable income.

It is also worth noting that the Chancellor has already backed down on the increased duty to be charged on spirits based on some heavy lobbying by the Scotch Whisky Association.



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# New Oil Services Player Emerges

**Formed in April 2008 by the former directors of PSL Energy Services and supported by private equity firm Lime Rock Partners, EnerMech is a dynamic, young company which provides a range of mechanical engineering products and services to the energy industry.**

Last month, the new start-up marked its entry in to the mechanical services market with a double acquisition of the UK's second largest independent crane and lifting contractor, Specialist Maintenance Services Ltd (SMS) in Aberdeen, and Great Yarmouth based training provider, A1 Safety Training Consultants Ltd, bringing its payroll up to 200. Ritson Smith provided due diligence services for both deals.

The company has recently hit the acquisition trail again with the purchase of Bjørge ASA's crane division. The deal gives Aberdeen based EnerMech a significant entry point to the lucrative Norwegian North Sea crane and heavy lifting sector.

EnerMech has at its disposal a £30 million plus funding package supported by managing director Doug Duguid, fellow directors Michael Buchan, Derek Grant, Phil Bentley and its private equity partners.

Mr Duguid commented: "We anticipate making a number of further acquisitions to support our different business lines in the next 18 months to two years."



The EnerMech management team

## Ritson Smith Advise on Investment in UK's Leading Independent Oil & Gas Telecommunications Company

During the second quarter of 2008, Ritson Smith acted as lead advisor to Aberdeen Asset Managers Growth Capital on a competitive bid and subsequent investment in Aberdeen headquartered Nessco, one of the UK's leading telecommunications businesses serving the global oil and gas industry.



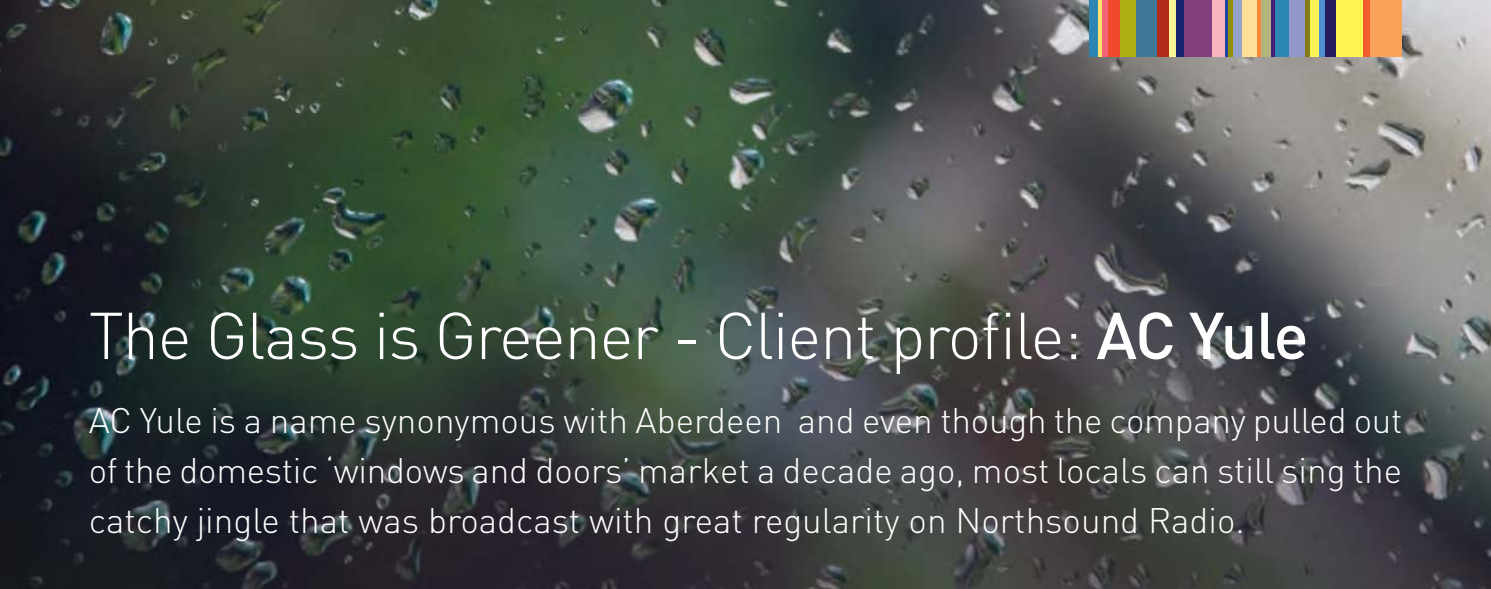
The overall deal saw AAMGC invest £4 million equity in the business through a syndicate including funding from co-investment partner - the Scottish Venture Fund. The deal was also supported by the provision of debt facilities of in excess of £10 million by the Clydesdale Bank.

Established in 1979 and led by Managing Director, Tom Smith, Nessco provides a range of telecommunications services to a wide range of blue-chip energy clients around the world from its purpose-built headquarters in Aberdeen and offices in Glasgow, Edinburgh, Reading, Baku and Rio de Janeiro. The business has £20 million turnover and boasts a workforce of 140.

The company's ambitious growth strategy includes further internationalisation, continued support to the North Sea oil and gas industry and other UK development projects.

Jock Gardiner Investment Director AAMGC added: "This is a very attractive investment for us. The strong management team, led by highly respected Tom Smith, whom I have known for many years, has already built up a profitable business and our equity funding will enable them to fast-track the next stage of growth."

Ritson Smith's Graham Alexander, Partner Corporate Finance commented: "We were delighted to act as lead advisor for AAMGC in this transaction. It is always satisfying to work through the life cycle of a transaction from the initial bid process through to completion and project management of every aspect of the deal, particularly in today's climate where bank lending is becoming harder to secure. Our close working relationship with Jock and AAMGC allowed us to complete the transaction efficiently and facilitating investment into a strong and growing oil and gas business."



# The Glass is Greener - Client profile: AC Yule

AC Yule is a name synonymous with Aberdeen and even though the company pulled out of the domestic 'windows and doors' market a decade ago, most locals can still sing the catchy jingle that was broadcast with great regularity on Northsound Radio.

The company was started by Alexander Yule, just after the Second World War and specialised in processing and decorative glass. Fast forward 62 years and today AC Yule's core business is still glass but predominantly in the trade and commercial sectors. The company employs 430 people over six locations from Boldon near Newcastle to Elgin in the North and had a turnover of £38 million last year.

Managing Director Bryan Yule attributes the business's longevity and success to staying abreast of trends and legislation. This was demonstrated by a radical change in strategy ten years ago when the company withdrew from the domestic market which made up one third of its revenue to concentrate solely on the commercial and trade sector:

"The domestic replacement window and door market was becoming saturated with providers" explained Bryan. "We took a long, hard look at where we wanted the business to be and established a specialist division servicing the Architectural and Commercial sector with glass, aluminium and cladding and a PVCu division focussing on the provision of windows and doors to the trade market in addition to our existing Glass Division"



Our business is constantly evolving.  
We work with the 'best fit' for our company at a particular time.  
Ritson Smith has been able to offer us a clean and efficient service allowing our key people to concentrate on their core business."

Bryan Yule



The focus today is on glass with added value i.e. toughened, sound reduction, solar control, fire resistant, decorative and, obviously, energy efficient as a result of the Government's Kyoto agreement.

Look around Aberdeen City and you will find numerous examples of AC Yule's work; Talisman House, the AECC, Aberdeen Children's Hospital, The Maritime Museum to name but a few.

Further afield, AC Yule provided the curved glass panelling for the St James Centre Link Bridge in Edinburgh and the windows and doors for the state-of-the-art Echo 24 residential building in the heart of Sunderland.

Given the doom and gloom facing the UK construction industry, Bryan Yule is obviously cautious about the future; while he concedes that there has been some quietening down in the trade sector, commercial business at present remains still strong.

Ritson Smith has provided audit and tax services to AC Yule for the last five years.

## News in brief

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### Award Winning Clients



At Ritson Smith, there's nothing we like better than seeing our clients succeed so we were delighted to raise a glass to Aberdeen

design consultancy, Hampton Associates for their success in the Marketing Excellence Awards Scotland for creating the brand for another Ritson Smith customer, Fraserburgh based brewery, Brewdog.

The company beat off fierce competition from high profile central belt companies working on campaigns including Glasgow's 2014 Commonwealth Games bid and Remy Martin's Coeur de Cognac to lift the coveted accolade with their packaging design and creative strategy for the Aberdeenshire microbrewery.

Of course Hampton Associates also created the Ritson Smith brand which we are extremely proud of and which was 'highly commended' in the same awards in 2005.

### Filing deadlines shorten as late penalties increase

Submissions of annual accounts is to shorten by a month for accounting periods beginning on or after 6 April 2008, i.e. public companies will have to submit accounts within six months instead of the current seven and private companies within nine months instead of the current ten.

Additionally, to ensure that the new filing timeframes are adhered to, Companies House has introduced a severe increase in late filing penalties ranging from £150 to £1500 for a private company and £750 to £7500 for a public company.

The late filing penalties can also be doubled if there was a failure to comply with filing requirements in the previous financial year.