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spectrum

THE NEWSLETTER FROM RITSON SMITH



Staying off the naughty step

Changes to HM Revenue & Customs legislation



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Introduction



This year has certainly been a challenge for most businesses and although there have been some signs of the “green shoots” of recovery, it is generally accepted that we still have some way to go before the economy returns to a more healthy position.

Obtaining credit continues to be a lengthy and difficult process but funds are slowly beginning to become available from the banks with a priority being given to existing customers with a strong business case.

Naturally, the banks are carefully reviewing the risks and rewards of each individual credit application and this leads to an increase in the time taken before the facilities are finalised.

More so than ever the banks require accurate, timely financial information to allow them to assess the risks and that’s

where the team at Ritson Smith can help; we have the expertise to ensure the required information can be obtained and correctly presented to the bank to ensure a quick turnaround of a credit application.

The quality of financial information is essential for the management of any business; not only to obtain bank finance but to allow key decisions to be made as early as possible and to protect the profits of the business by ensuring margins are maintained, costs are kept in check and the focus is on core products and services.

Our experience is that many SMEs do not always have the resources to accurately monitor the progress of the business so we are in the process of creating a specialist outsourcing department to meet this need. More about this in our next magazine.

Within this edition of Spectrum, we focus on two interesting corporate finance deals which were successfully completed this summer along with the profile of an existing client who has gone from strength to strength since we assisted in a Management Buy Out four years ago.

I hope that you find something of interest in Spectrum and as ever would be delighted to hear of any feedback you wish to make.

Niall Farquharson
Managing Partner



Staying off the naughty step

It is not unusual to hear people complaining about the 'nanny state'. The proliferation of rules and regulations which affect our day to day lives means that we can become exasperated by constantly being told what to do and how to do it.

Some recent changes to the powers of HM Revenue & Customs have taken this a step further. If you get on the wrong side of your nanny, in this instance our friendly tax authority, you may find yourself admonished.

The method of calculating penalties for inaccurate tax returns has recently changed leading to a much tougher system with the potential to impose penalties at higher levels. These penalties are also being extended to taxes such as inheritance and stamp duty land tax from next year.



Ritson Smith was delighted to welcome Dave Smith to the team earlier this year. Dave was previously a Tax Inspector with HMRC after 18 years with HM Customs & Excise.

The rules surrounding taxation are becoming ever more complex and you may wonder how you can be sure that you are obeying these rules. The new penalty regime does at least recognise this in that penalties will only be charged for inaccuracies where the taxpayer fails to take reasonable care.

It used to be that if your tax returns were found to be incorrect and penalties were charged, these could be paid and that would be the end of the matter. However, new rules to be introduced will change this in two ways.

Firstly, if inaccuracies are found which amount to an understatement of £25,000 or more of tax, HM Revenue & Customs plan to publish the names of the taxpayers concerned in an attempt to name and shame those involved. This public pillorying is akin to the medieval practice of putting the guilty into stocks and publicly pronouncing their crimes.

It is intended that publication will only apply to deliberate offenders and no doubt Human Rights lawyers will have something to say, but

publicity of this sort could make it more difficult for businesses to obtain finance, it could influence credit ratings and it could also affect the business itself.

Secondly, where the tax understated in any inaccurate return is more than £5,000, HM Revenue & Customs also plan to introduce rules which mean that, for the next five years, the level of type of information to be provided in making the subsequent returns will be extended considerably. It is not yet known how this will work in practice but it could result in significant additional costs for businesses.

So going forward 'Supernanny' will be standing over us and wagging her finger to ensure we do exactly as she chooses. If we don't then we could find ourselves in the naughty corner with our pocket money being recalled and additional homework exercises for years to come! Beware.

Dave Smith Tax Manager



Positioning the niche business

Since establishing its dedicated Corporate Finance department, the CF team has acted as lead adviser on numerous transactions and, while most of these have been in the oil and gas sector, deals have also been concluded in a wide variety of other industries including construction and property, food and drink, agriculture and financial services.

Every deal brings its own challenges. It is a fast paced and tough process that can be halted at any time during the negotiations or due diligence by either the buyer or the seller. Those advising the parties involved are acutely aware that clients are relying on their skills and knowledge to provide the best possible outcome.

The challenge of finally clinching a deal is exacerbated ten fold when one of parties is based overseas and differences in business culture and time zones can make the process even more complex.

Add to this the intricacies and protocol required when dealing with a company that is involved in the defence industry and works with the MOD and the UK and US Governments, as well as the current economic climate, and you will understand why Ritson Smith's Corporate Finance Partner, Graham Alexander is justifiably proud of his team.

The CF department played a major role in concluding the sale of Aberdeen headquartered IMES Strategic Support Ltd (ISSL) to Lockheed Martin, one of the largest global defence and security companies with revenues in excess of \$43 billion per annum and more than 146,000 employees.



Despite the obvious frustrations and sensitivities that were presented we achieved a great result for the shareholders.



Formed by Melfort Campbell in 1984, IMES is a group of companies which provides a range of integrity management products and services throughout the world within the oil and gas, marine and shipping, defence, nuclear, petrochemical and construction industries.

ISSL was part of IMES group and was established during the 1990s initially providing integrity management services at the UK's Strategic Weapons facility at Faslane. However, an opportunity arose to significantly expand ISSL's role within the Strategic Weapons programme and since 2000 ISSL has been the sole contractor providing in-service support to the UK's Strategic Weapons System i.e. the Trident Nuclear weapons programme.

Ritson Smith's relationship began two years ago and they have worked on a number of projects with IMES during this time with the disposal of ISSL being the most significant. ISSL, with its specialist focus on defence, and strategic importance within the UK's nuclear defence program, was an attractive target for a number of large international defence contractors.

Ritson Smith's Corporate Finance team worked closely with Melfort Campbell and IMES' Finance Director, Bob Hutcheson during the sale process. But how easy was selling a business whose key customer is



Dealing with a downturn

Going through the acquisition process can be 'exciting' at the best of times but when banks get nervous about lending money to ventures that they would normally have grasped with both hands, it's a rollercoaster ride.

Willie Rennie, now Chief Executive of Walker Technical Resources Ltd, describes the highs and lows of completing a transaction as financial meltdown grips the lending institutions:

"Following a successful career in the oil industry working for both operators and services companies, I had been wanting to do something on my own for a while. When the shareholders of WTR put the business up for sale, the timing was good for me.

"Everything was going to plan – the financial diligence was happening, business models were being finalised and we had a deal structure set and then, suddenly, in late 2008, we were in the midst of a credit crunch and financial panic ensued. The clampdown on lending meant a return to the table to re-negotiate the deal and work up a new financial model."

"Following an intense period of negotiation, we pulled things together and the acquisition was successfully completed at the end of June," said Ritson Smith's Graham Alexander who led the MBI advisory team. "It was a difficult time and I think the final success of the deal was largely due to Willie's resilience and tenacity."

"It was a stressful and emotional time" Rennie admitted, "but we got there and with less debt than was originally planned which means there is less initial pressure on the business to perform. In our first three months of trading however, we have exceeded the bank's financial targets which gives us a huge amount of confidence for the future."

the MOD and whose core business is supporting the UK's nuclear deterrent, Trident?

"It was an intense nine months," said Graham Alexander. "ISSL was a niche business but with immense strategic importance within the defence sector. Developments within the sector meant that there was significant interest in the business and we secured a number of serious offers for the business which eventually led to us concluding a deal with Lockheed Martin.

"As you can imagine, dealing with a US organisation such as Lockheed Martin and a subject as sensitive as strategic weapons and the UK's nuclear deterrent brings its own challenges - there were plenty of obstacles to overcome. The MOD is a key stakeholder in the business and was a major consideration throughout the transaction.

"The final stages of negotiation also involved liaison with other elements of the UK government in addition to the MOD and we worked closely with ISSL and its legal advisers, McGrigors, to achieve an eventual successful completion. Despite the obvious frustrations and sensitivities that were presented we achieved a great result for the shareholders."

The transaction further enhances Ritson Smith's credentials in defence industry corporate transactions and is an area the firm is looking to develop and grow alongside its core oil and gas work.

No need to panic over your payroll...

There are several significant benefits for employers who outsource their payroll management, not least removing the need to keep up with constantly changing regulations.



Suzanne Laing, Payroll Manager

Ritson Smith set up its specialist payroll services team in response to demand from existing clients who were keen to remove concerns about payroll compliance and also to reduce costs.

Outsourcing has several major benefits for employers, no matter the size of their business, and Ritson Smith has recruited Suzanne Laing as Payroll Manager to lead the expansion of the service for its growing list of clients. Suzanne has more than 20 years experience across a range of companies in the private and public sector.

"I am here to grow the business and bring in new clients," she said. "The major benefit for employers is the guarantee of greater accuracy and compliance and the removal of the risk of penalties, investigations or overpayments".

Outsourcing results in significant savings in staff and also eliminates the problems caused if members of a small team are off on holiday or as a result of illness. It also means that the company does not need to think about how to keep up with current legislation by regularly sending staff on courses. "We remove their worries," said Suzanne.

While many accountants avoid this specialist offering, Ritson Smith views it as an integral core service and the team is set to expand to meet the increasing demands as they look at a number of innovations.

"Some companies may want to outsource just part of the payroll – for example they may prefer to do so with management bonuses and other highly confidential information which they do not want to deal with in house," said Suzanne. "We offer a complete payroll management service or specific elements of it."

The team conducts all tax affairs on-line which is the preference of HM Revenue and Customs and all payroll statutory elements, including student loan repayments and maternity pay, are fully covered as are benefit packages and pension schemes.

"We have a very knowledgeable team at RS Payroll and we provide an efficient, cost effective service which is available on a stand-alone basis or as part of a package."

“We offer a complete payroll management service or specific elements of it.”





Client profile: Norvite

It is now four years since Ritson Smith guided a management buyout which made the animal nutrition company Norvite a locally owned business just as it had been when it was established in 1973.

Even without the might of a multinational owner and in spite of a foot and mouth outbreak, a significant downsizing in the pig industry, a decline in overall livestock numbers and wildly fluctuating commodity prices, not to mention the recession, Norvite has gone from strength to strength. Turnover has doubled to £10 million since Managing Director Ed Smith led the 2005 MBO and the company payroll has risen from 26 to 40.

Norvite has two main geographical areas of business, the North-east of Scotland and Ayrshire which correspond with the country's two main livestock centres. Having their manufacturing facilities close to the livestock enables them to make best use of transport and logistics and keep costs to a minimum.

They not only supply the agricultural community with feed but also with up-to-date expert advice to ensure that farmers are able to maximise returns from their businesses which is vital in the current economic climate.

Until 2005 the company was owned by Dutch multinational Provimi but when they planned to amalgamate several companies they owned in the UK and rationalise the branding, Mr Smith suggested that was not in the best interests of Norvite. "We came to an arrangement that they sold the business to me but we signed an agreement with them whereby we are the exclusive distributors of Provimi products in Scotland and we still have very close ties," said Mr Smith.

He believes the size of the company and its personal touch are key to the continuing success. "If you look at the feed businesses which are flourishing in Scotland they are almost exclusively privately owned. Our farmer customers like to deal with locally based companies they know. Because we are smaller we are also able to react quickly to tailor nutrition to our customers' requirements and hopefully add value to their businesses through the advice and products we supply."

In 2005 Norvite opened its first country store at Insch supplying feed for all classes of farm livestock, horses, pets and small animals. At the beginning of this year, when the company was also granted a Royal Warrant for the supply of minerals and specialist feeds to Her Majesty the Queen, First Minister Alex Salmond opened a second store at Oldmeldrum.

Mr Smith said he was confident about the future of agriculture. "The focus has not been on domestic food production for the past 20 years but I think the government is waking up to the fact that security of food supply cannot be guaranteed from importing. Increasingly the focus is going to be on home produced; the feed industry plays a very important role in that."

He added that Ritson Smith continues to assist in the success of Norvite. "We had great support and advice from them at the time of the acquisition and we couldn't have done it without that specialist help. They have also provided great support for us since then."

News in brief

Offsetting the 'super tax'

With the income tax rate rising to 50% in April 2010 for taxable income of more than £150k, it is time for owner managers in this 'super-tax' bracket to start thinking about tax efficient cash extraction.

In most instances dividends will be a tax-efficient way to take funds from companies compared to bonuses or loans.

Owner-managers can usually accelerate the payment of planned future dividend payments before the super dividend tax rate 'kicks-in' on 6 April 2010. If you feel that your company's cash-flow is not able to support large dividend payments then remember that you can pay the dividend before April 2010. All or most of the dividend monies can then be lent back to the company by crediting the shareholder's loan account. The 25% personal income tax liability on the dividend would need to be found by 31 January 2011.

April next year seems a long way off but it is never too early to save money.

Standing out from the crowd



You may have noticed a new suite of advertisements appearing in the press of late for Ritson Smith designed by Aberdeen based Hampton Associates.

The ads have been created to visually differentiate Ritson Smith in terms of service delivery and expertise. They focus on communicating our unique brand values and our aspiration to stand out from the crowd in a marketplace where many companies offer "much of a muchness."

Target audience feedback has been excellent with many comments being received on how well the ads dispel the myth that all accountants are dull, grey and boring!