

The Engine Issue 7

Keeping You Up To Date With Manufacturing & Engineering Insight
May 2020

Now, for tomorrow



The Engine Issue 7

Welcome to our seventh issue of The Engine from MHA's Manufacturing sector.

Whatever adjective you might use to describe the current time, and there are many, it is unlikely to be a period that we will forget in a hurry.

The Government have provided unprecedented levels of support to business and encouraged manufacturers to remain open and consider if they can help the "answer the call to action" and play a "direct role in combatting COVID19". Many manufacturers have risen to the challenge and our first article highlights a few of these.

Our second article focuses on the value of finding a way to visually engage staff toward a unified goal. The Government has managed to get us to understand "the Curve" and the need for this to be flattened as part of the fight against COVID19. We highlight a way that this can be used to focus on cash – so important at this time.

One of the ways that the Government have offered help is via CBILS (Government backed loans) but businesses need to be properly prepared ahead of any lending application. We've summarised a few helpful tips.

Finally we highlight the quandary that businesses face in choosing between two different types of state aid; CBILS and R&D tax reclaims because, simply a choice needs to be made.


Your local MHA firm would be keen to discuss with you or advise upon any of the matters raised in this edition and look forward to hearing from you.

Chris Barlow
MHA Manufacturing sector head



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1 Clients facing down the challenge of COVID-19

Over the past month we have seen how our clients are reacting to the challenge of Coronavirus to assist the national effort.

Here are three examples that stood out:

North East plastic manufacturing and distribution company, Bay Plastics, has responded to the urgent critical substrate and manufactured product demand for the many vital applications required in the fight against COVID-19.

In the last two weeks, the company has adapted its laser, CNC machinery, fabrication and assembly capability. They have been working around the clock to manufacture tens of thousands of protection screens to safeguard essential workers in the key supermarket sector, as well as over 40,000 medical face visors and specialist fabricated items for the NHS and healthcare sector, and developing a standard range of protection screens which can be quickly manufactured and deployed in any customer interfacing environment.

Like thousands of businesses across the UK, our client Black and Banton Occupational Health saw a significant downturn in their core business when the COVID -19 pandemic hit in March.

But it soon adapted to new ways of working and started to look at alternative ways to support and assist its client base. Together with the support of long-established suppliers, it has been using the Assure Tech Point-of-care (PoCT) COVID-19 serology test to test for the qualitative detection of IgG and IgM antibodies to Covid-19. This test is approved by the MHRA to be used in the UK for professional use. Whilst it cannot determine whether a person is infectious or detect if a person has been recently infected (i.e. in the last week or so), the test can give an indication of antibodies to the Coronavirus.

Since launching it, the company has carried out tests for the workforce of not just its North East based clients but across the UK, helping to keep businesses moving at this difficult time.

A huge congratulations to our client Bridgman IBC on completing a very special order for an NHS Nightingale hospital in record time.

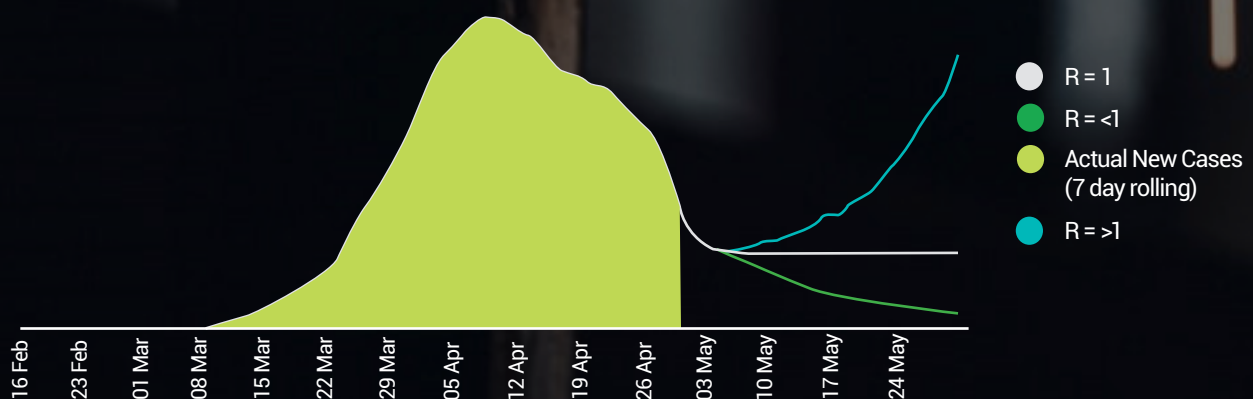
The whole team of 70 workers at Bridgman IBC spent all weekend working on an order for 116 timber door sets for the NHS Nightingale Hospital at the NEC in Birmingham. It's a job which would normally take four to six weeks but thanks to their suppliers and staff they turned the whole order around in just 48 hours!

Bridgman IBC, which is based in Greatham Street in Hartlepool, was appointed by Interserve – a multi-national group of support services and construction companies based in the UK. Bridgman IBC received the request on Saturday to manufacture the door sets and the whole order was completed and installed in a record two days.

2 Data Driven Influence

Data insight associate partner, Graham Dotchin writes that the Government has done an excellent job in distilling its goals and aims against COVID -19 into something visual and measurable that the population universally understands.

Why R is so important in the fight against COVID-19



Through constant messaging, referencing and examples, 'The Curve' was first.

We knew it would rise, we hoped it would peak quickly and we longed to be on the other side. 'The Curve' took a complex issue and made it visual, people could see progress, they could see the impact of their actions and they could see change. Getting past the peak and protecting the NHS has been everyone's key focus.

Now we have R.

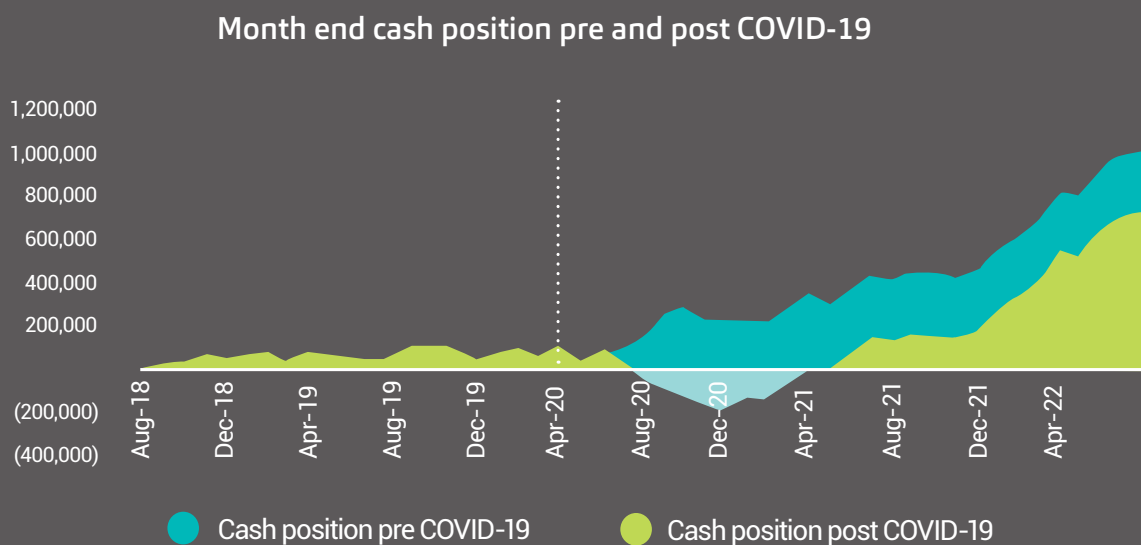
We can use our understanding of The Curve to illustrate what impact R will have, and even if we don't fully understand the mechanics of how R is calculated, the impact it can have is clear

If R is greater than 1 the curve will go back up, if it is 1 the curve will flatten and less than 1 we will continue to see the curve continue to drop.

With R, we have a measure by which society can judge how it slowly shifts towards a new normal, quickly identify if the steps we are taking work or if we need to quickly adjust to a new strategy.

For many businesses, finding a way to visually engage staff toward a unified goal, to influence behaviours and give them a measure to see how they are progressing can sometime be lost in an army of ill communicated KPI's. What Covid-19 has shown, is with the right data, and the right measures, the impact can be significant.

One current example of a relevant business 'Curve' is Cash, with its version of R being daily cash movement. We are actively working with businesses to help them assess their 'Cash Curve', visually demonstrate the impact that Covid-19 has had on their R value and help them find ways to assess the impact of their strategy in coping with change.



Investment into using data to influence behaviours and understanding is currently keeping an entire nation supportive and staying confined to the home, imagine what could it do for your business?



3 CBILS application tips

There have been challenges for businesses to obtain the CBILS loans and there will continue to be challenges with the new CLBILS & BBLS loans, however, the approach which will give businesses the highest likelihood of obtaining the loans will involve preparation of the following.....

- A copy of the most recent Year End Accounts with short overview of the financial performance, including any “exceptional items” and also YTD Management Information. This is essential to ensure that the funder is able to conclude that the existing business was viable prior to the impact of the crisis.
- A revised detailed 12-month cash flow forecast from the start of the disruption period including March actual and Q2 based on the revised cost base and residual incomes and for further months outlining as a minimum:
- The actions already taken to protect cash flow as a result of the disruption and the financial impact (our Coronavirus Business Continuity Planning guides and checklists can be used to confirm all appropriate actions have been taken and the financial impact recorded or forecast);
- The key assumptions made in relation to the impact of the disruption across all areas of the business and including sensitivities for factors such as the potential period impacted by the lockdown and the estimated business growth rates following the removal of the lockdown.
- Preparation of a “bank funding presentation package” which records and captures the above information into a “bank friendly format and template”. This format and the content within it has been prepared based on the guidance which we have received from the banks currently for the CBILS loan applications and can be discussed directly with us.
- Consideration of the support needed to have the highest chance of success in the bank negotiation process, including a potential “remote rehearsal”.



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EU rules dictate UK SMEs face toss-up between survival and strategy

EU state aid rules prohibit a company receiving two kinds of state aid at the same time.

Unfortunately for SMEs the R&D tax relief scheme is a form of state aid, as are the various Covid-19 relief schemes, such as the Coronavirus Business Interruption Loan Scheme (CBILS).

Jay Bhatti, Research and Development Tax Manager at MHA, explains how many SMEs dependent on R&D tax relief to maintain cashflow face a difficult choice because of EU state aid rules

Following confusion over how Covid-19 measures would impact R&D relief, HMRC clarified its policy, which is to disqualify companies using Covid-19 support measures to fund research or development from R&D tax relief under the advantageous SME scheme.

"This will present many SMEs with a dilemma. R&D relief is a vital tool to maintain adequate cashflow, especially for start-ups. If these businesses lack a war chest they will have to take advantage of Covid-19 reliefs to survive, but this means a tough time down the road when their R&D relief is impacted. If they usually rely heavily on R&D relief and can realistically survive the immediate crisis, it may be sensible to

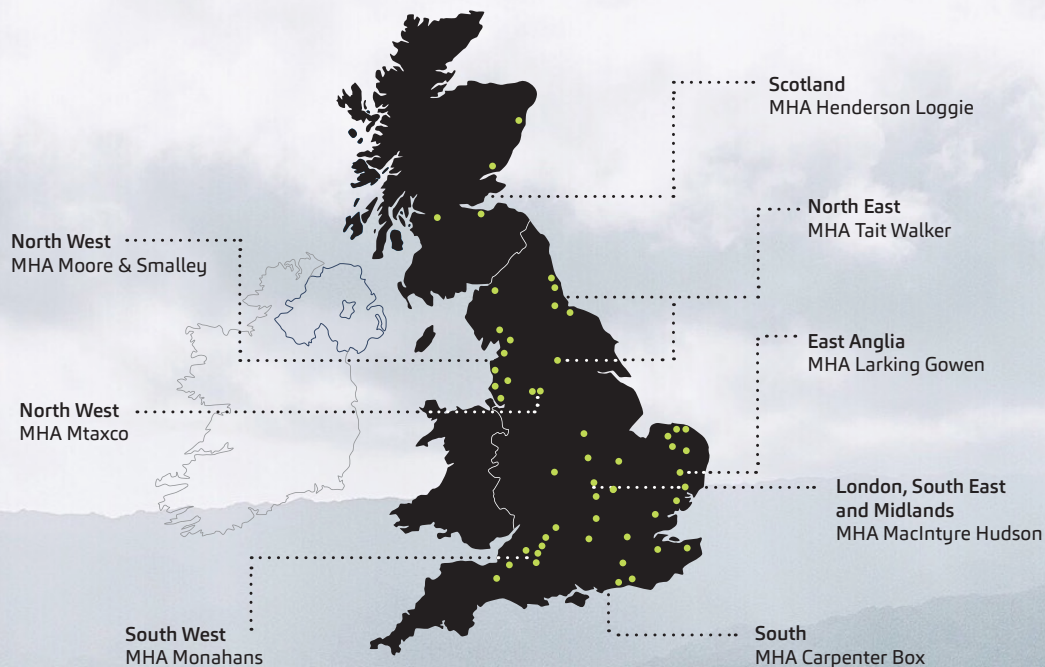
"Even if CBLIS has been claimed only for a portion of the accounting period and it subsidised a cost relating to an R&D project during this time it can make the whole project ineligible for SME R&D tax relief. It may be possible to declare that R&D activities ceased for the duration of the lockdown and use the Covid-19 support measures to subsidise other activities, but this would need to be proved to the satisfaction of HMRC.

"It will still be possible for a company claiming some kind of Covid-19 support to access R&D relief under the R&D Expenditure Credit (RDEC) scheme, as this less generous form of relief is not classed as state aid. Whereas this scheme provides 10p for every pound of qualifying spend, the SME tax relief scheme offers 25p in the pound if the company makes a profit, and 33p if it makes a loss. This makes it especially useful for start-ups that are not yet profitable."

About MHA

MHA is an association of progressive and respected accountancy and business advisory firms with members across England and Scotland.

Our member firms provide both national expertise and local insight to their clients. MHA members assist clients with their needs wherever they are in the UK, as well as globally through our membership of Baker Tilly International, which has a network of trusted advisors covering 145 territories worldwide.




National Reach

50+
Offices
nationwide



8
Independent
accountancy
firms



International Reach

125
Member firms
in 145 territories



10th
Largest network in
the world by combined
revenue

Combined
UK turnover of

£143m

US\$3.9bn

Combined
global
revenues of



Our Services

Our Sector Approach:

MHA allows clients to benefit from in depth sector knowledge in addition to specialist accountancy services and expert business advice. Manufacturing and engineering is a key sector for MHA, and we are committed to assisting both our clients and the sector as a whole by promoting manufacturing and engineering throughout the UK.

As we head towards the post Brexit UK, we think it's more important than ever to champion our sector, which is why we look to share best practice right across our client base. As well as delivering accounts, audit, tax and Wealth Management solutions, we also support skills initiatives, run forums and hold insight events, all aimed at helping our clients in the sector to do better.

Services

- Compliance: audit compliance, accounting and financial reporting. Our audits reassure stakeholders and identify risk.
- Taxation: particularly around international tax, employment issues, R&D Tax Credits, Patent Box, Capital Allowances and tax mitigation.
- Business planning and support.
- Accessing public and private funding.
- Maximising the efficiency of your supply chain: reducing costs and improving margins.
- Mergers & Acquisitions: We have advised on many engineering transactions, including a number of cleantech investments.
- Due diligence ahead of funding and grant applications.
- Risk management: We advise on both governance issues in order to best attract investment and on minimising fraud and corruption risk.

Contact Us

If you require any further information or advice regarding these topics, then please feel free to contact your local MHA member firm.



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