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Time to consider capital investment?

FINANCE MATTERS

Paul Butler, a recently appointed partner at Francis Clark LLP's Torquay office, says that as confidence picks up, consideration should be given to capital investment, ahead of a tenfold reduction to the Annual Investment Allowance in 2015

As we enter the final quarter of the year there appears to remain an increased optimism surrounding the UK economy. Statistics indicate that business confidence among small and medium firms is continuing to improve, with the Federation of Small Businesses reporting a national score of 33.5 points on their Confidence Index for the third quarter of 2013. The Index is a measure of confidence on a range of issues relating to small and medium sized firms and is an encouraging sign when compared to 15.9 points in the previous quarter.

An increase in business confidence is reflected by the number of employers looking to add to their headcount, with one in eight companies stating that hiring new staff is an immediate priority, the highest it has been since 2011 according to the Office for National Statistics. The Government announcement in the 2013 Budget that all businesses will be entitled to an allowance of £2,000 per year to be offset against their employer National Insurance liability from April 2014 will provide a small but worthwhile incentive for employers to continue to recruit.

One of the main barriers for business growth continues to be the availability of finance. Earlier this year the Bank of England and HM Treasury announced an extension to the Funding for Lending Scheme, effectively increasing the incentives for banks to lend to SMEs. These incentives are currently available until January 2015 and will enable a number of businesses in the region to access funding that continues to remain affordable due to low interest rates.

As confidence grows many businesses are looking to increase capital investment in areas such as plant and machinery and fixtures and fittings. The Government introduced an Annual Investment Allowance of £250,000 from January 2013 enabling businesses to obtain 100% tax relief in the year of acquisition for qualifying capital expenditure. With the Annual Investment Allowance reducing to £25,000 from January 2015 businesses should give careful consideration to their planned capital expenditure over the next twelve months in order to accelerate tax relief.

In conjunction with a strategy for capital investment, businesses in the South West should not overlook a number of key national and regional grants that are available in order to provide a financial platform for growth. The main eligibility criteria for such grants are that a business can demonstrate that capital investment will maintain or increase the number of staff that they employ. Although there will undoubtedly be a requirement to provide cash flow projections to the grant provider there are very few restrictions on the type of capital investment that can be made provided that eligibility criteria are met.

Although many businesses and sectors continue to face difficult trading conditions the UK economy continues to show signs of improvement. There are a number of incentives in the market place for businesses to facilitate growth, whether it is from a funding strategy or tax perspective.

For further information: Paul Butler, partner at Francis Clark LLP. Telephone: 01803 320100 Email: paul.butler@francisclark.co.uk Francis Clark has offices in Exeter, Plymouth, Salisbury, Taunton, Tavistock, Torquay and Truro. Francis Clark is the winner of the 2012 British Accountancy Awards 'Tax Award of the Year (non global firm)', LexisNexis 'Best Tax Practice in a regional firm' in 2012, 'Auditor of the Year - Mid Tier' in the National Financial Director's Excellence Awards 2011, and LexisNexis 'Best General Tax Practice Award' 2009. More information is available at www.francisclark.co.uk

Touch base over cashflow uncertainty

BUSINESS MATTERS

Lisa Thomas, insolvency practitioner at Plymouth-based Neville & Co says that a ready reckoning of your current in and out-goings can reveal the true state of your financial affairs and business's health and viability

When business owners initially come to see me for insolvency advice, the advice I give them is always based around the numbers. Very few smaller businesses know or realise their true financial position. Larger businesses do to tend to know but sometimes it is not clear whether the company is insolvent. Often it is creditor pressure due to cash flow problems that make the business owners think they may have a problem.

The annual accounts are often not up to date and accounts for limited companies do not have to be submitted to Companies House until nine months after the financial year end, so by the time they have been completed the figures contained in them are history and may not be reliable.

So the best way for me to get an idea of the current overall financial picture is to write out a very rough and ready 'back of a cigarette packet' snap shot of the financial position today. This can be a very quick way to establish whether or not the business is insolvent and needs to do something or can carry on trading but monitoring the situation carefully.

The first question I ask, is to establish what assets does the business own? These can sometimes be overvalued by the directors. For example they might think they have a lot of customer debts to collect in but when you get down to the detail of how old the debtors are, whether they are disputed and what the realistic chance of recovery is, the actual recoverable book debt figure may often be reduced considerably (disputed book debts can also be a sign of why a business might have declined).

Often directors treat hired assets and assets subject to finance agreements as belonging to the business and can forget that these are actually not theirs. Stock can be a real problem. If it is valued at cost but is older or obsolete it can be worth a lot less at auction than the directors think. The other issue here is stock not paid for still probably belongs to the supplier – so is not really an asset.

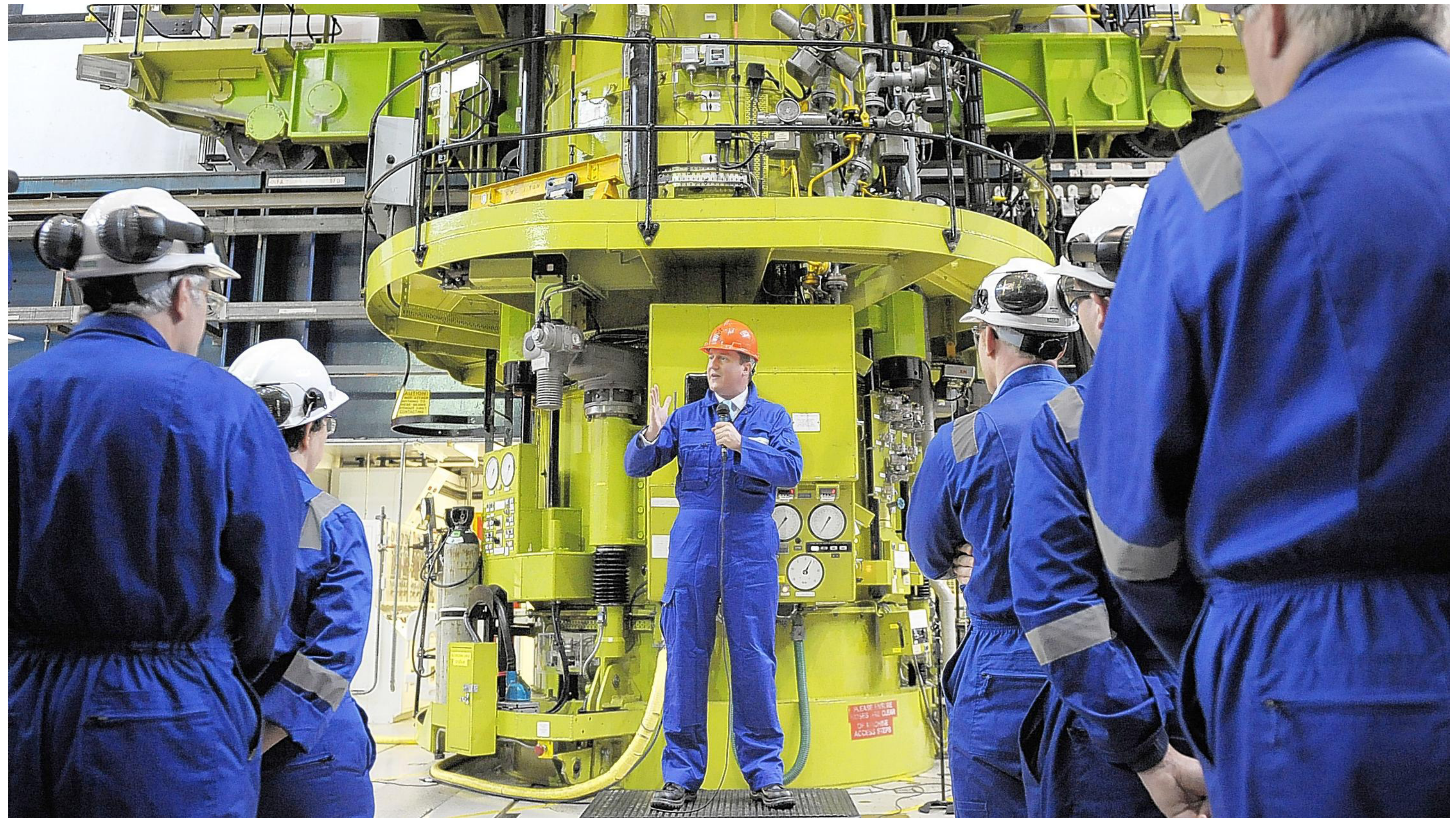
Once the asset position is understood I ask what creditors are there? Of course there are always the usual suspects such as HM Revenue & Customs and trade suppliers but then there are those liabilities that might not have been thought of such as redundancy and notice pay due to employees if the business ceases trading. These costs can stack up considerably. Also if you have a customer that owes you and you owe them they can set off one debt against another.

The landlord is another creditor often forgotten about. If the lease is not due to end for some time and the landlord is unwilling to accept a voluntary surrender of the lease, the business will be liable for future rent. Although the landlord also has a duty to help the position by finding new tenants and renting the premises as soon as possible to stop costs accruing, given the current climate this may take some time. The landlord may also be entitled to make a claim for dilapidations (cleaning up and repairing the premises). Solicitors are likely to be needed for advice – they too will need paying.

If your business has cash flow problems and you are not sure what to please contact me for a free initial meeting so we can discuss the options open to you and ensure you take the right steps. Do not just keep your head in the sand and carry on because the consequences can be unpleasant and expensive.

Barometer finds that business prospects are on up

The latest Business Barometer points to further increased levels of business confidence in the region's economy, reports business editor **Liz Parks**



The go ahead for Hinkley Point C brought economic cheer this week

Business confidence in the South West is again on the up – although most businesses are expecting trading levels for the next three months to remain static.

The latest Western Morning News Business Barometer, compiled by Exeter law firm Michelmores, found that 75% of companies are optimistic about the outlook for the next 12 months.

The findings chime with figures due to be released this week by the Office for National Statistics which are expected to show an 0.8% uplift in the economy between July and September.

This would represent the best improvement since the second quarter of 2010 and would offer more good news for the Chancellor George Osborne following a summer of improved economic news as consumer confidence was buoyed by rising house prices and feelgood moments such as the royal birth and Andy Murray's Wimbledon win.

In the Westcountry, recent economic "good news" stories have included this week's announcement that Hinkley Point C will go ahead, meaning that potential supply chain opportunities could be opened up.

The Michelmores survey findings compare with 65% who were upbeat in the last barometer, which was published in May. But despite this, the majority of firms were not expecting an uplift to their own business in the next three months, with 53% expecting business levels to remain static and 70% expecting the size of their workforce to remain static over the same time.

Red tape and a shortage of skills were ranked as the two greatest causes of concern for businesses with access to finance and a lack of disposable income also named by some respondents as barriers to business growth.

Despite concerns about access to finance and increasing amounts of alternatives to mainstream finance, such as crowdfunding and challenger banks, 70% of firms said that they would either pursue a bank loan or overdraft if they needed investment.

Sixty two per cent of respondents said that finance is affordable for small businesses, although 61% said that the banks were not lending to firms, with 39% saying that this was a media myth.

The survey asked businesses about which government grant or incentive they would be most likely to apply for, with 34% saying an apprenticeship grant, 31% the Regional Growth Fund and 21% R&D tax credits.

This barometer has a focus on the rate of Corporation Tax, which, from April 2015, is set to be the lowest among the G8 at 20% and whether this will be an effective booster to growth.

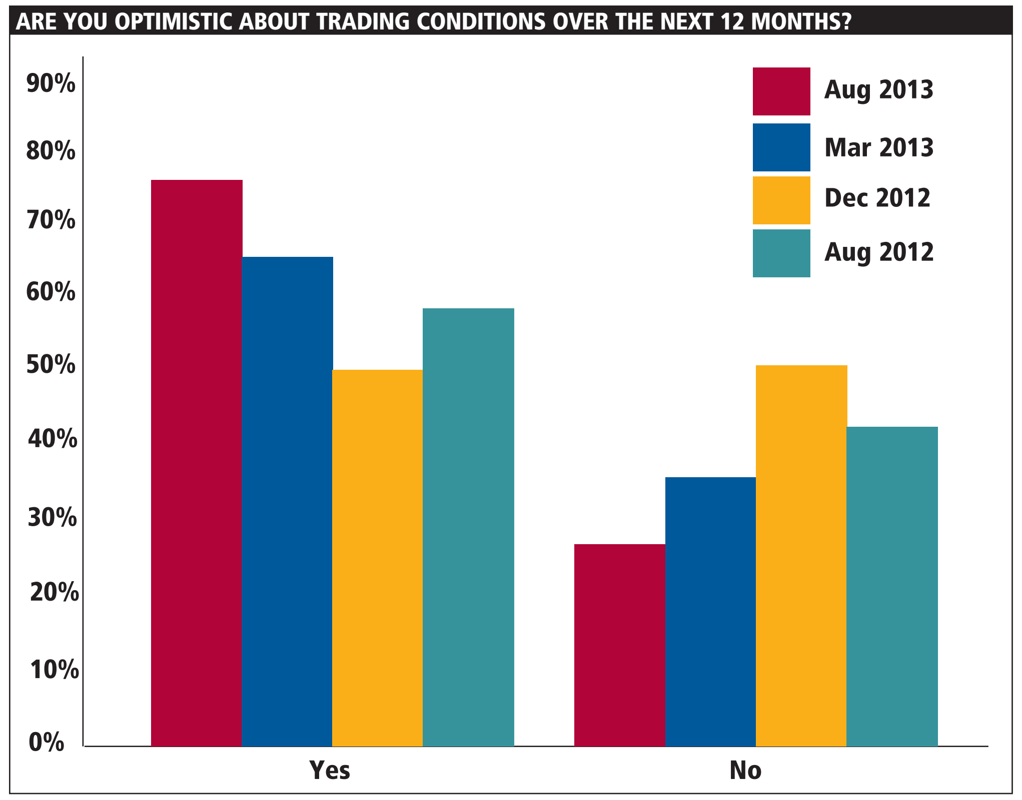
A total of 29% of respondents said this was still too much with 54% saying that the drop in revenue received by the Treasury as a result would not be offset by a rise in employment and reduction in welfare costs.

Martin Lamb, director residential at Savills, in Exeter, said: "The Government need to ensure that every company that trades and makes profits in the UK pays taxes in the UK."

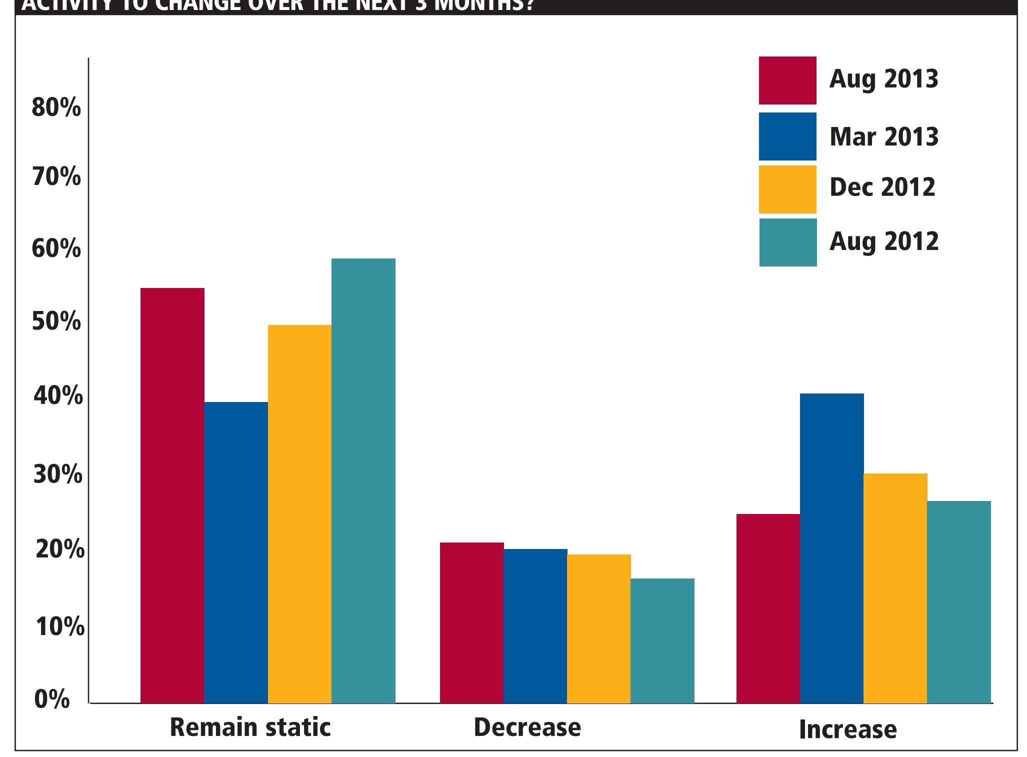
And Jackie Jacobs, of the Exeter-based EIC Group, said: "I honestly think the Government should reduce it dramatically for a period to boost investment in the UK economy. It would pay for itself – halve it."

There were also calls for a further reduction in the rate of Corporation Tax from individuals including Robert camp, managing partner at law firm Stephens Scown, Nick Holman, from Vickery Holman and Anthony York, of Murray French (Exeter) Ltd.

ARE YOU OPTIMISTIC ABOUT TRADING CONDITIONS OVER THE NEXT 12 MONTHS?



HOW DO YOU EXPECT YOUR COMPANY'S LEVEL OF BUSINESS ACTIVITY TO CHANGE OVER THE NEXT 3 MONTHS?



Don't get carried away – but confidence is slowly returning

Stephen Morse, head of the Business Group at Exeter law firm Michelmores, reflects on the increased mood of confidence found in the latest Business Barometer

A prolonged bout of summer sunshine has done the spirits no end of good. The Western Morning News Business Barometer compiled and analysed by the Business Group at Michelmores clearly demonstrates that this summery feel good factor has been accompanied by a prolonged period of growing economic optimism.

This may come as a real surprise for some other parts of the UK which are still struggling in the icy draft of post recession inactivity but in the South West – where a better outlook was predicted by this survey's respondents last time out – optimism about the trading outlook has leapt from below 50% to 75% in just six months.

I'm not suggesting we get carried away with these results. Optimism still errs on the cautious side and is probably saying that the predominantly owner/managed businesses of the Westcountry are feeling less under threat than previously. It's early days but it could be the moment for businesses to 'seize the day' and review their business and investment plans, to wake up hibernating expansion ambitions or even prepare the business for sale as levels of business activity and confidence begin to climb.

It is probably the right time for the banks to step up to the mark and be more positive about lending to stimulate growth rather than maintaining a passive stance.

I have previously commented that the resilience of Westcountry businesses and the propensity for optimism is embedded in the culture of an owner/managed, family business dominated regional economy. I suspect this is reflected in this survey, which reveals that very few respondents would be prepared to give away equity as a means of raising funds, but would rather consider grants and various tax breaks.

Grants awarded for business growth projects are an invaluable economic stimulus especially when alternative funding is difficult. So I was amazed to read in the same survey that less than 50% have enquired about qualifying for grants, some indicating that the hassle of the process outweighs the perceived benefits even though there is plenty of specialist expertise on hand to guide businesses through the paperwork. There is also a misconception about which business activities qualify for research and development tax credits, which doesn't just apply to people in white coats working in laboratories.

For me, the biggest cause for further optimism is the continuing employment trend that sees private sector jobs increasing and public sector jobs declining. Last month, the *Western Morning News* reported a drop in some 14,000 public sector jobs in Devon and Cornwall many of which have not been lost but transferred to newly privatised entities such as school academies.

Nationally, the number of state workers has dropped by more than 600,000 in the last three years while 1.2 million private jobs have been created over the same period. These figures provided by the Office of National Statistics for June 2013 give an unemployment rate at that time of 8.1%, the same as in June 2010, but still a long way off the 7% level that will trigger the rise in interest rates announced by Bank of England.

What is important is that the UK continues the trend away from public sector employment in favour of productive, wealth creating private sector jobs.

HOW DO YOU EXPECT THE SIZE OF YOUR WORKFORCE TO CHANGE OVER THE NEXT 3 MONTHS?