



SOWERBY

CHARTERED ACCOUNTANTS

WINTER 2023/24 NEWSLETTER

WHAT WILL
BIODIVERSITY NET
GAIN MEAN FOR
US ALL?

RESEARCH AND
DEVELOPMENT

DIGITAL
TRANSFORMATION
AND THE
CHANGING
TECHNOLOGICAL
LANDSCAPE

Now that we've had a few weeks to recover from the festive season, it's time to focus! I hope that you feel refreshed, revitalised and ready for the opportunities and challenges that lie ahead this year.

There is no doubt that the economy has suffered a plethora of setbacks over recent months and indeed years, including high interest rates and inflation which have made it difficult for businesses to forecast, plan and manage their finances. For many people, personal finances have been affected too.

Against this backdrop, it would be easy to become downcast; however, to quote from a recent report from the Resolution Foundation:

"It is important to avoid getting into a trap of pessimism which can become self-fulfilling".

As we start 2024 there are some positive signs, for example lower food and energy costs, and the inflation rate falling from its peak. The year ahead is sure to bring challenges, but it's up to us all to look for the positives and create opportunities for growth.

I hope that you find the articles in this newsletter useful and interesting; if we can help with these topics, or with any of your business concerns, please do not hesitate to get in touch. The Sowerby team will be happy to help.



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COMMENT

WHAT WILL BIODIVERSITY NET GAIN MEAN FOR US ALL?

Our previous newsletters have often touched on the considerations of sustainability and the fact that a businesses' environmental impact is becoming more and more of a consideration. The focus of these past comments has been on what businesses can choose to do themselves to enhance their sustainability profile. However, we are now beginning to see legislation on what businesses and individuals must do to protect the future of the environment.

One of the most interesting, and still rarely mentioned new developments, is Biodiversity Net Gain (BNG).

BNG is new legislation to ensure that the development of any land or change in said land use provides more ecological benefits to the environment than were there before the development. Developers must aim to avoid any loss of habitat in the development land and if this is not possible, they must create additional habitats, whether this is on-site or

off-site. This means a development will result in more, or better-quality, natural habitat than there was before development.

BNG will apply to most new major development under the Town and Country Planning Act (TCPA) from January 2024 and to small sites from April 2024. The government has committed to BNG applying to Nationally Significant Infrastructure Projects from November 2025.

Section 98 of the Environment Act 2021 states that biodiversity net gain must be a condition of planning permission, but the scheme will not apply to householder applications for a single dwelling and there will be a simpler process for the development of small sites between one and nine dwellings or where the site has an area of less than 0.5 hectare.

HOW IS BIODIVERSITY NET GAIN CALCULATED?

Areas of land which are proposed for

development will be given an initial biodiversity score calculated based on Defra's Biodiversity Metric 4.0. This metric which will assign a number of units per acre based on the relative value of the land for biodiversity before development.

The number of units allocated will depend on the condition of the area, its ecological importance, location and the rarity and diversity of the habitat and the species within it.

A post development number of units for the same area is also calculated (taking into account any biodiversity improvements developers have done) with the variance between these two totals expressed as a percentage. Developers must have included enough environmental investment in their projects to increase the number of units by 10%. They must be able to maintain these improvements for a minimum of 30 years.

The biodiversity score can vary on several factors including variety of grass types, streams and rivers, weeds and wildflowers. Rivers, hedgerows and area habitats are considered independently and are not interchangeable, ie you are unable to substitute the loss of one type by providing another type.

Developers must also follow the mitigation hierarchy which guides users to limiting the negative impacts of development projects by ensuring projects work in the following order:

1. Avoiding any potential biodiversity impacts, by carefully considering the placement of infrastructure or timing construction so it does not coincide with any nesting seasons
2. Minimising the impacts of the development by considering the duration and intensity of impacts which cannot be avoided
3. Using onsite measures to enhance the habitat where avoidance or mitigation is not possible
4. Compensating for any adverse impacts which cannot be avoided, mitigated or enhanced onsite, by using off-site enhancements by purchasing land from landowners located elsewhere in England (known as habitat banking)

HABITAT BANKING

Habitat banking is where investors pay other landowners to create new habitats and to manage the land and maintain the habitat to a required standard for a commitment of 30 years. Land parcels purchased for habitat banks are usually over 10 hectares in size and the best uplift comes from the conversion of arable farmland into woodlands, wood meadows, species-rich grasslands and wetlands. This can provide a guaranteed income source for landowners who sell their land for a 30 year period with no financial risk and no reliability on commercial markets.

WHAT ARE THE BENEFITS OF BNG?

- BNG provides security that local ecosystems will not suffer as a consequence of any development
- BNG can help to mitigate the effects of climate change as an

increase in woodland areas can help withdraw carbon dioxide from the atmosphere as well as providing localised shade and cooling effects in warmer climates

- BNG aims to improve quality of life by providing more green spaces, encouraging pollinators to the area to improve the variety of plants and vegetation, and improve soil conditions by reducing soil erosion
- By contributing to and increasing BNG, developers can enhance their public image and be seen to be environmentally responsible
- BNG can create greener neighbourhoods which are more desirable and sought after, boosting the local economy

WHAT ARE THE CHALLENGES?

- It can be difficult to measure the net gain and there is currently little guidance around these measurement standards. There are concerns that inaccurate reporting will undermine the main aim of the scheme and will lead to a continued degradation of biodiversity in England
- The cost of implementing sufficient biodiversity can soon add up, and developers may pass these costs on to consumers or local councils
- There is a lack of resources within local authorities to ensure someone with ecological expertise can review planning applications
- There is also currently a lack

of awareness and training for developers, landowners/managers and farmers, including a lack of clarification on when the BNG site will become effective – whether this will be before the development begins or triggered at a point of deemed occupation

WHAT DOES THIS MEAN FOR YOU?

If you are currently holding land or considering purchasing land, Biodiversity Net Gain should definitely be on your radar. It will require a significant amount of consideration and planning from developers; you will need to consider how to use the mitigation hierarchy to minimise the ecological impacts of the development and give thoughts as to how it can affect your planning application.

For current landowners not wishing to develop themselves but with spare land, consideration should be given to Habitat Banking. This scheme can be a guaranteed source of income which can help alleviate the financial loss of the Basic Payment Scheme, however it does require a commitment that these habitats will be secured, managed and maintained for a period of 30 years.

Biodiversity Net Gain is very much in its infancy and more changes may occur, but that does not mean it does not warrant forethought. If you would like to know more please get in touch with your Relationship Partner.



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ADVICE & BEST PRACTICE

RESEARCH AND DEVELOPMENT



R&D OR NO R&D?

Most businesses will have heard of Research and Development (R&D) and may have made claims for R&D tax relief in the past. If nothing else, sales associates from R&D companies are keen to make themselves known, especially to manufacturing companies.

However, the R&D scheme does hold more intricacies than may be apparent at first glance. Research and Development is defined as any activity that leads to the innovation of new products, processes, or services or improvements to those that already exist. The slight difficulty here is that this advancement cannot just be within your own company.

Your project must:

- Look for an advance in the field your business is trading in
- Overcome scientific or technological uncertainty

- Have tried to overcome the scientific or technological uncertainty
- Not be easily worked out by a professional in the field

In essence, you must make advances in your field, developing a new process or improving on an existing one. HMRC do agree that a project can be an advancement if there was already development by another company, but it was not publicly known or available. However, they also say that an expert on the subject would need to look at your situation and be unable to say whether your project is technologically possible or how it can be done, even after referring to all the available evidence.

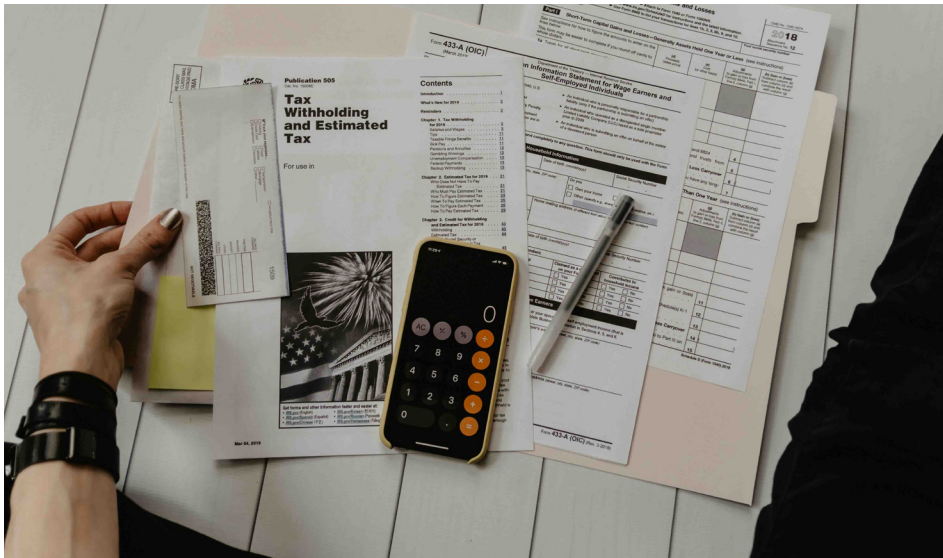
This means that despite the sales associates' enthusiasm, unless you have applied significant time and resource to enhancing your products and services to achieve something your competitors cannot, it is likely

you have not incurred true R&D expenditure.

In a complete contradiction though, at Sowerby we see numerous firms that are so immersed in their technological advancements and what they consider their standard processes, that they do not realise that what they consider the norm of advancing their business is actually relevant R&D expenditure.

I THINK I HAVE R&D SPEND, WHAT DO I DO?

If you have R&D expenditure you can gain tax relief by submitting a claim. R&D claims can be very complex to calculate and Sowerby would always suggest having an expert help you understand what costs can be claimed. They will visit your site, discuss items with you, review processes and ask for information to help build your claim. There are detailed rules about types and timings of costs that are allowed,



and calculations of level of tax relief, that are beyond the scope of this article, but if you would like to know more please contact your Relationship Partner.

Once all true R&D costs are collated, the historic process (in a very simplified explanation) was to add the R&D claim to your tax return. Best practice was also to affix your R&D report from your expert showing how the figures had been calculated. HMRC have recently introduced changes to the claim process in order to tackle errors and suspected abuse of the R&D tax relief regime.

THE CHANGES

From August 2023 an Additional Information form will be required for every R&D claim made on a tax return. These include breakdowns of

costs, and detailed information on the R&D project. HMRC recommend that R&D reports provided by advisors are still included as well. Claims without Additional Information forms will likely be rejected.

For periods starting after 1 April 2023 companies are required to inform HMRC of their intention to file a claim at any time from the start of the accounting period to six months after the end of the accounting period to which the claim relates. The aim of this rule is to prevent last minute 'speculative' claims made after the relevant accounting year.

HMRC have confirmed that if the 'Advance Notification Form' is needed but not completed that this renders the R&D claim invalid and, if shown in the corporate tax return, it will be removed by HMRC as an "error".

When making an Advance Notification, a company must submit "a summary of the high-level planned activities, for example if you've developed software what it will be used for to show that the project meets the standard definition of R&D". There are some caveats for Advanced Notification, for instance for multiple projects or for on-going projects but best practice is to start from the assumption that notification will be required.

WHAT DOES THIS MEAN FOR ME?

In a time of rapidly changing technology, the changes and complexities of the R&D regime should not dissuade you from considering the possibility that tax relief may be available on costs incurred. Rather, R&D should become something that is built into your forecasts and planning procedures. Large projects that are likely to produce R&D costs are likely to be planned in advance. The concept of R&D should become an additional part of this planning procedure.

If you are unsure as to whether your business has valid R&D spend or may incur it in the future, please contact Sowerby where our team are well versed in guiding you through the R&D process and can explain the next steps for a successful Research and Development tax relief claim.

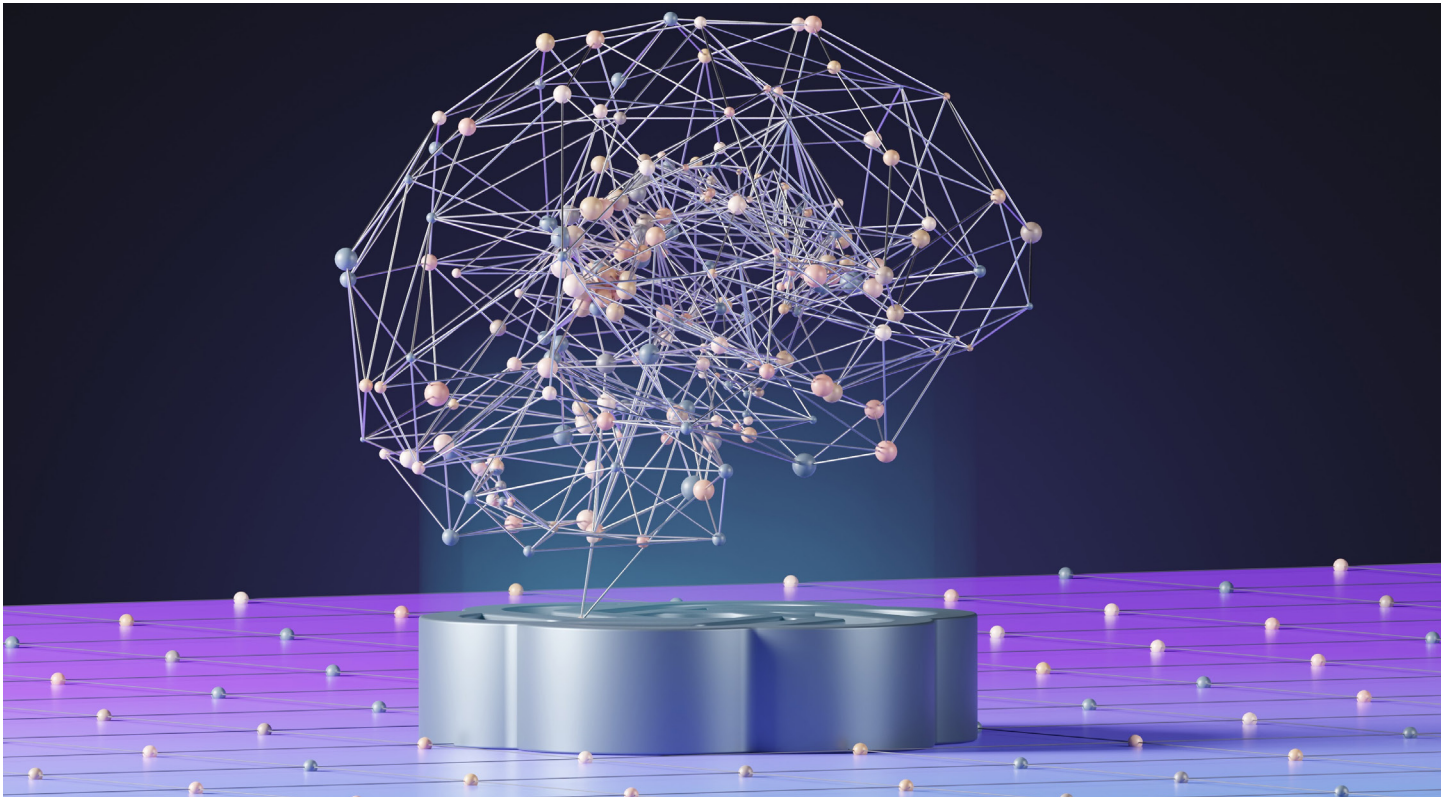


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BUSINESS

DIGITAL TRANSFORMATION AND THE CHANGING TECHNOLOGICAL LANDSCAPE

Digital Transformation is one of the buzz words of recent times. Simply put it refers to a business using new technologies like artificial intelligence (AI) and cloud computing to drive growth, streamline operations and increase competitive edge.

There are numerous opinions surrounding the use, and probably even the ethical nature, of AI considerations, however Digital Advancement does not have to look like something out of the science fiction worlds of H.G. Wells. Rather technology can be harnessed at a truly practical level to increase efficiencies and drive businesses forward without losing the human touch.

THE FIRST STEPS

Adding new technologies is not something that can be done at random. With new products on the market, many options may look like the perfect solution for your business. However, new technology must be added strategically, once you have a full awareness of your businesses systems and controls and where improvements can be made. The aim is to improve current business procedures resulting in a superior service for end users, not just to move with the times.

Here at Sowerby we believe the first

steps to considering a digital review should look something like the below:

- Evaluate the current state of operations and identifying areas for improvement – This is a useful project even outside of technological considerations and often results in efficiencies and productivity gained before technology is even considered.
- Talk to the team – Any change must be supported by employees; they will often also hold information that can't be gained from a high level review.
- Develop clear objectives – The technical landscape is a difficult one to navigate, without clear objectives it can become costly and a drain on time.
- Investigate the technology available – There are numerous similar technology solutions available, often with vastly different price profiles, not only research but recommendations are key to finding the best fit.

WHAT COULD NEW TECHNOLOGY LOOK LIKE FOR YOUR BUSINESS

Machinery

Digital technologies such as robotics process automation (RPA) can streamline repetitive and time-consuming tasks. Production line processes can often be automated in a way that could not be achieved 20 years ago. By automating core processes your businesses can achieve operational efficiency, reduce human error, and free up resources for more value-added activities. This increased productivity could lead to cost savings and improved profitability. Though of course there is an upfront investment.

Online presence

Most businesses already have a website, but is it offering as much as it can to your products and services? A website does not have to just be a marketing tool. A strong online presence can open up new e-commerce opportunities, attract a wider customer base and offer options for new revenue streams if managed correctly.

Data

Data has always been key to analysing trends within businesses, but only so much can be done via manual processes, even with the assistance of standard excel based and accounting software programmes. Utilising technology to allow automated and robust data analytics can help identify market trends, customer behaviour patterns, and emerging opportunities. Data driven decisions (when this data

is easily and readily accessible) can optimise operations, allow targeting of specific customer segments and expose loss making products.

3D Printing

3D printing is a digitally-operated manufacturing technology in which physical objects are printed by a 3D printer based on the specification of a digital model. It is expensive, but looking forward it has the possibility to contribute to significant cost reductions associated with both prototyping and manufacturing. 3D printing could also reduce the need to store parts as well as significantly reduce lead times, since the technology makes it possible to produce what you need, when you need it, and where you need it.

IMPACT

Digital transformation can not only improve customer experience but also enhance employees' enthusiasm. The employee experience is based on your employees' perception of the workplace, and it has an impact on their engagement and productivity. New talent is looking more and more for future proofed opportunities in the marketplace.

Production automation can provide cost reduction and performance improvements as well as business resilience and faster development/deployment cycles. In a world where people are used to easy access, high quality is no longer enough – high quality and rapid delivery is key.

Modern businesses handle enormous volumes of data and, with access to the right analytical tools, that raw data can be interpreted into valuable business insights in real time. This enables faster and more informed decision-making. This is especially important in a world where diversification can often be the key to success.

New technology can also reduce risk, ironically in relation to older technology. You may have seen that technological disruptions are reshaping industries at an unprecedented pace. Without a digital transformation strategy, companies risk falling behind as competitors embrace innovative technologies. Additionally, the absence of robust cybersecurity measures can leave businesses vulnerable to data breaches, resulting in financial losses, reputational damage, and costly legal ramifications.

The goal is to work smarter not harder, with the end result providing more value to your end customer. It may feel easy to dismiss words such as 'cloud based' and 'digital platforms' as tech jargon, but it is actually the key to growth for modern businesses.

The Sowerby team are here to advise you on your technological needs, both software based and further reaching.



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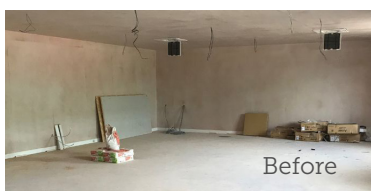
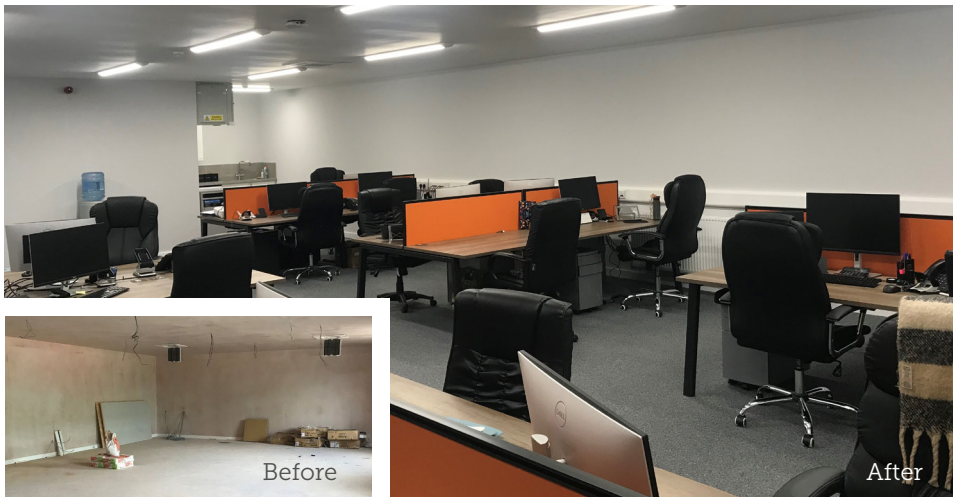
WHAT'S HAPPENING AT SOWERBY...

It's been a busy few months at both our Beverley and Goole offices! The building works are coming along nicely at Beverley as you'll see below, and we had lots of festive activities and fundraising at both offices in the run up to Christmas. We're also planning ahead for new networking activities and a big fundraising challenge – find out more in the 'What's to come in 2024' section below!

BUILDING WORKS UPDATE

Some of you will have seen our previous updates regarding our building works at the Beverley head office. We're delighted to let you know that the rear extension is now complete! The accounts team have moved in, and apart from a few finishing touches to tidy up the room, everything is finished.

We've also had a major renovation of our toilets; updating the existing toilets and creating more, which now look fantastic.



The extra office space will now enable us to continue with our expansion plans as we are always looking for talented professionals to join our team.

We've also started on the extension at the front of the building, which will house two new meeting rooms. This will hopefully be completed by the Spring.



CHRISTMAS FUNDRAISING

We ran various fundraising activities during the festive period, including a Festive Bake Sale at the Beverley office which raised £65, and a Hamper Raffle at our Goole office raising £146, with all proceeds going to our 2024 charity challenge (see below for details).

The team also made a great effort to help those less fortunate at Christmas by donating presents to the Cash for Kids 'Mission Christmas' appeal and the Goole Toy Appeal. Well done to the team for your contributions! (See photos on next page).





YOUNG FARMERS PUBLIC SPEAKING DAY JANUARY 2024

We recently sponsored the Public Speaking Day organised by the Young Farmers at Beverley Racecourse. This is an annual event full of competitions and gives the members a chance to develop their skills at applying for jobs, public speaking, reading, debating and much more. With our strong client base of agriculture businesses we love to get involved in these type of events, so if you have one coming up do let us know.

Many thanks to our Director, Adam Welbourne, for attending the event and judging the Situations Vacant competition.

WHAT'S TO COME IN 2024...

Breakfast Seminars

We're excited to bring back our breakfast seminars once all of the building works are complete at our Beverley office. We're hoping to launch these in the spring, so do keep an eye on our social media channels or your inbox for more information in the coming months.

Driffeld Show

Once again we will be having a stand at Driffeld Show. This year the show is taking place on Wednesday 17th July, and we hope that you'll come and join us for a drink if you're attending the show. Let's hope we don't have a repeat of the torrential rain of last year!

2024 Charity Challenge

We're delighted to announce that our charity challenge for 2024 is Trek26.

This will be held on 1st June in the Lake District, and the team will be walking 26 miles to raise money for the Alzheimer's Society.

We'll be setting up a Just Giving page shortly, for which any sponsorship is greatly received.

We'll share more details in our next newsletter and on our social media pages over the coming months.

If you'd like to be kept up to date with Sowerby news, you can follow us on LinkedIn, Instagram, Twitter or Facebook.



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