

# Rumford Club Webinar: Make Innovation Pay - Video Transcript

This is a video transcript of what was discussed by Cameron within the webinar. It has been broken down and correlates with the slides within the webinar. The Q&A can be found at the end of this document in the same format.

## Introductory Slide:

**Pat Churchard:** Good afternoon. This is Pat Churchard. Welcome to something of a first for the Rumford Club but this afternoon's webinar was suggested as a substitute for the club dinner in March. You'll recall it was cancelled because it was an early victim of the start of Covid-19 lockdown. Before we start I'd like to thank CIBSE and Richard Howard for hosting this event and their assistance in setting it up, also to Seb Gray who's done a lot of work in the background to get this thing up and running this afternoon. Now I'd like to introduce the speaker this afternoon, Cameron Foley.

Cameron was due to speak at our dinner in March and he kindly agreed to take part in this venture into the virtual world this afternoon. Cameron is chief operating officer for Invennt, a company specialising in innovative ways to add value to the construction process. You will have seen from his personal bio that in the past he was operations director for Skanska Rashleigh Weatherfoil. So he comes to us with M&E qualifications so to speak.

Today he's going to talk about how the mechanical and the electrical sector and the benefits that can be derived from research and development, sometimes carried out in the normal course of business but he will talk about that as we sort of go on. Traditionally, speakers are questioned by Rumford Club members at the conclusion of their presentation. Today is no different but in a rather different format. On your screen you should see a panel containing a facility to write questions as Cameron goes through his presentation. At the end of his presentation I will put your questions to Cameron and we'll see how we go. With that, over to you Cameron.

**Cameron Foley:** Okay thank you very much Pat. Good afternoon everyone and thank you to Pat, the Rumford Club and all of you members and also CIBSE for inviting me along to present. It's not quite how we'd planned it Pat but it's good to make it happen online anyway. So Wi-Fi permitting I'll be presenting on a topic that could help the bottom line of your business and that can only be good news in these difficult times.

My background is actually in contracting and I've spent the past 30 years, also with Skanska working in various divisions, including the building services division and that was prior to joining Invennt a couple of years ago.

## **Slide One: About Cameron Foley**

I started out in civil engineering or more specifically the foundations and geotechnics elements and then I had a couple of years working for Taylor Woodrow and that was with Tim Fitch and Brendan Morahan who are actually the co-founders of Invennt. The most relevant part of my experience as Pat mentioned is when I was working for Skanska Rashleigh Weatherfoil as operations director. It was actually a favorite time during my career because I got to learn and understand a lot more about building services and we were working in the public construction field and we were building hospitals, schools, prisons and military bases and it was a really steep learning curve for me but that's where my appreciation for building services really began.

Particularly with the complexity of bringing a building to life by integrating so many systems, it really fascinated me and I became a fan of what you all do on a daily basis. My last job in Skanska was as MD of the public construction division and I was responsible for quite a large portfolio of projects, worth well over a billion pounds and there are projects such as Royal Packworth Hospital, Great Ormond Street hospital phase two, the new AstraZeneca global headquarters in Cambridge and the Bristol schools local education partnership and on those diverse projects I always made sure that our building services colleagues were front and center of everything we we did because as we know a building without services is just some steel and glass heaped on top of each other and there's not much use until that switches through.

## **Slide Two: Why I am speaking to you today**

So I've been asked to present to you about how we've helped a number of our building services colleagues through their businesses by claiming R&D tax credits. Now some of your day-to-day activities may well be classified as research and development and some of the costs associated with those activities may also qualify for R&D tax credits and we've been helping a number of our building services clients to claim back R&D tax credits through uncovering qualifying costs.

## **Slide Three: Introduction to Invennt**

Quick introduction to Invennt. There's a team of 16 of us and the first thing to say is we are not tax accountants but we are all construction specialists in our fields. Tim Brendan and I, we've got just over 100 years of construction experience between us. I'm sure they won't mind me saying that but that's also supplemented by our team who have a mix of academic and project experience and that also helps us to dig a little deeper when we're working with you to uncover those qualifying activities on those projects that we identify.

## **Slide Four: Who we are**

We're a specialist business consultancy, we only operate in the construction sector. Again we've got offices in London, Toronto and Dublin and we're always challenging ourselves to create value for our clients of which we have over 60 from tier ones to specialists

### **Slide Five: Our Mission**

and we aim to help businesses achieve their goals and we generate the momentum and drive to succeed. One way of creating value that we've worked hard on to understand is the R&D tax credit scheme which is again administered by HMRC and the government themselves.

### **Slide Six: Our Vision**

We've had lots of negative press within our industry and actually we're our harshest critics I think but if you look around the built environment we've achieved some fantastic results by working together and we want to celebrate that and bring it to everyone's attention and that's why we want to be at the core of a positive construction sector. Lots of negative press around projects being late and all the running but we want to celebrate the built environment and we're a voice where we try and create that drive and positivity around the sector.

### **Slide Seven: What we do**

So as Pat was saying, one of the four core offerings that we've worked really hard to understand is the R&D tax credit scheme which is operated by HMRC and what we've done over the last three or four years is translate the very complicated definitions within the biz guidelines and the tax authority's definition of R&D and what we've done is we've studied it, we've analyzed it and we've applied it to construction. So what we've done with contractors, engineers, consultants, architects and others within the construction sector is to help them understand the type of activities that they could be claiming for under the research and development arm because believe it or not we all do it in day-to-day work, there are lots and lots of instances where we are overcoming technical challenges and we are solving problems all of which as I'll come to later as described by HMRC. So since we've been doing this we've uncovered around about 42 million pounds worth of qualifying cost for our clients, which sits directly with them in their pockets at 16 million pounds and we have a report that we published with the IC Mind the Gap and we as a business because the fact that we are construction experts and we can question in a certain type of way we can dig a little bit deeper that we we get a great result for our clients and they're claiming just over 40 percent more than the average tax claim. We always approach with a conservative viewpoint but even still we are able to achieve some fantastic results for our clients.

### **Slide Eight: An introduction to R&D tax credits**

So I'll just give you a brief introduction into the R&D tax credit scheme. I have a couple of work examples and it just gives you a flavor of some of the activities that we have been successful in claiming for our clients, particularly around the building services elements and that may get you thinking about some of the activities and day-to-day elements that you carry out that may mirror or you may recognize some of these aspects and that might get you thinking about if you aren't currently claiming then that might get you thinking about claiming and if you are claiming, that it might get you thinking about whether you can claim a bit more or not.

### **Slide Nine: What are R&D tax credits?**

So just to set the scene. So research and development tax credits, they're actually administered by HMRC and they were introduced by the UK government in 2000. So the tax credit scheme is 20 years old. The UK government actually pinched it from Canada. Canada had been operating it for about 15 years beforehand and the UK government took it on board and it's actually designed to encourage innovation by allowing businesses like yours to reclaim some of the money that has been spent on developing new or improving existing products, services and processes. So it's quite a wide and varied description and it's really about understanding that and focusing on what those descriptions really mean. As you can see on the right hand side UK businesses claimed just around three and a half billion pounds in tax relief during financial year 17. That number is continuing to rise and it continues to rise I'm pleased to say in the construction sector but that's mainly through information, education, training and understanding from businesses like ours who can assist, help you weave your way through the minefield of language that's used and we tend to simplify and play it back to clients in language that they understand, which is a construction language that we all know and love.

### **Slide Ten: The opportunity for Construction**

So what's in it for me. If you are a loss-making business then you can claim for around about 33 pounds in every 100. So it's about 33% that you can get back that you've spent on qualifying R&D expenditure and that's a key thing. It has to qualify and it has to be linked back to the definitions that HMRC have published. If you are profit making then you can claim around about 25% on your corporation tax bill. Both schemes are extremely generous. There is another scheme which is for large businesses and those large businesses it works out at nearly 12%. So in terms of the benefit that businesses receive back it's quite generous. It's quite generous actually in terms of being able to claim back for that qualifying element.

### **Slide Eleven: R&D according to HMRC**

So in terms of language. So research and development according to HMRC is any project that seeks to extend overall knowledge or capability within that field. So within the building services sector this is about pushing knowledge and capability. This is about clever engineers sat in rooms thinking about overcoming a technical challenge or complexity. This isn't about overcoming your run-of-the-mill issues. This is about overcoming something that really makes you sit in a room and scratch your head. It's also any project that uses science or technology to duplicate the effect of an existing process material or product in a newer improved way, that's a bit more techy. Normally that's when businesses pair up with academia in order to explore new and challenging ways of delivering services for their customers or their clients. We tend to uncover less qualifying cost in that element only because at the moment construction is not partnering with academia in the way that for example pharmaceutical industries or other industries are. We tend to find that most of the qualifying expenditure or qualifying cost sits within the processes or services that extend the knowledge or capability or that are making appreciable improvements.

So the extension of knowledge, the creation of a process or service extending that knowledge or any appreciable improvement to an existing process material or service and by appreciable improvement that's not it's a bit more than a tweak, it's it's a significant improvement in what you do and how you do it and how that's delivered to the end user but as you can see the descriptions are fairly generic but that's where we need to dig a little bit deeper into that.

### **Slide Twelve: How is this relevant to construction**

So in terms of relevance to the construction industry and particularly the building services industry. What you do every day is solve technical problems, now that's not to say that every single project that you work on can qualify for R&D expenditure and therefore be subject to a tax credit claim. This particular projects where you are specifically developing or improving the methods either the materials, the use of plants or design and particularly including temporary works, where swapping in and out kit or retrofitting 19th century buildings where today's modern regulations make it difficult to fit that kit in and make it perform as it should perform, particularly where you're trying to achieve BREEAM excellent or you're trying to achieve a higher than usual specification the lead platinum or the new well-being standards from the World Building Standards. So your three words that we tend to use when we're talking to our clients about the R&D tax credits is easier, safer, greener. If you are making life easier, safer or greener for your clients and that means looking at different ways of tackling how you do what you do and how you do it and advancing those solutions through the development of bringing different systems using different materials in different environments all together to achieve the end goal and that end goal is something slightly out of the ordinary, then some of that activity could qualify for R&D tax credits.

### **Slide Thirteen: Claims by construction companies**

As I said earlier on this is about information, education and training of our industry and construction sector companies or related companies, it's a huge proportion of UK PLC, it's in terms of GDP it's in terms of direct contribution it's around 7%, probably in terms of indirect contributions nearer 10% or 11% but as you can see it's a very small percentage of claims that are made in the construction sector. Historically pharmaceutical businesses and I.T companies have had the lion share of R&D claims over the past 20 years. The number of construction claims has steadily increased over the last three or four years as more and more businesses become aware of the tax credit scheme endorsed by and run by HMRC and it's really up to businesses to challenge themselves as to what they do and how they do it on a day-to-day basis to see whether or not that they can take advantage of this and particularly what we've noticed at the moment is that the the claims are coming through very quickly. We are having claims submitted and then paid within a few weeks at the moment and given what's going on with government funding across the whole of the UK, across particularly the services sectors is quite remarkable so we would obviously encourage you to try and understand a bit more about that and to stake your claim where appropriate.

## Slide Fourteen: Qualifying expenditure is comprehensive

Just go through what expenditure or costs can qualify. So there are six main headings but the lion's share of cost that we uncover is indirect staffing costs, particularly on the SME scheme because most of the time you have clever engineers sat in a room understanding a technical problem, unlocking new technologies bringing system uncertainty together and making it more certain. You're researching for the environment that you are installing services within and you are sat in a room generally walking through these difficult technical problems, some of these are run-of-the-mill. You would claim some of these are not run-of-the-mill and it's the more challenging difficult aspects that that we would press you on and perhaps they would be more akin to an R&D tax credit claim.

You can also claim for subcontractors but they can be claimed at up to 65% of their direct cost. So again that's quite generous. You can claim for indirect staff or externally provided workers as it's called and that's where you have maybe on a project you employ a specialist. Maybe a fire specialist or an acoustician or a sub-consultant that maybe a one-man band if you like that you employ on a particular job you can claim again you can claim some of their costs back at 65% percent and there is an application of overheads that is allowable within that as well so you can pick up some of the finance team for example the estimating team, some of the engineering staff because they're all contributing indirectly to the overcoming of a technical issue.

In fact estimating is a is a key area because if you think about it you may get a tender in from a client to price or if you're designing something and you have lots and lots of iterations involving lots of different people and you may not win the job or you may choose to scrap the design but the time has been spent so interesting enough if you capture that time or make a reasonable effort to capture that time, then some of that cost can also be recovered. The other thing is about materials as well, if you are building mock-ups or prototypes to test a system or to understand the process in terms of construction. Then as long as the materials aren't incorporated into the final works, then that's something that can be claimed for as well.

So if you're a business that does lots of mock-ups or prototyping even again if it doesn't go to market or it's just scrapped that doesn't matter. The fact is that you've expended that time, cost has been incurred and some of that cost could be claimed back on an R&D tax basis. So HMRC have a time limit on claims and you have two years from the accounting period end so we can go back essentially two years to claim for any activities or projects that have been identified. Now HMRC, they understand that normally what they want to, the holy grail is contemporary records, now businesses that we deal with vary from one end of the scale to the other. Some have zero records, others have fantastic records but HMRC recognized that and certainly for the first claim or two if you're at the poorer end of the scale then that's fine because you can estimate time a reasonable estimation of time spent is acceptable although what you have to do is you have to take steps to make sure that you're moving to the other end of the scale where you're keeping sensible reasonable records.

### **Slide Fifteen: Example Claims**

So just to help understand or put a more practical angle on some of the language that I've been using. I've just got three examples where we've anonymized some of our clients claims, these have been successful claims that we've completed and they've been paid by HMRC and we continue to make a claim year on year. There's no limit, whilst there's a limit going back, there's no limit going forward so you can continue to make claims, R&D claims year on year on year on year. So there's no, there's no limit on that.

### **Slide Sixteen: Case Study 1, MEP Engineering Practice**

So just to give you a bit of a background. So normally building services is quite good ground for innovation, certainly in line with the definitions within the guidelines and we had a building services client that we claimed for and they were retrofitting equipment into an existing building, this was to BREEAM Excellent Standard. So apparently there are less than 10 buildings in the UK that achieve those standards and particularly when you have to retrofit into an existing building where as we all know ducting has only got larger, kit seems to be only getting bigger so to retrofit back into meeting specifications to meet BREEAM Excellent, you know that was quite a challenge so they they looked at and investigated low carbon systems because of course the floor to ceiling heights again were lower so there was constraints that they had to manage through. I talked earlier about bringing different systems together, another analogy might be if you take for example a mobile phone, you can buy all the component parts off the shelf, they're mainly using the same components but it's how you put those components together and as we know there are a number of different smartphone providers around the world and they put their patents together but they're all using the same equipment but it's about how you put them together to create something that's new and different, this is what this MEP business did and this was about retrofitting so that's one element of claim so where you can retrofit into existing buildings is something that may or may not provide you with a challenge but it's something to think about.

### **Slide Seventeen, Case Study 2, Engineering Design Practice**

We had a building services design practice and they were looking at a whole series of regeneration projects but particularly there was a sustainability aspect, to remember easier, safer, greener, so this is about the greener aspects and there was design services procured for a large regeneration project where there was lots of modelling of effects for the energy efficient heating and cooling systems particularly in and around the meteorological effects and then how you integrate lots of multiple controls into a single building system. There's lots of trial and error, prototyping, lots of back analysis and modeling involved here and this involved obviously integrating the meteorological conditions and the integration of energy management systems including the various different types of plants including ventilation into the single building management system now that again was another successful claim, we're not going into too much detail here because it's these are high level. This is just to get you thinking about what you do, how you do it and the sort of elements that you

could claim for and there are certainly elements within these engineering studies that we claim for that were successful. It's not the whole element; there were parts of the project that we identified that were certainly worthy of the R&D claim.

### **Slide Eighteen: Case Study 3, M&E Contractor Consultant**

The third study that we have again. It's a building services contractor and they operate as a consultant as well and they had been testing and trialling the distribution of low voltage DC energy within a building and they were testing trialling the use of DC power and they had installed test panels and actually installed it into a building where they were doing lots of testing, trialling, recording of results data and looking to deploy that technology in an energy efficient manner. So because those activities it was certainly looking at expanding, we talked about expanding knowledge and understanding in that field, that's what they were seeking to try and do and during the recording of the the performance of those systems there were some very pleasing results that we were able to capture and put into a successful R&D claim.

### **Slide Nineteen: Invent tax credit claims in numbers**

So just to move towards conclusion. So in terms of the tax credit claims we've said before there's some numbers there. We've been doing it for three or four years within the built environment. It's beginning to be much more widely understood by contractors and particularly building services engineers and that will continue. It will only get better, the schemes are getting more generous and with successive governments and successive budgets the percentages that you can claim have only increased. People have asked me before how long do you think this is going to go on for, we don't know but in the last 20 years there's been successive governments that have one; they've kept it and two; they've made it more generous. Every time there's been a change to it, it's been a more generous change so you know the gauntlets thrown down there from the UK government.

If you can generate R&D, if you can make UK PLC a more successful place, if we can generate more business, if we can attract more businesses to come to the UK and spend their money, then that's something that the UK government is prepared to pay you back in in R&D tax claims or R&D tax credit. So it's certainly something that's worth thinking about. Like I said before it's operated by HMRC, the benefits you can take in corporation tax credits going forward or you can take the benefits in cash, there's a number of different ways to take it and your FDs should be able to help you out with that as I said at the beginning we're not tax accountants but we understand the HMRC guidelines. We are construction experts but we do partner up with tax experts who help us to check what we do and how we do it but the value that we bring is the construction knowledge we have. We are able to dig a little bit deeper into the questioning and the uncovering of the qualifying elements of cost because we have that construction knowledge



## Slide Twenty: Thank you for listening

So with that please have a look on our website and thank you for listening, it's been an interesting unusual experience for me doing this on the web and with that Pat I'll hand back to you if I may.

## Q&A

**Pat Churchard:** Thank you Cameron that was really quite absorbing. Thank you very much. So far I've got a couple of questions come up on the screen. One from Seb Gray who's asked; how has the Covid-19 lockdown affected R&D credits this year?

**Cameron Foley Answer:** Yeah it's a very pertinent question. Thank you. Now interestingly enough as I briefly mentioned Covid-19 has had a positive effect on the time, the timing and the time scales of which HMRC are working to. They've done a tremendous job in getting themselves equipped and ready for all of the issues that they're having to deal with and that was a concern of ours. We thought that this might slow down the claims in terms of the time scales but in actual fact what they've done is they've looked at it in a pragmatic way and really understood that quite a lot of businesses rely on these R&D tax claims to help or boost their profits and clearly in today's environment this huge uncertainty they've actually stepped up to the plate and they've been I think they've been excellent over the last few months certainly during lockdown in reviewing the claims and paying out in a timely manner so my hat goes off to HMRC for for really helping out and that of course generates better income for for our clients that have claimed for these tax credits and they're pushing them through very quickly so I've been very impressed with HMRC so far with how they dealt with these claims.

**Pat Churchard:** Actually that leads on to another question from Andy Hastings asking; how long does it typically take to get the money?

**Cameron Foley Answer:** Yeah it's all about the money isn't it? It's typically what we what we're used to is we've seen typically about eight to ten weeks from submission of the report. So what happens is there's some information generated from your business and normally that's information that is already in your possession so we don't ask you to go away and write up anything other than information that you've already got in your possession. We have a look through it because we can read drawings, we can read method statements, we understand all that, we put together a report which is generally about 30 to 40 pages and what happens then is that report is then submitted to HMRC and from that point we've experienced eight to ten weeks typically before you get your money but recently just leaning on from Sebastian's question the fact is that it's been four weeks. It's been tremendous. so yeah typically eight to ten weeks but oddly during Covid-19 it's been a lot faster than that.

**Pat Churchard:** Okay thanks. Roger Hitching asks; is there a requirement to demonstrate that there has actually been a benefit?

**Cameron Foley Answer:** Only insofar as there needs to be a demonstrable outcome. So when we look at businesses and we're trying to uncover qualifying elements. What we're looking for is an improvement, we improved by you know 10 or 30 in terms of other energy efficiency or waste management or something, we we like to see a either an increase in efficiency and what tends to work is percentages for HMRC, they like to know that we started there, we did all these things and we've improved it by x. So that's what we try and tend to look for, as I mentioned before you're either at one end of the scale or the other in terms of record keeping and that is important when you're getting into your third fourth and maybe fifth claims because HMRC want to see an improvement in your own systems and processes to make sure you're capturing the necessary information and data but at the beginning we can help to put you on the right path for that but it's about uncovering that information in the first place

**Pat Churchard:** Thanks. I hope I'm saying your name right, so Zohan Duran asks; to claim R&D do you need to spend a minimum amount on R&D?

**Cameron Foley Answer:** No, the truth is that the qualifying cost is the qualifying cost. It can be as little but obviously there's very little point in claiming for £3.50. You wouldn't necessarily make a claim for a small amount of work because it's effort versus reward and if there's high effort, low reward then perhaps as a business you would think it's not worth us claiming but that's something again that businesses like us we offer that service where you have what's called a discovery workshop and then that uncovers the type of activities that you that you're carrying out and then we can quickly put together some rules of thumb and work out what the claim could be and then that's put to you and it's up to the business whether they want to pursue it or not and generally there's a good balance there between effort and reward and that's what we look for.

**Pat Churchard:** Okay. Question from me. Do you have to declare R&D early on in a project or can it become a claim sort of post project completion?

**Cameron Foley Answer:** Most of the, probably first second and third claims that we do for business are post and that's what we mean by we moving to a better system of record keeping is trying to understand and identify pre is always better but if you can identify and post is fine but it's always better if you can get to a point where again through either information, education or training of your staff within your business that they understand actually 'crikey yeah this is a bit out of the ordinary, this is a bit unique, there are a number of elements here that meet the criteria for R&D tax credits and therefore will flag it as an R&D project' that's the ultimate the ultimate goal.

**Pat Churchard:** Okay thanks. A question from Andrew Bowler. Can costs incur during tendering also qualify?

**Cameron Foley Answer:** Yes you can Andrew and quite often we find that there's quite a significant amount of cost within the tendering process that does qualify because if you think about your strike rate, if it's maybe if you're winning one and four as an example, the other three that you've lost you've still put in the same amount of effort into understanding the client's brief, putting a scheme together and developing that to a point where it can actually be built and that time is not wasted time. In the R&D tax credit land shall we say because some of that time could be qualifying depending on the type of projects that you're working on so yes absolutely the tendering process does qualify. If I can just make a quick point Patrick. The one of the key criterias is that you need to be a limited company and we know that there are a number of building services companies that are LLP's, unfortunately as an LLP you cannot claim but if you are a limited company then you can claim. We just wanted to make that very important point.

**Pat Churchard:** Yeah that could be quite some important for consultants particularly

**Cameron Foley Answer:** Yes

**Pat Churchard:** Okay although I have no more questions on my screen. With a little bit more time if somebody wants to quickly type one in.

No okay. Well Cameron thank you very very much for that. That's been quite an interesting afternoon. Thank you on behalf of the Rumford Club. It's a very strange way of organising a meeting and everybody's sitting there isn't that real direct communication unfortunately but nevertheless given all the circumstances we're living through at the moment I think it's been quite a good way to do things. So on behalf of Rumford Club thank you thank you very much and at that point I'd like to bring things to a conclusion. The sound of cheering. Andrew the dinner was good [Laughter]. Yes yeah sorry about that maybe next time. Thank you one and all. Thank you.