



Manufacturing

Specialist Manufacturing Accountants

Newsletter

Winter 2017

Introduction

Welcome to our Winter 2017 manufacturing newsletter.

In the wake of the EU referendum result, and with Britain still waiting for Article 50 to be triggered, there is an air of uncertainty still surrounding British manufacturers. In this article, we look at a key issue within the sector – the skills shortage – and how manufacturing is evolving with technological advancements. We also look at the Making Tax Digital plans and how it may affect you, as well as what the Autumn Statement means for the manufacturing sector.

In this issue, we look at:

- Manufacturing and engineering suffering skills shortage
- Technological advancements in manufacturing
- Making Tax Digital
- Rising wage costs for employers
- Autumn Statement
- What is Cloud accounting and what are the benefits?

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.



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Hawsons are specialist manufacturing accountants

Hawsons has a dedicated team of specialist manufacturing accountants. Our specialist team offers a wide range of services which are tailored to meet your individual needs. Our understanding of the issues faced by the manufacturing businesses means that we can proactively seek out ways for you to maximise your profitability and minimise your tax liabilities.

Our specialist team acts for a large number of manufacturing organisations across each of our Sheffield, Doncaster and Northampton offices. For more information on our manufacturing expertise, including the services we offer and our experience, please visit:

www.hawsons.co.uk/manufacturing

Manufacturing & engineering suffering skills shortage

According to an industry report, struggling to recruit skilled workers is one of the sectors key issues currently and, as a result, Britain's manufacturers are struggling to keep pace with global technology.

Productivity growth will continue to be put at risk if a skills shortage carries on in the sector, according to business group EEF. Coupled with a skills shortage is the pressure on UK manufactures as they deal with a host of pressures in both domestic and international markets.

Difficulties in finding the right workers in the last three years has been a persistent issue in the manufacturing and engineering sector, with three-quarters of companies suffering as a result, according to business group EEF. The forecast for potential productivity (what workers can produce in an hour) has been cut by the Office for Budget Responsibility (OBR). This has led to warnings of damage to wages, living standards and government tax receipts.

Lack of applicants and lack of skills

Following steel plant closures, tough export markets and turmoil within the gas and oil industry, the manufacturing sector has slumped into a recession. The ongoing struggle to find skilled workers is only compounding the current issues in the sector, according to EEF, and it predicts that the demand for the right people with the right skills will only increase.

Technology in the manufacturing sector is increasing at a rapid rate, with the World Economic Forum suggesting that advances in technology such as 3D printing and robotics could potentially put 7 million jobs at risk. However, with the increase in robotics and 3D printing, there is now a demand for workers with niche skills such as programming.

According to an EEF survey, as many as 64% of manufacturers said there were an insufficient number of candidates while two-thirds of manufacturers cited a lack of technical skills.

Government figures show that the number of hard-to-fill job positions remained at 35% in 2015, which is unchanged from 2013 but is, however, worse than in 2011 when it was at 30%.

Brexit

With the UK's decision to leave the EU, it does spread uncertainty throughout the sector, with many manufactures sourcing talent from the EU. Imported labour is a key aspect in the sector, and many businesses rely heavily on importation of skilled workers due to the lack of skilled workers in the UK.

The manufacturing and engineering sector will need to adapt to marketplace changes in order to overcome the ramifications of leaving the EU.

It's not all doom and gloom

Organisations are taking great steps to engage with the likes of schools and universities which is already increasing young people's enthusiasm for advanced manufacturing. Furthermore, by offering more apprenticeship schemes, it can provide a great learning platform to help create a more prepared and qualified workforce and are often open to grants.

Students are now envisaging a career in manufacturing largely down to the more positive image of manufacturing and engineering, with the use of cutting edge technology creating more excitement among young people and changing people's expectations of the sector of just traditional factory work.

By shaking off the historic perceptions of the sector (factory work etc.) will only increase young people's enthusiasm for pursuing a career in the manufacturing and engineering sector.

Technological advancements in manufacturing

The manufacturing sector is going through a technological revolution, with more and more businesses taking the plunge into investing in new technology. In this article, we look at the technologies that could have the greatest impact on factory environments. It is logical to assume that, with today's modern cutting-edge capabilities, that factories could be heading for a more data-driven factory of the future where consumers, operators and designers will all share information on everything from initial concepts right through to installation.

Operators could access all and any materials on demand, and work with robots to use them safely while relying on virtual instructions via headsets or glasses. This will then in turn enable assembly lines to produce high quality work, highly personalised products that have zero defects. Below we highlight some of the technologies that are already driving much of the change in factory environments:

3D printing

Rapid advancements in 3D printing have led to UK manufacturers exploring the use of the technology in production, but what really are the possible benefits of 3D printing? Here we look at customisation, cost, flexibility and speed to market. 3D printing is certainly not new with the technology first appearing more than 25 years ago. Advancements in 3D printing continues to gain pace as manufacturers look for greater flexibility and cost-savings in production, and the technology is now being embraced in a range of manufacturing industries. 3D printing could be the key element in determining whether or not many manufacturing businesses will flourish or fail in the future. Research indicates that 3D printing is revolutionising manufacturing as we know it, which will see companies being able to fulfil consumers' desires, creating personal specifications on orders without significant time or cost constraints.

As the cost of the technology continues to fall, 3D printing now has the potential to fundamentally change the economies of scale for the smaller, pioneering companies, opening up considerable opportunities for innovation and growth.

3D printing is set to revolutionise how we manufacture

It is therefore important that all UK manufacturers, whether they are a small independent firm or a large firm with an international focus, start to consider the benefits of 3D printing and the impact it may have, and is likely to have, on manufacturing over the next few years.

1. Customised, personalised manufacturing

With standard, mass-production it is often too complex and too expensive to customise and personalise production. 3D printing will make this process much quicker and more cost-effective, benefiting both the manufacturer and the customer. Customised manufacturing may be particularly beneficial in the healthcare (e.g. dental) and fashion (e.g. jewellery) industries, meeting demand for bespoke products.

2. Cost-effective production

3D printing undoubtedly offers manufacturers the potential to considerably streamline their manufacturing processes and, in turn, also brings huge financial opportunities. Through reduced machine set-up time and reduced tooling costs, 3D printing can significantly reduce the cost per unit, particularly for small production runs which do not gain cost advantages through scalability. This is becoming increasingly important; a recent report found that 51% of SME manufacturers are seeing customers request orders in smaller quantities. Manufacturers must strive to make small production runs more profitable.

A product that is likely to have a short production run, or where there is uncertain demand, is sometimes overlooked by manufacturers due to the high up-front tooling costs of production. 3D printing would dramatically change this.

3. Greater flexibility in production

3D printing will also give manufacturers greater flexibility in what materials they use during the production process.

4. Reduced speed to market

3D printing may also give manufacturers the opportunity to compress design cycles (e.g. through identifying design errors earlier) and reduce the time it takes to take a new product to market. 3D printing allows development ideas to progress faster than ever before.

Rapid prototyping can see designers have a prototype in their hand in just hours, not days, weeks or months.

Whilst there are clear benefits of 3D printing, the technology also brings challenges such as the potential cost of initial set-up and the possible problems that mass customisation may bring (too many options could overwhelm customers).

It will be interesting to see how many manufacturers adopt 3D printing approaches in the coming years and how that influences customer demand and buying patterns.

Continued...



Internet of Things (IoT)

The concept of having a factory that is 'connected' has been gathering pace over the last few years. It essentially means expanding the ever-growing Web to link machines, computers, sensors and humans to improve efficiency by enabling new levels of information processing, monitoring, collection and analysis.

By incorporating this into factory life, it allows more precision and can translate all the data the devices collect and turn it into insights that can help determine multiple things such as; how much voltage is needed to produce a product or how temperature, humidity and pressure can impact performance.

Before businesses can invest in IoT, it is essential that the said business figures out what is most important to them and which information will be vital to future success. In addition to this, these next-gen devices will also require next-gen workers who have the ability to work with and understand complex machines but, with a shortage of skilled workers, this may be difficult.

Robotics

Robotics have played an important role in the line of manufacturing and, over the last decade, China has emerged as the automated manufacturing powerhouse. In China since 2013, the number of multipurpose industrial robots in China has doubled to an estimated 75,000 in 2015, and that number is set to double again to 150,000 by 2018, according to the International Federation of Robotics.

However, some manufactures believe that only humans can innovate and produce ideas and the introduction of robotics is harmful to the innovation process. Having said that, robots are being employed to support existing workers and not replace them, this is known as 'Cobotics'. It essentially means operators and robots working together to speed up the assembly process with a higher degree of quality.

Augmented reality

With the advancements in computer science and computer vision, information technology and engineering has enabled manufacturers to use real-time guidance and information to the point of use. Workers would simply use a pair of goggles which would have text, information and instructions displayed on the lenses for the worker to read as they perform complex tasks on the factory floor.

These goggles (or anything similar for that matter) enable the workers to carry out much more complex tasks and the augmented reality will allow for great precision and accuracy, as well as notifying the worker of the risks being imposed.

Of course, businesses would need to conduct a thorough analysis of their own factory, as well as their finances, to determine whether any of these technologies would benefit their business, or would just be an expensive mistake. Therefore, all businesses should contact a professional in the manufacturing sector before purchasing any new technology.

Making Tax Digital

HMRC have recently published six consultation documents on the 'Making Tax Digital' strategy – the biggest shake-up of the personal tax system in 20 years. These documents set out HMRC's plans to move to a fully digital tax system by 2020, with the aim of making the tax system more efficient. The government first announced the project in the 2015 Budget but has now provided additional details of the proposals for consultation.

The consultation documents

The six consultation documents cover:

- Bringing business tax into the digital age
- Simplifying tax for unincorporated businesses
- The simplified cash basis for unincorporated property businesses
- Voluntary tax payments in advance of liabilities being due
- Tax administration
- Transforming the tax system through better use of information



In summary

HMRC plan to make fundamental changes to the way tax reporting is carried out. Business owners and landlords will be required to keep records digitally and update HMRC more frequently than is currently the case. These reforms will be introduced from April 2018. By 2020 most businesses and landlords will have to use software or apps to keep their records and report to HMRC on a quarterly basis. Tax returns will be replaced by an End of Year declaration which will need to be filed within 9 months of the end of the period of account.

HMRC also intend to make changes to some of the underlying tax rules for businesses and amend HMRC's compliance and enquiry powers. This will include the introduction of a new regime for late submission penalties, late payment sanctions and proposals to align interest across taxes.

Those taxpayers who are likely to be exempt from the changes include:

- All unincorporated businesses and landlords with an annual income of less than £10,000;
- Charities and Community Amateur Sports Clubs (CASCs) and;
- Those who cannot engage digitally

Reaction

Craig Walker, Senior Tax Manager at Hawsons commented: "The proposals are radical and wide ranging, and clearly significant consultation is required. There are deep concerns within the profession and the business community that HMRC's plans are overambitious and unrealistic, the proposals will place additional burdens and costs on businesses, and the current timetable for implementation is unworkable."

"Although the concessions for businesses with income below £10,000 are welcome, much more still needs to be done by HMRC to address the legitimate concerns of businesses."

More on Making Tax Digital

Over the coming weeks and months, we will provide further details on the new initiative, commenting on the new consultation documents and what they mean to taxpayers and the personal tax system.

Rising wage costs for employers

National Minimum Wage

The national minimum wage has increased and came into effect on the 1st October 2016, after the government accepted recommendations for the new rates from the Low Pay Commission (LPC). The main National Minimum Wage rate (for 21-24 year olds) will rise by 3.7% from £6.70 to £6.95 per hour. This is an important issue for the manufacturing sector and follows the recent new National Living Wage, which was introduced in April 2016, and a rise in the National Minimum Wage in October 2015.

The main National Minimum Wage rate (for 21- 24 year olds) has risen by 3.7% from £6.70 to £6.95 per hour, as the table below shows.

	Current rate	Rate from 1 October
21-24 year olds	£6.70	£6.95
18-20 year olds	£5.30	£5.55
16-17 year olds	£3.87	£4.00
Apprentice rate*	£3.30	£3.40

*This apprentice rate is for apprentices aged 16 to 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage for their age.

The National Living Wage

From 1 April 2016, following the introduction of the new National Living Wage, all workers aged 25 and over are legally entitled to at least £7.20 per hour. This was, however, until the Chancellor delivered his Autumn Statement, where he announced that the National Living will increase by a further 30p from April 2017 to £7.50 per hour. The National Living Wage rates are set to increase gradually alongside rises in the National Minimum Wage, and is projected to rise to more than £9 per hour in 2020.

A four-step checklist for employers following the announcements is:

- **Know the correct rate of pay (including the National Living Wage)**
- **Find out which staff are eligible which rates**
- **Update the company payroll and keep an eye out for future announcements**
- **Communicate the changes to staff as soon as possible**

Moving forward – more compliance for employers

National Minimum Wage and National Living Wage rates will now change every April, as opposed to every October and April respectively.

This is a positive change, but does mean that the above rates will only be effective up until 31 March 2017.

Following the introduction of the new National Living Wage in April 2016, and the imminent increase of the NLW, this will see be the fifth round of wage increases (in some form) in just two years. It is therefore unsurprising to see that many small (and indeed large) business owners are finding running their payroll an increasingly complex and time-consuming task. The compliance obligation on employers has never been greater and there has never been a better time to consider outsourcing your payroll.

Autumn Statement

Philip Hammond delivered his Autumn Statement on Wednesday 23rd November 2016. His speech set out both tax and economic measures the government will implement. In this article, we summarise the key points arising from the Autumn Statement and focus on what the changes may mean for the manufacturing sector.

In summary (general)

- The government reaffirming the objectives to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of this Parliament.
- Reduction of the Money Purchase Annual Allowance.
- Confirmation of falling Corporation Tax rates to 17% from April 2020.
- Review of ways to build on research and development tax relief.
- Tax and National Insurance advantages of salary sacrifice schemes to be removed.
- Anti-avoidance measures for the VAT Flat Rate Scheme.
- Confirmation that future budgets will be in Autumn annually going forward.

In summary (manufacturing specific)

- Fuel duty frozen at 57.95p per litre of fuel sold
- £390m to be invested in low-emission vehicles
- Money invested in low emission vehicles will free up money for more EV chargers
- 100% of first-year capital allowance on the installation of EV charging
- £1.1bn to be invested in local transport networks in England
- Further £220m to address local traffic pinch points
- £1bn to be invested in digital architecture with the objective of making UK a market leader in 5G connectivity
- Insurance premium tax will rise from 10% to 12%

Autumn Statement Manufacturing Impact

Investment in the manufacturing sector

Chris Hill, Partner at Hawsons, commented: "In this year's Autumn Statement, the Chancellor spent much of the time reviewing spending and budgeting deficits. He discussed where government spending would or wouldn't be. Next year, larger manufacturers face various challenges post-Brexit with ever changing exchange rates and with the new Apprenticeship Levy which comes into force from April 2017."

What is Cloud accounting and what are the benefits?

Cloud accounting is the use of accounting software where your data and software is stored on the cloud rather than your hard drive. It can be accessed remotely from any device that has internet access, much like your internet banking. As your business grows, one of the key questions you will ask yourself is: “how can I prioritise my time?” and rightly so, with not having enough hours in the day is one of the key challenges many small business owners face. This is where Cloud accounting can help your business. Here are just a few ways where our online client accounting software can help your business:

Prioritise your time – online accounting brings new working practices. Bank fees that automate the postings into the software from entries on your electronic bank statement, the emailing of pictures of receipts on to your system and the scanning of supplier invoices all reduce the time in data inputting.

IT Services – The Cloud service providers deal with much of the IT maintenance such as the backing up of your data, installing software updates and this in turn reduces the need for on premise servers.

Flexibility – In today’s environment, people are mobile working outside of their office hours and away from their office locations, usually on mobiles or tablets or other devices. It is also essential that you can securely access business software and data as and when needed, wherever in the world that may be.

Moving to the Cloud couldn’t be simpler, working on the Cloud will give you the opportunity to reduce the amount of time you spend on tedious and time consuming administrative tasks, allowing you to concentrate on what you do best which is running and growing your business. After all, you started a business to run a business, not to be an accountant or a book-keeper. With Cloud accounting, you can do just that.

Our Cloud Accounting services

We will work with you to find out which Cloud accounting software best suits your needs. We work with a range of the leading traditional and Cloud accounting software providers:

- [Xero](#)
- [Sage One](#)
- [QuickBooks](#)

We will help you move to your new software and make the data transfer as automated as possible. Next, we will provide you with training on your cloud accounting software so you know how to use it efficiently and get the benefits as quickly as possible.

Ongoing Cloud accounting services

Once you are up and running we are available to help at any time answering any questions you may have. With your permission, we can log into the software at the same time as you and even take control of your screen to help you with any questions you may have.

How secure is the Cloud?

Charles Kavazy, Director of IT Services at Hawsons says: “It depends. Of course, that’s not a very helpful answer, but much depends on many factors including your attitude to risk, the nature of your data and the strength of the security including the processes carried out by the company hosting your data. Some people argue that storing your data on the Cloud can be more secure than storing it on your desktop or an on-site server. The level of physical and electronic security that Cloud service providers offer may be higher, depending on the risk involved, and the duplicated continuous backup processes of Cloud providers are probably going to be better than most businesses would implement.”

Wherever you store your data, there are always security issues, as Charles adds: “Most Cloud computing providers take great measures to ensure your data is safe, including backup power supplies, firewalls, data encryption software and regular, third-party security audits. They can also protect your data against floods and fires by having multiple servers in different locations.”

Charles summarises: “The Cloud service providers take great care to protect your data, but ultimately each business needs to consider its attitude to risk, the data being stored and the implications of a security breach. If you decide the benefits of the Cloud outweigh the risks and you are happy to accept the risk, then you need to ensure you choose your Cloud provider carefully and implement robust procedures to mitigate the risk of problems. For example, controlling access rights, regular password changes and training your staff on security risks.”



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