Manufacturing

Specialist Manufacturing Accountants

Newsletter
Summer 2015

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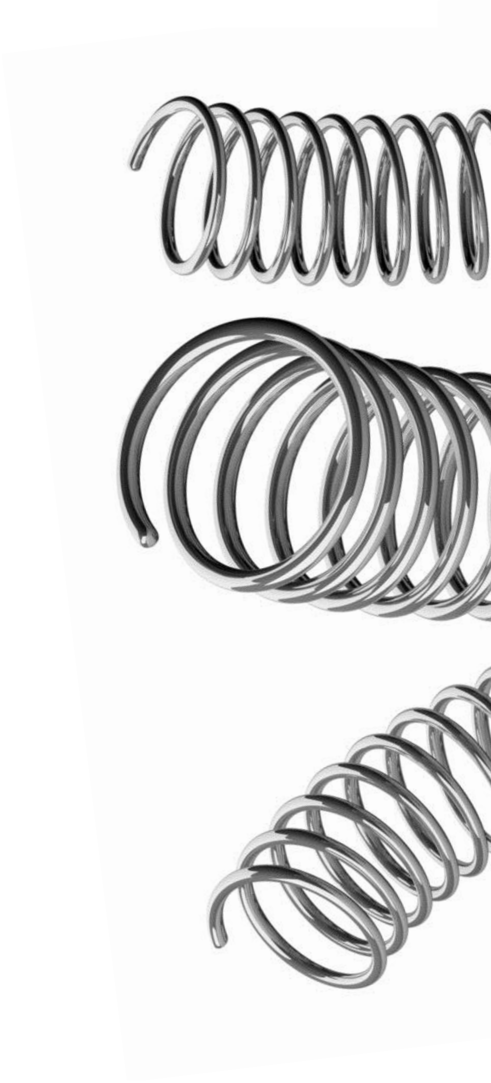

Introduction

Welcome to our Summer 2015 manufacturing newsletter.

Manufacturing remains one of the key sectors within the UK, and today many UK manufacturers, small and large, are upbeat about the future of the sector. In recent years the sector has become increasingly innovative, diverse and forward-thinking, with a strong focus on the research and development (R&D) of new technologies. However, productivity, fierce global competition and the growing skills shortage remain key challenges for many involved in the sector.

In this issue we look at:

- Manufacturers to increase focus on innovation?
- Strategic reporting for large and medium-sized manufacturers
- Skills shortage: the importance of retaining key employees
- Auto Enrolment – are you ready?
- Is 3D printing the future of manufacturing?

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**

HLB International

INVESTORS IN PEOPLE

Manufacturers to increase focus on innovation?

UK manufacturing executives see innovation as a pivotal part of their strategic focus going forward, according to the KPMG Global Manufacturing Outlook 2015, a survey of 386 senior executives, released earlier this month.

Key takeaways from the report:

- 50% of manufacturers say their strategic focus is innovation-led
- 32% cite the development of new products and R&D as a top strategic priority
- 30% say R&D inefficiency is their biggest challenge
- 41% of executives say their primary strategy for innovation is to pursue breakthrough advances
- 74% are willing to spend upwards of 4% of revenues on R&D over the next year

Innovation a pathway to future growth

Chris Hill, partner at Hawsons, said: "It is clear that UK manufacturers see innovation as a top strategic priority and ultimately as a pathway towards achieving and driving future growth and productivity. Manufacturers are increasingly looking for breakthrough innovations and technological advances and it is no surprise, given the pace of competition within the industry, that investment in R&D is expected to rise again this year. It is crucial, however, that manufacturers maximise their tax-saving opportunities."

Attractive UK corporation tax incentives

Stephen Charles, tax partner at Hawsons, said: "With the government fully supporting innovative businesses, attractive UK corporation tax incentives are now potentially available, from the costs of research and development through to the generation of profits, if the technology is patented."

"R&D tax relief is a widely available, yet often overlooked tax relief. Broadly speaking, the relief applies to companies undertaking projects which aim to seek an advance in science or technology. An important point to remember is that to claim R&D relief, you don't have to work in a lab or wear a white coat; we have submitted successful claims for a large number of manufacturing businesses and have experienced situations where the business did not consider claiming as a viable option. It is absolutely vital, whether you are developing a new product, service or process or materially improving an existing one, that you carefully consider all possible claims."

Speaking about another attractive tax relief, Stephen adds: "The patent box also provides a reduced rate of corporation tax for manufacturers and is one of the most generous tax incentives for companies exploiting patented inventions or certain innovations protected by patents."

For more information please visit hawsons.co.uk/research-development and hawsons.co.uk/patent-box

Strategic reporting for large and medium-sized manufacturers

All UK-incorporated companies are required to prepare a strategic report, as well as a directors' report, within their annual report unless they have an exemption. The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 came into force on 1 October 2014 and apply to financial years ending on or after 30 September 2013.

As well as all of the matters previously required in the business review section of the directors' report that must now be covered in the strategic report instead, the regulation also requires report preparers to place emphasis on the business story and understanding shareholder needs. The changes are intended to provide greater insight into the business through a clear focus on strategy, development and performance. The report should also provide a forward-thinking perspective and understanding of the principal risks and uncertainties facing the company.

All strategic reports must include:

- A fair review of the company's business
- A description of the principal risks and uncertainties facing the company

A strategic report should provide a balanced and comprehensive view of the company and, where appropriate, include analysis using financial (and non-financial for larger companies) Key Performances Indicators (KPIs).

Strategic report requirements

The following list summarises the Companies Act 2006 strategic report requirements for large and medium-sized companies.

The emphasis of the regulatory guidance is on telling the business story and understanding shareholder needs, with greater focus placed upon the context of the business and the long-term principal risks and uncertainties underpinning the business, as well as future strategic prospects. Small companies are exempt from the requirement to prepare a strategic report.

There are also a number of requirements that are mandatory only for quoted companies. Please contact us for further information on these.

- A fair review of the business
- Principal risks and uncertainties
- Analysis of the development and performance of the business
- Analysis of the position of the business
- Analysis using of financial KPIs
- Analysis using non-financial KPIs (large companies)
- Additional explanations of amounts included in the annual accounts
- Approval by the board

Providing a broader picture

Rather than meeting a detailed checklist of disclosures, as in the previous business review section of the annual report, a strategic report must focus on telling the business story and understanding shareholder needs. Preparing a strategic report could help manufacturers look beyond current year earnings and provide a broader picture of shareholder value creation in their annual reports. At Hawsons we understand the delicate balance between meeting our compliance objectives and providing you with a meaningful, efficient and comprehensive strategic report.

Please contact your local office for details.

Frequently asked questions

For more information on strategic reporting, including some of the frequently asked questions please visit www.hawsons.co.uk/strategic-reporting

Skills shortage: the importance of retaining key employees

Arguably one of the biggest challenges facing many manufacturers is the shortage of qualified, highly-skilled employees.

With a shortage already building, a recent report published by the Government office for Science forecast that there will be thousands of jobs to fill in the years up to 2020 as people retire or leave manufacturing. Many manufacturers are combating the looming skills shortage through increased training opportunities and apprenticeships, and making promising progress. However, it is essential manufacturing business owners also do their upmost to retain, encourage and support key employees already employed within their business. In this article, we look at why employee bonus schemes are widely used across the sector and how they could help retention.

Employee bonus schemes – a way to retain key employees?

Productivity and output bonus schemes: Productivity and output bonus schemes are frequently used in manufacturing. For example, 'piece work' – a scheme where employees are paid according to the number of pieces or units they produce. In these types of bonus schemes the benefits may extend beyond employee satisfaction and lead, potentially, to good productivity and good customer service.

Quality bonus schemes: Quality bonus schemes are also frequently used within in the manufacturing sector. One of the key reasons for this is that it is much easier to measure 'quality' e.g. using the number of defects found in a specific period of time.

Employee share incentives: There are also a number of share incentives that you may wish to use. The use of employee share schemes and share based payments can be a cost effective and tax efficient form of remuneration, particularly for senior management.

Important considerations

Although employee bonus schemes and share incentives can help to foster strong working relationships, in regards to retaining and incentivising staff, it is also important to also consider the potential disadvantages that they may have on your business. For example, over time employees may come to expect a bonus, seeing it as the norm rather than as an incentive. There are also possible consequences if the scheme fails to achieve the changes or actions it was intended or if the scheme is too onerous to implement.

It is therefore crucial that any employee bonus scheme is carefully considered, with a forward-thinking approach. It is advised that you seek advice on the suitability, implementation and any possible tax implications of employee bonus schemes as soon as possible.

For more information please contact your local office specialist.

Auto Enrolment – are you ready?

The onset of auto enrolment is affecting many manufacturers and it is crucial, if you haven't already, to start preparing now.

- You may already have been notified of your date by which time you are required to have in place a pension scheme for all your employees. This is your staging date.
- You may already have received a reminder to appoint someone in your company to be responsible for the implementation.
- You may already have an existing pension scheme that you feel "will do the job".
- You may think "it doesn't affect me".

Free workshops in Sheffield, Doncaster and Northampton (every month)

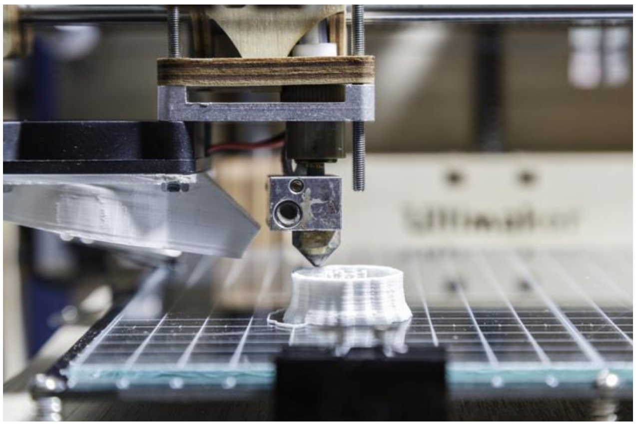
There are hundreds of thousands of smaller companies approaching their staging date and the ability of pension providers to provide solutions is becoming a real issue of capacity. It is not usually about just having a pension scheme, but having the process and systems in place to collate the data required to present and report to the Pensions Regulator.

If you don't satisfy the rules, have a pension scheme in place, have a system to record the relevant information, or miss your staging date, the fines can soon build up. We would recommend you start talking to your pension adviser as soon as possible, preferably with more than nine months to your staging date (ideally twelve), to build a timescale and agenda to make sure it all falls in to place.

We would be happy to help and would like to invite you to attend one of our free Auto Enrolment workshops with our specialist from Hawsons Wealth Management. **There are limited spaces available for each workshop, which are run on a monthly basis, so please book early. We expect these sessions to be very popular.**

For more information and to register, please visit www.hawsons.co.uk/workshops

Is 3D printing the future of manufacturing?



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.

An evolving and improving technology

3D printing is certainly not new – the technologies first appeared more than 25 years ago – but with significant technological advances the operational applicability and affordability is evolving, and improving.

The future of 3D printing is likely to have full scope, with research on foodstuffs, such as chocolate, well underway. The immediate impact, however, is in the (high-end) manufacturing industry as the technology has the potential to enable rapid product development through prototyping and creating products to personal specifications.

Some possible future benefits of 3D printing for manufacturers:

- Customised, personalised manufacturing
- Reduce machine set-up time
- Cost-effective production
- Greater flexibility in production
- Improved environmental footprint
- Material variations

As the technology continues to make pace in the market, it is important manufacturers, small and large, consider the potential future implications of 3D printing.

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Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

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Find out more about how Hawsons can help your business.

Please call your local office or visit:

www.hawsons.co.uk/manufacturing