Manufacturing

Specialist Manufacturing Accountants

Newsletter
Winter 2015

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Introduction

Welcome to our Winter 2015 manufacturing newsletter.

British manufacturing has a long heritage of first-class innovation and design, and that is undoubtedly contributing to a successful 2015 on the backdrop of economic uncertainty. However, there are a number of challenges that many are facing, such as productivity, changing demand, global competition and high energy prices, which we cover in this newsletter. Since our last manufacturing newsletter the Chancellor, George Osborne, has delivered his latest Autumn Statement. We review the key details and what they mean for manufacturers across the UK.

In this issue we look at:

- Autumn Statement manufacturing review
- Manufacturers leading the way in claiming R&D tax relief
- The decline of the British steel sector and what the future holds
- Forthcoming PAYE changes
- SME manufacturers 'missing out' on £25bn
- Benefits of 3D printing in UK 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

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Autumn Statement manufacturing review

Last week, on 25 November, the Chancellor delivered his latest Autumn Statement. In a year which has already seen two Budgets - which have both brought challenges and opportunities to the manufacturing sector - manufacturers were perhaps understandably tentative about what this year's Autumn Statement might bring. In this article we summarise the key points arising from the Autumn Statement and focus specifically on what the changes may mean for the manufacturing sector.

In summary (general):

- Tax credit cuts scrapped all together
- Small business rate relief to be extended for one more year
- Basic state pension will rise by £3.35 to £119.30 a week
- New 3% surcharge on stamp duty for buy-to-let properties and second homes from April 2016
- Doubling of housing budget to £2bn a year
- Capital funding of transport projects to rise by 50%
- Transport (37%), environment (15%) and energy (22%) departments all face funding cuts

In summary (manufacturing specific):

- Apprenticeship levy for small businesses
- The 3% supplement on benefit in kind % for diesel cars to remain for a further 5 years
- The protected budget for scientific developments
- Energy-intensive industries to be exempt from environmental tariffs
- Significant investments in UK transport links
- Extension of the small business rate relief

Autumn Statement manufacturing impact – not too much change for manufacturing!

Chris Hill, Partner at Hawsons, commented: "In this year's Autumn Statement the Chancellor spent the majority of his speech reviewing spending and where future government funding would (or would not) be allocated. It is difficult to review the impact on the manufacturing sector as much of the Chancellor's speech was devoted to spending, not taxes. Having said that, there are a few key changes that will impact manufacturers."

"British manufacturing has a long heritage of first-class innovation and design, so the Chancellors move to protect science and research funding (in real terms) will give the sector the much needed confidence to continue innovating. The Autumn Statement also brought good news for smaller manufacturers, with the extension of the business rate relief for small businesses and the apprenticeship levy, which 98% of businesses will now not pay. Larger business will of course be disappointed with that announcement, but with the sector facing a looming skills crisis it is critically important to focus on training new apprentices. Moves to create more skilled workers will boost the manufacturing sector, and is much needed."

We have only just published on article on the decline of the British steel sector – calling for urgent government support – and there will be tentative optimism for steelmakers following the Chancellor's announcement on energy. UK steelmakers have been paying almost twice as much for electricity as their EU counterparts, so this change will be very welcome. The Chancellor said: "We are going to permanently exempt our Energy Intensive Industries like steel and chemicals from the cost of environmental tariffs, so we keep their bills down, keep them competitive and keep them here."

Manufacturers leading the way in claims R&D tax reliefs

HMRC has now published its most recent R&D tax relief statistics (2013/14) and the picture remains very positive, particularly for the manufacturing sector. The statistics show that companies – both SME and multinational alike – are continuing to claim relief on their R&D activity. Since the introduction of the relief over 120,000 claims have now been made, amounting to over £11.4bn in tax relief claimed. Those numbers continue to grow. In total there were over 20,000 claims made in 2013/14 alone, with claims from SMEs increasing by 23%.

Manufacturing lead the way in R&D claims…

In our Summer manufacturing newsletter we looked at research and development in the sector and how manufacturers see innovation as a pathway towards achieving and driving future growth and productivity. The results of a recent manufacturing report at the time showed that 50% of manufacturers saw their strategic focus as innovation-led and that 74% were willing to spend upwards of 4% of revenues on R&D over the next year.

Sector	No. of claims	Amount claimed (£m)
Agriculture & Fishing	95	*
Mining & Quarrying	50	25
Manufacturing	5,815	635
Electricity, Gas, Steam & Conditioning	45	5
Water, Sewerage & Waste	120	5
Construction	380	20
Wholesale & Retail Trade	1,820	85
Transport & Storage	110	5
Accommodation & Food	35	*
Information & Communication	4,875	335
Financial & Insurance	240	45
Real Estate	30	0
Professional, Scientific & Technical	3,670	415
Admin & Support Services	985	65
Public Admin, Defence & Social Services	5	10
Education	135	*
Health & Social Work	150	10
Arts, Entertainment & Recreation	105	25
Other Services Activities	295	10
Total	**18,965**	**1,710**

Now, with almost a third of all R&D claims – equating to over £600m of relief claimed – it is clear that manufacturers do see innovation and R&D as a top strategic priority.

The UK manufacturing sector in facing a number of tough challenges and it is important firms look to streamline their processes to maintain current clients and win new business. Some key challenges that manufacturers may use innovation to address are:

- To improve overall production processes
- To cost-effectively meet orders for small production runs
- To reduce the time spent on administrative tasks
- To better manage stock
- To improve environmental footprint
- To keep a tighter control over finances
- To customise production
- To increase overall productivity

…but many are still missing out!

In the last year alone there were nearly 6,000 claims for R&D tax relief in the manufacturing sector, but many are still missing out.

The consequence of missing out on this generous tax relief, particularly for smaller, innovative manufacturers cannot be understated. Whether you're developing a new product, service or process or materially improving an existing one, it may be worth speaking with Hawsons today.

For more information on R&D tax reliefs please visit our website www.hawsons.co.uk/research or contact your local office specialist.

- *Figures exclude claims where industry sector is not known.*
- *Numbers are rounded to the nearest 5 and amounts are rounded to the nearest £5m.*
- *value is less than 5*

Source: Figures taken from HMRC R&D Tax Credit Statistics Report September 2015

The decline of the British Steel sector and what the future holds

The British steel sector has seen prices half in the last 12 months as it falls behind in an industry which is dominated by China. In the last 6 weeks alone a number of steel manufacturers have announced job losses as they look to cutback steel production in the UK. Although annual steel production in the UK is now higher (at 12mt) than it was following the economic crash in 2008, where it was just 10mt, the number of people employed in the British steel sector has halved in the last two decades. There are also concerns that thousands more jobs are still at risk in the supply-chain, despite new government support.

The British steel sector produces less than 1% of global production

Accounting for nearly 50% of global steel production, China produces nearly 70 times more steel than Britain every year. In fact, there are 17 countries that annually produce more steel than Britain, including Italy, Germany, Turkey, France and Spain.

High energy prices, a strong pound and numerous other factors have contributed to a weakening British steel sector as UK steelmakers have struggled to compete with global prices, particularly those from China.

Country	Steel produced (mt: million tons)	Percentage of steel produced
UK	12mt	1%
China	823mt	50%
Japan	111mt	7%
US	88mt	5%
India	87mt	5%
Russia	71mt	4%
Other	458mt	28%
Total	**1650mt**	**100%**

Government pledges support to British steel sector – but why is it so late?

Following the announcement of further job losses and the deepening crisis the British steel sector, the government has now pledged support to help manufacturers compete globally.

Chris Hill, Partner at Hawsons, comments: “The British steel sector has suffered greatly as energy costs, in particular, have continued to rise and cripple competitiveness. UK steelmakers have been paying almost twice as much for electricity as their EU counterparts. It is therefore of course good news that the government has announced it will support the sector by offsetting the cost of high energy costs, but it is still disconcerting it has only come as steelmakers are on the brink of collapse. The government could also do more.”

“Twenty years ago British steelmakers were producing 17mt per year; 28mt per year forty years ago. The British steel sector has been declining for decades as input costs – energy prices, wages and other factors – have continued on an upward trend. Those countries that have been producing 30, 40 or even 70 times more steel that the UK will undoubtedly continue to have huge advantages through scale and costs, but further government support could boost the British steel sector against EU competition. Lowering business rates, relaxing strict emission targets and committing to using British steel in UK construction projects would all give this struggling sector a much needed confidence boost. We wait for further news, but it is essential that the government fully commits to our British steel sector.”

Forthcoming PAYE changes

Are you ready for these forthcoming PAYE changes?

National Living Wage

The government has announced the introduction of a new National Living Wage (NLW) for working people aged 25 years and above from April 2016. Initially the NLW is set at £7.20, which is 50p above the current National Minimum Wage (NMW). The NLW is set to rise to over £9 an hour by 2020.

Employment Allowance

The government has also announced that Employment Allowance will rise from £2,000 to £3,000 from April 2016. The Employment Allowance gives businesses a reduction in the employer National Insurance they pay, so this is a welcome announcement. As this increase in Employment Allowance is focussed on businesses and charities that support employment, companies where the director is the sole employee will no longer be able to claim the Employment Allowance.

This change in claiming Employment Allowance also comes into force from April 2016.

Scottish rate of income tax

From April 2016 the Scottish Parliament will have responsibility for a Scottish rate of income tax. From this date the Scottish rate will be charged on the non-savings income of Scottish residents. As such, from April next year it is likely that Scottish taxpayers will pay a different rate of income tax to the rate paid by the rest of the UK. The rate of Scottish income tax has not yet been finalised and it is expected that the Scottish Finance Minister will announce the thresholds and rates later this year.

Regardless of where the employer is based, all payrolls must operate the Scottish rates of income tax for Scottish residents. This means that businesses across the rest of the UK could have to apply Scottish rates of income tax in their PAYE.

Employers' NI contributions for apprentices

From April 2016 employers of apprentices who are under 25 will no longer be required to pay employer NI contributions on earnings up to the Upper Earnings Limit. This will produce savings for all employers of apprentices. If this applies to you then please let us know.

We will be monitoring these issues and their impact on PAYE along with our software provider. If you are thinking of outsourcing your payroll, or would like to keep up-to-date with PAYE developments, please visit our website www.hawsons.co.uk/payroll where you will find additional information, including a free downloadable guide on outsourcing payroll.

SME manufacturers 'missing out' on £25bn

The Exact 2015 SME Cloud Barometer – an independent research study of almost 3,000 SME leaders across the UK, the US, France, Germany, the Netherlands and Belgium – has indicated that small and medium-sized manufacturers in the UK are missing out on new business opportunities.

UK manufacturers missing out on substantial additional revenue opportunities

The report highlights that manufacturing businesses in the UK are the worst at responding to new business opportunities. Underlining the UK falling behind, Exact found that 14% of UK manufacturing businesses failed to respond to all requests for proposals on time, compared to the global average of 11%.

This failure to respond to potential business opportunities equates to as much as nearly £25bn in additional revenue that UK manufacturers are theoretically missing out on.

The research suggests that the two key challenges leading to a failure to respond on time are:

- Finding skilled technical staff
- Ensuring material and processing costs and accurate

Is technology adoption the answer?

Chris Hill, Partner at Hawsons, commented: "Manufacturing businesses across the UK are facing some tough challenges. At a time where a strong pound and high energy prices are making it a struggle to compete on a global scale – highlighted by the ongoing crisis in British steel –manufacturers need to ensure they are efficient in dealing with new business opportunities.

"This research by Exact emphasises the potential importance of technology adoption…with 64% of UK manufacturers surveyed believing that technology holds the key to competing on a global landscape once again. Improving current time input efficiency is crucial to winning new business opportunities."

Benefits of 3D printing in UK manufacturing

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? In this article we look at customisation, cost, flexibility and speed to market.

Firstly, 3D printing is certainly not new – the technology first appeared more than 25 years ago – and is a topic that we have covered before in previous newsletters. Advancements in 3D printing continue 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. 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.

3D printing is set to revolutionise how we manufacture and it brings big business benefits

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.

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 series. 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.

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

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.

How will the benefits of 3D printing impact UK manufacturing?

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.

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