Manufacturing Insight

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Introduction

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Welcome to our second manufacturing newsletter of the year. 2020 has been a very difficult year for manufacturers due to the coronavirus pandemic with many businesses reducing their capacity to comply with health and safely regulations.

The government have put a wide range of support packages in place to aid manufacturers but when they come to an end, what will the future the landscape look like going forward?

We at Hawsons have an in-depth knowledge of this sector through a broad range of Partners and Advisors across a wide range of clients and look forward to working with you.

Hawsons has a dedicated team of specialist manufacturing and engineering accountants in Sheffield, Doncaster and Northampton.

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 and engineering businesses means that we can proactively seek out ways for you to maximise your profitability and minimise your tax liabilities.

UK Manufacturers start to invest in sustainable growth

Manufacturers are beginning to invest in sustainable growth because of increasing market volatility. Sustainable growth is growth that is ethical, responsible, and repeatable and is vital for the long-term growth of a business. The aim of this is to improve business growth and business reputation by being ethical and responsible to the community around them.

Why are manufacturers investing in sustainable growth?

The main challenge UK businesses are currently facing is a lack of visibility into suppliers and customers. Without this information or knowledge, it is difficult for businesses to assess when they need to scale up or scale down operations. However, research findings have concluded that there is a correlation between improving visibility and creating sustainable supply chains with business growth. This is most likely the reason why manufacturers are investing in sustainable growth.

How many manufacturers are investing in sustainable growth?

Almost 50% of companies surveyed by Epicor stated that they are currently investing in sustainability in order to grow their business and promote business ethics. 32% of manufacturers are switching to environmentally friendly power sources for their operations. In addition to this 35% of manufacturers are looking through their supply chain to ensure they have a positive social impact. This is because many consumers are now extremely conscious about their sustainability and social impact. 39% of manufacturers believe that consumer trust is essential to increasing competitiveness. Therefore, manufacturers have decided they need to invest in sustainable growth to meet this requirement so their supply chain continues to flow.

How has the coronavirus pandemic affected the manufacturing sector?

Introduction

In this article, we will be covering how the coronavirus pandemic has affected the manufacturing sector. We will be using data from the Make UK's Manufacturing Outlook Q2 to discuss how coronavirus has affected production, capacity and staffing in this sector.

Production and Capacity

Statistics from the Make UK's Manufacturing Outlook 2020 Q2 suggests that the Coronavirus pandemic has shown similar falls in orders and output to the Global Financial Crisis in 2008. The most notable and perhaps the most worrying statistics are:

- 8% of manufacturers reported a decrease in sales
- 9% of manufacturers reported a decrease in orders
- 5% of manufacturers reported a decline in orders of between 26% and 50%

Furthermore, the latest statistics suggest that orders are not yet returning for manufacturers. This indicates that recovery for the manufacturing sector might not recover as quickly as first thought.

The latest figures show that 97.8% of manufacturers are continuing to operate through the coronavirus pandemic however most are not operating at their full productive potential. 16.4% of manufacturing firms are operating at full capacity (according to Make UK's survey). This demonstrates that very few manufacturers are closing or looking at insolvency. Therefore, when demand rises again it will be much easier for the UK's manufacturing sector to increase capacity.

Manufacturing Staff

What does this reduced operating capacity mean for the staff of manufacturing firms? Will there be redundancies? It is difficult to say as the impact of redundancies is yet to be seen, due to the furlough scheme subsidising payroll costs currently. In Q2 the Make UK's Manufacturing Monitor reported that:

3% of manufacturers didn't furlough any staff.
Just over a quarter of manufacturers (26.4%) furloughed between 26% and 50% of their staff.

Make UK's Manufacturing Monitor asked manufacturers about their redundancy plans for the next 6 months. On average 40.6% of manufacturers are planning on making some redundancies over the next 6 months. Jobs in the transport sector being most at risk with 78% of those firms planning redundancies in the next 6 months. With jobs in basic metals being at the least risk with 20% of firms planning redundancies in the next six months.

Unfortunately, this does mean that a reduced operating capacity is going to result in quite a high level of redundancies with at least 40% of manufacturing firms making staff redundant. Plus, a further 30.5% of firms saying that they are considering redundancies over the next 6 months.

British manufacturing could revive UK economy?

The UK is now on the edge of the worst financial recession that most of us have experienced in our lifetime. It is not going to be easy to recover from the economic damage of the coronavirus. But it is going to be more difficult for the UK because of our economic imbalance.

The lockdown caused the majority of the economy to shut down. In the 1970s, nearly 33% of our GDP came from manufacturing but now it's below 10%. Since the 1970's the UK economy has slowly become deindustrialised. The majority of the UK's GDP comes from the services industry.

However, to improve GDP you need to increase productivity which is much easier to achieve in the manufacturing industry than the services industry. This is because in the services industry you need to raise the number of customers to improve your productivity which may not be that easy during a financial recession. Whereas in manufacturing, improving productivity can be achieved by reviewing your workflow, updating processes and technology, and regularly training employees on using the equipment.

Further benefits that more manufacturing could offer include:

- More products to promote overseas
- Higher job security and higher salaries
- A reduction in the reliance on imported manufactured goods

The UK is currently promoting domestic manufacturing to overseas manufacturers, and are doing very well from this. However, it is going to very difficult to increase productiveness this way as providers will be relying on overseas manufacturers to increase their productivity. It is, therefore, going to be very difficult for the UK to increase its GDP this way.

To conclude, to improve the UK's GDP in this financial recession we need to improve productivity. It is much easier to improve productivity in the manufacturing sector than in the services sector. Therefore, increasing the amount of productivity in manufacturing will help the UK out of the financial recession.

HMRC outlines Job Retention Bonus criteria

HMRC has outlined the eligibility requirements for the Job Retention Bonus (JRB) that follows the furlough scheme.

The government's Coronavirus Job Retention Scheme ends on 31 October 2020 and the JRB aims to provide additional support to employers who keep on their furloughed employees in meaningful employment.

The JRB is a one-off payment to employers of £1,000 for every employee who they previously claimed for under the scheme, and who remains continuously employed through to 31 January 2021. Eligible employees must earn at least £520 a month on average between the 1 November 2020 and 31 January 2021. Employers will be able to claim the JRB after they have filed their PAYE submissions for January and payments will be made to employers from February 2021.

All employers are eligible for the scheme. They should ensure that they have complied with their obligations to pay and file PAYE accurately and on time under the Real Time Information (RTI) reporting system, maintained enrolment for PAYE online, and have a UK bank account.

Employers will be able to claim for employees who were furloughed and had a Coronavirus Job Retention Scheme claim submitted for them that meets all relevant eligibility criteria for the scheme.

They must have up-to-date RTI records for the period to the end of January and employees must not be serving a contractual or statutory notice period, that started before 1 February 2021, for the employer making a claim.

HMRC will publish further details about this process before the end of September 2020.

The current HMRC guidance can be found at: GOV.UK publications

Get in touch...

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