

Manufacturing Insight

In this issue:

UK manufacturers increase optimism

Raw material prices look set to remain high

Half of Britain's manufacturers become victims of cybercrime in the last 12 months

COVID-19 causes manufacturers to accelerate digital adoption



Hawsons

Big firm expertise,
small firm personal attention



Chris Hill Senior Partner



Introduction

Welcome to our latest manufacturing newsletter. The last 12 months have been very difficult for manufacturers as most were forced to reduce capacity in order to comply with COVID-19 health and safety regulations. In addition, manufacturers had to adopt remote working which presented its own threats and some became subject to cybercrime during the pandemic.

Furthermore, leaving the EU on 1 January 2021 caused its own problems for manufacturers as border delays made it increasingly difficult to export goods into the EU. However, with Brexit firmly in the rear view mirror and the pandemic seemingly coming to an end, there is good reason for manufacturers to be optimistic for the future.

As always we hope you enjoy the contents of this newsletter and please do not hesitate to contact us if you have any questions about any of the articles in this newsletter.



WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

A member of HLB UK Ltd., which is a member of HLB International. A world-wide network of independent professional accounting firms and business advisers, each of which is a separate and independent legal entity and as such has no liability for the acts and omissions of any other member. HLB International Limited is an English company limited by guarantee which co-ordinates the international activities of the HLB International network but does not provide, supervise or manage professional services to clients. Accordingly, HLB International Limited has no liability for the acts and omissions of any member of the HLB International network, and vice versa.



UK manufacturers increase optimism

The UK manufacturing sector has seen its largest increase in optimism since 1973 as lockdown measures ease and demand grows.

Vaccine progress increases manufacturers optimism

A recent poll of 288 leading industrial companies (conducted by the CBI) found that business sentiment increased at the quickest rate in the three months up to April 2021 since April 1973. The current success of the COVID-19 vaccination process provides hope that we may return to some normality towards the end of the year. Subsequently, the poll revealed that manufacturers plan on employing staff at the quickest rate since 1974 in the next three months as they prepare for the relaxation of government COVID-19 social distancing measures.

Brexit

At the start of the year, Brexit caused manufacturers all sorts of problems as border delays caused a sudden drop in exports as the UK began a

new trading relationship with the EU. However, in the last couple of months, the number of exports has increased as businesses became more familiar with the additional paperwork required.

Economic recovery

Economists have forecast the UK's economy to grow by 4% in 2021 and 7.3% in 2022. However, there are still doubts about the long-lasting effects the pandemic will have on the economy which will remain to be seen over the coming years. The latest CIPS Purchasing Managers Index (PMI) figures for April 2021 look a very promising read with PMI increasing from 58.9 in March to 60.7 in April demonstrating growth and the highest PMI on record since 1994. But, the economic recovery forecast by economists could be thwarted by a new variant or another wave of COVID-19 infections resulting in tougher restrictions.

With Brexit well and truly behind us and the vaccination process well underway manufacturers have good reason to be optimistic about the future and the economic recovery.



Keep up to date
with our latest news and updates





VAT Partial Exemption Changes

To ensure the continuation of fairness HMRC has decided to implement an accelerated process when it comes to VAT Partial Exemptions. This accelerated process will allow businesses to request changes to their VAT Partial Exemption methods due to Covid-19.

To submit a Partial Exemption Special Method request you will need to send a declaration that the method proposed is fair and reasonable. See example here: <https://www.gov.uk/guidance/partial-exemption-vat-notice-706#Appendix1>

If the nature of your supplies has changed due to COVID-19 and you believe that you will be moving back to pre-pandemic supplies soon, then HMRC will likely accept proposals that use a representative income stream from the previous 1-3 tax years.

If you believe that your business is eligible to make changes, please visit the HMRC website to find out more details.



Raw material prices look set to remain high

A survey conducted by the Construction Products Association (CPA) has found that price inflation for raw materials will continue to rise for the remainder of 2021.

The survey found that housing is leading the economic recovery for the construction sector. But there is expected to be a shortage of materials for the next 12 months. This lack of materials and the increasing demand for them are pushing prices up. The survey also found that the supply of raw materials and components was also a primary concern for manufacturers, with materials such as steel, timber, and chemicals referenced. 90% of heavy side manufacturers stated an increase in cost for raw materials in the first quarter of 2021. Furthermore, 41% of heavy side manufacturers have reported an increase in sales in quarter one.

Heavy side materials are most commonly used in structural materials. Therefore, there are more likely to be used in the early process of construction, for example, steel and cement. The increase in sales is very encouraging. But the continuing price increase suggests that there is a shortage of these materials and the supply chain could be at risk of being held up by a bottleneck which could slow down the economic recovery. However, the trade body has discovered that the extension of the job support scheme and Stamp Duty holiday, as well as the introduction of the new 5% deposit scheme, is anticipated to continue to drive the recovery of the property and construction sector.





Half of Britain's manufacturers become victims of cybercrime in the last 12 months

The Covid-19 pandemic has forced many businesses to adopt remote working. As many businesses adopt this approach for the first time, cybercriminals have taken advantage of vulnerabilities in this new approach which has cost businesses thousands of pounds. 63% of manufacturers in the UK have lost up to £5,000 from cyber-attacks and 22% revealed losses of between £5,000 and £25,000. Most worryingly 6% reported that they had lost at least £100,000 after a cyber-attack which could have proved disastrous to their business particularly during a pandemic.

Cybersecurity has become a high priority

A recent report by Make UK demonstrates that the pandemic has shifted cybersecurity towards the forefront of boardroom agendas. With many businesses switching to remote working overnight, many felt that their cybersecurity was more vulnerable. 50% of manufacturers revealed that since the start of the pandemic, cybersecurity had become a higher priority with 61% of manufacturers designating a board director responsible for cybersecurity protection across the firm.

Customers are more concerned and more aware of cybersecurity

Cybersecurity has become a business-critical issue in

the digital age with 43% of manufacturers stating that customers have asked them to demonstrate the robustness of their cybersecurity practices. This indicates that customers are not only becoming more aware of cybersecurity but equally more concerned especially with businesses storing customers' personal data on their networks. Furthermore, 20% of manufacturers ask their suppliers and customers similar questions showing that cybersecurity has become a concern for businesses and customers.

More still needs to be done

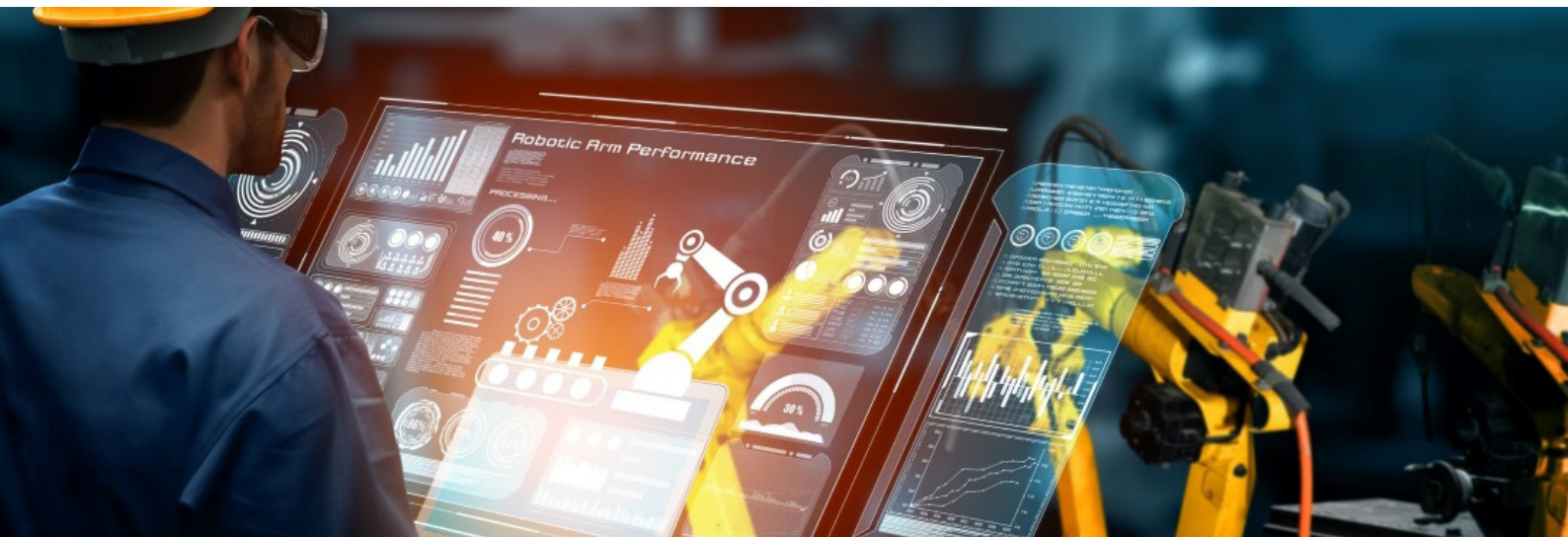
Despite the fact that cybersecurity has become more of a concern for UK manufacturers, 44% currently do not offer their staff cybersecurity training. In addition, 47% do not have a contingency plan in place in case a cyberattack occurs.

With the world becoming more digitalised, no business can afford to ignore the importance of cybersecurity and the threat of cyber-attacks. Failing to prevent these attacks could cost your business thousands of pounds.



Keep up to date
with our latest news and updates





COVID-19 causes manufacturers to accelerate digital adoption

According to the 2021 Digital Transformation Assessment conducted by The Manufacturer and IBM, 67% of manufacturers have accelerated their adoption of digital technologies as a result of the coronavirus pandemic. Only 16% have suspended their digital adoption projects.

Why are manufacturers adopting digital technologies?

Many manufacturers have seen there is a connection between digital adoption and increased productivity, and efficiency. The 2020 Digital Transformation Assessment found that 92% of manufacturers reported that improving their 'operational efficiencies' was their number one business imperative. This demonstrates that manufacturers want to adopt digital technologies to become more efficient enabling future growth.

Manufacturers also want to free workers from repetitive tedious tasks so they can work on tasks that will add value to their business. This can lead to boosting staff morale as it is likely they will enjoy their work much more if repetitive tedious tasks are reduced or removed from their working day and

because their job would become more interesting and rewarding.

Research has found that manufacturers are focusing on digital adoption in four main areas, these include:

- IT and/or data systems
- Product and/or customer growth
- Efficiency improvements Collaboration

What challenges are manufacturers facing when adopting new technologies?

The research found that manufacturers are facing a number of challenges when adopting digital technologies. These include:

- Time and resourcing
- Securing internal funding
- Organisational culture

Respondents cited that finding the correct stakeholders or investors can be difficult, especially those from overseas with the current international travel restrictions. Furthermore, respondents found that rolling out pilot projects successfully across the whole business has its difficulties.



Are manufacturers becoming more sustainable?

In recent years slowing down climate change by reducing emissions has become a top priority for many countries around the world. In 2019 the UK government signed a legally binding target of net zero emissions by 2050.

A survey of senior figures (managing directors, and CEO's, etc) in small and medium sized companies conducted by YouGov has found that manufacturing is one of the leading sectors in creating sustainability plans. However, because 2020 has been a difficult year for businesses, many are struggling to meet these goals.

This survey found that:

- 57% of UK manufacturing businesses have a sustainability plan to help reduce carbon emissions.
- 23% said that they do not have any future plans to introduce a sustainability plan.
- 40% of the total SME's surveyed do not have a plan in place to become more sustainable.

Sustainability barriers

The survey also identified what was preventing businesses from hitting or creating sustainability targets. The largest barrier manufacturers identified was budget, with 47% of manufacturers stating that finances are the largest barrier to sustainability. This is because many small and medium sized manufacturers would struggle to raise the finances needed in order to invest in becoming more sustainable. In addition, 33% of manufacturers have said that the COVID-19 pandemic has delayed their sustainability plans as their priorities have changed. This suggests that even those manufacturers that do have the finances to invest in sustainability are being forced to spend this money elsewhere due to the pandemic.

Get in touch



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.



Chris Hill
Senior Partner
Tel: 0114 266 7141
cih@hawsons.co.uk

Sheffield Office
Pegasus House
463A Glossop Road
Sheffield, S10 2QD



David Owens
Partner
Tel: 01604 645600
davidowens@hawsons.co.uk

Northampton Office
Jubilee House
32 Duncan Close, Moulton Park
Northampton, NN3 6WL



Paul Wormald
Partner
Tel: 01302 367 262
paw@hawsons.co.uk

Doncaster Office
5 Sidings Court
White Rose Way
Doncaster, DN4 5NU



HLB UK is a member of HLB International. A world-wide network of independent accounting firms and business advisers.



WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

Sheffield: Pegasus House | 463a Glossop Road | S10 2QD

Doncaster: 5 Sidings Court | White Rose Way | DN4 5NU

Northampton: Jubilee House | 32 Duncan Close | Moulton Park | NN36WL

www.hawsons.co.uk