

Manufacturing Insight

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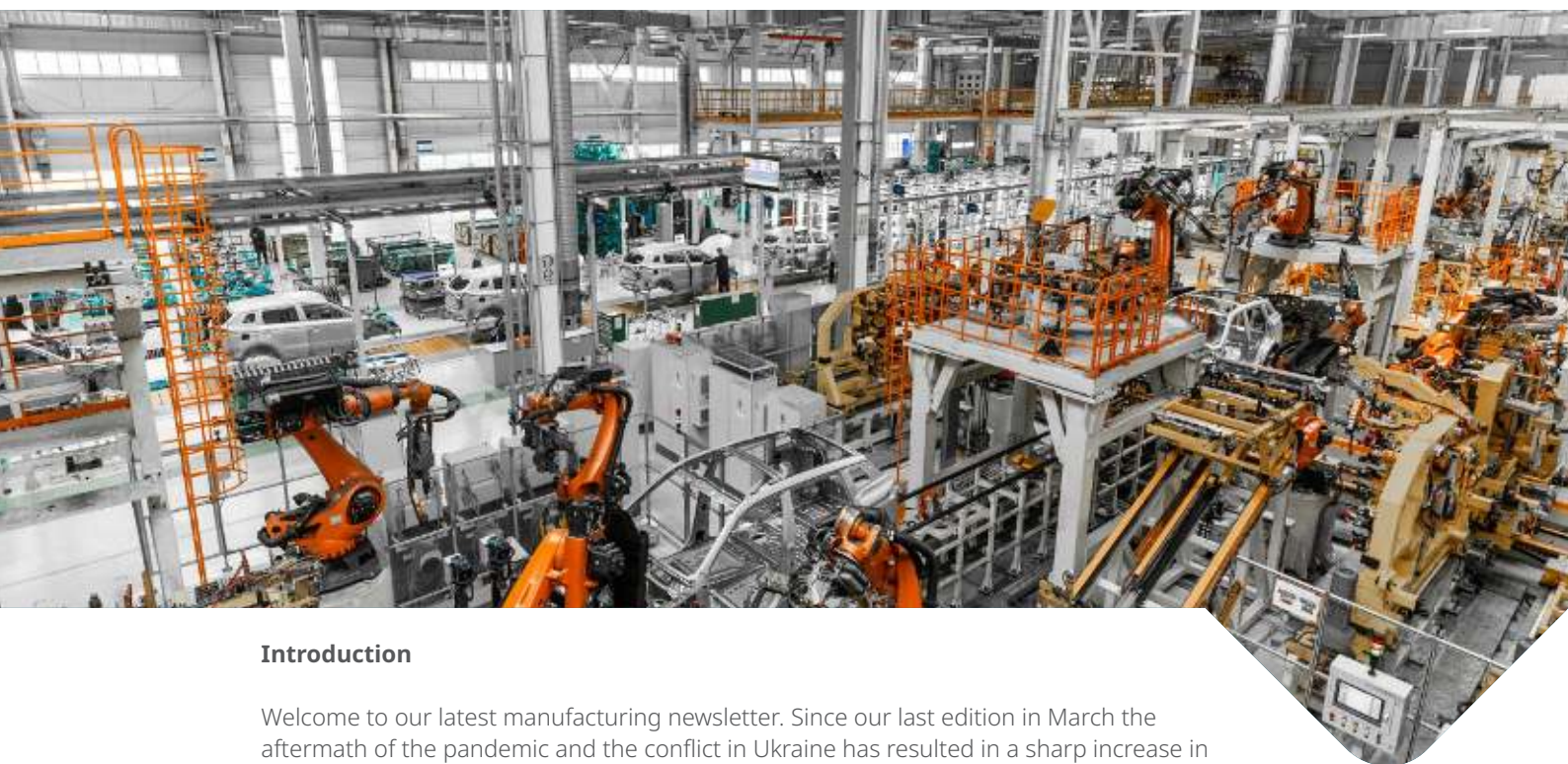
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Chris Hill

Senior Partner



Introduction

Welcome to our latest manufacturing newsletter. Since our last edition in March the aftermath of the pandemic and the conflict in Ukraine has resulted in a sharp increase in inflation due to limited supply and increasing demand and large power price rises on the horizon.

In this edition of the newsletter we discuss:

- Manufacturing trade bodies call for immediate financial support for the sector
- Help to Grow: Digital Scheme
- Most UK manufacturers are aiming to grow their business
- HMRC confirms MTD penalties from 1 November 2022
- UK automotive manufacturing improves sustainability

We hope you enjoy the contents of this newsletter and, as ever, if you have any questions please do not hesitate to ask.

Chris Hill
Senior Partner



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Manufacturing trade bodies call for immediate financial support

Introduction

Earlier this year the chancellor announced that he would offer support to the manufacturing sector this autumn. However, manufacturing trade bodies such as Make UK have said that support is needed before the summer parliamentary recess. Make UK has given the government several support recommendations, including reducing or waiving business rates for 12 months and re-considering the effectiveness of the coronavirus business loan schemes.

In this article, we discuss some of the reasons why the manufacturing sector is calling for immediate financial support.

Rising energy costs

Firstly, rising energy costs are a considerable issue for manufacturers as it has affected their margins and ability to remain competitive. UK Manufacturing firms tend to use a high amount of energy to operate highly technical equipment to make their products. This has become an increasing concern as over 60% of manufacturers across the UK are now considering whether they should generate their own electricity to cut costs. However, up-front costs of installing a mechanism to generate your own electricity is expensive and during the pandemic many businesses will have used a large amount if not all of their cash reserve. Therefore, some manufacturers may not have the finances to install a mechanism to generate their own electricity without

needing a loan. In addition, with further energy price rises coming in October, manufacturers will have a lot to consider when tackling this issue.

Increased cost in raw materials

Increasing raw material costs are becoming a serious challenge for manufacturers as prices for common materials such as steel have reached a record high in 2022 and forecasts suggest that prices will remain elevated throughout the year. This is becoming a key issue for manufacturers as many are looking for solutions to optimise costs in order to remain competitive and maintain profit margins.

High level of vacancies

Job vacancies for manufacturing roles are at a record high with 4.1 vacancies per 100 jobs. This demonstrates that recruiting skilled staff is becoming a challenge. According to government statistics, manufacturing job vacancies increased by 90% between January-March 2020 and November 2021-January 2022. This increase in labour shortages is due to more people being economically inactive across the UK and a decline in foreign workers because of the new immigration rules following the UK's exit from the European Union. These factors have caused a skills shortage and those manufacturers struggling to recruit will either have to reduce their output or train unqualified staff to fill vacant roles.



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Help to Grow: Digital Scheme

Help to Grow: Digital is a government-backed scheme that is looking to support eligible SMEs to choose, buy, and integrate software into their business.

What are the benefits of this scheme?

Through this scheme, eligible SMEs will receive a discount of up to 50% or £5,000 (excluding VAT) towards the cost of purchasing one approved item of software in the Help to Grow: Digital scheme. Eligible SMEs will also be able to access free impartial advice and guidance, including eLearning modules, to help implement the new software into their business.

Many businesses feel that the cost and knowledge that is required to implement new software is a huge barrier for them. This scheme is designed to help overcome this barrier and help SMEs implement new software into their business to help improve efficiency and productivity.

What software is eligible for a discount under the scheme?

- Digital accounting software
- Customer Relationship Management (CRM) Software
- eCommerce software

If you would like to see the full list of software that is available on the scheme then please visit <https://www.learn-to-grow-your-business.service.gov.uk/comparison-tool>

How can I apply?

If you would like to find out information and how to apply, please visit: <https://www.learn-to-grow-your-business.service.gov.uk/about-the-scheme>



Most manufacturers aim to grow their business

Introduction

According to a survey conducted by the manufacturing trade body Make UK, 52% of UK manufacturers plan to grow their business during the next five years by over 20%. If manufacturing output for UK GDP increased from 10% to 15% this year, this could result in an additional £142 billion for the UK economy. This highlights how important the manufacturing sector is to the UK economy.

In this article, we discuss some of the areas where the manufacturing sector should be supported in order to achieve its growth plans. These areas include incentives for investment, building a larger workforce and local industrial strategies.

Incentives for manufacturers to invest

In a recent survey conducted by Make UK, manufacturers were asked to pick the top three initiatives that would help them grow their business within the next five years. Incentives for investments came out first in the survey with 46% of UK manufacturers believing that greater investment opportunities would help them to grow their business.

Accessing finance

To enable manufacturers to invest in areas such as digital technology, industrial decarbonisation, innovation and staff they will need access to finance. However, the current economic climate is presenting difficult challenges for UK manufacturers that will be struggling to find the capital available to invest. Manufacturing trade body Make UK believes that the government should implement lending market interventions during this difficult economic period, such as the Recovery Loan Scheme implemented during the pandemic which ended in June 2022. Extending this kind of scheme would enable manufacturers to access the finances they need to grow and invest during a challenging economic environment.

Investment incentives

In order to help manufacturing businesses grow they will need the right incentives to invest. The UK government has introduced schemes such as The Super-Deduction and the Annual Investment Allowance to provide incentives for investment. However, exclusions tied to The Super-Deduction such as leasing means that it has not been as accessible to all manufacturers. The Annual Investment Allowance is a much more accessible scheme. If the government wants to encourage longer term investments, then they will need to increase investment confidence. This could be achieved by making the increase in the Annual Investment Allowance permanent and extending The Super-Deduction scheme further than March 2023.

Continued overleaf



Most manufacturers aim to grow their business (continued)

Investment for manufacturing apprenticeships – building a larger workforce

28% of manufacturers said that greater investment in apprenticeships would make a huge difference in their ability to grow. For decades the manufacturing sector has championed apprenticeships. However, since the introduction of the Apprenticeship Levy in 2017, apprenticeship numbers have started to fall in the manufacturing sector. This levy was designed to have a positive impact on the sector. Unfortunately, it appears to have done the opposite. The government has hinted that they will look to reform the levy, but more fundamental change is required. For example, employers should be given more flexibility on how they can spend the Levy funds. Furthermore, it has been suggested that the government should investigate the components surrounding the levy such as how employers and providers are incentivised to deliver training. Addressing these issues will help the sector develop the skills needed to achieve long-term growth.

Local manufacturing industrial strategies

27% of manufacturers said that support with local industrial strategies would help them grow their business. An important factor of a long-term manufacturing strategy is providing decision making power to local leaders. Manufacturers surveyed said that any public funding they receive should be allocated

by the City Regional Major (25%) or Local Councillors (22%).

To ensure the growth of the manufacturing sector over the next five years, devolution will be an important element in achieving this as local challenges will need to be overcome with local solutions. Therefore the government should listen to manufacturers and give more responsibility to local leaders to make important decisions regarding any levelling up funding or schemes in local areas.

Conclusion

To conclude, manufacturers consider the following three areas as the most important to develop in order to achieve growth in UK manufacturing:

- Incentives for investment
- Building a larger skilled workforce
- Local industrial strategies

In order to incentivise long-term investment the government should extend The Super-Deduction and make temporary increases to the Annual Investment Allowance permanent to give manufacturers long-term investment confidence. To build larger workforces, the industry believes that the government should reconsider how employers and training providers are incentivised to provide more training. Finally, the manufacturing sector believes that more local strategies are needed to help the UK manufacturing sector grow nationally.



HMRC confirms MTD penalties from 1 November 2022

Accountancy firms have been informed by HMRC that the “soft landing” penalty waiver for Making Tax Digital for VAT will be removed from 1 November 2022.

All businesses that file their VAT returns monthly or quarterly must now sign up to Making Tax Digital (MTD) and use MTD-compatible software to keep their VAT records and file their VAT returns.

Penalties may apply if customers are not following the correct process to file their VAT returns using MTD-compatible software from 1 November.

The amount businesses may be fined is dependent on their turnover. A penalty applies to each return filed incorrectly, and the penalty will be:

- £100 if turnover is below £100,000;
- £200 if turnover is between £100,000 and £5,600,000 inclusive;
- £300 if turnover is between £5,600,001 and £22,800,000 inclusive; and
- £400 if turnover is £22,800,001 or above.

If clients are already exempt from filing VAT returns online (though these exemptions are very rarely approved by HMRC), or if they or their business are subject to an insolvency procedure, they are automatically exempt.



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UK automotive manufacturing improves sustainability

The latest figures from the Society of Motor Manufacturers and Traders (SMMT) demonstrate that the UK carbon footprint in automotive manufacturing has decreased to its lowest level on record as CO2 emissions fall by 11.2% in 2021 compared to 2020.

Automotive manufacturing cuts CO2 emissions

The report has shown that automotive production and the supply chain emitted 81,095 fewer tonnes of CO2 in 2021 than in 2020. Furthermore, average vehicle emissions were also 11.2% less than they were in 2020.

Currently, the average age of a UK car on the road is nine years old. The reduction of 81,095 tonnes of CO2 emissions in 2021 is the equivalent of removing 225,000 of these cars off the road and replacing them with their latest models.

The SMMT Annual Sustainability Report began in 1999 and since its introduction the automotive industry has cut CO2 emissions by 1.5 million tonnes, which is 70.6% less than it was in 1999. This is the equivalent of removing nearly 900,000 cars off the roads.

The automotive industry reduces water usage and sends less to landfill

Due to a global semiconductor shortage, automotive manufacturing production has been reduced. This reduced production may have enabled the sector to improve its environmental efficiency. In 2021, there was a 6.1% reduction in the amount of water used per vehicle production compared to 2020. Furthermore, the amount of waste going to landfill reduced by 2.6% in 2021 compared to 2020.

Since the millennium the automotive sector has made great strides in terms of reducing landfill waste. Per vehicle, the sector sends 96.2% less to landfill and since 2015, 95% of a vehicle's weight goes through a takeback network which means it can be reused, recycled, or recovered at the end of the vehicle's life. This demonstrates the automotive industry is making great strides towards a completely sustainable future.

Continued overleaf

UK automotive manufacturing improves sustainability (continued)

UK's world-renowned specialists and low-volume manufacturers

The report also found that the UK's world-renowned automotive specialists and low-volume manufacturers were the most successful at delivering sustainable production in 2021. These companies sent zero waste to landfill and cut CO2 emissions per vehicle production by 26.6% and water usage by 11.6% per vehicle produced. These companies managed to achieve this whilst increasing overall production by 40.2% due to the post-pandemic rebuild.

Conclusion

To conclude, the automotive industry has managed to cut its carbon emissions by a record 11.2% in 2021. In addition, the industry has managed to reduce the amount of water used and waste sent to landfill in their vehicle production as the sector becomes more sustainable. The sector has also made strong long-term progress when it comes to becoming completely sustainable. Since 1999, the automotive industry has cut its CO2 emissions by 70.6% and has sent 96.2% less to landfill since the start of the millennium. This demonstrates that the sector is focused on building towards a completely sustainable future.

Get in touch



Our manufacturing experts

Hawsons has a dedicated team of specialist manufacturing 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 manufacturing businesses means that we can proactively seek out ways for you to maximise your profitability and minimise your tax liabilities.

Manufacturing, like engineering, remains one of the key sectors within the UK, and today many 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 of new technologies. Productivity, fierce global competition and the growing skills shortage, however, remain key challenges that many manufacturers are facing.



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