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Manufacturing Insight

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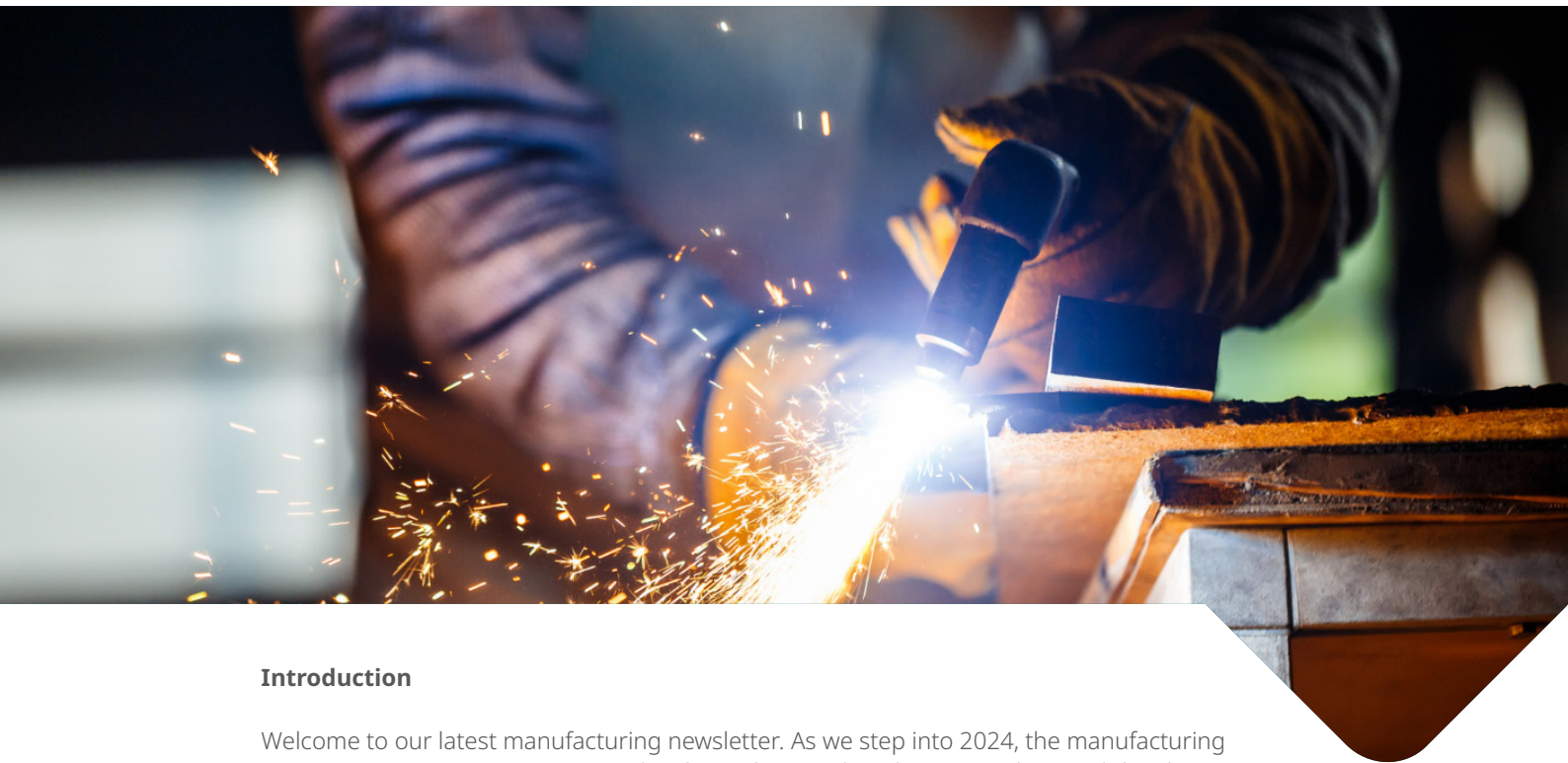


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Craig Burton Partner



Introduction

Welcome to our latest manufacturing newsletter. As we step into 2024, the manufacturing sector is continuing to innovate and reshape the way they design, produce and distribute goods across the globe. However, the current geopolitical landscape has escalated globally causing additional supply chain challenges for manufacturers to overcome to ensure they have the raw materials they need.

In this edition of the newsletter we discuss:

- Manufacturing challenges 2024 – manufacturers show increased optimism
- Government launch critical imports and supply chain strategy
- UK government publish Advanced Manufacturing Plan
- Mandatory payrolling of employment benefits from 2026

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

Craig Burton
Partner



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Manufacturing challenges 2024 – manufacturers show increased optimism

Challenges for the manufacturing sector in 2024

As we start 2024, the manufacturing industry finds itself at a crossroads of various customer demands, technological advancements and sustainability imperatives. Whilst this may present opportunities, it will also leave some difficult challenges to overcome that may require changes in strategic direction. In this article, Craig Burton, who heads up our manufacturing sector team in Sheffield, reflects on some of the key challenges the sector faces in 2024 and explores potential solutions.

Supply chain disruption

Over the past few years, the global supply chain has been tested by the disruptions caused by Brexit, the pandemic and geopolitical tensions, particularly the war between Russia and Ukraine. Increased geopolitical tensions, for example, the conflict in the Gaza Strip are causing further challenges to the international supply chain – the most significant of which is the disruption to the Red Sea trade route between Europe & Asia. Cargo transported by sea between Europe and Asia in most cases is taking a much longer route around the southern tip of Africa resulting in more expensive and longer delivery times.

Through this period, manufacturers could look into solutions to enhance supply chain resilience by diversifying supply chains, stockpiling key materials and adopting digital technologies to have real-time monitoring and risk mitigation of inventory

management.

Global economic uncertainty

The global economy is currently experiencing significant volatility which is likely to have an impact on UK manufacturing.

Fluctuating currency values

Exchange rates are fundamental for international trade and constantly change based on the supply and demand of services and products. Exchange rates are also impacted by political factors such as the US Presidential Election in November 2024 and the UK General Election which is likely to take place in the second half of 2024. Any sign of political instability may negatively affect the value of the pound. Any serious fluctuation could cause risks for manufacturers engaged in importing and exporting when it comes to pricing strategies and profit margins.

Manufacturers engaged in importing and exporting should consider strategies for mitigating against currency fluctuations, by, for example, entering into forward currency contracts, or creating 'natural hedges' by importing and exporting in the same currency, where possible.

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Manufacturing challenges 2024 – manufacturers show increased optimism (continued)

Economic policies of major economies

In 2023, inflation was one of the main issues that countries around the globe were looking to tackle. This resulted in interest rates being hiked to drive inflation down. Although inflation in the UK has reduced, it is expected that major economies around the globe will continue to keep interest rates comparably high through 2024. However, any changes in policies would impact global economic conditions and could change demand for certain products, materials and services.

Global trade policies

Established trade relationships can be disrupted by changes to trade agreements or the imposition of tariffs and trade barriers, much like what we saw after the UK left the European Union. In 2024, it is expected that the European Union will announce new international trade policies as they aim to become the first climate-neutral continent in the world. The most likely outcome for UK manufacturers that regularly trade with EU countries will be additional compliance checks, market access restrictions and supply chain disruptions and costs.

Technological advancement

2023 was a significant year for technological advancement in the manufacturing sector. These advances can present significant manufacturing

challenges to overcome such as:

Skilling up your workforce

As technology evolves, manufacturers will need to train their skilled staff to operate new technologies with efficiency and competence. Staff training costs are significant for manufacturing businesses using new technologies such as AI and automation software. Manufacturing businesses need to budget for these additional training costs, and it is important to prioritise training on these new technologies, not just repeat the training that has always been undertaken.

Investing in new technologies

Any new technology requires significant capital investment, and given the current rapid pace of technological advancement, keeping up can be a challenge. For many manufacturers, particularly small and medium-sized manufacturing businesses, finding the capital for these investments can be difficult. However, the Made Smarter programme and government's Advanced Manufacturing Plan, with £4.5bn of funding, may enable some SME manufacturers to make the investments required.

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Manufacturing challenges 2024 – manufacturers show increased optimism (continued)

Staying ahead of the competition

Manufacturers need to not only keep pace with technological advances but to stay ahead of their competitors. Adopting AI and Machine Learning (ML) technology to improve the efficiency of your supply chain management, production schedules and overall manufacturing operation is an opportunity to become as efficient as possible.

Cyber security risks

New technologies bring new cyber security risks. Being cyber secure is a crucial challenge for any business not just manufacturers. A cyber security breach can be detrimental to the future of any organisation. It is good practice to ensure the company has robust policies and procedures in place to mitigate against such a breach and that all staff are trained on cyber security awareness.

Environment and sustainability

The manufacturing sector is one of the most affected sectors by environmental and sustainability concerns across the globe. In 2024, manufacturers will be under more regulatory and customer pressure to produce greater sustainably. Circular economy principles are expected to become a hot topic in the global sector in 2024.

Circular economy principles

Circular economy principles are the practice of extending the life of raw materials and will present significant challenges for manufacturers to overcome to achieve this. Collaboration with the entire supply chain will be critical. Shifting the mentality of the production lines from the linear 'take, make, dispose' to the circular 'reduce, reuse and recycle' will consume significant time and resources. But, this is a step that the sector must take if it wishes to become more sustainable and meet the demands of consumers.

Merging Technology & Sustainability

Smart Manufacturing is not a new concept, however, AI and ML algorithms are expected to optimise the manufacturing process, reducing waste, and improving energy efficiency. This technology, combined with the 'Internet of Things' will allow manufacturers to monitor real-time data on energy use, waste generation, and other environmental impact metrics allowing for immediate adjustments to improve sustainability.

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Manufacturing challenges 2024 – manufacturers show increased optimism (continued)

Cost Benefits

Cost increases over 2023, such as rising inflation, interest rates and high energy costs could have a negative impact on manufacturers' sustainability goals. However, investments that future-proof manufacturers in sustainability can pay dividends down the line through reduced costs, eg energy costs and meeting customers requirements. Manufacturers may not have to bear these costs alone where government funding is set to become available through the Advanced Manufacturing Plan and local Green Business Programmes.

Skilled labour shortages

Skilled labour shortages have been an issue for manufacturers since the UK left the EU. However, in recent years several new factors have now contributed to the shortage of labour.

Aging workforce

This is one of the most pressing issues. Each year that goes by, more and more experienced skilled workers are leaving the sector due to retirement. Manufacturers are looking to overcome this issue by investing in training programs to help their younger staff gain more experience and offering higher wages where possible to encourage new employees into the sector which is increasing labour costs.

Misconception of the industry

The public perception of the manufacturing industry tends to be low-skilled, long hours and low wages. Manufacturers need to work on updating this perception in their employer brand marketing as robotics and automation in the digital age have changed this 'dated' perception of the industry with more tech-focused and highly skilled roles now available.

Manufacturers enter 2024 with increased optimism

Despite the challenges that UK manufacturers are expected to face in 2024, a recent survey from Make UK and PwC of over 200 senior manufacturing executives in the UK shows that manufacturers are entering 2024 with increased optimism compared to 12 months ago. Key findings from the survey include:

- Britain's manufacturers are viewing the UK as a more competitive place to locate their activities compared to Germany, France, Spain and Italy.
- Manufacturers are more confident about sector prospects but are aware of the UK and global economic conditions deteriorating.



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UK government publish Advanced Manufacturing Plan

On 26th November, the government's Department for Business & Trade unveiled its much-anticipated Advanced Manufacturing Plan. This plan was released shortly after the chancellor announced £4.5 billion in funding for growth and innovation in the manufacturing sector.

The objective of the Advanced Manufacturing Plan is to position the UK as one of the world's leading manufacturing nations. To achieve this, the plan outlines three key priorities, each designed to address specific challenges and capitalise on opportunities that lie ahead.

Investing in the Future of Manufacturing

The first priority is a commitment to invest in the future of manufacturing. The plan recognises the importance of research and development, innovation, and the adoption of cutting-edge technologies to drive productivity and competitiveness.

Cooperating Internationally and Building Supply Chain Resilience

Recognising the importance of global trade and the challenges it brings, the plan highlights the importance of international cooperation and building supply chain

resilience. In an era marked by challenges to global trade challenges such as geopolitical instability, disruption to shipping channels and unexpected movements in foreign currency rates, the plan advocates for the diversification of supply chains to mitigate risks and enhance overall resilience.

Reducing Costs and Removing Barriers to Boost Competitiveness

To enhance the competitiveness of the UK manufacturing industry, the plan addresses the imperative of reducing costs and eliminating barriers that impede growth.

Industry Support and Positive Response

The unveiling of the Advanced Manufacturing Plan has gained widespread support from industry leaders and organisations in the manufacturing sector. Renowned manufacturing bodies such as Make UK, The Society of Motor Manufacturers & Traders, and many others have expressed optimism about the plan's potential to drive growth and innovation within the sector.



Government launch Critical Imports and Supply Chain Strategy

Responding to recent import and supply chain challenges, on 17 January 2024 the UK government launched the Critical Imports and Supply Chain Strategy, an initiative aimed at improving the nation's ability to adapt to global disruptions in the face of adversity.

Geopolitical Tensions and Global Trade

The Red Sea, a vital artery for international trade, has recently witnessed heightened geopolitical tensions, posing a threat to the smooth flow of goods worldwide. As well as the direct impact, this also has an indirect consequence with vessels and shipping containers not being in the correct place for transportation on other routes.

Recognising the potential impact on the UK's economy, the government has looked to address the issue through the implementation of the Critical Imports and Supply Chain Strategy.

Key Priorities of the Strategy

This strategy outlines five key priorities to focus on

Centre of Excellence for Supply Chain Analysis and Risk Assessment

The strategy aims to improve supply chain expertise by

enhancing analytical capabilities and risk assessment methodologies. As part of this priority, the government has developed and published a framework to help identify supply chain risks in three key areas. These areas are UK import vulnerabilities, domestic production vulnerabilities and global export vulnerabilities.

Removing Critical Import Barriers

This strategy focuses on eliminating barriers to critical imports, ensuring a seamless and efficient flow of goods into the UK. This proactive measure aims to reduce cost of importing critical materials, remove unnecessary trade barriers and support investment.

Building Resilience to Global Supply Chain Shocks

Geopolitical conflicts and other global shocks can disrupt supply chains, impacting the availability of essential goods. The strategy prioritises building resilience to such shocks by implementing contingency plans, diversifying supply sources, and investing in technologies that facilitate agile responses.

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Government launch Critical Imports and Supply Chain Strategy (continued)

Adapting to Long-Term Trends

Acknowledging the ever-evolving nature of global trade, the strategy emphasises the importance of adapting to long-term trends. By staying ahead of changes in technology, consumer behaviour, and market dynamics, the UK aims to position itself as a forward-thinking player in the international trade market.

Expanding Collaboration across Sectors

Effective collaboration between business sectors is crucial for a comprehensive and sustainable strategy. The UK government seeks to foster stronger ties with industry stakeholders and academic institutions to ensure a coordinated and informed response to challenges and opportunities.



Mandatory payrolling of employment benefits from 2026

HMRC have announced that from April 2026, the reporting and payment of income tax and Class 1A National Insurance Contributions (NIC) on benefits in kind will be required to be made through payroll software. This is a significant development and will affect all employers currently using the traditional method of reporting benefits in kind separately via the traditional P11D forms.

Why has HMRC decided to make this a requirement?

HMRC is planning to become a digital-first tax authority. However, a deadline of just over two years away is very tight to complete the required software development, testing and implementation – which will also have to deal with concerns over variable benefits in kind such as director loan account balances, etc. which are not fixed for the tax year.

Reducing administrative burden

HMRC has stated that by enforcing the use of payroll software when it comes to the reporting and payment of income tax and Class 1A NIC on benefits in kind will simplify administrative procedures for employers as digitising this process will remove the need for companies to submit separate end-of-year returns.

Challenges to consider

Enforced payrolling of benefits in kind will create some challenges that need to be considered. Firstly, a deadline of just over two years does not leave HMRC or software providers long for software development and testing before implementation. During this period they also need to draft legislation and guidance, which will need to be available in advance of April 2026, for companies to review and ensure of compliance.

Secondly, some companies will need to time to evaluate their current payroll software to ensure that it has the capability to report the payment of income tax and Class 1A NIC on benefits in kind. If not, it may become a challenge for them to implement payroll software that can before the April 2026 deadline.

Conclusion

To conclude, whilst this may reduce the administrative burden for companies and HMRC in the longer term, there will be significant initial challenges for HMRC and companies across the UK to overcome to ensure that they are prepared and ready for this change.

When is the 2024 Spring Budget?

Chancellor Jeremy Hunt will deliver his 2024 Spring Budget on Wednesday 6 March 2024.

What time is the Budget?

The Budget is expected to take place at about 12:30 pm, straight after PMQs.

The first part of the statement typically begins with a review of the nation's finances and economic situation. The statement then moves on to proposals for taxation.

The Chancellor's Budget speech usually lasts about an hour.

Expert commentary

Our tax specialists will be watching the Budget on 6 March and will provide relevant announcements on our website and social media shortly after the Budget is announced, to make sure you are fully up to date. To pick up on our commentary, follow us on Twitter (@Hawsons) or LinkedIn.

If you would like to receive an update via email please sign up for our mailing list and select tax.

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Our manufacturing experts

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.



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