



2014

MHA Manufacturing and Engineering Survey

Report





About MHA

MHA is an association of progressive and respected accountancy and business advisory firms with members across England, Scotland and Wales. 45 nationwide offices allow MHA to provide both national expertise and local insight to their clients. MHA members assist clients with their needs wherever they are in the UK, as well as globally through membership of Morison International, which has a network of trusted advisors covering 65 countries worldwide.

MHA allows clients to benefit from in-depth sector knowledge, in addition to specialist accountancy services and expert business advice. Manufacturing and engineering is a key sector for MHA and we are committed to assisting both clients and the sector as a whole to promote manufacturing and engineering in all of its forms throughout the UK.





Foreword

Head of the Manufacturing Group at MHA
Chris Coopey



Welcome to the third MHA Manufacturing Survey which has already become established as a barometer of SME manufacturing and engineering businesses.

It is in many ways a very exciting time to be involved in the sector. There is so much optimism around, that finally, we might be justified in thinking that the renaissance of UK manufacturing and engineering is on the horizon.

With the re-shoring revolution gaining momentum and with the prestige of UK produced goods acknowledged around the globe, there must be a real opportunity to build the sector's share of GDP and achieve the fabled rebalancing of the economy that the government aspires to. It should be acknowledged that in the view of many and despite cut backs, the Department for Business Innovation and Skills (BIS), led by Vince Cable, has generally been seen as a force for good for industry, all be it perhaps with a bias

for the larger manufacturers. This last budget (March 2014) has also offered some real help in a number of important areas including energy costs, apprenticeships, changes to the Annual Investment Allowance, export finance, R&D and seed enterprise investment. Manufacturing has also become the focus of a number of lending initiatives from the banks and from other providers, so it seems at long last that funding is becoming less of an issue – all to the good.

Arguably, the most significant issue left to deal with is the skills gap – but more of that later.

We hope you will find our survey and the commentary useful and informative.

Contributors' Biographies

This year we are privileged to have comments from both Professor Joe Nellis from the Cranfield School of Management and from Philippa Oldham, the Head of Transport and Manufacturing at the Institution of Mechanical Engineering. (IMechE).

Joe Nellis BSc (Econ) MA PhD FHEA AcSS



Director of School,
Professor of International Management
Economics, Director of Policy,
Sustainability & Performance Community

On 1 January 2014, Professor Joe Nellis became Director of Cranfield School of Management. Joe is on the faculty of the Cranfield School of Management and contributes to the full range of the School's postgraduate and post-experience management programmes, specialising in Global Macroeconomics. He is currently Director of the Policy, Sustainability & Performance Academic Community within the School with responsibility for all faculty and staff in the areas of Economics, Finance

& Accounting, Strategy, Entrepreneurship, Corporate Responsibility, Complex Systems and General Management Programmes. Joe has been a member of the School's Executive Board since 1994. He also holds Visiting Professorial appointments at various universities in Germany, Belgium, Austria, The Netherlands, Hungary and Ghana. He is a recipient of an 'Outstanding Professor' award in Hungary for his contribution to curriculum development, funded by the TEMPUS Programme of the European Union; a 'Distinguished Graduate Award' from the University of Ulster, and the 'Best Professor Award' from the German-based GISMA Business School.

Philippa Oldham CEng MIMechE



Head of Transport and Manufacturing,
Institution of Mechanical Engineering
(IMechE)

Philippa joined the Institution of Mechanical Engineers in May 2011 as their Head of Transport and Manufacturing. Acting as a voice for the Institution on behalf of their 106,000 international members, she aims to help raise the profile of engineers so that they can develop safe and efficient transport

systems with less congestion and emissions, while creating wealth and employment within our Manufacturing Sector. Policy statements and reports include Life Cycle Analysis, Manufacturing a successful economy, Intelligent Transport, Intelligent Society and Energy options for our transport modes. Philippa is a Chartered Engineer with a background of working within sectors including defence, aerospace and automotive with a thorough understanding of the importance of R&D and new product introduction.



Introduction

MHA surveyed over 200 clients and contacts in the manufacturing and engineering sectors in January 2014. The respondents ranged from companies turning over less than £1m to global companies with significant industry presence, both in the UK and internationally.

The Survey was split into 7 sections:

- Business Confidence
- Research and Development (R&D)
- Employment
- Export and Competition
- Financial Considerations
- Future Considerations
- Regional Variations

Background:

- A national snapshot from 9 member firms covering England, Wales and Scotland
- 221 responses
- The majority of the respondents were SMEs
- Respondents came from a variety of sub-sectors within manufacturing and engineering including: Aerospace, Automotive, Biotechnology, Chemical, Construction, Electrical and Electronic, Food and Drink, Metals, Minerals and Materials, Oil and Gas, Pharmaceuticals, Renewables and Transport as well as other specialist businesses.

MHA MEMBER FIRMS:

Bloomer Heaven
Broomfield & Alexander
Carpenter Box
Henderson Loggie
Larking Gowen
MHA MacIntyre Hudson
Monahans
Moore and Smalley
Tait Walker

Other Key findings:

The MHA manufacturing and engineering survey indicated a number of consistent trends:

- Optimism for 2014 is extremely high with 92% of respondents predicting growth in the coming year.
- 86% of companies intend to invest in R&D this year. Encouragingly, of those who responded none have been unsuccessful in their R&D claims. However, many businesses continue to miss the opportunity presented by the R&D Tax Credit Scheme.
- 59% of respondents expect to see an increase in staff numbers in 2014 and 64% of companies intend to take on apprentices or trainees - a marked increase from 2013 when just 51% intended on doing so.
- The primary aim for many companies is to absorb price increases through improved productivity and internal efficiencies.
- Europe continues to be the largest export market, however Africa has shown an increase in revenue for export and trade, from 23% in 2013 to 33% this year.
- A concerning 36% of respondents are unsure how they will meet the costs of auto-enrolment, the government directive that requires all employers to enrol eligible employees into a pension scheme, unless the employee chooses to opt out.



The Economic Outlook

The UK economy is starting to pick up momentum with GDP forecast to grow faster than its long term trend at around 2.7% in 2014 following the 1.9% reported last year. However, recovery in recent quarters has been largely driven by a sharp upturn in housing market activity as well as by consumers who have relaxed their purse strings with consumer confidence returning from the doldrums and unemployment falling more sharply than previously expected.

There are clear signs that the manufacturing and engineering sector is ready, willing and able to bounce back from the recession of the past 5 years on the back of this brighter outlook for the economy. Manufacturing output is likely to expand in line with the economy at 2.7% growth this year, following the slight contraction in 2013. Significantly, the sector is reporting an upturn in the general level of optimism – a key indicator which will positively impact business investment decisions and employment decisions in the coming months. Order books across the sector are expected to improve steadily particularly in relation to exports. The emerging markets will become even more important drivers of UK manufacturing and engineering output in the coming years as millions of their citizens continue to enjoy much welcomed improvement in living standards, which

many of our exporters aim to take advantage of. The Middle East continues to be an increasingly attractive market for UK manufacturing and engineering exporters.

Unemployment has continued to fall across the economy, standing now at just over 7%, while employment levels have risen to a new high. Inflation seems to be under control – and interest rates are expected to stay on hold for the rest of 2014 (at least). The Governor of the Bank of England has indicated that interest rates will only be increased on a gradual basis in order to support sustained economic recovery. The outlook is therefore bright as the economy continues to rebalance away from an over-reliance on debt-financed consumer and government spending towards a greater impetus from corporate investment spending and exports. Fiscal austerity measures

will continue until 2017/18 at least. But the government's annual budget deficit is now falling sharply towards a more sustainable and affordable level.

While memories of the longest and deepest recession are still fresh in the minds of many, there is cause for renewed optimism as many firms in the manufacturing and engineering sector have restructured and improved productivity in recent years. This will be the basis for longer term growth and prosperity.

PROFESSOR JOE NELLIS

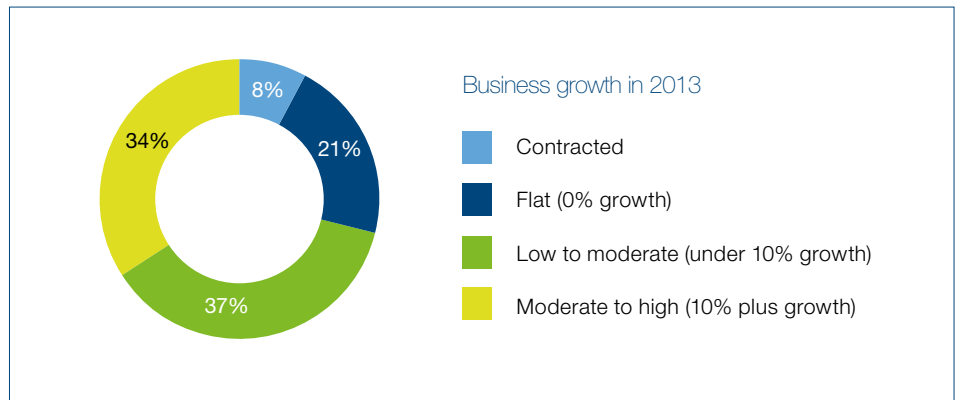
Director
School Of Management
Cranfield University

The National View:



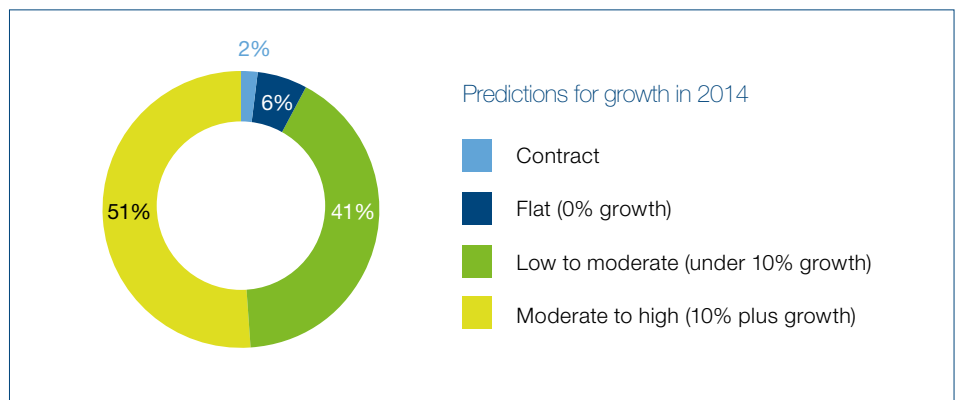
1. Business Confidence

The outlook for the manufacturing and engineering sectors in 2012 and 2013 was positive with the majority of respondents anticipating growth for their business. In 2013 these positive expectations were almost met with 71% of respondents reporting growth (75% predicted growth) and only 8% reporting a contraction in their business activities.



Looking forward to 2014 the respondents continue to report an increasingly positive outlook with 92% of respondents anticipating growth and 51% of respondents expecting more than 10% growth for their business.

It remains to be seen whether this optimistic outlook will match with reality as businesses strive to recover from the ongoing impact of the recession and meet the challenges of a truly global market.



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Philippa Oldham comments:

The survey findings are consistent with the Office of National Statistics' figures, displaying growth in the economy particularly within the manufacturing sector. Manufacturers have been focussing their efforts on where they can reduce their costs by capturing their internal value. They are working more closely with their supply chain to improve collaboration to help increase their resource efficiency and drive down waste. Their customers have become a more important part of the process as they look to create shared value in the form of revenue growth from resource productivity.

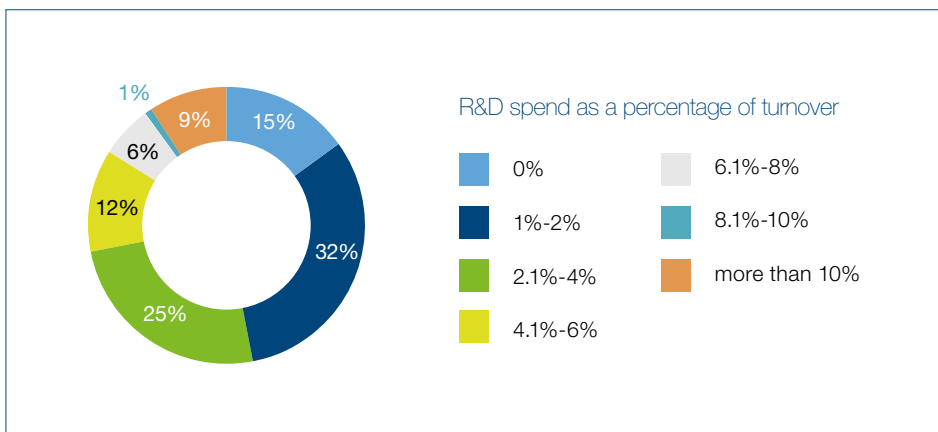
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The National View:



2. Research and Development (R&D)

There is a constant need for businesses in the manufacturing and engineering sectors to be innovative with their products and processes and to continuously develop these to remain competitive. As a percentage of turnover over half of those who do invest spend between 1% and 4% of their turnover.



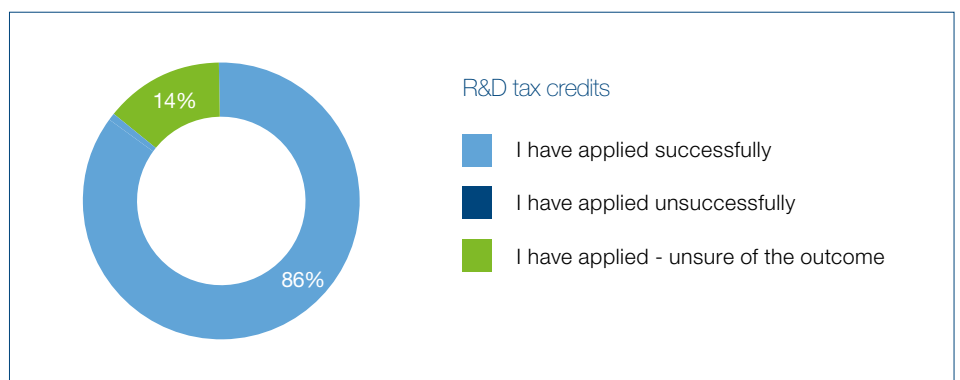
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Philippa Oldham comments:

Investing a percentage of turnover in R&D means companies can significantly improve their product and process innovation. This equates to our manufacturers developing products for new markets, improving their competitiveness and export capability. Investment in R&D ranges from improving efficiency of their businesses through energy efficiency, reduction in process waste, packaging optimisation, transport efficiency or by adopting a lifecycle manufacturing process, which ensures circular resource use, thereby improving the sustainability of the organisation.

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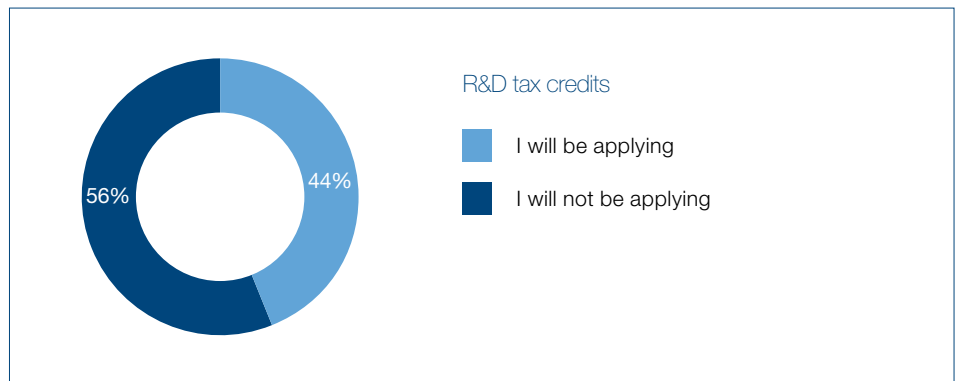
Encouragingly of those who had applied for R&D tax credits in the last 12 months, there were no unsuccessful applications; 86% had been successful in their application although 14% are yet to hear the results of their claim.



The National View:

Looking forward to 2014, of those who were aware of the R&D strategies of their business, less than half of the respondents intended to apply for R&D tax credits in the next 12 months, which is disappointing.

Almost 1/5 of respondents reported that they were not aware of R&D tax credits. What therefore needs to be addressed is a residual lack of awareness in some businesses about the activities that constitute research and development. A better understanding of the tax credits available should lead to more innovation in the UK with businesses being rewarded through the tax system for their investment.



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Philippa Oldham comments:

R&D tax credits have the potential to be one of the most popular incentives introduced by Government. However, the survey shows that 56% of businesses don't intend to claim back money on their R&D investments and we need to have a better understanding as to why this is. Some companies do not realise it is not just about investing in R&D relating to product innovation, but that process improvements can be eligible as they drive overall internal efficiency and cost savings.

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Case Study

Ford Aerospace

Think independently, measure everything, look to continuously improve and never be satisfied.

Ford Aerospace are an award-winning, highly successful specialist in the precision machining and pressing of component and assemblies for the aerospace, defence and related high technology industries. Ford Aerospace provides a first-class, manufacturing and engineering service to a broad range of customers including a number of the UK's leading aerospace companies. The company's precision machining and high quality presswork capabilities are complimented by a niche laminate product "Easipeel".

"Easipeel" is a laminated shim product and Ford Aerospace is one of only a handful of companies in the world to produce this type of product and have worked with local universities via Knowledge Transfer Partnerships to develop the capabilities of the product. The Research & Development Tax Relief has helped to support Ford Aerospace's current investment in increased Research & Development on products such as "Edgepeel" and "Plasipeel" being developed to complement "Easipeel".

In 2014 Ford sees their key challenges as achieving technological advances, addressing recognised skills shortages in the high value manufacturing sector, increased competition, lack of production capacity and a lack of

cohesive business support for the North East region. In order to overcome these challenges, Ford intend to focus on new export markets with expanding aerospace industries such as China, India and Brazil. They will also undertake more aggressive marketing and focus on measured improvement of internal performance levels. In order to address the skills shortage issue Ford has formed the Ford Engineering Academy in conjunction with South Tyneside College to provide engineering Traineeships for people aged 16 to 24 on six month courses, leading to either apprenticeships or employment.

Geoff Ford, chairman of Ford Aerospace had this message for SME manufacturers: "Think independently, measure everything, look to continuously improve and never be satisfied."

The National View:

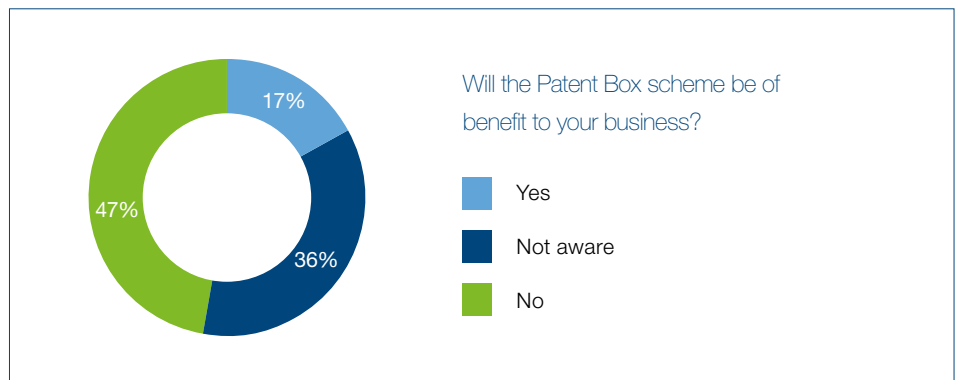


Patent Box Scheme

In terms of the Patent Box scheme, awareness has increased somewhat from 2012 when 49% were not aware of the scheme; in this year's survey only 36% remain unaware of the benefits of the Patent Box Scheme to their business. However, only 17% of those who responded felt that it would be of benefit to their business. This is perhaps unsurprising given that only 23% of respondents have a patented component in their product that is produced in the UK.

However, it is possible for UK subsidiaries of foreign owned companies to claim Patent Box even if it is the parent company that actually owns the Patent. Broadly the criteria includes:

1. Exclusive licence from parent (ensure it is exclusive, often there is no formal agreement in place)
2. Patent developed by group
3. UK subsidiary must actively manage how/ where to commercialise it (this can be evidenced in board minutes)



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Philippa Oldham comments:

The Patent Box scheme is one that causes much debate amongst manufacturers. Many believe that it is a tax credit that just benefits large organisations that have a wealth of Intellectual Property (IP). These larger manufacturers often have whole teams of people dedicated to applying for patents and claiming this subsidy. Many SMEs do not see the value in protecting their IP as they see it as a costly process. They may have a lack of experience or understanding of why it adds value or may operate within a very competitive market, where it is time to market which is of key importance. Thus, when a company's products are simple and therefore easy to reproduce they may see little value to IP and hence the Patent Box scheme is deemed irrelevant.

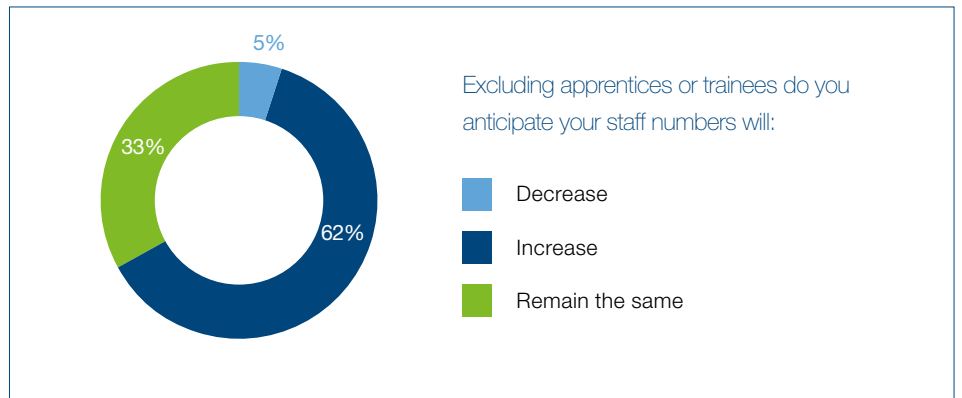
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The National View:

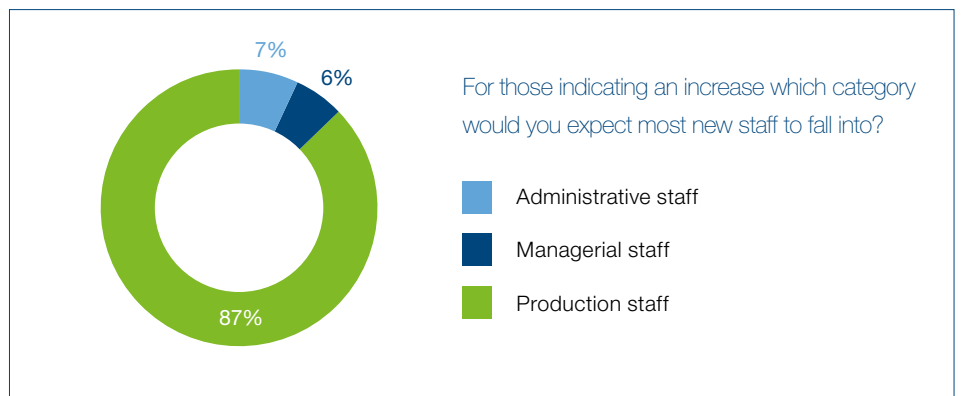


3. Employment

Employment is an indicator of the outlook of the manufacturing and engineering sectors. The positive expectations for growth in 2014 are reflected in plans for recruitment in the coming year. The majority of respondents, 62%, anticipate an increase in staff and only 5% are expecting to see their staff numbers decrease.

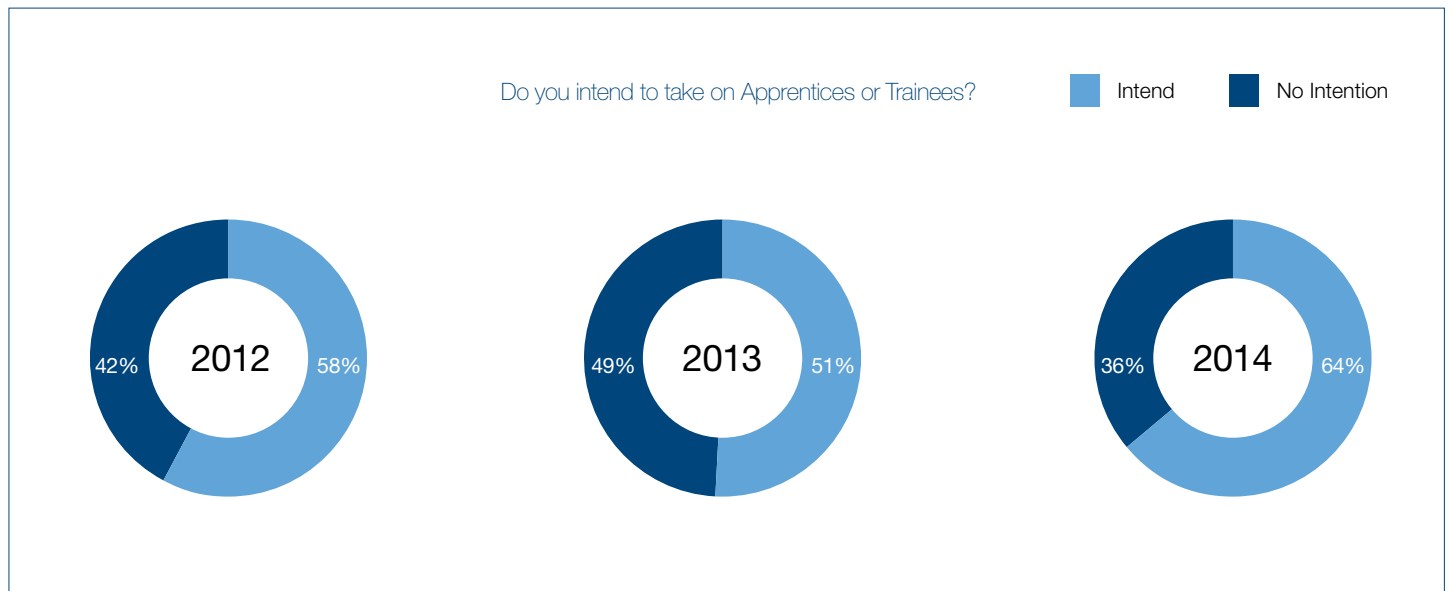
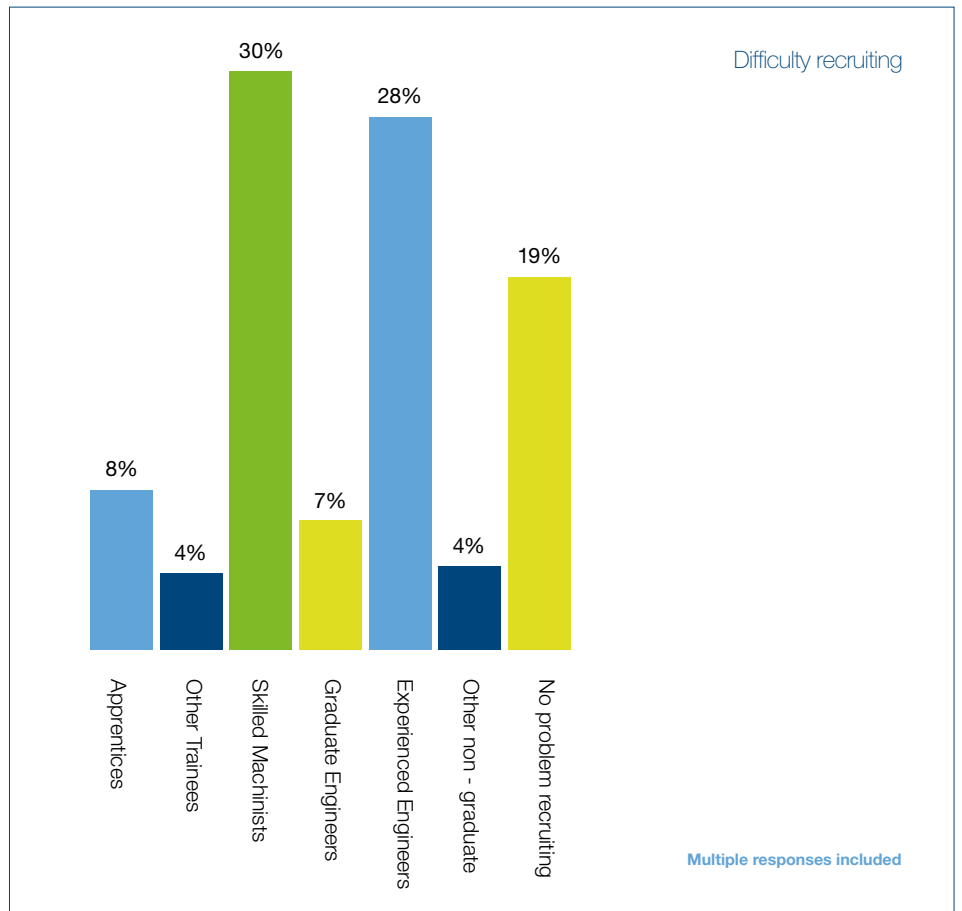


For those looking to increase their staff numbers the overwhelming majority, 87%, expect to take on more production staff, which perhaps supports the strategy of producing more to offset increasing costs such as auto-enrolment.

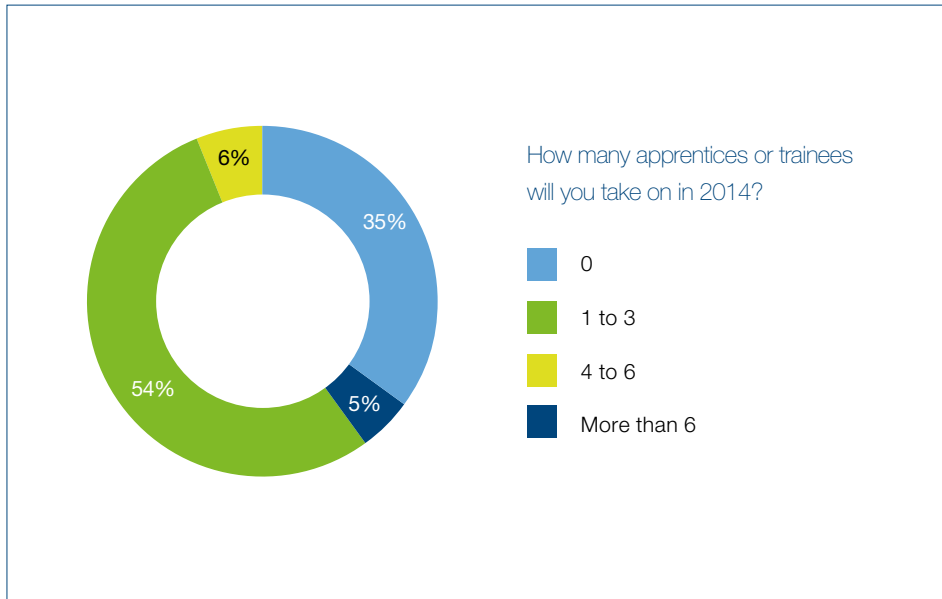


The National View:

Considerations about staffing are a constant concern for any business, however for the manufacturing and engineering sectors the skill sets required are often very specific. Whilst some of our respondents are able to find staff without too much difficulty, the so-called 'skills gap' is of real concern for many. With a shortage of skilled labour and an increasing demand, SMEs are particularly concerned about losing staff to competitors and larger businesses able to offer better incentives.



The National View:



Despite an encouraging increase in the number of trainees that companies intend to take on in the coming year, the main concern for many of the respondents we surveyed was the difficulty of recruiting people into the sector at all.

One respondent suggested that an

"Industry to Education interface (was) required, to assist in the production of the required calibre of candidates for increasing the UK's position of manufacturing in the global market."

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Philippa Oldham comments:

Results from this survey are consistent as companies reported that they are expecting to grow over the next year so we would expect them to be recruiting more staff.

Unsurprisingly, the most common areas of skills required are either those of an apprentice or skilled engineers. The figures are positive as it seems that a majority of firms are looking

to take on a number of apprentices with an increase in the figures over the past two years. Engineering and manufacturing companies need to be more proactive in engaging with the education providers demonstrating the profession as an attractive career that offers a wealth of opportunities. This is now visible through initiatives with schools e.g. the Big Bang Exhibition and universities e.g. the IMechE's Formula Student Project (final

year engineering students build a single seater racecar and compete against other universities from around the world). Skills will remain high on the agenda as the manufacturing sector is expected to see 800,000 employees retire over the next decade leaving a large gap in the market and taking a wealth of knowledge and experience along with them.

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Case Study

The Printed Cup Company

The challenge is to find young people who are willing to learn a new skill and see the investment in our training programmes to be a long term opportunity.

The Printed Cup Company is based in Clitheroe, Lancashire. They manufacture bespoke printed paper cups ranging from 4oz espresso cups to 16oz single wall and double wall cups. They sell locally, nationally and internationally with customers ranging from Number 10 Downing Street to Oakley, Booths Supermarket and Milkshake shops.

Mark Woodward, MD, started the company in 2011 and sees a lot of opportunities for growth: "There has been major investment in the company, the concentration now is on finding new markets for our products. We now have the 3 cup concept for the coffee market in single wall and double wall and the sample/espresso cup enabling us to target those markets with our unique 72hr service. We will also be launching our brand new website with a first in our industry of using a widget to allow customers to immediately see the cost per cup. The investment will be in machinery to bring the same 72hr service to the ice cream market – a totally new concept."

In terms of employment The Printed Cup Company currently employs 7 staff. The recruitment drive will continue, with emphasis on employing young people through the apprenticeship scheme, alongside some more experienced engineers. The challenge is to find young people who are willing to learn a new skill and see the investment in their training programmes to be a long term opportunity.

Mark Woodward urges manufacturers and engineers to

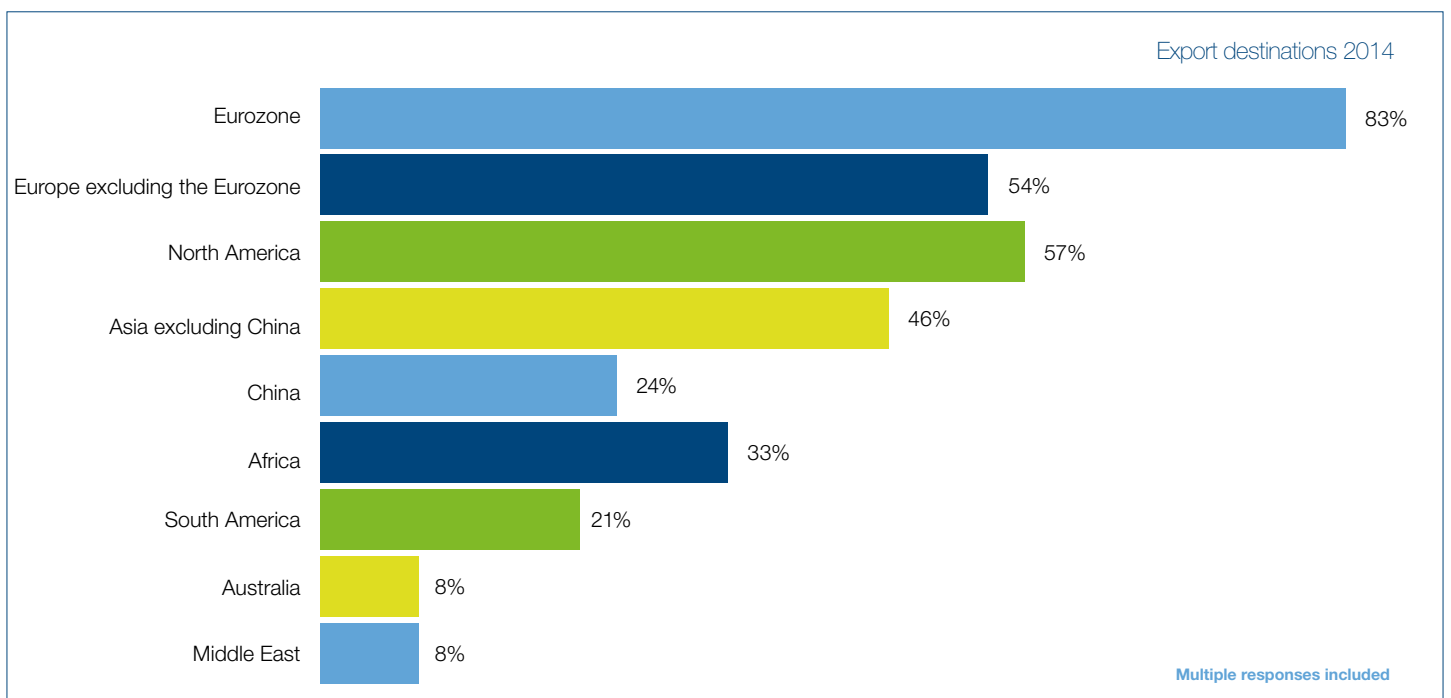
"Always be open minded, listen and use every networking opportunity to the full."

The National View:



4. Export and Competition

The Eurozone continues to be the single largest market for export activity followed by North America and then the rest of Europe. This correlates with the results of the 2013 survey. However, in the 2014 survey Africa is becoming a more popular market as a destination for export with 33% of participants exporting there, compared with just 23% last year.

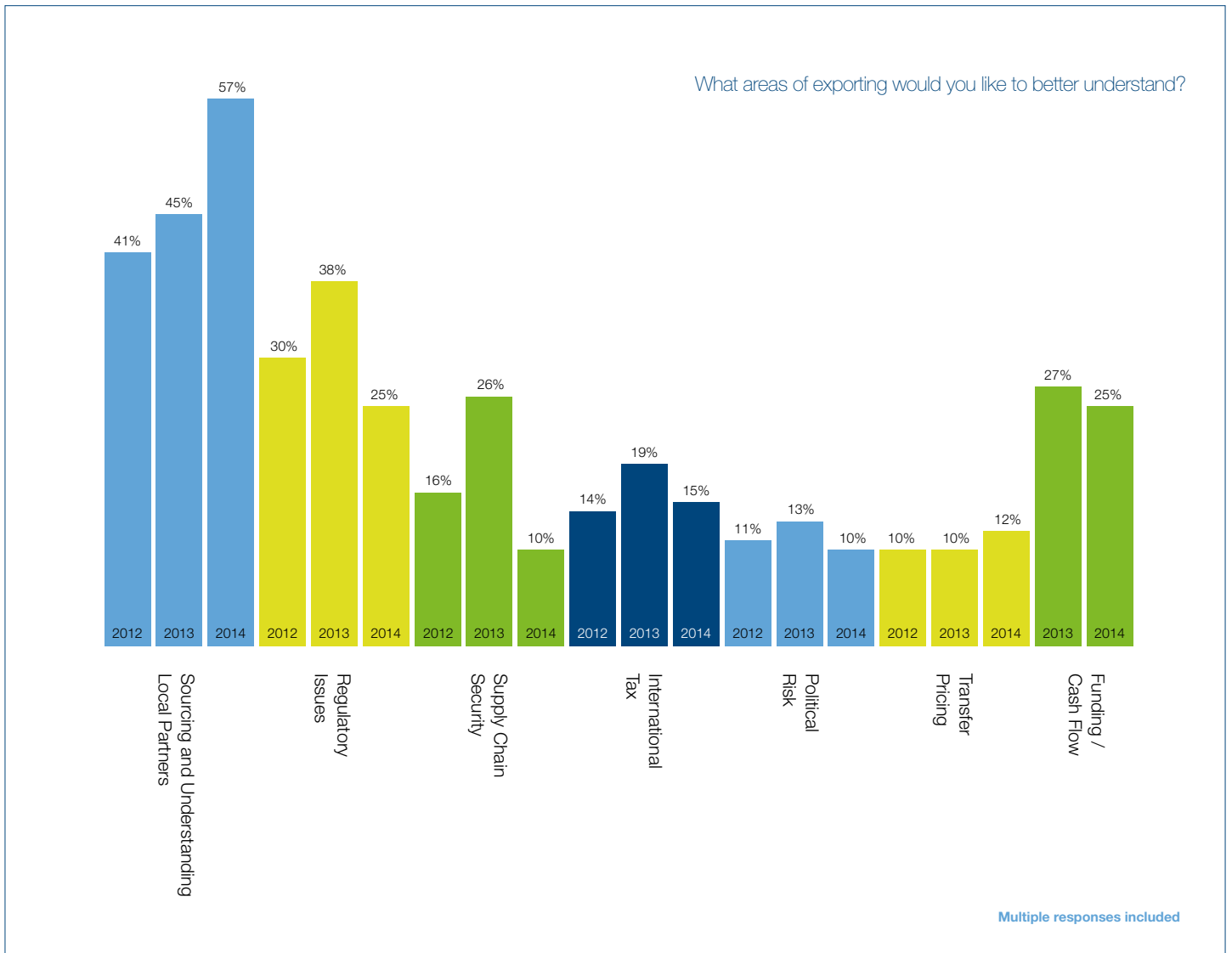


The National View:

Of those who are exporting, government bodies such as UKTI have provided assistance for some, but many businesses continue to be unaware of the support available or have had difficulty in accessing the service.

Many respondents intended to look to UKTI or local enterprise groups for support but it is apparent from this that the Government still needs to do more to increase awareness of the support available for the sector, whether from UKTI, The Manufacturing Advisory Service (MAS) or the many other Government sponsored schemes.

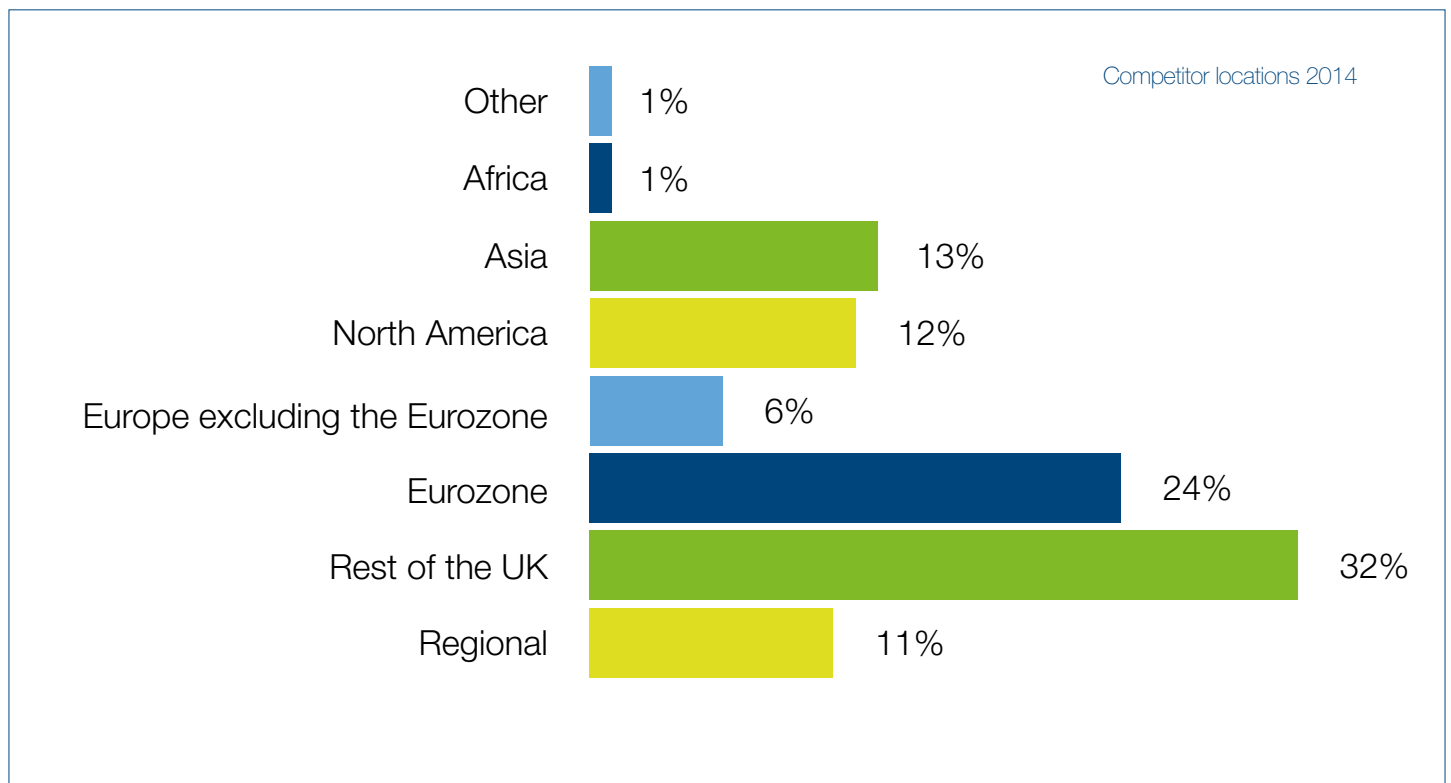
The survey asked respondents interested in exporting to indicate which areas they would value more information on:



The National View:

For most of the respondents, more help is still needed to help them source and better understand local partners, echoing the findings of the last 2 years. However, in the 2014 survey funding and cashflow as well as regulatory issues seem to concern exporters ahead of international tax considerations.

For the UK, global competition remains of real concern although competition from UK based competitors was again identified as the primary cause of concern. This is consistent with the findings of the 2013 survey.



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Philippa Oldham comments:

In order for UK plc to become more competitive with the BRIC and other emerging markets, more needs to be exported. Communication tends to be the key in this area with the All Party Parliamentary Manufacturing Group (APMG) report “Making Good” complementing the findings of the MHA survey results, stating that UKTI and MAS need to do more to help our SMEs.

The report highlighted that SMEs need to learn from their peers, as issues facing one manufacturing business of around 50 employees will be very similar to that of a similarly sized business, even if they are operating in a different sector. This is reiterated in the Institution’s MX Club activities where manufacturers get together within a region and share lessons learnt.

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The National View:



Case Study

G T Bunning & Sons Ltd

Ours is a worldwide marketplace

G T Bunning & Sons from Gressenhall in Norfolk started life as farriers in 1906 and has grown to become a leading manufacturer of manure spreaders and pallet inverters (Marketed by Premier Pallet Systems Ltd) used across a wide range of industries.

Operating from the heart of rural Norfolk, the company has built a worldwide reputation for the quality of its products. These can be found throughout the world and since 2006 its spreaders have been manufactured under licence in Canada to supply the growing North American market.

Managing director, Greg Shepherd, is optimistic about the future and the new opportunities there are for G T Bunning & Sons Ltd and other manufacturing businesses.

“We have been successful because we have specialised in what we manufacture and made sure it’s the best there is available for customers who want quality and reliability,”

he said. “Ours is a worldwide marketplace as we would find it difficult to grow relying solely on the UK, we have spent a lot of time and money travelling across the globe to find new opportunities. Our home market still accounts for over 50% of our business and will always be hugely important but we do need other markets.

“As a business we are now taking advantage of the government’s ‘Patent Box’ initiative which allows a lower rate of corporation tax on monies earned from patented inventions. In addition, we will also be able to recoup 125 per cent of any research and development costs we might incur. Both provide us with a definite incentive.”

G T Bunning runs its own apprenticeship scheme to make sure it has the right skills available to continue to grow the business, while benefiting from a very low turnover in staff.

For other manufacturing companies in East Anglia, Mr Shepherd has this advice, “You need to spread your wings away from just the UK market and specialise; there is plenty of

help from government organisations available if you are unsure of exactly how to do it.

“There is also a lot of red tape but you just have to grit your teeth and get through it!”

G T Bunning & Sons Ltd is planning to expand by building a further workshop on its site to give increased capacity.

Chris Greeves, Partner at MHA member firm Larking Gowen concluded, “G T Bunning & Sons Ltd shows what can be done when you have an effective management, skilled workforce and a clear goal as to where the company wants to get.

“We have been working with the company for over 30 years and it has been great to see how successful a family business operating from the middle of a small village in central Norfolk can be.”

The National View:

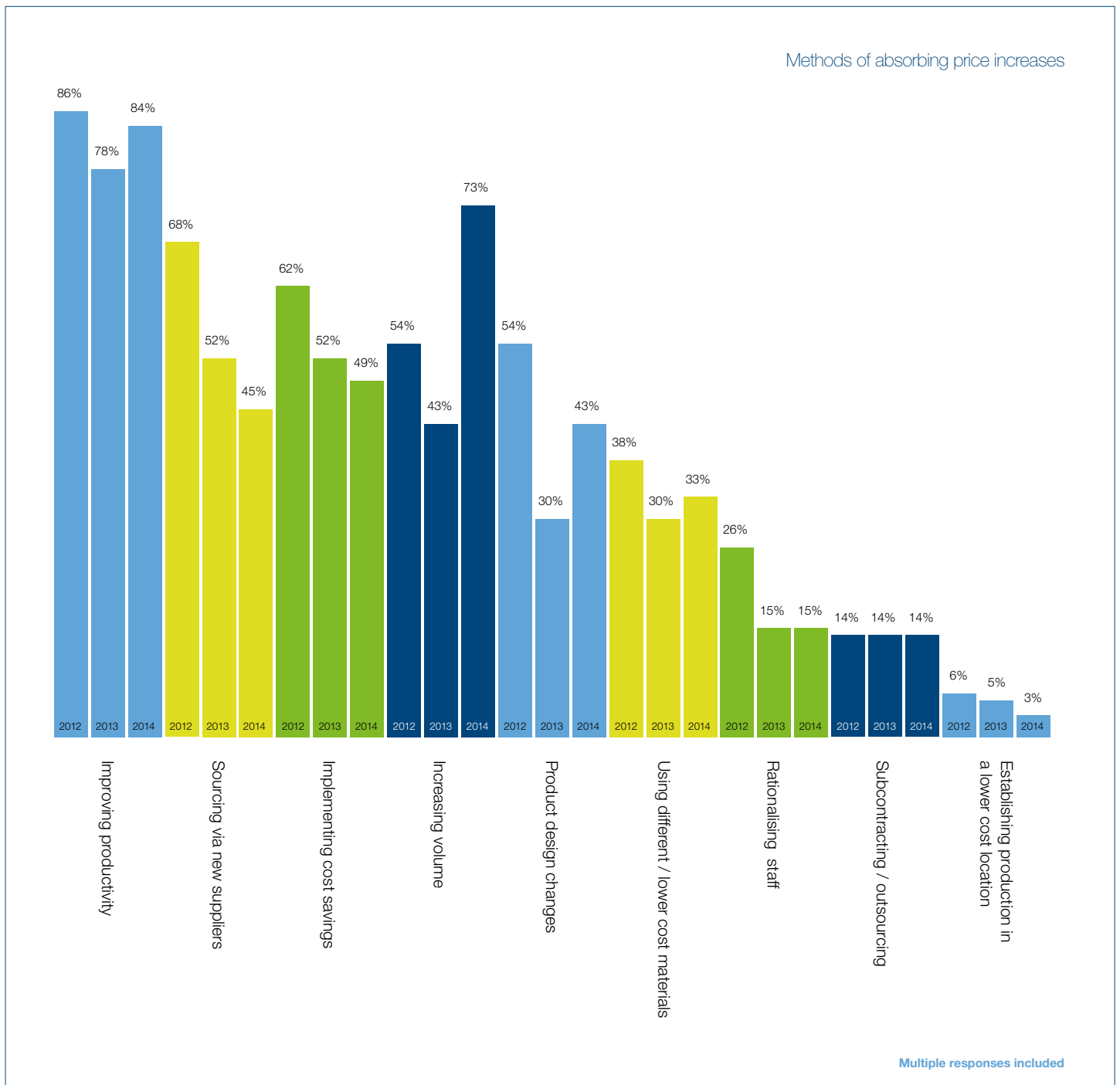


5. Financial Considerations

In 2014 84% of respondents predict that their cost of production will rise. This is in line with the findings of 2012 and 2013. For the respondents to the 2014 survey rising energy prices and increases in the price of materials were both of serious concern, as were labour costs. Respondents also indicated some concern around the increased cost of pensions with auto-enrolment beginning to have an impact as staging dates are passed. This will have ongoing consequences for all businesses, though perhaps a disproportionate one for SMEs whose administrative capacity is usually limited.

58% of respondents indicated that they felt they could not pass on price increases to their customers in 2014. Improved productivity again proved the most popular method of absorbing price increases with increasing volume/sales being the second most popular choice. It may be that in light of the optimistic predictions for growth in the sector, companies are prepared to invest in improving productivity by updating machinery or developing more efficient processes.

The National View:



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Philippa Oldham comments:

With 58% of businesses stating they would not pass on price increases to their customer the companies need to review their own businesses looking at how they can maintain their sustainability through the increases in price that they may experience. In 2013, a report pulled together by the Institute for

Manufacturing, Lavery Pennell and 2 degrees titled the “Next Manufacturing Revolution”, addressed how businesses can decrease their environmental impact whilst driving up their profits and improving their social impact through creation of jobs. If manufacturers adopt this strategy then it will help them improve the sustainability of their business and so help absorb some of the price increases.

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The National View:



There are also increased signs of optimism with regards to the banks. 72% of those surveyed felt that they received adequate funding support from their banks, supported by the fact that 88% reported that they had not had a funding request rejected by their bank. Continuing this positive theme, 77% of respondents had no intention of looking to change banking relationships over the coming year.

40% of respondents in 2014 have received government or grant funding. Sources reported included MAS, apprenticeships, regional growth funds and UKTI support amongst others.

Case Study

Parafix Tapes and Conversions

Aiming to expand business within the existing customer base

Parafix is the UK's leading converter and distributor of self-adhesive materials from the world's leading adhesive manufacturers. With an established and reputable European presence, they solve the manufacturing problems of 1000+ customers.

Bespoke solutions are created for a diverse range of industries, through a unique combination of long developed capability with the latest in converting technology. The company has been established for over 40 years and exports to more than 30 countries.

Parafix are optimistic about good growth this year. They are already seeing increased activity from existing customers and new projects are coming to fruition, especially in the Life Sciences arena. Other typical markets are Electronics, Automotive, Defence and general industrial. The company recently made a major investment in state of the art machinery and expect this to lead to a need for an increase in production staff.

In terms of key challenges, uncertainty in the markets is still an unsettling factor. Colin Mills MD said

"Whilst we feel that companies are starting to make more investments, there are still only a very few who will provide any real forward visibility of requirements through the year. This, of course, makes planning difficult and has a knock on effect with our own suppliers."

In order to overcome these challenges constant monitoring of inventory helps. In some areas Parafix can hold buffer stocks to account for unexpected spikes in demand. They have also worked with their partners to try to improve the supply chain and reduce lead times without necessarily incurring all the risk and expense themselves.

Parafix are expecting to increase their direct workforce by around 10% this year while maintaining the same number of indirect staff.

Mills' message to other manufacturers and engineers:

"Try to expand business within the existing customer base, if possible. It is generally easier than finding new business. Look for new applications rather than just offering "me too" products."

The National View:

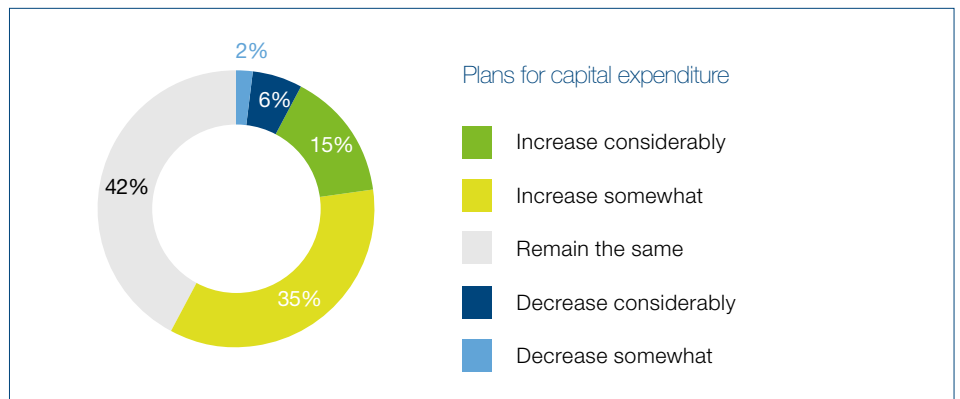


Capital expenditure

Capital expenditure plans for the respondents remain encouraging with over 92% planning to either continue or increase capital expenditure.

Legislation relating to capital expenditure has undergone numerous changes, including updates to short life asset elections. As recently as 19 March 2014, the Chancellor announced an increase in the Annual Investment Allowance to £500k, which will be particularly relevant for SMEs.

As energy prices continue to soar, inevitably plans for capital expenditure will include reviewing existing energy equipment. With the current high level of Annual Investment Allowance only guaranteed until 31 December 2015, companies will do well to review their position sooner, rather than later.



Annual investment allowance

Of course the Chancellor's decision to double the value of Annual Investment Allowance (AIA) and extend the tax break by a further year provides a valuable opportunity for businesses in the sector to invest in the future and benefit from a really valuable tax break. The announcement will see the Annual Investment Allowance doubling to £500,000 with an extension up to the end of 2015.

There may be a particular fillip to the engineering and manufacturing sector which, in order to take advantage of the opportunities around exporting and re-shoring, needs to find a way to produce goods more efficiently in a market where skilled labour is difficult to find.

The National View:



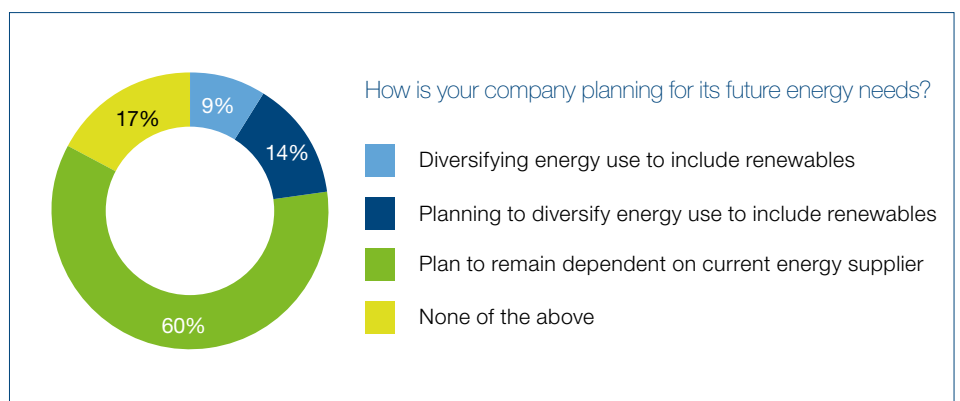
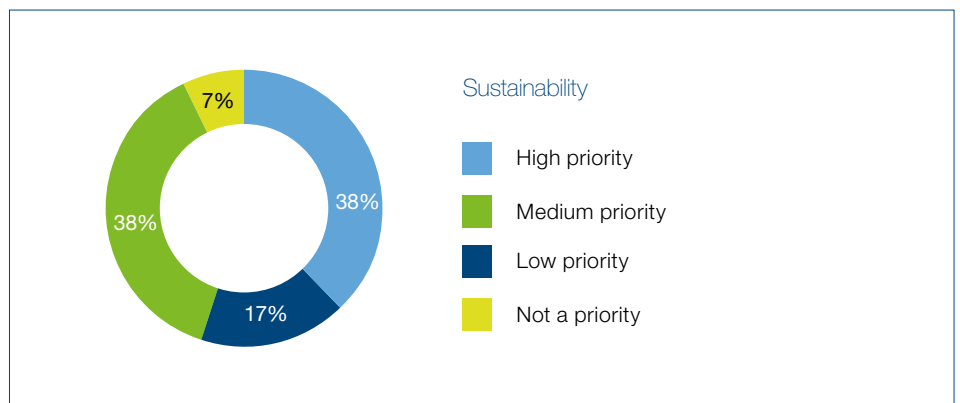
6. Future Considerations

1) Sustainability and Energy usage:

For those surveyed, sustainability had not been of huge importance in previous years. However, in 2014 sustainability is more of a concern with 76% indicating that it was a medium or high priority for their business.

Energy consumption is an ongoing concern for many businesses, especially in the manufacturing and engineering sectors where the cost of energy usage can be particularly high depending on the processes involved. Although some of the respondents were diversifying or were planning to diversify their energy use to include renewables, the majority intended to remain with their current supplier.

Many UK businesses face the key challenges of sustainability, productivity and energy security and resource along with concerns about supply chains and skills. With raw materials in the UK proving very expensive these challenges become increasingly difficult to tackle. Manufacturers are attempting to overcome these challenges through a variety of methods including the implementation of internal efficiencies along with sustainable energy strategies. Key areas of take up include Solar PV, Biomass and LED lighting.



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Philippa Oldham comments:

Energy efficiency is something that will remain high on the agenda for manufacturers. As energy prices increase it is the energy intensive manufacturers who will suffer.

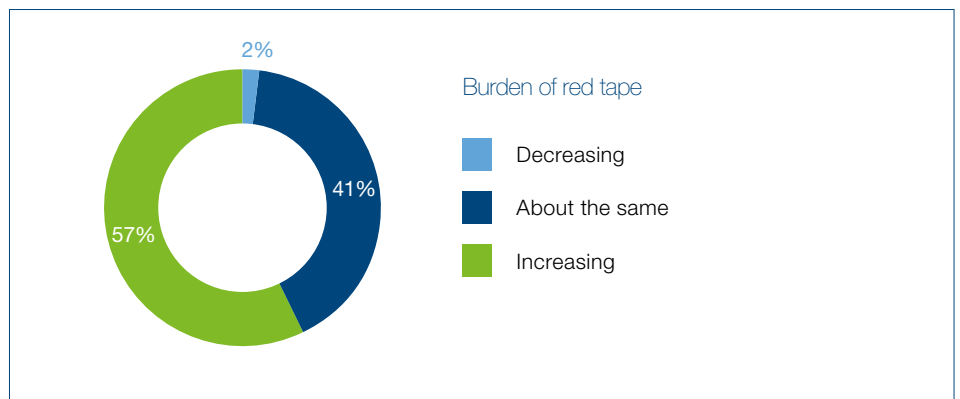
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The National View:



2) Red tape

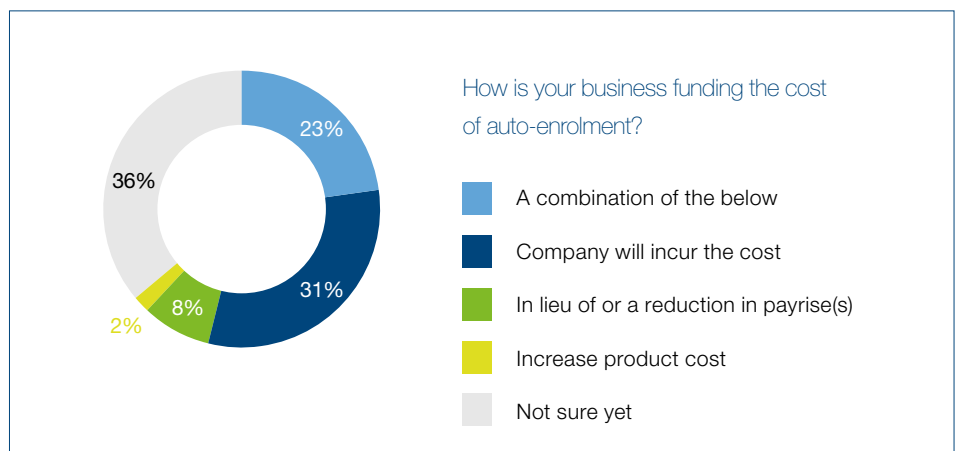
In line with the results from previous years, the burden of red tape on businesses in the manufacturing and engineering sectors appears to be increasing. Auto-enrolment and Real Time Information reporting have undoubtedly added to this problem.



3) RTI and auto-enrolment

The introduction of auto-enrolment has placed a huge additional administrative load on businesses. The direct and indirect costs of compliance cannot be underestimated.

For the majority of the manufacturers and engineers surveyed, increasing the cost of their products in order to cover the costs of auto-enrolment was not an option but a concerning 36% were unsure of how they would fund these additional costs.



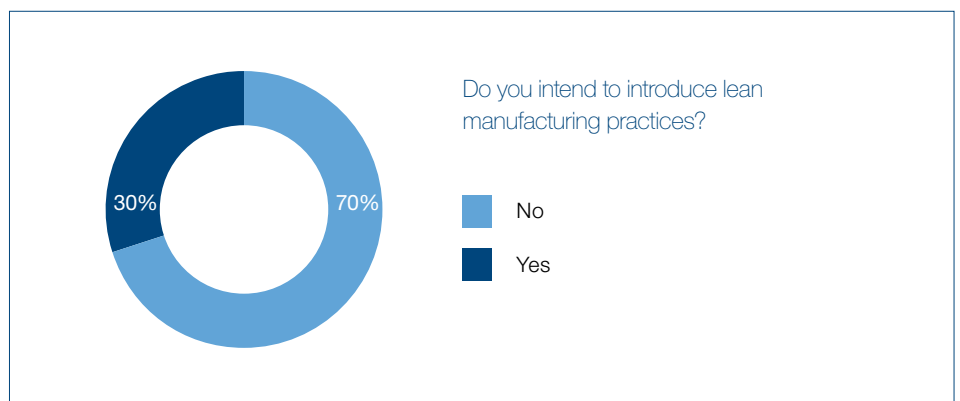
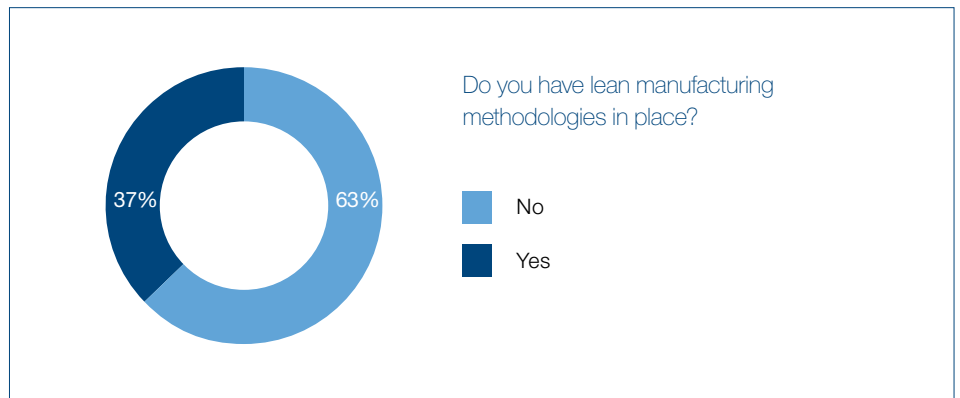
For many SMEs staging dates are imminent and they face an additional cost for which they have, as yet, not budgeted. Perhaps even more worryingly, clients are finding that lead times to put pension schemes in place are longer than expected. In some cases this is taking up to 18 months as pension providers are inundated with applications and as a consequence penalties may be incurred.

The National View:



4) Lean Processes

Despite the need for internal efficiency to avoid anticipated price increases, in line with findings for previous years, the majority of those surveyed do not have lean methodologies in place in their businesses. Despite the ever-increasing need for businesses in the sector to remain competitive, only 30% of those surveyed intend to introduce lean manufacturing practices or alternative improvement methodologies. For those who are considering the implementation of these there is no clear preference for one methodology; a number of respondents indicated that they would look at Kaizen and Six Sigma, whilst others intended to look in-house for cost and efficiency improvements that could be made to their current processes.



“

Philippa Oldham comments:

By adopting lean processes manufacturers can save significant amounts of value, which may take the form of either cash or time. Adopting lean processes can optimise the whole lifecycle of a product from development to production. Lean processing can also add value by reducing the amount of waste produced through the manufacturing processes. This would include collaboration within the supply chain as well as a review of the materials being used enabling the design, development and understanding of the whole life of the product.

”

The National View:



7. Conclusion

The national picture from Chris Coopey, Head of Manufacturing MHA.

This year's MHA survey reflects much of the optimism around the sector as we pull out of what was a protracted recession. It is excellent to see that over 90% of our respondents are predicting growth over the next 12 months with almost half of them predicting growth of over 10%.

The confidence within the sector should thus be celebrated. Another positive relates to the issue of bank funding. Whilst the picture remains mixed, overall businesses do seem to be able to access funding more easily than has been the case in recent years. Interestingly, many of the major banks are now working to develop sector teams that really understand manufacturing and engineering. Hopefully this will mean that businesses will not only see improvements in working capital, but will also be able to invest in the plant and machinery that can help them stay competitive.

Of course there are potential hiccups. With optimism and growth comes the need to recruit at every level and this perhaps more, than any other factor may limit just how far the sector can help in rebalancing the economy. In terms of recruiting the future workforce, the pressure is beginning to build already. It is my view that as a nation we have yet to sufficiently prioritise the needs of this sector when we educate our young. Despite some positives including the growth of the University Technical College movement and a greater emphasis on the STEM subjects in our secondary schools our education system remains skewed towards producing candidates who aspire to service industry jobs which in many cases do not exist. The shortage of engineering graduates is a national scandal, but there are also other vacancies at almost every level. At a time when manufacturing and engineering businesses have great opportunities waiting to be taken we need to come up with a coherent national plan to produce the candidates needed.

The survey highlights that almost 70% of the companies involved do export however, provision of practical help from UKTI and others seems patchy across the country, with some good news stories and some bad. It would appear that signposting to this help still needs to be much clearer and the quality of provision needs to be consistent across the

UK (Scotland and Wales have similar services delivered in some cases by different agencies, but the principle remains the same).

All businesses are affected by red-tape and whilst the Government has pledged to reduce this burden, the experience of many of our respondents seems to suggest that the position is getting worse. Indeed, not only has auto-enrolment placed a massive additional administrative burden upon businesses it has also added a direct and considerable cost by way of pension contributions upon them. Of course such costs have to be paid for but the survey suggests that many businesses will try to avoid passing on increases to customers by absorbing costs through efficiency savings and by trying to sell more. It seems that if this is not possible, it will be margins that suffer.


The Manufacturing Group at MHA is committed to helping all of its many clients in the sector to make the best of their businesses and more broadly, to help fly the flag for the sector by representing its views to influence future policy. Over the coming year we believe that the outlook for UK manufacturers and engineers is bright and we see opportunities to increase sustainability and profitability as businesses take up the challenge of lean and of such things as servitization. We hope you have found the findings of our survey useful.

Summary of regional variations

The results of the survey were taken from a cross-section of Businesses across the UK. It is positive to see so many common themes, such as renewed optimism for growth, wherever these companies operate nationally.

In keeping with MHA's ethos of global expertise, national experience and local excellence, each of our member firms is committed to the local market in which it operates. Our team recognises that many businesses operate in distinctly different marketplaces, facing unique challenges depending on where they are in the UK.

Our survey highlighted some interesting, insightful regional variations, including:



In Scotland, the majority of respondents were from the Oil & Gas industry and unsurprisingly, many expected demand to soar and therefore predicted growth of more than 10%.

According to survey respondents, the North West has seen a dramatic shift in attitudes towards grant funding with 43% planning to apply for grants in 2014, compared with just 21% in 2013. In contrast, the national average shows that just 18% plan to apply for grants in 2014.

In the North East, many participants were from the key core sectors of automotive supply chain and oil and gas. Cost increases are a particular concern with many respondents citing energy and auto-enrolment as a worry.

Welsh respondents attitudes to exporting are strong with 60% currently exporting to areas such as Europe, Asia and North America. The number of Welsh businesses exporting has increased since the first MHA Manufacturing Survey in 2012 when only 40% of respondents were doing business internationally.

In the Midlands, in contrast with national findings, an overwhelming majority of respondents felt like banks were still not providing enough support and were therefore looking for alternative sources of funding. Surprisingly, companies are looking to niche funders rather than grant funding, where only 12% intend to apply for government funding.

In London and the South East, as the economy begins to recover, priorities have shifted to put education and training top of many manufacturers' concerns with the growing skills deficit.

Whilst East Anglian respondents have the largest regional percentage of Research & Development Tax Credit claims, those surveyed were the least optimistic about growth in the country.

Within the South West region there are a number of funding schemes that may be appropriate for businesses in the manufacturing sector. These include the West of England Growth Fund, The Technology Strategy Board Initiatives, The Growth Accelerator Funding Support and also the Wessex Association of Chambers of Commerce, which is now promoting the Funding for Growth Initiative in the Wessex area.

South coast and Gatwick diamond – Education and the skills gap is a real issue for those on the south coast as it is in many parts of the country. 15% of those who have tried to recruit have failed to do so and 22% of those who have been able to recruit are not satisfied with the educational attainment or motivation of their recruits.

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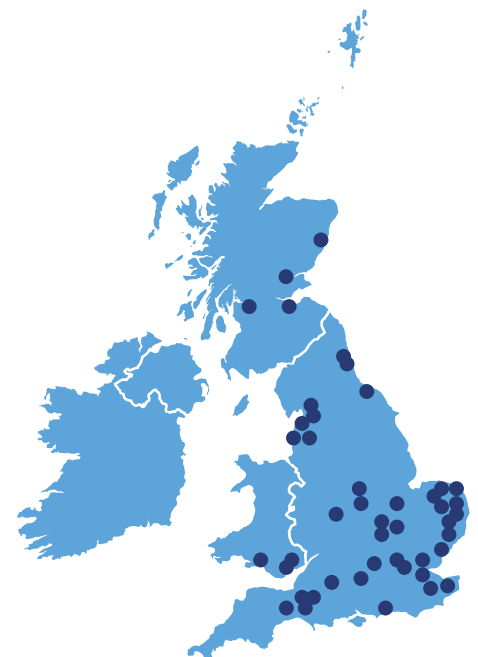
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Thank you

2014 MHA Manufacturing and
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