



The Engine

Issue 10

Keeping You Up To Date With Manufacturing & Engineering Insight
November 2021

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The result of the MHA manufacturing short survey the view overall

After previously reviewing the combined impact of COVID and Brexit upon the manufacturing and engineering sectors, most recently in May, MHA returned to a short series of questions to track progress. Encouragingly, on reflecting on much of what we had heard and seen in terms of “pent up” demand when we asked how long it would take entities to return to their trading level pre COVID we were told that 37% of respondents had either been unaffected or had now exceeded pre COVID business.

In our May report we noted that the projected recovery period had lengthened a little which we suspected was caused by a series of set backs from successive lockdowns but the latest set of responses has seen timescales shorten again with 23% now seeing a recovery in less than 6 months and 19% between 6 and 12 months compared to 24% and 34% respectively. These are, of course, alongside those who have already exceeded pre COVID levels or have been unaffected meaning that 60% of business are or expect to be back to pre COVID levels shortly.

The recovery is underlined by our question regarding planned levels of investment within the next 12 months where 40% are now planning investment as planned and 27% slightly or significantly more whereas only 9% significantly less and 21% slightly less. We raised the query last time whether the announcement by the Chancellor for capital allowance super-deduction where businesses will be able to gain relief at 130% would make an impact in the area of investment and it would appear that this, alongside the levels of demand could be part of the explanation.

We asked whether respondents had changed their product mix as a result of the pandemic. The answers remained pretty much unchanged with 55%, as opposed to 51%, saying “no”. This, of course, can be interpreted from both directions as we noted in the last report and of the 45% who have changed then 29% have done so by a “little”, 9% by “quite a lot” and 6% “significantly”.

As the pandemic has evolved so has the response to it. Two such examples have been “social distancing” and the use of the NHS App which alerted you if you had been in contact with someone who had tested positive for COVID – a flurry of these led to the term the “pingdemic”. Therefore we asked “will you be continuing with social distancing measures within the workplace?” 68% said “no”. This should be considered in the light of responses to the previous report which revealed that 51% had seen capacity affected “a little” by social distancing measures and 25% “quite a lot” or “significantly”. A new question for this report asked whether the “pingdemic” had affected business? 61% said “a little”, 20% “quite a lot” and 4% “significantly”.



The challenges affecting many within the sector in more recent months has been to their supply chains and rising prices within there, the products themselves and utility prices so we asked about the level of such issues and any product shortages. 25% said that they had been significantly affected, 32% had experienced “quite a lot” of disruption and 36% “a little”. Our worry is that these challenges have the potential to send the recovery off course with many manufacturers telling us that they are unable to fulfil orders in a timely fashion, or some not at all, given the supply chain issues and then, of course, we also have to add in the rising cost dimension.

In previous reports and working with our clients we have advised them to consider the robustness of their supply chain and this has again been highlighted with blockages in the Suez Canal, a shortage of delivery drivers alongside issues crossing the Channel. Responses to the question will you be changing your supply chain tend to underline that all is not right with 43% saying “a little” which was the same as the last report, but there has been a movement in the answers “quite a lot” 13% (previously 9%) and “significantly” 4% (previously 1%).

In our previous report we introduced two specific questions about the impact of Brexit; Have you had to change your business practices as a result of the Brexit agreement? The split of responses to this question has not really changed with 66% saying “yes” (67% the last report) and the most significant reason given here is

“additional paperwork” which very much reflects the assistance that we have provided to our clients throughout this period. We also asked whether businesses had seen friction or obstacles as a result of the Brexit agreement when trading with the EU or with Northern Ireland? Of our respondents 61% (56%) said no. The last minute nature of the Brexit agreement certainly caused issues for businesses and more recent discussions to ease the path of goods across the Irish Sea highlights the challenges still faced requiring the Government and EU to find a way of easing the problem.

Government “intervention” has necessarily been at unprecedented levels and 70% of our respondents said that this was either “enough” or “fantastic” with many making use of either the “furlough scheme” or Government backed loans. With the recent ending of “furlough” it remains to be seen what impact this might have. There have been suggestions that it will lead to increases in unemployment or a Government suggestion that those no longer required in one industry might be able to retrain to fill demand elsewhere. With the perennial skill shortage within the sector alongside those previously employed within companies but who have left following the Brexit agreement any incentives that might ease this challenge would be welcome however it is clear that there needs to be a coordinated Government industrial policy to address longstanding issues within the sector.

The role of Government is highlighted by a new question which we added into this report. We asked if you could change one thing which would make your business life easier? Our respondents replied with a number saying “reverse Brexit” where they highlighted issues with freedom of movement of people and goods and that this was affecting their businesses in a number of ways whilst others highlighted supply chain issues and the rising cost of goods.

As we concluded in our last report it is evident that the pandemic and now Brexit have had a significant effect on the manufacturing and engineering sector. The ability of manufacturers and engineers to pivot has been much in evidence and the continued review and strengthening of supply chains is important and it is most encouraging to see the return to pre COVID levels and bulging order books, but there are many challenges affecting the sector and there is a real risk that the good work done could falter or worse be “undone” by the newer challenges within the supply chain or in terms of increased prices for vital services. Whether Government will be required to get involved again remains to be seen but as has been proved many times the manufacturing sector is vital for the UK economy.

A North West Perspective



Common challenges faced by our North West based manufacturers include dealing with increased administrative and logistical barriers post Brexit, alongside continued strains on skills retention and recruitment. Despite these challenges, positivity is prevalent, with trading results either exceeding pre-COVID levels or being unaffected by the pandemic, with many others expecting a return to “normal” in the relatively short term. Investment plans remain buoyant, with 70% of North West respondents planning to spend the same or more than originally budgeted pre COVID – with the generous taxation reliefs currently available on capital spend this is encouraging news.

As government support schemes recede and increased numbers of employees are available to return to the workplace businesses have had to balance the impact of social distancing upon production planning. The vast majority of North West respondents (85%) have not seen the need to continue social distancing measures on the shop floor – a decision that will likely be driven by the way specific production processes are undertaken, the availability of space, or purely the need to maintain production capacity to remain competitive.

Increased costs of production, shortage of key materials and longer lead times are clearly having an impact on purchasing practices. Every North West respondent has been affected by supply chain issues or product shortages and there does now seem to be an increased move towards making changes to the supply chain, with 60% now citing the need to change at least a little. Just 12 months ago, half of our North West respondents were confident they did not need to make any supply chain alterations so it is clear that loyalty is being tested in the current climate.

Only a small proportion (20%) of our North West manufacturers have been unaffected by the Brexit agreement. Additional paperwork and lengthy procedures at the border are unsurprisingly the main bones of contention despite it being nine months since the UK left the EU. If our North West manufacturers could change one thing to benefit their business, removing the barriers to trading with Europe was high up on the agenda, followed by being able to attract and retain quality personnel. The skills gap has long been an issue for the sector but is being further compounded by recent well publicised shortages in the labour market.

There has been a slight shift in the view of government support provided over the last 18 months. Whilst many respondents (60%) feel the government either did enough or were fantastic in their response, there is understandably some hesitancy over whether more could be done. The furlough scheme will have acted as a welcome crutch for many businesses and as we enter the final few months of 2021 they now need to stand on their own two feet and face the challenges and opportunities that lie ahead.

A view from the Midlands



In our previous reports we found the Midlands, as an area, appears to have been harder hit, is taking longer to recover and considers that it has not, comparatively, been given sufficient support by Government particularly over this latter period so given that the national picture has seen businesses recover to exceed or close the gap on when they will exceed pre COVID levels we were looking with interest at the Midlands' figures.

In terms of when businesses would return to pre COVID levels 40%, compared to 37% nationally, said that they had either not been affected or have already exceeded pre COVID levels of business and 26% would return to such levels within 6 months (23% nationally). The national movement on investment is also reflected in the Midlands with 32% stating that their level of investment would be as planned and 30% saying that investment would be slightly or significantly more than planned. This compares to 40% nationally saying investment would be as planned and 27% saying it would increase. The Midlands companies who responded to the survey are split 50/50 in terms of changes to their product mix so investment would appear to be going into both new and existing products.

The interesting figure in the Midlands is those businesses where they state that investment would be slightly or significantly less being 36% and whilst this is less than within our last report (46%) the national answer was 30% perhaps indicating that whilst the demand is there the confidence to invest has not yet fully returned to all Midlands' businesses which may indicate, as we surmised in our last report, that Midlands' business was harder hit.

Perhaps the biggest change in opinion has been with regard to Government support. In the last report those who stated that Government had done enough were at 38% and those saying that either the Government could have done more or have not felt supported was 48%. This time 61% said that the Government had "done enough" which compares to 55% nationally whilst numbers saying that a "fantastic" job had been done by Government were similar to the national picture at 14% (15% nationally) which all tends to indicate that whilst it may have taken time to get support into the "right" areas this has now happened.

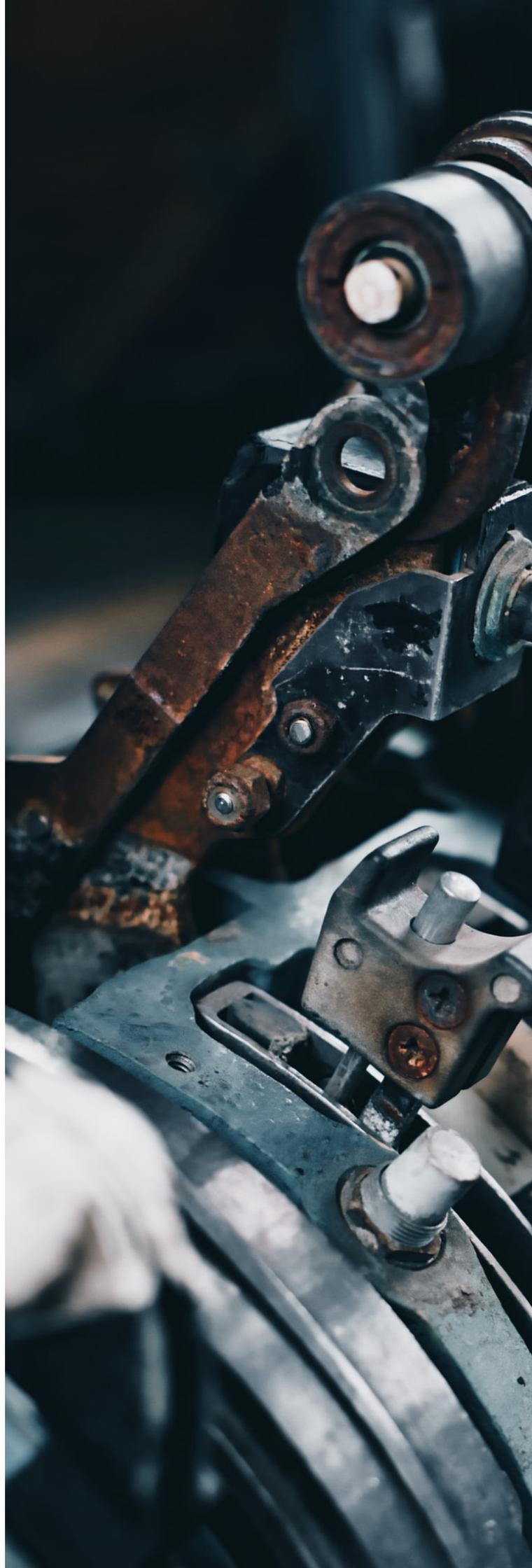
One of the most marked changes within the Midlands respondents between this report and our previous one is within changes to supply chains. In our previous report 57% said that they would be making changes to the supply chain – whether little or significant. This time that number has increased to 70% (noting that this is only 61% nationally) and of those 43% would be making little changes and 19% "quite a lot". Those numbers compare to 43% and 13% respectively nationally with a further 8% (nationally 4%) planning on more significant changes. This could indicate that whilst changes to supply chains have been made the renewed pressure which has seen delays in terms of getting hold of both products in terms of raw materials but also getting it delivered may be having more of an impact in the Midlands area.

Specifically looking at supply chain and product shortages which have affected business then it was reported that 37% had had "a little" impact, 36% "quite a lot" and 32% "significant". These numbers are, of course, not dissimilar to the national picture although the responses in the "significant" category are 7% higher in the Midlands which may be reflective of the challenges of the motor and aerospace industry who are highly represented within the area.



Businesses continue to report significant issues with post Brexit paperwork with 59% (compared to 54% in the previous report) saying that changes in business practices had followed Brexit. There has also been an increase in friction or obstacles as a result of Brexit with the EU or Northern Ireland with those affected now 43% compared to 37% in the previous report, although this means that 57% remain unaffected.

We concluded, in our previous report, that businesses in the Midlands area had been hit harder than those nationally by the effects of COVID and then Brexit and they felt that Government support had not necessarily reached the "right areas" but now they are now experiencing a similar return of demand and sales and an overwhelming majority report that Government has either done enough to support them during those challenging times. As we have seen nationally challenges have been renewed in terms of supply chain issues and more recently increases in prices of both raw materials and energy and these have been more marked within the Midlands area reflecting the nature of the business which operate here. We will watch with interest as to how this plays out locally and whether Government will need to become further involved to stop a promising recovery being threatened by supply chain challenges.



A North East Perspective



Confidence in terms of the speed of recovery is relatively high. 81% of respondents expect their business to return to pre-COVID levels within a period of 24 months, with the remaining 19% having already reached this threshold or responding that they had been unaffected by the pandemic.

The feedback of the impact on investment was more mixed. 37.5% of businesses felt as though their investment plans were not disrupted as a result of the pandemic with the remaining split of 62.5% being split evenly between those businesses that felt they were investing less than planned and those that felt that they invested more than planned; with some of these businesses' plans being affected significantly more than others.

The respondents are reporting that they have not had to make significant changes to their products as a consequence of the pandemic. The most common answer regarding a businesses' product mix was that Coronavirus had not led to their businesses changing their product mix. With the remaining few respondents who made change, being leaned more to little changes in their product portfolio than those making significant change in products provided.

Manufacturing in the region also seems to be a sector in which businesses would like to move forward with the removal of social distancing measures.

The results of the survey showed 69% removing such measures. Meanwhile some of the remaining 31% of respondents answering yes cited that remote working or other hybrid working policies led to an impact in capacity

The NHS app "pingdemic" didn't appear to have too much of an effect on the manufacturing and engineering industry within the North East as 75% of respondents felt as though the NHS app had little to no effect on their business.

When it comes to supply chain, there is a major difference compared to the previous year's survey; in 2020, 73% of businesses responded that they would be making changes to their supply chain because of the pandemic. Compare this to this year's response, whereby 69% answered that they will be making no changes to their supply chain. The remaining 31% favouring small changes than widescale significant changes.

The manufacturing industry in general felt that the government's support throughout the course of the pandemic was of a sufficient to good standard with 75% supporting this view. The remaining 25% answering that the government could have aided a little more in supporting manufacturers. One business responded that they felt it was a harder period for them due to them being a startup company.

The majority of respondents felt as though their businesses practice had not changed due to the Brexit agreement, those respondents that said their practice had changed due to the agreement cited additional paperwork and delays in expansion to foreign markets.

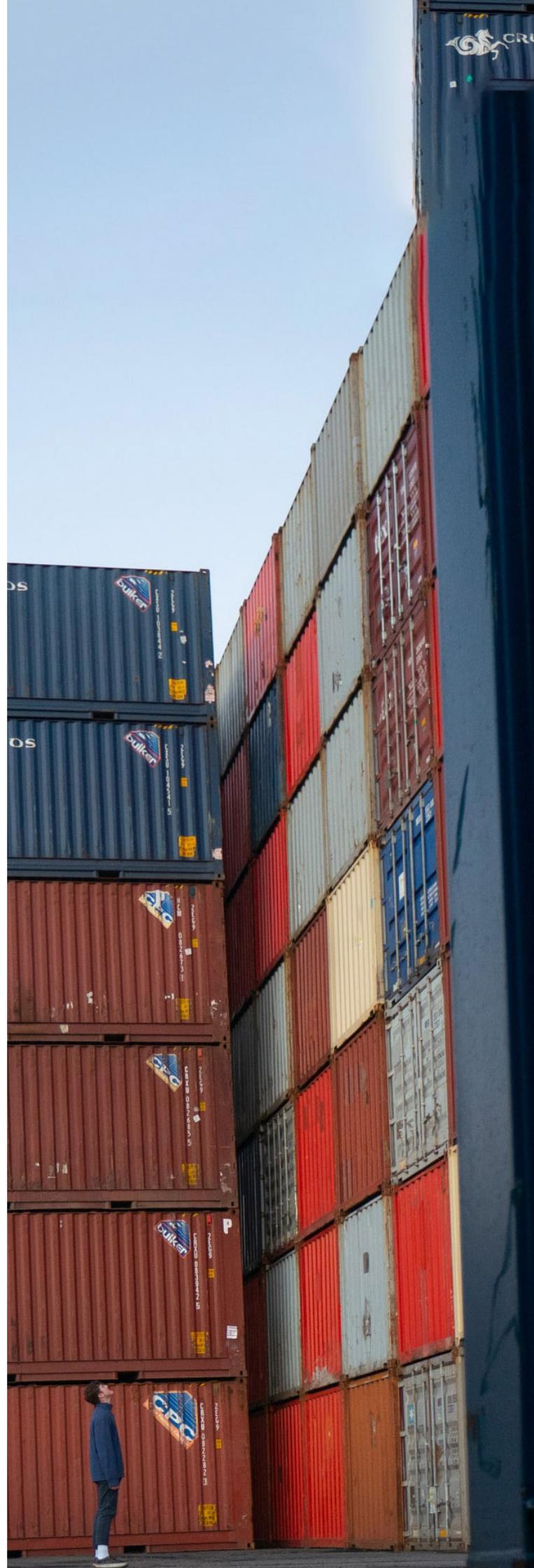


Respondents in the North East responded that their businesses had seen friction or obstacles, regarding trading, with the EU or Northern Ireland. These respondents told us that there was a delay in imports and exports with Northern Ireland and Ireland causing such friction. 80% of respondents have seen supply chain or product shortage issues affect their business, half of these seen little effects. Meanwhile the other 50% of those affected experiencing 'quite a lot' to significant effects.



If you could change one thing in your business to make your life easier, what would it be?

The most common response from businesses in the North East was that they were struggling with headcount and/or finding and recruiting skilled workers to operate the machinery in the industry. This is consistent with our experience of recent conversations with businesses across the region.





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Emerging from lockdown, the UK economy has rebounded strongly. However, labour shortages and inflation threaten the longer term sustainability of the recovery, particularly in the manufacturing sector. In the year when the country is hosting the UN climate change conference COP26, the Government wants to burnish its green credentials, but rising fuel prices are a problem, at least in the short term. Manufacturing companies, particularly those that are energy intensive, have in many cases had to suspend production due to a spike in the cost of electricity and gas.

According to the MHA survey results, over 80% of companies have also made changes to their supply chain due to the pandemic and almost 70% have altered their work environment as a result of the requirement of social distancing. This suggests that there will not be a return to a pre-pandemic normal and certain effects will be locked-in.

Unsurprisingly, recent evidence suggests that investments in robotics and automation have increased in 2021 as companies seek to innovate and insulate themselves from future labour shortages, be they due to a pandemic or otherwise.

Earlier in 2021, the Institution of Mechanical Engineers (IMechE) published the results of a survey of our members on the topic of future skills. Respondents were asked what competencies they thought would be most important in the sector in the future and the most common answers were automation, robotics, mechatronics, and artificial intelligence. 67% believed that major changes will occur in this area in the next 5-10 years.

The Government, Academia, and professional engineering institutions like the IMechE have roles to play in helping companies adapt to this rapid change. Engineers will need to upskill multiple times in their careers. Manufacturing companies should embrace this change because those that do are going to be those that thrive.

Matt Rooney

CEng MIMechE, Head of Policy,
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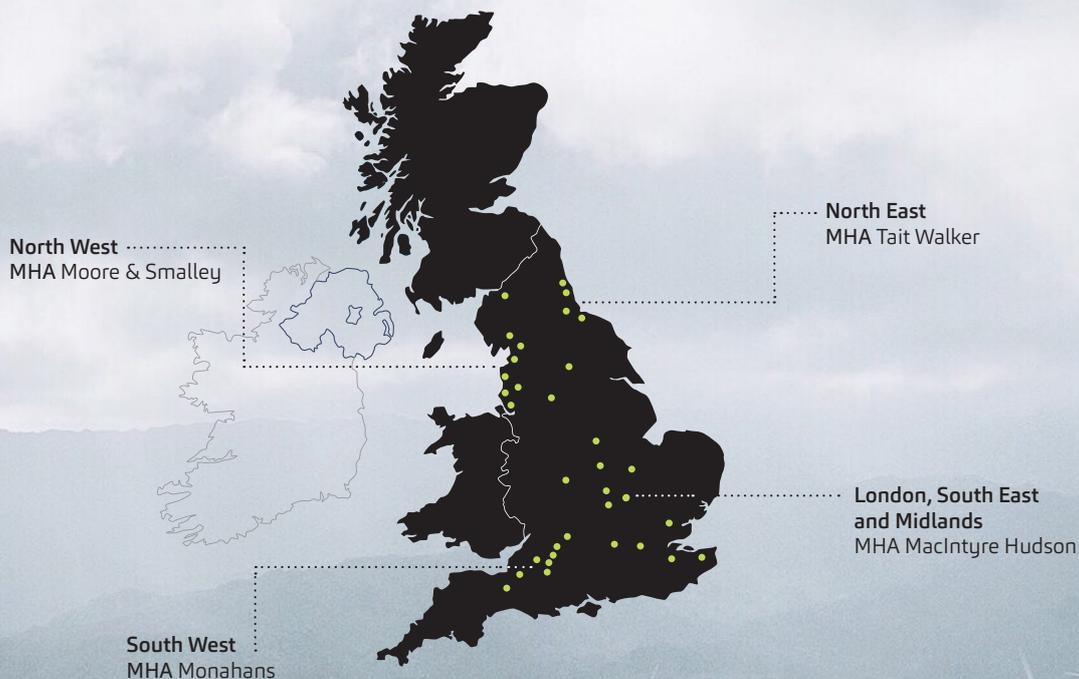
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Our Sector Approach

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 our industry experts understand the challenges and opportunities within the sector. With MHA's sector experience, and local, national and international knowledge, our team is well placed to provide leading advice.



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136

Partners

1,375

Staff

£121.9m

Combined turnover



4
Independent
accountancy
firms

International Reach

148
Territories

US\$4.04bn

Combined member
firm revenues



33
Offices
nationwide

An independent member of
bakertilly
INTERNATIONAL

37,000

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