



The Engine Issue 9

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

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The result of the MHA manufacturing short survey the view overall

Few will forget the year 2020 and when we concluded our last report we were six months post the first national lockdown with manufacturing and engineering businesses trying to adapt as quickly as possible to the new situation. We were also closing quickly on the deadline for the agreement of a deal on Brexit with “no deal” being spoken of as a real possibility so business was faced with two significant issues on top of everything else.

Things have moved quickly - the UK has now administered a first dose of the vaccine to over 33 million people, the initial stages of the third national lockdown are being lifted and there was a last minute deal on Brexit. Perhaps the deal was not all that might have been envisaged by the slogan “take back control” and early 2021 has seen either “teething problems” or “fundamental flaws” exposed, depending where you sit, but a deal nonetheless. Against this backdrop we revisited the same six questions that we had posed to manufacturing and engineering companies in the UK to see if their answers had changed or whether initial thoughts had been right. We also added two specifically directed Brexit questions.

Initially we asked how long it would take entities to return to their trading level pre Covid? The most recent set of answers has seen the timescales lengthen a little with between 6 and 12 months and 12 and 24 months now representing 66% of the surveyed population against 62% last time. Each of those answers has, individually, increased 2% and the fall has been in the less than 6 month category which fell from 28% to 24%. This starts to underline the lengthening of the impact that business has felt and is, I suspect, coloured by the set backs of successive lockdowns across the country.

The longer impact felt from Covid as shown in our first question is also, perhaps, echoed in our question concerning investment plans for the next 12 months. Whilst the majority (75%) are planning to invest less (significantly or slightly) or the same as planned this number has fallen from 81% at our last asking perhaps indicating that business will have to invest further to overcome the impact that Covid has had upon business. The individual largest response remains unchanged at 31% being that investment plans will proceed as planned but 24%, as opposed to 19%, are looking to invest slightly or significantly more. These answers, of course, predate the measures announced by the Chancellor in the Budget which are aimed to encourage investment so we will look with interest as to whether these measures will achieve their aim.

We asked whether respondents had changed their product mix as a result of the pandemic. The answers remained virtually unchanged with 51%, as opposed to 50%, saying “no”.



WHAT OUR CLIENTS SAID

It cannot have been easy to develop the JRS and CBILS schemes, yet I felt that the government implemented them quickly and efficiently. Both of which have been utilised by our company.

This, of course, can be interpreted from both directions and of the 49% who have changed then 32% have done so by a "little", 10% by "quite a lot" and 7% "significantly".

Turning to the specific impact of Covid inside the workplace we asked whether social distancing had affected production capacity? Whilst 51% in both this and our previous survey said "a little" there has been a significant shift with a fall from 27% to 24% in those who have not been affected and an increase from 9% to 18% of businesses being impacted "quite a lot". Again this, perhaps, underlines the longer impact of Covid upon businesses.

Many of our conversations with manufacturing and engineering entities initially concentrated on the supply chain and many businesses talked about shortening such in order to safeguard supplies. Our question was whether businesses would be changing their supply chain? Our responses have seen a significant shift. In our last report 65% said "no" and 32% said "a little" this time only 45% said "no" and 43% said "a little" perhaps indicating that the supply chains have not been robust as was initially envisaged or, perhaps the impact of the Brexit deal has been seen more starkly.

The role of Government has been, and continues to be, unprecedented in peace time in terms of providing various types of state aid so we asked how well manufacturing and engineering entities felt that they had been supported by Government during the pandemic? 46%, which is virtually the same as in our last set of responses, felt that the Government had done "enough". The "furlough" scheme in particular was described by a respondent as "invaluable".

29%, as opposed to 27% felt that Government could "do more" and some form of "rates relief" appeared in various of the comments in this regard. The change in responses to this question has appeared at, perhaps the extremes of the answers with only 13%, as opposed to 21% feeling that the Government's response has been "fantastic" and 10%, as opposed to 5% answering if they felt supported by the Government said "not at all".

Following the agreement of a Brexit deal we introduced two specific questions into this survey asked in order to understand the early impact of this deal. Have you had to change your business practices as a result of the Brexit agreement? Perhaps not surprisingly given the communication we had with many clients in January and February the answer given was "yes" by 61% of respondents in terms of "additional paperwork". Various respondents commented that the lateness of the deal had left them little time to prepare and that none of HMRC, couriers or freight carriers appeared to know what was required, certainly initially. Many also commented on the cost of this whether that be in time completing paperwork declarations for which they could not charge, delays in materials being supplied and exports clearing the ports and the cost implicit in this or some goods being diverted around the UK's borders. This is a point that we feel needs to be monitored and addressed by Government.

As a follow up to this we asked whether businesses had seen friction or obstacles as a result of the Brexit agreement when trading with the EU or with Northern Ireland? 56% said "no". As we concluded in our last report it is evident that the pandemic and now Brexit have changed the manufacturing and engineering businesses' continued transition to a "new normal". The ability of manufacturers and engineers to pivot has been much in evidence and the continued review and strengthening of supply chains is important, however the impact on businesses of Covid has been more significant than was first thought.

The role of Government has been unprecedented and with the recent measures announced in the Budget including the extending of "furlough" into the Autumn we continue to see this significant support into businesses from the pandemic. That said, there has been well publicised disruption and cost from the Brexit agreement and more recently steel shortages which have affected many manufacturers and engineers so as 2021 unfolds the challenges continue for this vital section of our economy.

Chris Barlow
Partner, MHA

A North West Perspective



Optimism amongst our North West based manufacturers is prevalent, with improved domestic demand predicted as we emerge from lockdown restrictions. 86% of respondents envisage their business returning to pre covid levels within the next 12 months – this is significantly higher than the national average of 36% and is also an improved response from the previous poll some six months ago.

Whilst the many in the North West region have been under some form of restriction or other since October 2020, most of our manufacturers were able to continue trading, adapting their processes as appropriate. The impact of social distancing on manufacturing capacity varies and is most likely dependent upon the type of product and processes, utilisation of floorspace and headcount.

Investment plans have been scaled back with 45% planning to spend significantly less in the next twelve months than previously anticipated. Whilst the recent introduction of the super deduction tax break may stimulate investment plans, business owners are concentrating on current working capital, which will be vital to meet expected increases in demand.

In addition, where businesses have taken advantage of incentives such as tax deferrals and government backed loans, repayment profiles now need to be considered as part of the short rather than long term plan.

In terms of government support, the majority of North West manufacturers felt that enough had been done to support them, with praise bestowed on the flexibility of the furlough scheme. Just under a quarter felt the government could have done more, in particular where struggles with imports and exports impacted the business and the lines between pandemic and Brexit effect were blurred.

Above the national average, 77% of respondents cite increased paperwork as a hinderance to business practices due to the Brexit agreement. Whilst it seems the initial commotion post Brexit has settled down, shipping delays are still causing issue for importers and exporters, not least impacted by recent physical disruptions in trade routes. Struggles to sources raw materials, accompanied by increased lead times in the supply chain are putting constraints on ability to service expected demand. On the whole, these issues have been described as short-term inconveniences as opposed to ongoing problems and are outweighed by increasing confidence in the sector.

Ginni Cooper
Partner, MHA

A view from the Midlands



In our previous report we found responses from Midlands' based manufacturers and engineers to be, on the whole, more positive than we might have thought, however the response to the question about Government assistance was less positive than the national picture leading us to surmise that, perhaps support had not been "equitable". Therefore we were keen to discover how our "Midlands Engine" was now performing.

In line with the national picture we have seen a lengthening in the time our respondents believe it will take them to return to pre Covid levels, however the overall picture from the Midlands is less optimistic than nationally with the largest individual answer being 12 – 24 months (39%) compared to the 6 – 12 month category nationally and with a combined under 6 months and 6 – 12 months answers the Midlands is at 50% against a national picture of 58% perhaps pointing to businesses in this area being more hard hit.

Turning to Government support Midlands' businesses believe that they have not been as well supported as they were initially. Whilst the respondents saying that the Government has done enough are broadly similar to the last report (38% compared to 40%) those saying that either the Government could have done more or have not felt supported have increased from 37% to 48%. That compares to 40% nationally so does tend to suggest that the effects of the pandemic have been more significantly felt in the Midlands and Government support has not been targeted to the "right" areas.

Early in the pandemic manufacturers and engineers had the request from the Government for them to help the national effort with the production of PPE and related items. At that stage 45% of respondents reported making changes to the product mix; whether by design or following issues with supply. These figures have remained the same in this period.

Levels of investment can be seen as a confidence indicator or a requirement – in the Midlands, similar to the national picture, around 46% of manufacturers and engineers (nationally 43%) will be reducing their levels of investment either significantly or slightly with 28% (nationally 32%) planning to keep things as planned but, again, perhaps recognising the impact upon Midlands' business 16% (nationally 12%) will be investing significantly more as a result of Covid on their company. With the answers to our question about changes to product mix remaining unchanged in this period it may point to this investment being into existing product development rather than new products.

With inevitable continued pressure on the supply chain we asked whether companies would be making changes in this regard. The answer, in line with national picture, has seen a significant change with 67% of respondents last time saying "no" this figure is now only 44%.

Whether this is more of a direct impact of the Brexit agreement or continued issues from the pandemic, or a combination of both, it is clear that changes have been made in order to ensure a continuance of supply.



WHAT OUR CLIENTS SAID

Not just additional paperwork but no-one is sure on what to do. Consult three experts, you get three different sets of advice. Taking much longer to re-establish export routes and costs than expected.”

There has been much talk of “Made in the UK”, buying “closer to home” and not just using the UK for the “difficult” items. We will watch with interest how this develops as things continue to evolve into whatever the “new normal” will be.

Nationally the immediate impact of the Brexit agreement has been evidenced in a significant increase in the paperwork required in order to clear Customs. This is echoed by Midlands’ companies with 53% of respondents saying this. This is a little below the national response of 61%. The difference, whilst quite significant is not really the point – what this underlines, again, is the significant impact upon our Midlands’ businesses of first Covid and now the Brexit agreement.

The challenge to our resilient manufacturers and engineers is to continue to evolve but, addressing the point brought out in both our short reports, 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.

Chris Barlow
Partner, MHA



A North East Perspective



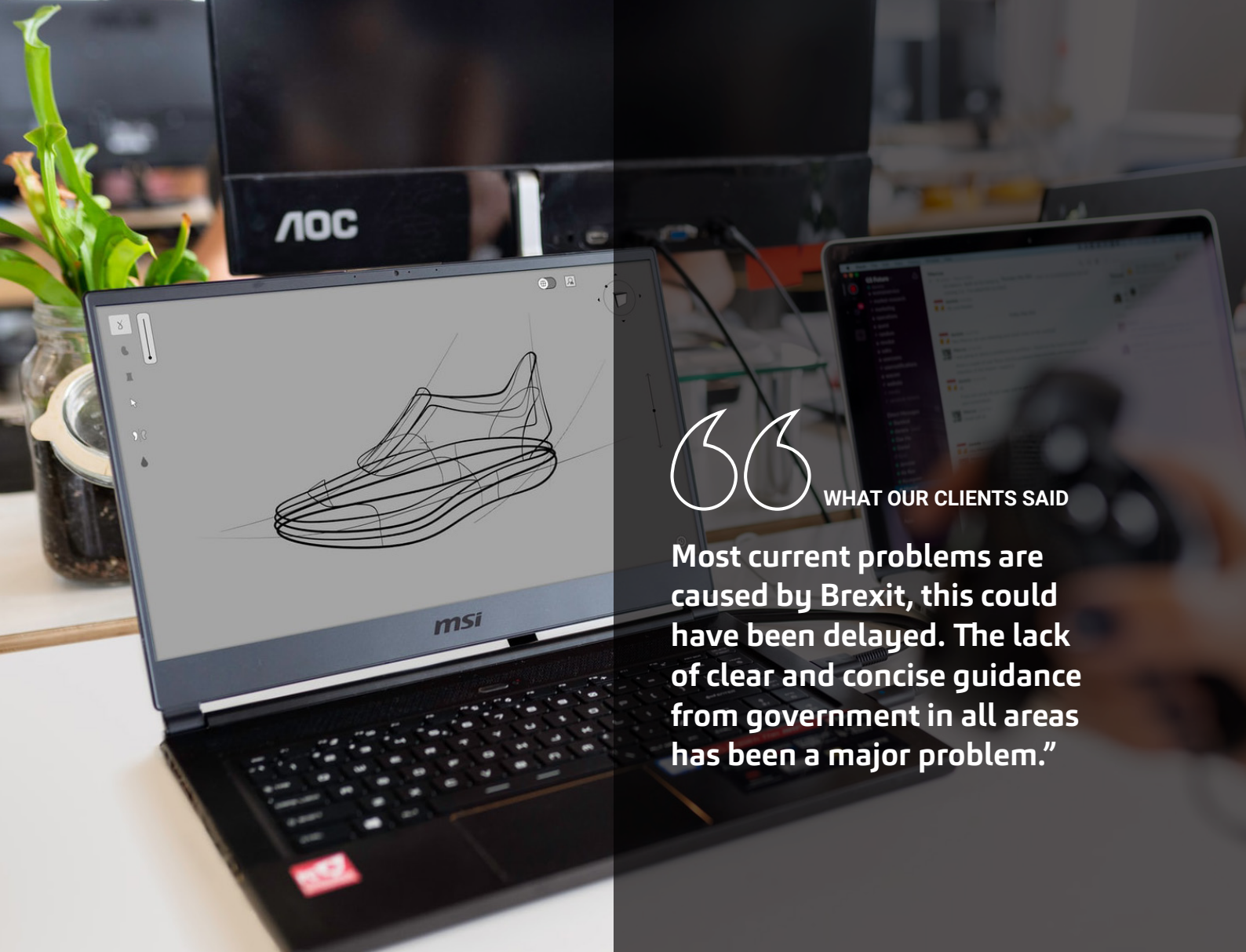
The latest Temperature Check which has been completed by manufacturers in the North East would suggest that, like for society as a whole, the impact of both the pandemic and Brexit are starting to ease. The manufacturers in our region typically see the ongoing impact of the pandemic as a short to medium term issue (typically not more than 24 months and more often less than 12 months) and this ties to our conversations in the region where the manufacturing sector has on the whole had a relatively strong period in the autumn of 2020 and then the beginning of 2021.

On the whole we are seeing manufacturing leading the return to work as the first mover across the North East's business sectors and manufacturers are typically starting to encourage "finance and administrative" teams back to the office where they would have been working from home previously. A key focus for many of our clients in the region now is ensuring that the measures that help to mitigate any residual risks from the pandemic are implemented quickly.

This is typically a focus on rolling out workplace testing programs, additional safe working practices and a focus upon welfare and health and safety. As more of the manufacturing workforce is vaccinated, so more of the workforce are gaining confidence about returning to the workplace.

For many of the businesses in the region the current focus is moving back more to "normal", the product being made or sold has typically reverted back to the core business models pre pandemic and production staff have typically returned to full strength or close to full strength. Businesses are now starting to also implement lessons learned in the pandemic in terms of working practices, or moving forward with opportunities that have arisen such as acquisitions. Like prior versions of the Temperature Check, the businesses in our region generally regarded the support for the sector from the Government through the pandemic as having been sufficient.

Equally as business returns to a more normalised manner of working, so we are also seeing sales teams from within manufacturing businesses moving back to being "on the road" rather than relying on Teams or Zoom and site visits becoming more frequent. Investment programs for plant and machinery which had been put on hold have started to be put back into action and confidence is recovering as the lockdown in early 2021 has come to an end.



WHAT OUR CLIENTS SAID

Most current problems are caused by Brexit, this could have been delayed. The lack of clear and concise guidance from government in all areas has been a major problem."

Manufacturers in our region are continuing to have issues with Brexit but as the logistics and freight providers (and customers) have become more used to the impacts of Brexit, so we are seeing that the overall impact is starting to feel less burdensome. However the overall trend towards businesses making structural changes to supply chains to minimise the impact of duties and administrative changes is continuing and we are seeing clients changing supply routes to avoid customs borders where possible.

Some of these changes will involve goods which otherwise would have been routed through the UK in the past now being routed around the UK and so this will unfortunately have an impact on jobs and investment in some cases. The changes from Brexit for the sector may become more "permanent" over time as businesses continue to seek ways to change their trading models to reduce the burden of Brexit so that they remain competitive.

Alastair Wilson
Tax Partner, MHA



WHAT OUR CLIENTS SAID

**Extended transit times.
Additional time required by our supplier to complete paperwork.
Loss of services (For example direct shipping to customers from our factory.) Customers in ROI looking for alternative supply routes cutting out UK Complications of returning units to EU for repair."**

Manufacturers remain optimistic, despite an uncertain world



The manufacturing sector has been hit hard by the pandemic and associated lockdowns, but the MHA Temperature Check suggests that optimism persists. Over half of respondents expect business to return to pre-Covid levels within a year and over three quarters believe it will take less than two years. With the UK's vaccine roll-out beginning to have a positive effect, and households having built up savings over the last year, we may see a sharp rebound for some sectors.

Labour intensive workplaces have been most affected with some high profile cases of 'super spreader' events having been reported in, for example, food factories. As we have learned over the course of this pandemic, enclosed spaces with many people in close contact for extended periods of time is the perfect environment for virus transmission.

However, the UK is a relatively high value manufacturing country and largely automated factories mean that social distancing will have been possible in most facilities. This is borne out by the survey results in which three quarters of businesses said their output was affected only a little or not at all by enforced social distancing rules.

For those that have been significantly affected, it is important that engineering solutions can be found to allow workplaces to operate through the winter months while keeping the risk of virus transmission to a minimum.

In the longer term, businesses are already planning to implement changes to the way their employees work post-pandemic, especially in allowing many to work from home. With technological advances, there are elements of the job of a manufacturing engineer that can be done remotely, but the reality is that much of the workforce is currently required to be on the shop floor day-in, day out. In that sense, manufacturing engineers are on the front line.

Whether the pandemic will accelerate the move to greater automation, in manufacturing and in broader society, will be one of the big questions for how technology and society will interact in the future.

Matt Rooney

**CEng MIMechE, Head of Policy,
Institution of Mechanical Engineers**

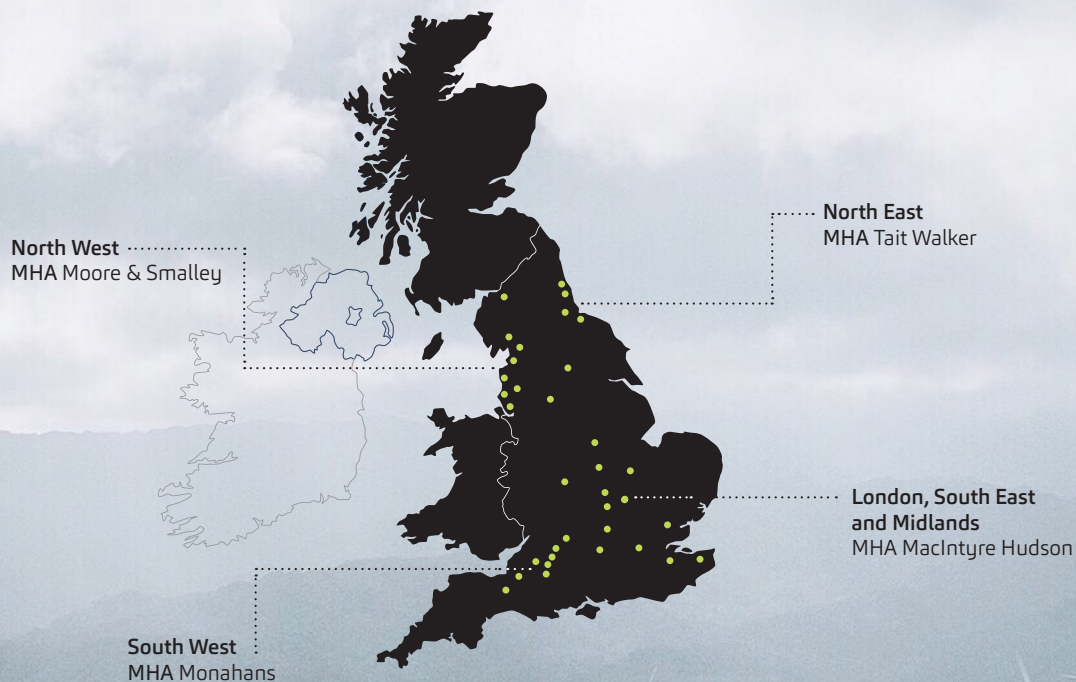
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Our member firms provide both national expertise and local insight to their clients. As an independent member of Baker Tilly International, a top 10 global advisory network, MHA offers clients unparalleled access to a broad range of in-country international specialists where overseas projects are on the horizon.

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

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1,375

Staff

£121.9m

Combined turnover



4

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148

Territories

US\$4.04bn

Combined member
firm revenues



33

Offices
nationwide



An independent member of
bakertilly
INTERNATIONAL

37,000

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