Manufacturing and Engineering

Annual Report
2016/17

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MHA

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About MHA

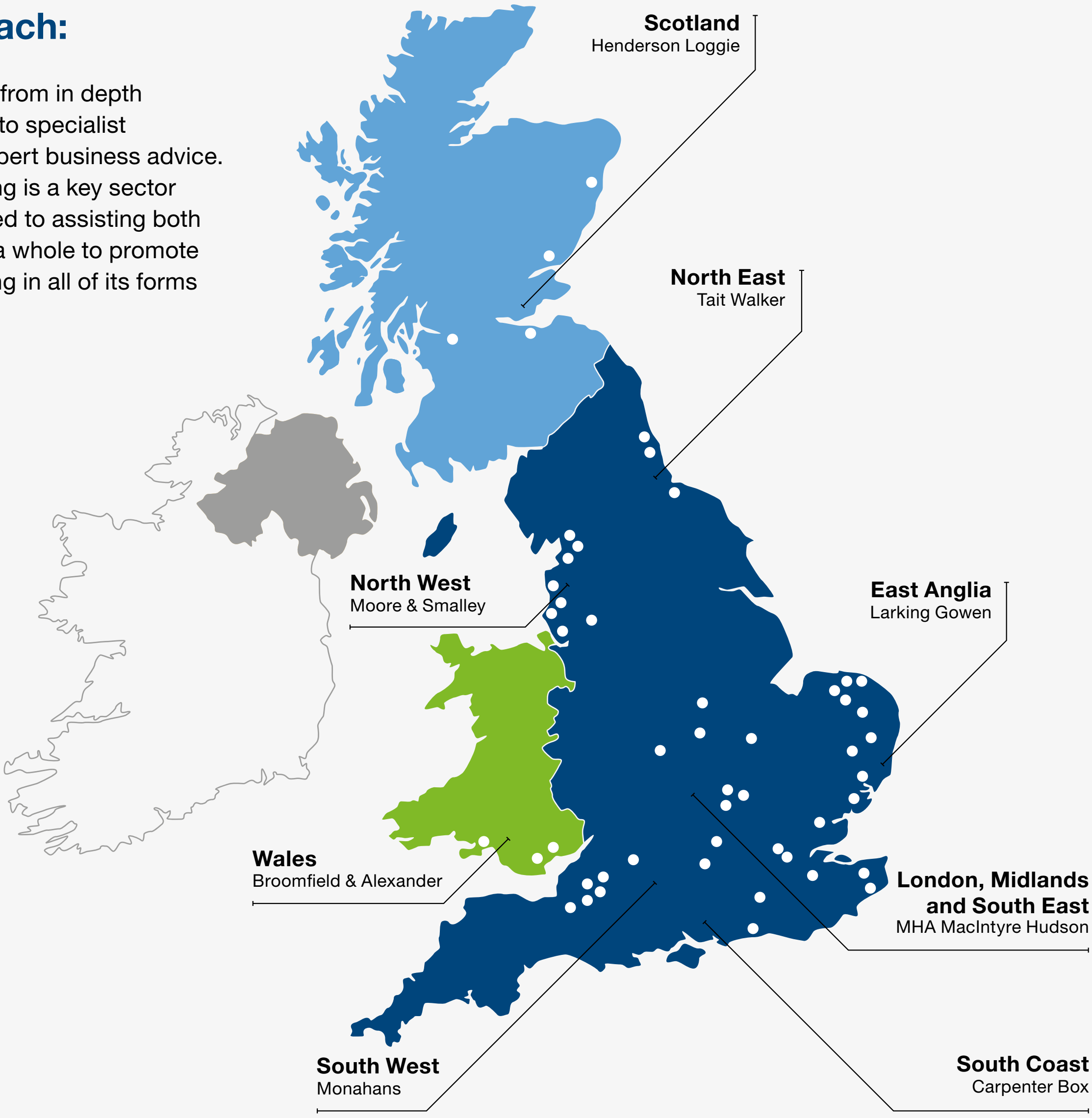
MHA is an association of progressive and respected accountancy and business advisory firms with members across England, Scotland and Wales. Our member firms provide both national expertise and local insight to their clients. MHA members assist clients with their needs wherever they are in the UK, as well as globally through our membership of Baker Tilly International, which has a network of trusted advisors covering 141 countries worldwide.

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 we are committed to assisting both our clients and the sector as a whole to promote manufacturing and engineering in all of its forms throughout the UK.

50

offices across the UK



Foreword

Chris Coopey,
Head of the Manufacturing Group at MHA

The MHA Manufacturing and Engineering Survey has been providing an insight into the thinking across the UK's manufacturing and engineering landscape for 5 years, however, 2016 is a standout year for two reasons. The first is that we have collected the views of over 500 predominantly SME businesses in the sector – our largest survey sample ever - and the second is of course the fact that the UK, by referendum, has opted to leave the EU, with all that entails for the sector (and the survey reflects that, as it was launched after the referendum result was declared).

This year we are delighted to have analysis from Professor Raj Roy, from Cranfield University, a centre of excellence in engineering teaching and innovation and from Philippa Oldham, who heads Manufacturing and Transport at the Institution of Mechanical Engineers.

Our thanks of course go to everyone who took part and to Lloyds Bank Commercial Banking who continue to sponsor the report. We hope you will agree that this year's report is fascinating, informative and useful.

Dave Atkinson,
Head of Manufacturing, SME, Lloyds Bank Commercial Banking

I am delighted to have the opportunity to again sponsor this year's report to continue to develop our understanding of the manufacturing sector and the issues and opportunities that Britain's makers face.

Manufacturing has never been more important to the success and growth of the British economy and this is even more significant in the coming months and years as the outcome of leaving the EU is played out.
We know that one of the major challenges the manufacturing sector continues to face is the skills shortage which this report again highlights and without a sustainable flow of knowledge and expertise into the sector, its future is threatened.

That's why we are supporting the Lloyds Bank Advanced Manufacturing Training Centre in Coventry, with a £5million investment over five years to support vital new skills and apprentices entering the manufacturing sector. It is also clear that British manufacturers need a better understanding of industry 4.0 and the uses of digital technology. The demand for innovative new products is not going to go away and there are significant opportunities for ambitious businesses that want to drive long-term growth and improve productivity.

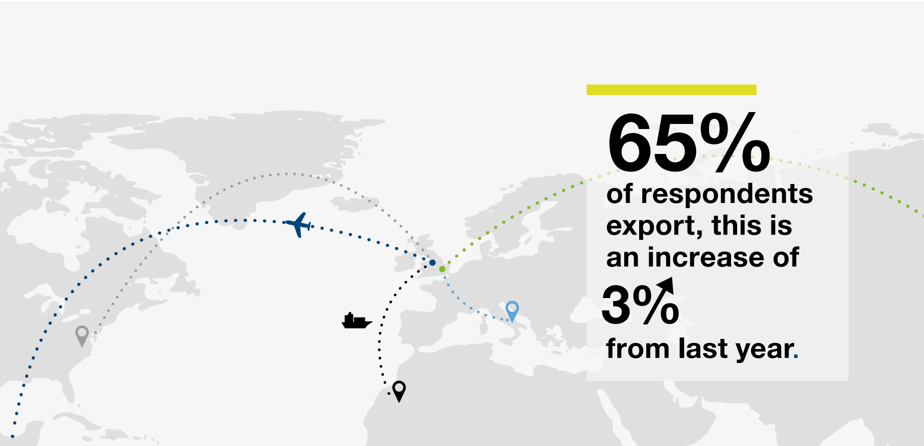
Whatever the challenge or the opportunity, our informed and WMG Accredited relationship managers are ready to help them realise their potential and help drive long-term growth in domestic and global markets.

Introduction and Overview of the Sector

Key Findings:

The MHA Manufacturing and Engineering survey indicated a number of consistent trends:

When asked about the EU referendum result in terms of business confidence, only **19%** had a positive outlook, with **45%** having a negative outlook. Additionally, **35%** indicated that their main barrier to growth over the next 12 months was due to uncertainty following the UK's vote to leave the EU.



65% of respondents export, this is an increase of **3%** from last year.

93% of respondents felt their cost of production would rise in the coming year.

This is up 6% from last year.

A range of factors contributed:

75% believing that raw material costs will rise.

65% citing increasing wage costs.

74% of respondents don't understand the principles underlying 'Industry 4.0' which suggests that we need more work to be done on educating the sector if it is to remain competitive.

68% of respondents believe their main competitors are UK based and **32%** said their main competitors are based within their own region of the UK.

Improved productivity and efficiency is the strategy which most companies deploy in order to absorb price increases (49%).

71% took the view that they could not pass on any increased costs to customers.

47% of respondents expect to increase their **staff numbers** in 2016/17 (an increase of 8% from last year), with **57%** of companies intending to take on apprentices or trainees.

Of the respondents that anticipate their **staff numbers** to increase in the next 12 months, almost **59%** need to recruit production staff. Although **41%** indicated that they have trouble recruiting skilled machinists / technicians.

When asked about the availability of skilled recruits, only **11%** had a positive outlook compared with **49%** having a negative outlook.

Optimism for growth over the next 12 months is down slightly by **7%** from last year, with **69%** of respondents predicting growth for their business over the next 12 months.

18% of businesses reported that recruiting appropriately skilled staff is their main barrier to growth over the next 12 months.

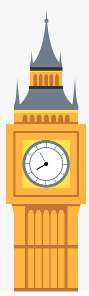
88% of companies invest a percentage of their turnover in R&D. This is up **9%** from last year, showing a real commitment to innovation.

10% of companies are still not aware of R&D Tax Credits.

12% of companies indicated that they do not spend anything on R&D.

99% are feeling the burden of red tape on their business and **46%** feel it's increasing.

Where recruitment is a barrier to growth, **31%** of respondents favoured adopting lean manufacturing strategies and **23%** favoured automation or further automation as a coping strategy. Shift working or flexible working patterns (25%) was also seen as a viable option.



Half of all respondents put skills shortages at the top of their agenda. Most businesses' agenda for government action would be to persuade the government to expand skills training for the future work-force in Secondary Schools, Higher and Further Education (FE) colleges.

MHA surveyed over 560 clients and contacts in the manufacturing and engineering sectors. The respondents ranged from companies turning over less than £1million to global players with significant industry presence, nationally and internationally.

Background:

A national snapshot from eight member firms covering, England, Wales and Scotland

565 responses

The majority of the respondents were SMEs

Respondents came from a variety of sub-sectors within manufacturing and engineering including:

- Aerospace
- Automotive
- Agriculture
- Biotechnology
- Chemical
- Construction
- Electrical and Electronic
- Food and Drink
- Furniture
- Healthcare
- Leisure
- Metals
- Minerals and Materials
- Oil and Gas
- Pharmaceuticals
- Printing
- Renewables
- Transport and Waste Management

MHA

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Financial Considerations and Business Confidence

Philippa Oldham comments:

Over the last 12 months manufacturing has remained a topic on the agenda for both government and the media. Whether it be the trials and tribulations concerning the future of the UK's steel production facilities or the continued successes from our automotive sector. Our car manufacturers are currently experiencing the best output performance rates since 2000 with production volumes exceeding one million within the first seven months (ref: SMMT http://www.smmt.co.uk/2016/08/july-uk-car-production-continues-growth-with-over-one-million-cars-already-built-this-year/).

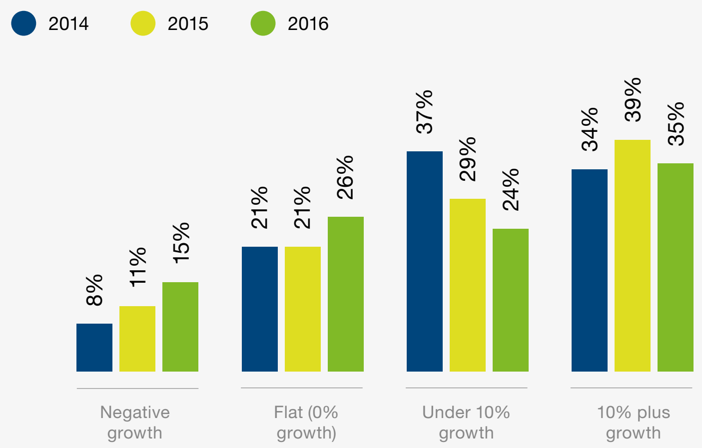
Revenue Growth

When looking at revenue growth for the last 12 months, 59% of respondents experienced growth and of those 35% experienced growth of over 10%. However, almost half (41%) reported negative or no growth.

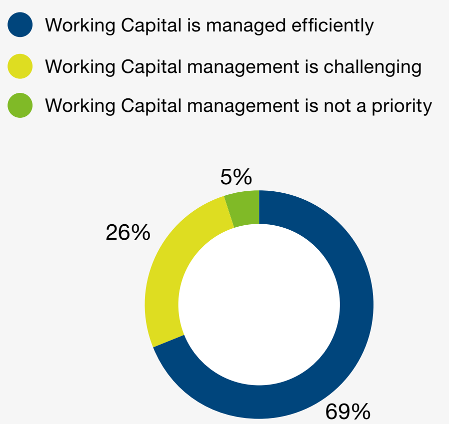
Revenue Growth Over the Next 12 months

When looking to the next twelve months, positivity prevailed, with 69% expecting growth and of that over a third are expecting more than 10% of growth. A third (31%) were anticipating either negative or no growth.

REVENUE GROWTH PAST 12 MONTHS



HOW WOULD YOU DESCRIBE YOUR COMPANY'S CONTROL OF WORKING CAPITAL?



Working Capital

We wanted to uncover the level of control of working capital in a manufacturing and engineering businesses. Working Capital is key to a business' ability to cover its short term expenses and liabilities (such as salaries for instance). Ignoring potential issues with Working Capital can see businesses fail, despite appearing to look profitable and viable in the longer term. 69% felt confident that working capital was managed effectively in their business. 26% stated that this can be difficult and 5% didn't class working capital management as a priority.

Financial Considerations and Business Confidence

CONTINUED

49%
of respondents felt positively about their overall level of business confidence. Almost half (42%) were concerned about currency fluctuation.

93%
believe the cost of production will increase in 2016/17.

75%
are concerned with the cost of raw materials.

65%
attribute this to wage costs.

Drivers for Growth

This year we asked respondents to rank between 1 and 5 the areas they felt would be the drivers for growth over the next 12 months. Growth drivers over the next 12 months are many and varied with some businesses indicating multiple reasons. Almost a third (28%) saw increased demand from customers as the main driver for revenue growth; this was closely followed by diversification which was at 19%. The top second ranked reasons were; increased demand from customers (21%) and expansion of product range (17%).

Business Confidence

We asked businesses to rate their business confidence in a number of areas. 57% were positive about turnover and 49% of respondents felt positively about their overall level of business confidence. Almost half (42%) were concerned about currency fluctuation. Only 10% felt positive about the effect of international competition, 16% felt positive about the effect of UK competition and only 16% were positive about currency fluctuations.

Competitors

68% of businesses surveyed stated that their main competitors were UK based. The Eurozone was second at 41% and China made up 22%. All three areas have increased when compared to last year.

Philippa Oldham comments:

In terms of the drivers to produce this growth, it was demand from the customers that led the way followed by diversification in products. This shows that the businesses have good customer relations, believing that their customers want more of the same and indeed many may believe that they can expand into new markets to capitalise on the growth.

Philippa Oldham comments:

In terms of business confidence, the responses that I wanted to pick out for discussion were those received for the production cost question. It seems that 75% of respondents have concerns of the costs of raw materials and components. This is definitely something that needs to be flagged to the Members of Parliament dealing in the trade negotiations following the result of the EU referendum. Priority needs to be given to our businesses that are adding value to these raw materials and then exporting the final products, as this will reflect on the UK's balance of trade. Once again the concern over energy prices featured, with 36% worried that these will increase over the next year, a 10% rise on last year's survey.

The UK is in desperate need for a comprehensive and integrated electricity generation system. Government must develop a comprehensive long-term strategy for energy production to identify the need for research and innovation, awareness raising and advocacy for demand reduction. The strategy would also help to understand the consequences of removing or adding technologies into the mix. Delaying the decisions on key infrastructure investments is only leading to our manufacturing sector feeling more uncertainty as is reflected within the responses.

CASE STUDY
HT BRIGHAM

HT Brigham & Company Limited is a West Midlands based metal pressing and automotive component manufacturer. The company offer design input during the development stages, dealing with exports to USA, mainland Europe and India, totalling 65% of their sales.

This bespoke and mass-producing company is exploring its potential to branch into different market sectors, expanding their repertoire to include other sectors such as medical for instance. To do so the company must navigate the complexities of fluctuating Dollar and Euro prices.

Managing Director, Barry Smith, explains that the key to his business is trying to offer “customers a service that they don’t normally find elsewhere”. Cost effective engineering on a customer-to-customer level is just one of the ways HT Brigham ensure a satisfied customer, and a healthy business.

Challenges that face the business mainly surround finding skilled workers, for the skills they require are not available. Despite this, HT Brigham have hired three ‘good’ apprentices this year. Barry Smith calls on the government to “reduce corporation tax and business rates” in order to support the sector.

CASE STUDY
CHAPLIN BROS

Chaplin Bros. are a well known manufacturer of non-ferrous wire, based in the West Midlands. The company has been making high quality wire for 150 years, and is in its sixth generation family ownership.

Despite being established for over a century, Chaplin Bros now face competition from manufacturing in China and India. They recognise that this may be a threat, despite exporting 70% of their sales to Asia and Europe. This is also another issue facing the company, as following Britain’s decision to leave the EU, Chaplin Bros face uncertain trade issues in the future.

Alongside this and looking toward the future, they are hoping to improve their premises and hire a new member of staff. The Managing Director explains that the key to their business is “low overheads” and “good supplier relationships”.

They are looking to the government to “make required changes so that the ownership of a commercial property is not dominated by pension funds and investment trusts” as the current situation “means it is only possible to rent modern commercial units rather than buy them, which is not desirable for companies that want to have strict control on their overheads.”

Production Costs

In this multiple choice question, just 7% of respondents believe that their cost of production will remain at present levels. Of the rest, 75% blame increases in the cost of raw material, 65% perceive wage costs to be the main culprit and 9% are concerned about the apprenticeship levy.

Almost half (47%) have attributed an increase in the price of components as the cause. Obvious concerns also remain over the volatility of energy prices, with 36% worried that these will increase over the next 12 months (this is a 10% rise from last year).

Financial Considerations and Business Confidence

CONTINUED

Production Cost Increases

In looking at how businesses will deal with any increase in the cost of production, 71% of respondents said they would not pass the cost on to their customers, with 49% of those planning to improve productivity and efficiency to offset such an increase. The data demonstrates the continuing reluctance to push up prices at the risk of a position change in the supply chain.

Philippa Oldham comments:

It is positive to see that 71% of businesses are going to refrain from passing on additional costs to their customers. We need to support, encourage and incentivise our businesses to look at ways that they can reduce their emissions and become more sustainable. This will include identifying wasteful behaviours to reduce demand, as well as improving efficiencies in their processes and equipment to look at how they can conserve energy.

Grant Funding

46% of respondents have received government or grant funding in the past 5 years; this is exactly the same as last year. Reported sources of funding include the now closed Manufacturing Advisory Service, UKTI, ERDF, LEP and other regional growth funds support, amongst others.

Grant Funding 2016/17

Access to grant funding has many dimensions. It is the case that some areas of the country are better served by grants than others. Even where grants are available, poor signposting and complex application processes drive down demand. Nevertheless, 21% will be looking to make an application in the coming 12 months, against 11% who believe they have access to a grant but will not be applying. Almost half (45%) are still undecided about applying.

CASE STUDY
EXCELSIOR GROUP INTERNATIONAL

Excelsior Group is a rotational moulding plastic manufacturer, based in Bury. They are a family owned business that produces a broad range of proprietary products from the mass-produced to bespoke items.

Working with plastics means dealing with rising polymer prices and Excelsior are finding pressure being put on customer margins. They are also finding concern with the result of Brexit, believing that their chances of growth in materials handling and equestrian products will be affected for the worse.

Competition is another challenge facing Excelsior. They are finding profit margins squeezed as competitors come after their accounts, and even their staff. The group have no plans to increase their staff headcount; instead the group will continue to maintain their current level of employees.

Currently the business export between 6% and 7% of their products abroad, mainly to countries like Germany and France, but are also finding equestrian products going further afield to the Middle East and Australia.

Managing Director, Giles Fielding believes in the necessity of good customer service in his business which has been trading for over 100 years; he states: "we treat our customers how we would expect to be treated. We have a very enthusiastic team from the shop floor upwards and customers definitely pick up on that and comment on it."

CASE STUDY
FORD ENGINEERING GROUP

The Ford Engineering Group are award-winning, global specialists in high precision engineering and pressing of components for the aerospace, automotive, and other high-technology industries; specialising in bespoke production.

The group export 15% of sales to the EU, China, Far East, US, Canada and India. If trade tariffs come into place as a result of the Brexit vote, aerospace and automotive OEMs which are Italian, French and German owned, may make decisions to move work away from the UK and directly affect their business.

Despite this there are several exciting growth areas in the aerospace sector, such as fixed wing build programmes like Airbus A320 and increased demand in UAV (unmanned aerial vehicle) markets. Ford Engineering Group recognises the challenges of reducing over-reliance on key customers to allow the company to grow. Current business levels do not require them to hire more staff, although in the medium term it is a possibility providing sales plans are achieved. Ford Engineering Group believes that its' "unique products, Ford Easipeel, Plasipeel and Edgepeel" and "excellent product quality and on-time delivery" are the key unique selling points of their business.

The company are calling on the government to "develop and support an achievable industrial strategy for the UK" and "reverse the downward trend of manufacturing contribution to the UK's GDP" as it is "currently around 12% and the target should be 20% (Germany achieved 35%)." They would also like to see "more investment in skills and training, as well as in technology and the sharing of knowledge amongst UK SMEs" as "there is a tendency for funding in technology to go to larger organisations."

CASE STUDY
PINKSTER GIN

Pinkster Gin was originally created by entrepreneur Stephen Marsh as a hobby. However, he saw an opportunity in the booming gin market to establish Pinkster Gin as a business. Three years on, the company now employs 10 members of staff.

Established in 2013, Pinkster Gin works with G&J Distillers, one of the world's oldest gin distillers and uses locally grown raspberries to produce raspberry flavoured gin that is sold through suppliers such as Ocado and Oddbins, as well as by independent sellers.

The company also recycles the berries used to make the gin and sells 'Boozy Berries' in local farm shops and delicatessens across the UK.

The gin market is thriving with great opportunities, not just in the UK, but globally - more than two thirds of gin distilled in the UK is exported due to its popularity.

Pinkster Gin secured a £200,000 working capital facility from Lloyds Bank Commercial Finance to support its plan to export to wholesalers across the USA and Australia. The facility will also allow the business to take on larger contracts as the company continues to grow.

Philippa Oldham comments:

The results are rather saddening to see, as just 21% will be applying for a government grant. Over the past year we have seen the dissolving of many of the support networks for businesses, for example MAS and the Growth Accelerator. However, with the restricting of Innovate UK and formulation of the Manufacturing and Materials focus within Innovate UK, this may be one area that businesses should turn to. In addition to this, the High Value Manufacturing Catapult (of which there are seven centres of excellence) are actively encouraged to form partnerships with the SME community. Innovate UK have in addition, tried to improve the awareness of their funds through publishing in April 2016 the Innovate UK Delivery Plan FY2016-2017 which details when each of the calls is expected to be launched with additional information.

Bank Funding

When it comes to obtaining bank funding, most businesses (92%) have succeeded in getting funding support which is a real positive. Just 6% of respondents have had a funding request rejected by their bank in the last 12 months. This seems broadly consistent with other sectors. At the point of the survey, 2% of respondents were awaiting the outcome of a funding application.

Alternative Sources of Funding

When thinking about alternative sources of funding, the most popular choices were other banks (23%), closely followed by crowdfunding (15%) and grants (15%).

Innovation

Research and Development

Research and Development (R&D) is defined as – 'Investigative activities that a business chooses to conduct with the intention of making a discovery that can either lead to the development of new products or procedures, or to the improvement of existing products or procedures'.

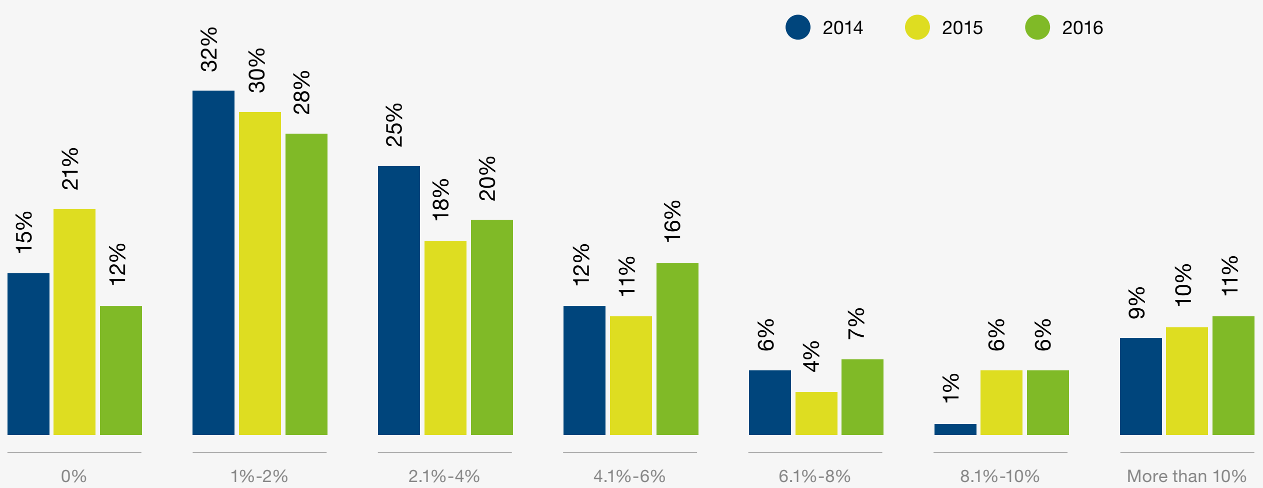
Percentage of Turnover Invested

Overall, 88% of respondents are investing in R&D (this is a 6% increase from last year). Almost a third (28%) say they invest between 1-2% of turnover on R&D; this is down 2% from last year.

Philippa Oldham comments:

This year's innovation section gave us a mixed set of results. It was excellent to see that there had been an annual increase of 6% with 88% of businesses now investing in R&D. Nearly half of respondents (48%) invest between 1-4%, whilst 11% invest over 10%. It is crucial for a business to continue to invest in R&D if they expect to survive and expand in the future. This investment need not only be in new products or components, but also in their facilities that are improving the processes and efficiencies within their business functions.

WHAT PERCENTAGE OF YOUR TURNOVER DO YOU SPEND ON RESEARCH & DEVELOPMENT (R&D)?



MHA member firms have saved clients over

£11million

in successful R&D Tax Credit claims.

Claims in the Last 12 Months

It is surprising that even though 88% of businesses invest in R&D, almost half (48%) did not claim for R&D tax credits. Not all activity will be eligible (1% of respondents say their claim failed) but many who have not claimed could probably do so and save their business thousands in the process. Almost half (46%) applied successfully. 6% were waiting to hear if their claim was successful.

Philippa Oldham comments:

I was surprised to see that 48% of businesses that were investing in R&D, did not seek to claim their tax credits, and that over the next 12 months only 63% were expecting to make the claim. This is a finding that needs further exploration into why these businesses are feeling that they will not be successful and therefore not applying.

Will You Make a Claim in the Next 12 Months?

63% of respondents indicated R&D Tax Credit claims would be made in the next 12 months, whilst 10% were not even aware of tax credits. 27% are choosing not to apply.

Industry 4.0

According to research, if the UK manufacturing and engineering sector were to invest as much in Industry 4.0 (or Digital Manufacturing as the UK government calls it) as our German counterparts, it could boost revenues by £20billion by 2020. With this in mind we asked respondents if they understood the principles of Industry 4.0. Almost three quarters (74%) did not understand the term, which perhaps underlines the need for education and investment if we are to remain competitive. Just 26% of respondents understood the principles of Industry 4.0.

CASE STUDY
ELECTRONIC TEMPERATURE INSTRUMENTS LTD

Based in West Sussex, Electronic Temperature Instruments Limited (ETI Ltd) manufacture a comprehensive range of digital thermometers, temperature sensors, humidity meters, pH meters and temperature data-loggers for a wide cross section of industrial applications.

Having won the Queens Award for Exceptional Growth of Foreign Sales twice, ETI are currently exporting 58% of their products internationally, with their largest markets being in the US, Sweden, Australia and South Africa. They are also looking to expand into new markets in order to target new and upcoming economies around the world, including South America.

ETI are facing two setbacks due to their local area, as Worthing lacks the office and factory space they need to expand the business and accommodate their growing workforce. They also face a shortage of local R&D engineers which they are currently looking to recruit.

The company advises that “staff members are the most important asset” so they “pay attention to their needs and find out what motivates them”. They attribute their USP to high quality products, continuous R&D and good customer service.

Philippa Oldham comments:

The results from this year’s survey indicate that just under three quarters (74%) believe that they don’t have any understanding over the hype and meaning of Industry 4.0. So what does it actually mean? The good news is that even though only 26% of respondents understood the principles, I would imagine that a majority of respondents are already involved but just not familiar with the German tagline. The fourth industrial revolution refers to businesses having improved connectivity. This may be the connectivity between their machines on the shop floor; this will help provide better information both to and from suppliers and customers. Improved gathering and interpretation of data will begin to transform the agility and productivity of our businesses and supply chains.

This improved connectivity will enable our factory floors to become more efficient as we gain a real understanding in terms of how they operate and where the dwell time or factory lags are occurring. By adding additional automation to our facilities we will have better process control, decreasing downtime and increasing the ability with which we can reconfigure our systems. This will lead us down the path to enable us to both customise our products, as well as looking to increase our offerings in terms of service.

For those who still feel unfamiliar with Industry 4.0 and want more information about how it could be applicable to their businesses, I recommend the work that is being done by the Advanced Manufacturing Research Centre (AMRC) (one of the HVM Catapult Centres) who have built a Factory 2050 example which is to demonstrate the digital, flexible, smart factory.

The last year has seen the rise of the term Industry 4.0 or the fourth industrial revolution. The government is planning to launch The National Innovation Plan later this year. This is expected to be a framework for the governments approach to getting the UK to the forefront of the fourth industrial revolution. It is expected that this plan will put in place an approach to help the UK exploit the opportunities by helping to create the right conditions for innovative businesses to succeed.

With the result from Brexit and the newly formed Department of Business, Energy and Industrial Strategy, we can hope that government will be listening to industry leaders to provide a long term vision and strategy that has been long called for by the manufacturing sector.

By embracing the Industry 4.0 changes in technology, manufacturers can get on the forefront to look at how they can drive productivity and growth, whilst ensuring that they are developing sustainable business models and developing products that consumers want.

Employment

Barriers to Growth

When looking at barriers to growth over the next 12 months, understandably the most common responses was uncertainty following the UK's decision to leave the EU (35%). 18% of respondents felt that recruiting appropriately skilled staff was a cause for concern, as well as global economic concerns at 19%. 14% also reported working capital constraints as an issue.

Combating Recruitment Issues

Where recruitment is a barrier to growth, 31% of respondents favoured adopting lean manufacturing strategies, 23% favoured automation or further automation as a coping strategy. Shift working or flexible working patterns (25%) was also seen as a viable option.

Recruitment

Excluding apprentices, 47% of businesses expect to see an increase in staff in the coming year, down 8% from the previous year. 42% are expecting their numbers to stay the same. Over half (59%) of those planning to recruit will be looking for production staff, whilst 20% want to recruit sales and marketing staff (an increase in 5%), a sign that businesses are paying more attention to the promotion of both products and services.

Apprentices to be Taken on in 2016/17

51% of businesses surveyed are looking for 1-3 apprentices (a 7% increase from last year), whilst 43% aren't looking for any at all (a 1% decrease from last year). Just 2% wanted more than 6 apprentices (all of these companies are £5+million turnover businesses).

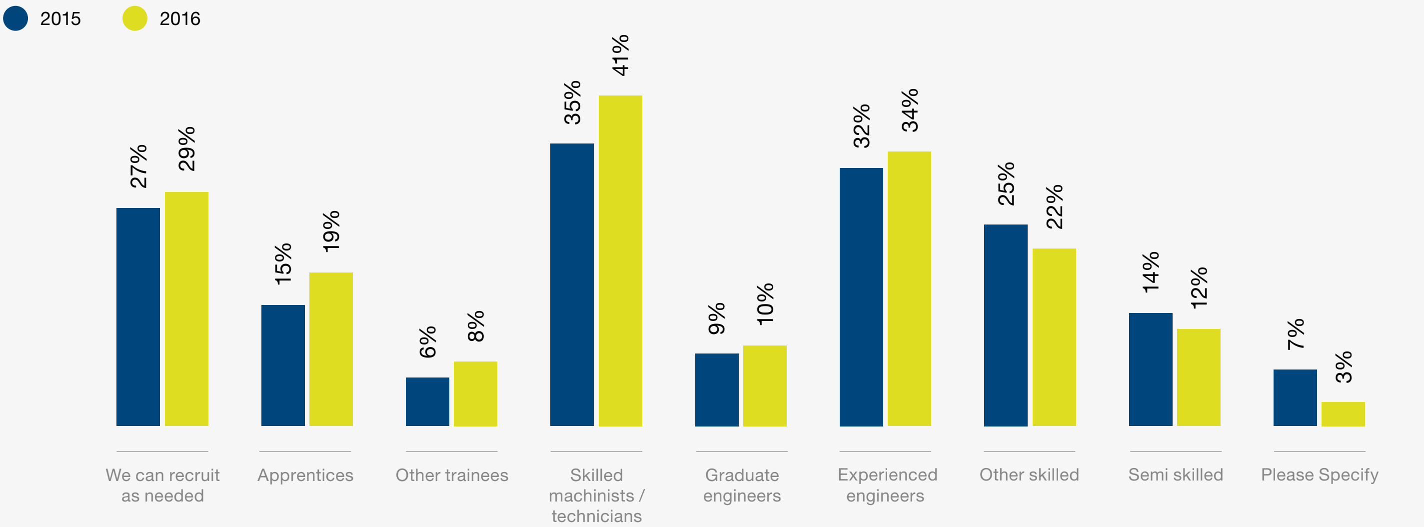
Difficulty Recruiting Staff With Relevant Skills

Almost three quarters of respondents (71%) have a problem finding staff. Skilled machinists appear to be the most difficult to recruit, with 41% of those looking to recruit saying this was a problem area for them (a 6% increase from last year). 34% cannot find experienced engineers and almost a quarter of respondents have trouble finding employees with other types of skills.

According to respondents, the biggest single problem with recruitment into the sector is the shortage of applicants with relevant skills, with 67% of respondents picking this as their top reason (this is an increase on last year of 12%). Another common theme amongst businesses and in second place in the ratings was the lack of motivated applicants locally for lower skilled jobs, ranked as a first choice for 13%, this was also the top second choice for 30% of respondents. Unrealistic salary expectations was the second most popular second answer for 25%.

IN WHICH AREAS DO YOU HAVE TROUBLE RECRUITING?

* multiple responses included



Philippa Oldham comments:

Finding people with the right skills is something that comes up every year across the sectors. In fact in most discussions that I have, it is the topic that always appears to be the root concern of many businesses. More so than ever with Brexit, it is crucial to encourage the students within our education faculties to take up a career in the engineering and manufacturing professions, either through the apprenticeship or graduate route. Findings from the survey show that businesses are preparing for the shortfalls, as 79% of businesses are looking to increase in automation, lean and flexible working patterns.

As demonstrated year on year, it is the candidates with experience that are in demand, the skilled machinists (41%) followed by the experienced engineers (34%). It is a positive sign that nearly half (47%) of those who responded are looking to expand their workforce (non-apprentices) over the next 12 months. Also, over half (57%) are wanting to get more apprentices – this demonstrates how businesses are trying to invest in their pipeline to mitigate against these future skills shortfalls. However, businesses may need to re-train and re-skill applicants where they demonstrate having motivation to work.

CASE STUDY
CONTRON LIMITED

Contron Limited is a control system and robotics company based in West Sussex, providing software design, electrical design and pneumatic design. Since 2015, Contron have been part of The Alchemy Automation Group.

Following joining the group, Contron are now looking at creating a more effective group. Through sharing resources and systems they hope to streamline the business, lowering overheads and becoming more competitive in the cost-focused market place.

Exporting accounts for 15% of sales, therefore since the EU Referendum result, European companies they have worked hard to establish themselves with are uncertain with what the future holds. Contron are focusing on supporting electric motor production systems and battery technology in order to place themselves in a good position for the future of the automotive sector.

In the next two years the company are looking to hire more staff, but are currently putting this on hold until the dynamics and opportunities of working in a group have been fully explored. Alongside other UK manufacturing businesses, Contron is struggling to find appropriately skilled staff and balance their salary expectations, especially in terms of newly qualified graduates.

Steve Hilliard is the Technical Director and co-founder of the company. He explains that the key to success for his company is providing “a ‘Gold Standard’ service”. His best recommendations for any other business experiencing similar challenges are simple: “heads down, nose to the grindstone and don’t give up”.

41% looking to recruit skilled machinists.

34% looking to recruit experienced enginieers.

57% looking to get more apprentices

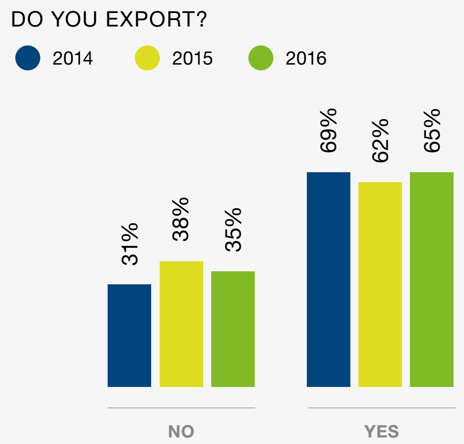
Of these 51% are looking for 1-3 apprentices.

Exporting, Offshoring and Reshoring

Exporting

There has been a concerted push to help UK companies break into new markets across the globe. Through schemes such as 'Passport to Export' and subsidised trade missions, UKTI and others have been tasked by the government to increase the UK's global share.

Our survey revealed that 65% of respondent companies export (this is an increase of 3% from last year), with a further 9% wanting to export in the future. Of those, 26% found help from the government useful (a 10% decrease from last year), although 7% of respondents did not find help offered useful. Over a third (32%) didn't receive assistance.



CASE STUDY
S&P COIL LTD.

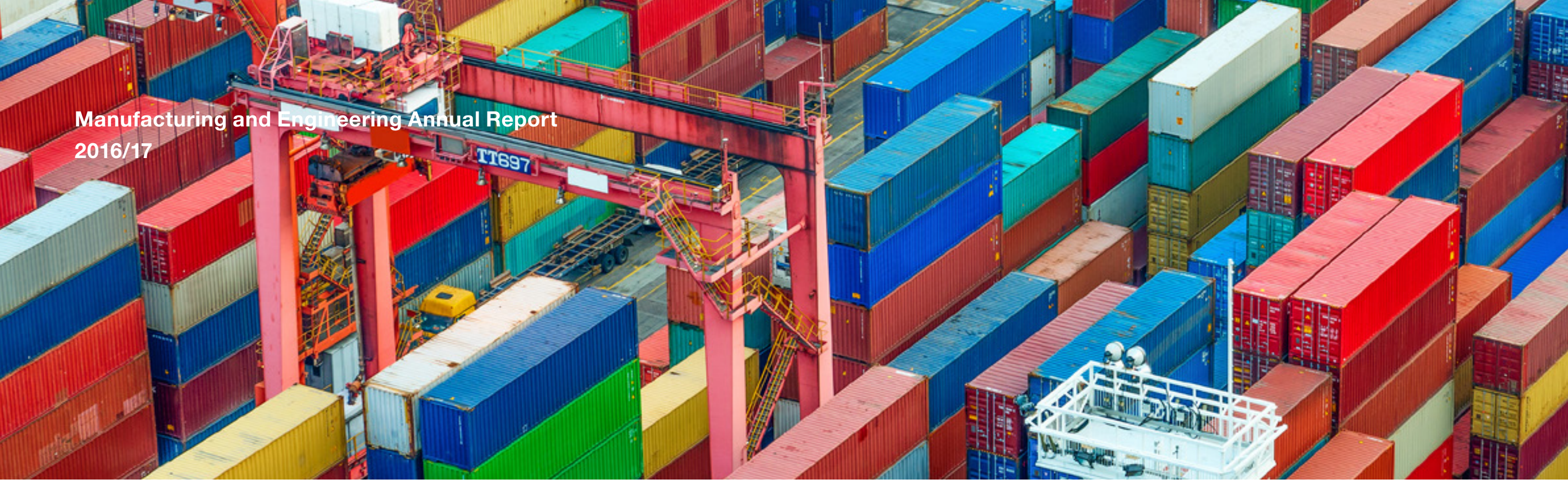
S&P Coil Limited (SPC) is a Leicester based group, manufacturing heating and ventilation goods for the HVAC industry. The group have multiple subsidiaries internationally in countries like UAE and India.

Their UK main markets are government funded hospitals and schools, which require infrastructure spending with forward visibility. They also deal with commercial businesses such as hotels and offices. Construction on new buildings in both markets brings a rise in sales for SPC's patented technologies and high quality products.

In their UAE subsidiary, SPC are finding that there are now more cranes in the skyline, although, their role starts at the end of the build cycle. Back in the UK, their dealings with government funded buildings have been halted as a result of the Brexit vote, which they believe will jeopardise the growth of their business.

Being an international company, SPC export 30% of sales, with key overseas markets in India, China, UAE and Hong Kong. They differentiate themselves from the market by using regional sales engineers; offering product selection software; and providing high quality, on-time deliveries.

The group's Financial Director, Paul Teasdale gives a politically charged business message, calling for the government to "invest more in schools and the NHS infrastructure", which will secure his business for the future.



Export Destinations

The most popular destination remains the Eurozone, with 90% of exporting companies shipping goods there. This represents an 8% decrease on last year which is perhaps surprising given the fluctuation of the £pound. North America was the second most popular exporting destination, with 49% of respondents exporting there (a 10% decrease on last year), followed by Asia (excluding China) accounting for 47%. Non Eurozone Europe has dropped to the 4th most popular destination, with 40% of businesses listing it as an export destination (a 9% decrease from last year). Exporting to China and South America was something undertaken by 25% and 21% of respondents respectively.

CASE STUDY
REDPACK PACKAGING MACHINERY

Founded in 1977, Redpack Packaging Machinery is a Norwich based, multinational, flow-wrapping machine manufacturer. Their machines supply a number of different businesses mainly in the consumer packaging industries, using the latest CAD Design Solid Works software to carry out full machine design and application configuration.

Redpack currently export 20% of total sales, and having set up a subsidiary in Germany they hope to expand development of their business into the European market. Despite this they are realistic about the challenges of exporting abroad.

By dealing with consumer product packaging, Redpack are directly affected by the behavioural patterns of the major supermarkets, who can determine whether customers continue to sell a number of products that their machines package.

Alongside their new premises in Norwich, the company are looking to expand their workforce by 10% in the near future. The Financial Controller and Business Development Manager, Rick Briston, wants the government to "continue to reward businesses for committing investment into R&D", and "review current annual investment allowance" to benefit their business and customers looking to invest.

Barriers to Exporting

For those companies that do not yet export (35%), two thirds (67%) stated the reason was because it does not apply to their business. 19% put it down to an issue with sourcing and understanding local partners - a recurring theme in this survey. Whilst 7% of respondents gave the effect on funding and cash flow as the reason they do not currently export.

CASE STUDY
WILTON CARPETS

Wilton Carpets is a carpet manufacturer based in Wilton, Salisbury. The company have been trading for almost 400 years and now employ over 100 employees. The business offers a range of high-quality; British-made carpets for hospitality and leisure venues.

The heritage brand already have established clients in Europe and North America, but through an investment in the latest carpet loom technology, they are hoping to see an expansion into these overseas markets whilst decreasing yarn wastage. This technology is the first of its kind in the UK, transferring digital design straight into the manufacturing process, increasing productivity by 50%.

Chief Executive, James MacAdam-Sprint, explains that the unique selling point of his business is that they "provide a bespoke service, allowing clients to design their own carpets".

Philippa Oldham comments:

There has never been such a critical time as now, for there to be a focus within businesses on self-reflection, in terms of the need to look at where they can expand their businesses (potentially outside of the Eurozone) post Brexit. It is a time when local manufacturers and businesses need to support each other. The Local Enterprise Partnerships and other regional business communities need to signpost where they can help. The regional and sectorial UKTI representatives need to be knocking on all businesses doors that fall within their domain, to make sure that we can provide the support that they need to make trade agreements that may lead to their diversification within counties or market sectors. We live in a world where global collaborations are essential in the 21st Century. Creating the links between UK businesses, UK Research and Development organisations, partners and overseas markets is vital to unlock inward investment, future exports and learn from others.

Future Considerations

99%
are feeling the burden of Red Tape.

86%
are planning some capital expenditure.

Red Tape

99% of businesses are feeling the burden of red tape (a 1% increase on last year), 46% of those felt that Red Tape was increasing.

Philippa Oldham comments:

A huge 99% of businesses responded that they are feeling the burden of red tape. I would like to have delved deeper into the minds of the respondents to get more information from them in terms of what they deem as red tape.

We need to understand that regulation isn't just red tape, it provides a controlled methodology by which products and services in key sectors are brought to market. This can be particularly fundamental within certain markets, for example for medicines it is essential that they are both safe and effective. The EU has developed a set of regulations and processes by which medicines are licensed and regulated throughout the EU and our internationally respected national regulator, the MHRA, has been key in both designing and carrying out the process. It is also important to recognise that regulations can create market opportunities for agile companies, and also create platforms to form a common language for innovation to take place. It is more important than ever that our manufacturing and engineering businesses play a role in helping government identify where regulations and standards can have a positive effect on driving innovation.

Capital Investment in the Next 12 Months

Capital investment levels for the coming year are encouraging, with 86% of respondents planning some capital expenditure, with 47% looking to increase their spend. 12% of businesses are planning for a considerable increase. The reduction in level of Capital Allowances that can be claimed reduced from £500,000 to £200,000 on 1st January 2016, so it is positive to see that investment is still a priority.

Sustainability

42% said it was a medium priority, whilst 9% didn't think it was a priority at all (the vast majority were £1-5million turnover businesses).

Concerns for sustainability have grown dramatically year on year. This year is no exception with 91% of respondents saying sustainability was a factor in their manufacturing processes. 30% put sustainability as a high priority (this is a 5% decrease on last year).

Philippa Oldham comments:

It is positive to see that 86% of businesses are planning to invest over the next year into capital investment, even with the planned decrease in capital allowances. Finally we are seeing businesses recognising the importance of sustainability, with 91% saying that it is a major factor. Linking back to other results that we have discussed within this report – the increase in automation, the rise in lean processes and the implementation of an industry 4.0 mentality, will all help to drive towards the improvements that businesses need to make in order to become more sustainable.

Future Plans for Energy Requirements

67% of respondents plan to remain reliant on traditional energy providers, whilst 9% were planning to source renewable energy, and 10% already have.

Energy consumption is an ongoing concern for many businesses, especially in the manufacturing and engineering sectors where the costs can be particularly high depending on the processes involved. It is perhaps then surprising that although some of the respondents were looking at alternatives or were planning to diversify their energy use to include renewables, the majority (67%) intended to remain with their current supplier. This inertia is something that domestic consumers are known for, but perhaps the same applies to many businesses, particularly in the SME sector.

Making a Wish

We asked participating businesses to make a wish and tell us the three things that the government could do to help them.

As with last year, the main areas were to expand skills training for the future work-force in Secondary Schools, Higher and Further Education (FE) colleges (50%), reduce business rates (39%), reduce corporation tax (34%), reduce 'red tape' was relevant for almost a third (29%) and incentivise investment in automation was important for 26%.

Interestingly, investing in rail infrastructure (5%) and more air traffic capacity (2%) were not seen as an area of concern for businesses.

Philippa Oldham comments:

Currently it seems that two thirds of respondents plan to remain with existing energy providers. As stated previously, this demonstrates that there is an opportunity for the UK Government to develop a long-term strategy for energy production, to identify the need for research and innovation awareness raising and advocacy for demand reduction. This would help support UK manufacturing and engineering companies as the strategy would help demonstrate the consequences of removing or adding technologies into the mix. This could therefore influence future incentives into the adoption of various renewable technologies into innovation, science and business parks where multiple businesses are based and could all benefit from the introduction of such technologies. With the electricity prices set to continue to increase, we need to find ways in which we can make this affordable to our businesses.

CASE STUDY
FREEDOM BRANDS

Aware of growing health consciousness and the emerging trend for ethical consumerism, Ross Currie and Tracey Hogarth launched Freedom Brands in 2011 to produce wholesome, natural, functional beverages and snacks.

Ross is a chiropractor and Tracey previously ran a property business. It's fair to say that they were both sailing into uncharted territory.

Recognising the increasing popularity of coconut water, they took the plunge and put their own energies into creating Go Coco, a natural energy drink with many health benefits made from the water contained in young coconuts. They have now launched (after 5 years) new brand Nudie Snacks and a dairy free, gluten free plant based milkshake, with plans for a new birch water drink in the pipeline.

Go Coco has signed a UK retail distribution deal with Highland Spring that will see the brand expand beyond independent and wholesale distribution into supermarkets across the country. The Highland Spring deal means they can focus on international expansion.

A View From the Shining Star

The automotive industry is a ‘shining star’ for UK plc (not my words but those of a former Secretary of State for Business). UK automotive manufacturers have invested over £15billion, creating 100,000 jobs, 20,000 of which are at Jaguar Land Rover (JLR) in the 5 years to 2015.

These investments have driven production up from less than 1 million to 1.6 million units, with related revenue from less than £40billion to over £70billion. UK vehicle manufacturers sourcing to UK suppliers has increased from 36% to 41% in the period, with Jaguar Land Rover achieving over 50%. The high levels of investment also drove UK automotive productivity to the highest levels in Europe. This automotive industry success is often hidden within overall manufacturing sector performance.

The UK Government has invested in partnership with the UK Automotive Industry through firstly establishing an automotive strategy in 2013 and secondly backing this with targeted industrial support measures, which in terms of grant support for the industry has been worth circa £450million in the last 5 years (an average aid to jobs created of £4,500 per job which represents a great return on investment as PAYE and NI taxes are generated from these jobs). Notable actions that have made and are making a positive difference to the automotive industry have been: Automotive Investment Organisation seeking out Foreign Direct Investment and promoting exports; Advanced Propulsion Centre ensuring the industry has a sustainable future; the Advanced Manufacturing Supply Chain Initiative and Long Term Automotive Supplier Competitiveness Fund providing the confidence to make investments now and Employers Ownership Fund for Skills ensuring suppliers have a resourced skills strategy.

A level of momentum has been achieved that will create almost certain growth into 2016 with the launch of Jaguar F-Pace and the Jaguar XE and Nissan Infiniti models reaching full year volumes. Production growth so far this year is up 12%, and our industry forecasts that by 2020, unit production will be at an all-time high in the UK at over 2 million units.

The survey highlights some strong positives with high levels of investments in Research and Development, Production and Automation. However, there are also some concerns, especially in relation to many companies still not having apprenticeship schemes. What has to happen in the 5 year period to 2020 is to ensure that all levels of the product creation chain and the key related stakeholders from government to Banks take a collective responsibility to build on our successes, but with more focus and potentially less resources.

—

Mike Mychajluk BA FCA

Member of the Automotive Council Supply Chain Group

Chair of the ICAEW Manufacturing Special Interest Group

Supply Chain & External Engagement at Jaguar Land Rover Limited

A View From Professor Rajkumar Roy

We need economic and political stability and a long-term perspective to rebuild the manufacturing base in the UK.

UK Manufacturing Growth and the Survey Findings

The 2016 MHA Survey clearly identifies the skills shortage as a major threat to UK manufacturing. Indeed, 50% of the survey respondents said that to help their business, if they could they would persuade the government to expand skills training for the future work-force in Secondary Schools, Higher and Further Education (FE) colleges. 18% of businesses reported that recruiting appropriately skilled staff is the main barrier to growth over the next 12 months.

UK manufacturing growth can come from new opportunities created by through-life engineering services (TES), new materials and Industry 4.0. There is though still a major gap in understanding about this topic in the manufacturing context. Indeed, 74% of survey respondents don't understand the principles underlying Industry 4.0.

The recently proposed UK industrial strategy should address awareness here and also help to develop a more robust next generation leaders for UK manufacturing.

Worryingly, 99% of businesses are feeling the burden of red tape (an increase of 10% from last year), with just under half (46%) believing the burden is increasing rather than decreasing and this is also disrupting growth.

Brexit and the Future

UK manufacturing growth is unstable and has become more uncertain after the Brexit referendum. We need the next generation of manufacturing leaders to be able to deal with the market, technology and social uncertainties within the UK, as well as international economic and political challenges.

The supply of a skilled workforce to support the growth is also at risk with the threat of Brexit. The government needs to work closely with the UK industry base to develop a strong new market, along with a thriving domestic demand. Domestic demand for goods and services is directly related to the state of the overall economy. UK manufacturers are also looking for a strong ecosystem of suppliers, an R&D base and skilled workforces to grow their business. The National Manufacturing Debate (www.national-manufacturing-debate.org.uk) in May 2016 came-up with a list of enablers and inhibitors of growth.

The major enablers include: domestic demand, high export demand and low interest rates. Similarly, the list of inhibitors includes: a strong pound, a global economic slow-down and high fuel costs.

We need economic and political stability and a long-term perspective to rebuild the manufacturing base in the UK. We also need a business friendly ecosystem that attracts high performance and fast growing businesses to the UK. Long-term investment in infrastructure and cutting edge technologies will support the growth and accelerate it. We cannot do it alone, post Brexit we have to build strong partnerships with other countries around the world to be a leader in global manufacturing.

Professor Rajkumar Roy,
Professor of Competitive Design and the Director of Manufacturing, Cranfield University

Contributors Biographies

Professor Rajkumar Roy, Professor of Competitive Design and the Director of Manufacturing, Cranfield University

Professor Rajkumar Roy is the Professor of Competitive Design and the Director of Manufacturing.

He is also the Director of the Operations Excellence Institute at Cranfield University and Through-life Engineering Services Centre. He has over 22 years of academic and industrial experience in manufacturing research and education. His research interest includes through-life engineering services, cost engineering, product-service systems, design optimisation and applied soft computing and has published research papers in over 185 conferences and journals. His research sponsors include BAE Systems, Rolls-Royce, UK MoD, Tata Steel Europe, Airbus, GE Aviation, Lockheed Martin, BOC Edwards, Nissan, Bentley Motor Company and Ford Motor Company. He is a Chartered Engineer and a Fellow of the International Academy for Production Engineers (CIRP), Institution of Engineering Designers (IED), Association of Cost Engineers (ACostE) and The Chartered Institute for Logistics and Transport (CILT). Currently Professor Roy is serving on the IET Manufacturing Policy Panel and the Manufacturing Advisory Board of Aerospace Technology Institute (ATI). He is the founder of the annual National Manufacturing Debate at Cranfield and The Manufacturing Co-operative.

Professor Roy is also collaborating with the National Institute of Advanced Studies (NIAS) in Bangalore, India who are developing a novel manufacturing approach called 'inclusive manufacturing' to reach out to people with low income across the world, especially in Indian sub-continents, Africa and other BRIC countries.

Philippa Oldham, CEng MIMechE, Head of Transport and Manufacturing, Institution of Mechanical Engineering

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

Philippa joined the IMechE in May 2011, and acts as a voice for the Institution on behalf of their 114,000 international members. Her work helps raise the profile of engineers developing safe and efficient transport systems with less congestion and emissions, whilst creating wealth and employment. Publishing policy statements and reports on topics including Autonomous and Driverless Cars, Life Cycle Analysis, Manufacturing a successful economy, Multi-modal freight, Intelligent Transport, Integrated Transport 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.

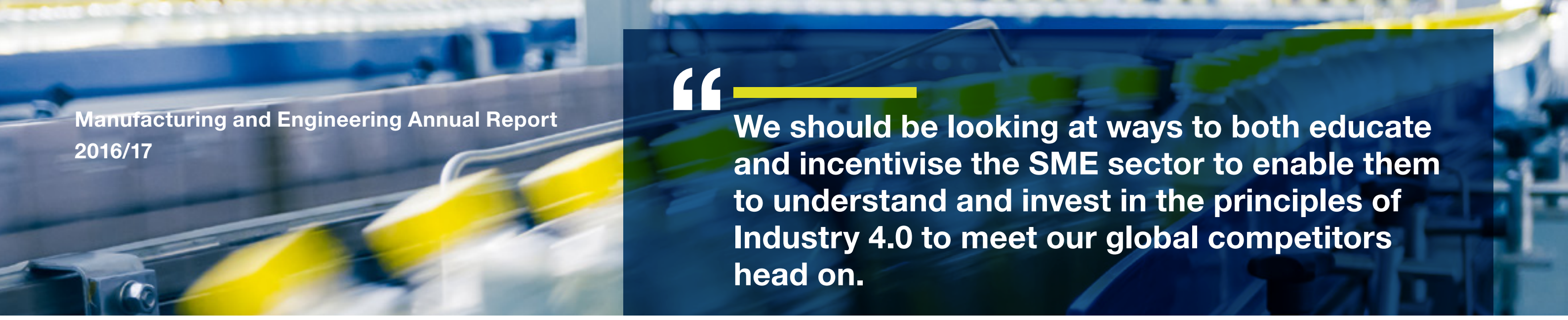
Conclusion

Chris Coopey,
Head of the Manufacturing
Group at MHA

Conclusion

This 5th annual MHA Manufacturing and Engineering Survey provides an interesting perspective on the state of the sector following arguably, the most important national decision made in the UK since 1945.

Like it or not, the inescapable issue dominating the national agenda is what will Brexit look like? For the manufacturing and engineering sector the issues thrown up by the uncertainty of our pending departure from the European Community are unanswerable until the details have been settled. Uncertainty always affects business confidence, so the surprise this year is perhaps around just how optimistic the sector remains. It is true to say that 7% fewer businesses are expecting growth than in 2015, but almost 70% are still confident of seeing some growth come through, despite an almost universal belief that production costs will increase.



“We should be looking at ways to both educate and incentivise the SME sector to enable them to understand and invest in the principles of Industry 4.0 to meet our global competitors head on.

Skills

The survey shows with clarity that the skills question remains unanswered. Half of all respondents put government action on this point at the top of their agenda. Unfortunately, beyond pushing the academic end of STEM, substantial action has not been forthcoming, nor is there any sign that this is going to change in any radical way. The government seems to see its secondary education priority around the reintroduction of grammar schools, whilst seemingly ignoring the fact that developing a more balanced system with a vocationally focused alternative should be the priority if we are to home grow our future engineers.

Some readers will have come across University Technical Colleges (UTCs), of which there are now around 50 open across the country. These are secondary schools for 14–19 year olds. They deliver an innovative, high-quality education that combines technical, practical and academic learning. In doing so, they offer students more than the traditional GCSE and A Level curriculum and are a pathway both into industry via apprenticeships and further and higher education. Sadly, the process of getting one up and running is unbelievably difficult and the funding inadequate. The government needs to address this issue urgently.

Encouragingly, the survey shows that apprentices are being taken on in greater numbers this year than last. Of course the Apprenticeship Levy, which comes into effect from April 2017, may well help companies to take on even more apprentices, but we must not end up with a system that puts quantity of trainees over the quality of their training.

Post Brexit, whatever the system turns out to be for recruiting skilled and non-skilled workers from abroad, it is sure to be bureaucratic and expensive, so the need to develop that home grown talent is more important than ever.

“If the optimism shown in this survey is anything to go by, then the sector will adapt and thrive.

Innovation

The data around innovation remains encouraging, with an increase in the percentage of respondents investing in Research and Development and an increase in the amounts being invested. Only 12% of businesses admitted to making no investment, rather than the 21% last year.

Industry 4.0

It may be a buzz-phrase, but for the first time our survey explored awareness about the so called 4th Industrial Revolution. The data shows that almost three quarters of respondents have no understanding of the concepts underlying Industry 4.0. The reality is that if industrial economies elsewhere in the world are developing national strategies for this (and they are), then we must make sure that we have an industrial strategy that is more than words. We should be looking at ways to both educate and incentivise the SME sector to enable them to understand and invest in the principles of Industry 4.0 to meet our global competitors head on.

Conclusion

There is much to play for as we face the new reality of a United Kingdom outside of the EU. There will be challenges, but there will also be massive opportunities which we must grasp and take advantage of. If the optimism shown in this survey is anything to go by, then the sector will adapt and thrive, but if government could show real leadership by investing in actions around a new industrial strategy, the future would be much rosier. This should, in my view, include a serious attempt at providing a long term answer to the skills shortage by having a coherent policy on providing vocational routes into engineering at secondary school level.

Thank you for taking an interest in our survey which we hope you have found interesting and useful. Please remember that all of MHA’s member firms have sector specialists who are keen to help businesses in the sector to grow (organically or by merger or acquisition) and importantly, to become more profitable and tax efficient.

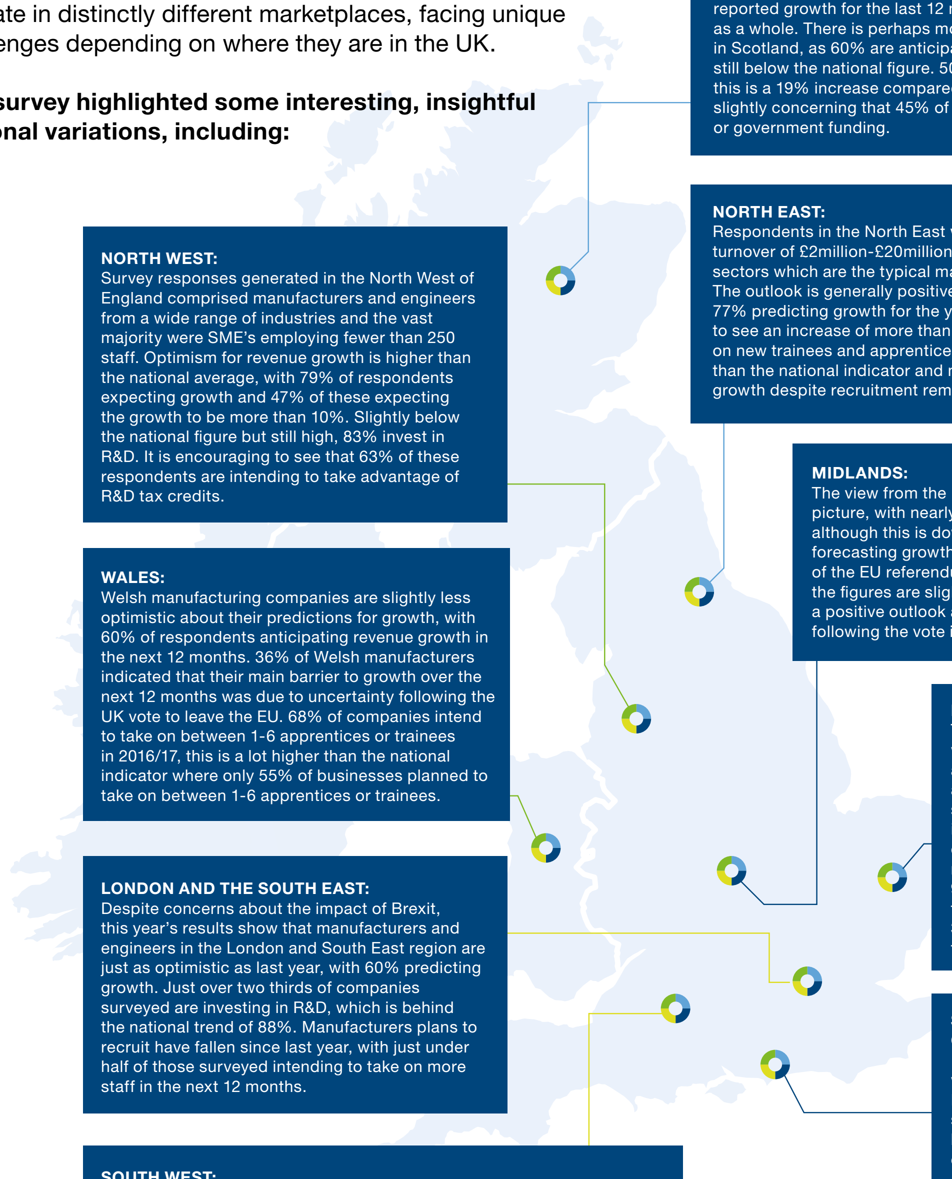
MHA

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:



SCOTLAND:
Despite challenging conditions, 45% of Scottish respondents reported growth for the last 12 months, compared to 59% for the UK as a whole. There is perhaps more optimism for the next 12 months in Scotland, as 60% are anticipating revenue growth, although this is still below the national figure. 50% of respondents currently export, this is a 19% increase compared to the previous year. It is however slightly concerning that 45% of respondents didn't receive any grant or government funding.

NORTH EAST:
Respondents in the North East were typically companies with a turnover of £2million-£20million and were from a wide range of sectors which are the typical make up of manufacturing in the region. The outlook is generally positive from North East respondents, with 77% predicting growth for the year ahead and 55% of those hoping to see an increase of more than 10% in revenue. 63% plan to take on new trainees and apprentices in the next 12 months; this is higher than the national indicator and mirrors the regional confidence for growth despite recruitment remaining a key challenge.

NORTH WEST:
Survey responses generated in the North West of England comprised manufacturers and engineers from a wide range of industries and the vast majority were SME's employing fewer than 250 staff. Optimism for revenue growth is higher than the national average, with 79% of respondents expecting growth and 47% of these expecting the growth to be more than 10%. Slightly below the national figure but still high, 83% invest in R&D. It is encouraging to see that 63% of these respondents are intending to take advantage of R&D tax credits.

MIDLANDS:
The view from the Midlands is more optimistic than the national picture, with nearly 73% of respondents forecasting growth, although this is down 7% on the previous year and most are forecasting growth to be below 10%. The impact of the result of the EU referendum has affected confidence, although, again the figures are slightly more positive locally, with 26% having a positive outlook and 42% a negative one, but uncertainty following the vote is now seen as the main barrier to growth.

WALES:
Welsh manufacturing companies are slightly less optimistic about their predictions for growth, with 60% of respondents anticipating revenue growth in the next 12 months. 36% of Welsh manufacturers indicated that their main barrier to growth over the next 12 months was due to uncertainty following the UK vote to leave the EU. 68% of companies intend to take on between 1-6 apprentices or trainees in 2016/17, this is a lot higher than the national indicator where only 55% of businesses planned to take on between 1-6 apprentices or trainees.

EAST ANGLIA:
The majority of respondents in East Anglia were SMEs with less than 250 employees with a turnover range of over £1million - £20million and operated in a wide range of manufacturing sub sectors. Optimism is exceptionally high in this region, with over 80% of businesses expecting revenue growth in the next 12 months. Investment in R&D is also high, with 90% of businesses spending a percentage of their turnover. It is therefore surprising that 33% of respondents will not be making a claim for R&D tax credits in the next 12 months.

LONDON AND THE SOUTH EAST:
Despite concerns about the impact of Brexit, this year's results show that manufacturers and engineers in the London and South East region are just as optimistic as last year, with 60% predicting growth. Just over two thirds of companies surveyed are investing in R&D, which is behind the national trend of 88%. Manufacturers plans to recruit have fallen since last year, with just under half of those surveyed intending to take on more staff in the next 12 months.

SOUTH COAST:
Optimism around turnover growth over the next 12 months was in line with the national figure, with 70% of businesses predicting some growth. However the region's businesses seem to be struggling with Working Capital, with 38% of businesses describing it as 'challenging'. 55% of respondents are hoping to recruit in the next 12 months, this is above the national average. What is less certain is whether they will find the staff and skills they are looking for, as 77% of respondents indicated that they have trouble recruiting employees with relevant skills. The real challenges for the sector may still lie ahead depending on the terms of our departure, but experience shows that businesses have a surprising amount of resilience and adaptability.

SOUTH WEST:
Responses in the South West came from businesses of all sizes and a broad range of sectors. Respondents from the region experienced higher levels of significant growth over the past 12 months than the rest of the UK, with 40% reporting growth of 10% or more. Optimism levels remain high, with 72% anticipating some sort of growth in their business in the coming year, up 7% from the previous year. The skills agenda remains a priority for South West businesses, however only 36% reported that they plan to increase staff numbers, a decrease of 24% from last year and 11% below the national indicator.

To find out more about the accountancy and business advisory services MHA can offer, please contact +44 (0) 207 429 4147.

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