MAKE uk
The Manufacturers' Organisation

AUTUMN STATEMENT SUBMISSION

UK manufacturing is the engine of our economy

The UK manufacturing sector punches well above its weight, contributing £224bn GVA to the UK economy last year, and delivering almost half the UK's total goods exports. The sector provide 2.6million jobs with average wages 9% higher than the economy average. Make UK analysis shows that by supporting the sector to grow to account for 15% of GDP from 10%, can add a further £142bn to the UK economy, as well as crucial jobs and investment in our regions. We want to see action from the Government that demonstrates real commitment to the sector, now and in the future, highlighting its vital role at the heart of our country's economy.

This should include:

- Tackling current labour shortages and building a workforce fit for the future
- Accelerating electricity market reform and driving energy efficiency
- Boosting productivity through increased digitalisation
- Ensuring the UK is a competitive place to do business and that British manufacturers goods and services continue to be exported across the globe
- Making homes for the future

There are low cost, no cost steps that can be taken now to help manufacturers to thrive and not just survive in the immediate term. But if the Government wanted to be bold and ambitious and ensure that the UK is the top manufacturing nation in the world it is vital that plans are laid out for a **bold and ambitious industrial strategy** that puts manufacturing at the heart of it.

Industry stands ready to reshape our economy and boost economic growth. The Government need simply enable us to do it.

The importance of UK manufacturing: The Facts

The UK is now the 8th largest manufacturing in the world, overtaking France from 9th place last year

The UK manufacturing sector delivered £224bn work of output in 2022

Manufacturers contribution to UK productivity, calculated as GVA punches well above its weight at £206bn. This is 20% higher than a decade ago and 14% higher than the UK economy average.

Manufacturing companies alone account for almost half of all exports amounting to £209bn worth of goods

Manufacturing firms provide 2.6 million jobs with average wages 9% higher than the rest of the UK economy

Summary of recommendations

Skills

1. **Manufacturing and engineering occupations should be added to the Shortage Occupation List** to help the labour challenges in manufacturing.

2. **Carry out a root-and-branch review of the apprenticeship levy**. Annual starts remain significantly lower than prior to the introduction of the policy, and appear to be declining again.

3. **New employer incentive payments should be introduced for apprenticeship standards that correspond to skills and labour shortages** to increase more uptake in apprenticeships.

4. **Create a tax relief for training investment** to enables employees to refresh, update and gain new skills at lower and intermediate levels.

5. **Support employer engagement with T Levels.** Specifically:

    - **More work in simulated environments.** This should be increased to ensure that employers are comfortable offering placements and learners experience the same approach to training as those entering full-time skilled employment.

    - **Ability to split the placement between more employers.** We propose offering more flexibility by increasing the limit to three employers.

6. **Introduce a Manufacturing Mentor Scheme.** The Government should look at how it encourages recent or early retirees back into industry to educate and guide the next generation of leaders, managers and business owners.

7. **Enshrine digital skills across the education system.** Government should focus on the delivery of digital skills through pre-16 and post-16 education and training. Introducing a digital skills account for lifelong learning and instituting a digital gatepost to enshrine digital skills across the national curriculum for schools would be an ideal start.

8. **Expand tax relief on occupational health services.** Employers of all sizes wanting to offer improved health and wellbeing products and services to their staff cite cost as the main barrier to doing so. Measures currently under consultation to expand the range of services eligible for tax relief as benefits in kind should be implemented as soon as possible.

9. **Work with industry to improve employer and employee awareness of occupational health services and best practice.** Employers report difficulty understanding what is most beneficial to them and the right fit for their business. The Government should work with employer bodies to develop best practice examples and guidance on areas such as training for leaders and managers for employees to receive effective support at work.

10. **Make statutory sick pay (SSP) a day 1 entitlement and reintroduce cost recovery for SMEs.** This would be an important step in reducing presenteeism – particularly for the growing number of employees suffering from mental ill health – and preventing long-term sickness absence. Cost recovery for SMEs would help this additional entitlement and reflect the significant impact employee absence can have on their businesses.

Energy Efficiency

11. **Invest in increasing the capacity and flexibility of the national grid as a matter of urgency.** This is critical to enable willing and ready companies to obtain connections which will enable them to feed the energy they generate back into the grid.

12. **Conduct a gap analysis of which tax incentives and funding are available to the different business populations (SMEs, mid-market, gas and electricity-intensive industries) on energy efficiency and decarbonisation**, so that no category falls through the cracks and is left behind.

13. **Introduce a Help to Grow Green scheme.** Existing funds, such as the Industrial Energy Transformation Fund (IETF) should be extended, increased and reshaped into a more accessible fund.

14. **Extend the 12 months 100% business rate reliefs on green plant machinery and equipment, and on building improvements that were introduced in April 2023.** Green investments should have a minimum of a 3-year relief to reflect business' payback period for their investments.

15. **Take forward the Net Zero Review recommendations on UK carbon and electricity prices.** The energy market reforms should be accelerated to aim to put electricity prices on a par with gas, and make the price of electricity internationally competitive. There should be a comprehensive review of electricity network charges and the government should introduce a Carbon Border Mechanism (CBAM).

Boosting productivity through increased digitalization

16. **Review the changes to the R&D tax credit made in 2023 to ensure it hasn't negatively impacted on innovation.** Government should commit to review the 2023 changes to understand what impact they may have had.

17. **Commit to Made Smarter across the UK.** Government should commit to the full rollout of Made Smarter, which has proven to support the adoption of new technology in manufacturing businesses. It should also explore extending the remit of Made Smarter to include industrial decarbonisation.

18. **Expand the R&D tax relief to include capital equipment relating to industrial decarbonisation.** Government should build on the most recent qualifying extensions of the R&D tax relief to include capital equipment for green processing and industrial decarbonisation.

19. **Employer incentives for digital and green apprenticeships.** Employers should benefit from incentive payments for apprenticeship standards that relate to digital and green skills and jobs.

20. **Delay the proposed changes to the R&D tax credit until 2024.** Manufacturers need certainty when planning investment, and sudden changes in government policy create uncertainty, impacting on companies' willingness to commit to any type of investment.

Increasing the UK's competitiveness as a place to invest and grow UK manufacturing businesses

21. **Ensure that the UK Government's procurement process does not overly prioritise lowest tender cost but instead the wider economic cost/benefit.** Government should move swiftly to ensure that the procurement process considers the wider economic benefit in the tendering process.

22. **Immediately, Government should make Government support conditional on beneficiaries adhering to the Prompt Payment Code**. At a time when many manufacturers are struggling in regard to cash flow, it is critical that supply chain companies are paid on time.

23. **Enhance the marginal relief available to businesses negatively impacted by the "associate company" rule on corporation tax.** Whilst the increase in corporation tax is

undesirable to many manufacturers, the introduction of the associate company rule may unnecessarily increase costs for businesses that make profits within the upper and lower thresholds for corporation tax due to company associations.

24. **Make permanent the full expensing regime for capital allowances and expand to allow for at least the leasing of capital.** Short-termism and the exclusionary nature of recent updates to capital allowances (e.g., super-deduction and now, full expensing) will continue to impose barriers to businesses that want to make more sensible and long-term investments.

25. **Extend the multiplier freeze from 1 year to 3 years to give businesses more time to adjust to their new evaluated rates.** The Industry Sector saw the biggest change in their rateables values (up by 27%) compared to the whole economy average (7%) meaning the businesses in that sector (which includes manufacturers) are disproportionately impacted by increasing rates.

26. **Allow councils to factor in the definition of SMEs (less than 250 employees or below £36m turnover) when applying small business rates reliefs so the reliefs can reach more businesses that need it.** SME manufacturers are more likely to occupy large spaces. Small business rates relief does not factor in the definition of SMEs (i.e., in terms of employment or turnover) into the valuation process and given 99% of manufacturers are classified as a micro or SME many businesses are taxed disproportionately more relative to the size of their business.

Supporting British manufacturers to export their goods and services across the globe

27. **Ensure the package of grants and practical support, designed to assist exporters attending trade shows and similar events overseas, remains in step with export market priorities and demands of exporters.**

28. **Extend the geographical reach of the Export Support Service.** The ESS should be extended to include all key UK export markets, not limited to trade support into the EU.

29. **The Export Academy (or similar channel) should create a bespoke financial package to boost the skills base for exporters to improve knowledge in exporting.** Too often, business export strategies are under utilised. Therefore, there is a need identify partners to build up UK expertise on trade through schools, universities, and within business.

30. **Refresh the UK's Export strategy if the UK is to meet the £1trn in exports by 2030s.** There is an urgent need for alignment between our Export Strategy and a revitalised industrial strategy, as both support the importance of the UK's advanced and high-value manufacturing sectors.

Manufacturing homes for the future

31. **A modern approach to stamp duty rates, based on the energy performance of newly built homes**. As government seeks to boost growth in the wider economy and reduce our reliance on imported fossil fuels, such an innovation would incentivise the demand side of the housing market to deliver value for both new homeowners and H.M. Treasury.. *Medium term.*

32. **An increased allocation to 20% of the Affordable Homes Programme for modular home building (category 1 and category 2 – with split 50/50 split between the two).** As modular building techniques deliver low carbon, low energy homes, this policy would help ensure that those who need affordable homes not only benefit from lower costs of rent or purchase, but also lower living costs as well..

33. **A staged reform package for our planning system that involves minimal outlay in return for national economic growth in the billions.** *Long term.*

I. Provide £20,000,000 of funding for 400 – 600 more planning officers across Local Authorities in England.
II. Allow for grants from a levelling-up fund of £10,000,000 specifically for Local Authorities that suffer from low tax bases and, therefore, reduced ability for planning departments to deliver much needed development to local communities.
III. Introduce planning penalty schemes (affecting future applications for change of use and development of land) for individual development directors for failure to provide infrastructure as set-out in planning applications.

The economic outlook for UK manufacturing

An update on manufacturing activity this year

Following the sharp bounce back in economic activity between 2021 and early 2022, UK manufacturers initially speculated that 2023 would be a challenging year. Fortunately, the first six months proved to be exemplary with output, orders, employment, and investment performance reaching highs. However, the results of the third quarter research indicated that this level of growth could not be sustained for much longer.

The findings of Make UK's quarterly manufacturing outlook for Q3, which measures economic activity within the industry found several key metrics moving in a downward trajectory suggesting that the industry could be heading for a contractionary period. However, whilst the result point to a very bad quarter for manufacturers, businesses themselves remain upbeat with confidence levels continuing to rise and investment intentions even increasing. The changes we are witnessing is the realisation of the Bank of England's (BoE) aggressive attack on inflation by increasing interest rates, which has increased 14 times back-to-back since 2021.

This sends the message to businesses that a recession is coming and, as a result, manufacturers are cutting back on orders and even beginning to thin their staffing levels. Unfortunately, this has come at a time where the backlog of orders which propped up industry for much of the first half of this year begins to run dry. The only bit of good news is that inflation is falling, with producer price inflation (for inputs) already in a deflationary spiral and the BoE have for the first time since they began their offence on rising prices decided not to increase interest rates for a 15th time. It is currently difficult to say how the fourth quarter will play out for manufacturing.

The latest results of our quarterly survey (Q3 2023) reveal the following:

- Output and total orders turn flat, negatively bucking last quarter's expectation.
- UK and export orders fall in tandem yet expectations for next quarter remain up
- Prices see significant cooling, margins still just in limbo.
- Labour growth ceases, investment grows slightly.
- Confidence steady and positive, small signs of divergence
- Manufacturing output growth for 2023 forecast 0.8%, and 0.1% for 2024.
- UK GDP growth at 0.5% for 2023 and 0.4% for 2024

The impact of rising interest rates

The Bank of England's (BOE) goal to reduce inflation by raising interest rates appears to be working to some degree. The nation has seen rates rise 14 times in under two years and it is becoming clear to industry that the central bank intends to actively slow down the economy. Whilst the impact on households, particularly mortgage holders, has been well observed, the impact on manufacturers has also been documented and should not be ignored.

As a result of the central bank's activities, we are observing more and more businesses taking a step back and re-evaluating their positions, with a view that the economy is likely to experience a recession either this year or the next. There are greater signs that job losses are increasing, as well as indicators that job creation is on the decline. This is also being observed in official statistics, with the manufacturing vacancies declining by 8000 between January and June 2023 (ONS). Though raising interest rates is an important tool to tackle inflation, unemployment will increase as a consequence, and this is a cost the Government must be aware of.

The following impacts of rising interest rates have been noted by Make UK members, which include:

- Rising rates which will negatively impact appetite for higher risk projects
- Some businesses that own loans on variable rates for credit or fixed rates that may expire soon will experience a substantial increase in borrowing costs
- Increasing concerns regarding indirect impact of rising rates, rather than cost of borrowing. It's clear that BOE intends to slow the economy by raising rates and increasing unemployment. However, this signals to businesses that demand will fall in the future, and they will consider

cutting costs now (this morning's PMI indicates redundancies are rising in manufacturing)

- Automotive manufacturers have reported that consumers facing higher interest rates when buying cars on finance is impacting demand for newer vehicles
- The impact on staff as household costs increase is resulting in increased wage pressures for businesses to help cover the cost of mortgages

The latest on inflation

Cost pressures continue to ease for businesses as producer prices (inputs) have declined for the first time since November 2020 (by 2.7%), and output prices only increased by 0.1% between May and June 2023. This fall is mainly down to fuel prices declining and, though it will take some time for prices to filter through to consumer goods, the latest for PPI is a positive sign for the cost-of-living crisis. As it stands, consumer prices (CPI) are currently at 7.9% which is still more than three times the BOE's target of 2%.

However, our quarterly survey data indicates a large share of manufacturers continue to raise prices on their goods, albeit that share is falling slowly quarter on quarter. Therefore, we expect consumer inflation levels to come down more slowly than what the BOE or OBR are predicting.

Following on from the Mansion House speech

The Chancellor's recent Mansion House speech promoted ideas that could potentially dramatically change the way we view and use pensions to increase value in our economy. In addition to promoting policies that may support business growth, as they transition from private to public companies, a promise has been made to deliver a smarter regulatory framework and announcements for financial services.

It is not yet clear if the changes to the access and use of pensions will yield a positive income for manufacturers. On face value, by committing 5% of Define Contribution (DC) funds to unlisted equities unlocks patient capital for businesses. This could be a good thing for start-ups and SMEs, as manufacturers have long called for greater access to finance that is willing to wait longer to achieve positive financial returns. For example, since the capital is people's pensions, it's unclear who will decide where the money goes (i.e., the fund manager or people the pensions belong to). Additionally, greater clarity is needed to understand whether specific sectors will be targeted, or whether the choice of investment will belong to the investor. There is a risk that, in order to protect pensions, investors will go for safer bets and high risk/long-term projects may struggle to access the finance.

However, this move is likely the best step forward for the UK. The UK pensions market is the largest in Europe and is worth over £2.5 trillion. However, UK pension investor returns lag compared to other developed nations, so this will bring us closer to other economies, such as the US, which invests 11% of pensions on unlisted equities (or Australia who invests 5%).

A bold and ambitious modern industrial strategy

87% of manufacturers say they are a disadvantage compared to our international competitors because of a lack of a UK industrial strategy

A lack of a proper, planned, industrial strategy is the UK's Achilles heel. Every other major economy, from Germany, to China, to the US, has a long-term national manufacturing plan, underlying the importance of an industrial base to the success of its wider economy. The UK is the only country without one. If we are to not only tackle our regional inequality, but also compete on a global stage, we need a national industrial strategy as a matter of urgency.

There is now widespread consensus on the need for such a strategy and the specific policy areas it would address. In fact, a recent Make UK survey revealed that 99% of manufacturers want to see an industrial strategy in the UK. It is worrying that over half of manufacturers do not feel there has ever been a long-term vision for UK manufacturing, yet industry is clear that manufacturers need and want a long-term plan.

Manufacturers are clear that operating within an industrial strategy would bring benefits, with nine in ten saying it would give them a long-term vision, eight in ten a more stable environment and, three in ten much needed accountability. These factors would help manufacturers to make the significant decisions they need to invest in people, capital and ideas, while transitioning to a future digital and green economy.

The key areas that manufacturers want to see within an industrial strategy have hardly changed since ten years ago, with a focus on people and skills, a competitive business environment, and a supportive trading environment. However, the two additional focuses that we see now, in calls for a renewed industrial strategy, are the economy's green transition, and digitalisation and the fourth industrial revolution. Our early calls ahead of an anticipated Autumn Statement typically focus on these areas, honing in on the immediate actions Government could take, while simultaneously putting together a future plan for the sector that is bold and ambitious.

Clarification on the definition of Advanced Manufacturing is required: Make UK urges HMT to clarify that the term "advanced manufacturing" relates to process, not product. The term 'advanced' would refer to the use of modern technologies, processes and business practices in the manufacturing process, which we believe would capture far more companies than under the unknown and unclear definition.

Tackling current labour shortages and building a workforce fit for the future

There are 70,000 live vacancies in manufacturing right now. This means we are losing around £6.bn in potential output each year

Manufacturing and engineering apprenticeship starts are 38% lower now compared to before the Levy was introduced

People and workforces remain the lifeblood of UK manufacturing. Make UK's own recent research estimates the increase to prosperity that filling current vacancies can bring is close to £7billion, or approximately £21 million a day for UK GDP. Capitalising on that potential means exploring how we can support business to invest in training, whilst also supplementing their workforces with skills from overseas.

Manufacturers are investing heavily in their workforce. Make UK research shows that just under half of manufacturing employers have increased their investment in skills training the last year, and 30% have increased spending in areas such as health and wellbeing, as they seek to retain the talent they have and attract new skilled workers to the sector.

However, manufacturers have reported difficulties in finding available skilled workers in the domestic labour market. Make UK research shows that 59% of manufacturers found that they were not able to recruit the labour they needed in the last three months as a result of a lack of candidates with the right technical skills, and 63% did not receive enough applications to fill all of their vacancies.

1. **Manufacturing and engineering occupations should be added to the Shortage Occupation List.** It is welcome that the Migration Advisory Committee is now completing its review of the SOL, and it is important that the Government both accepts its recommendations and allows for more frequent reviews to take place. In addition to the engineering occupations currently included on the list – where there remain labour shortages despite manufacturers' attempts to recruit – there are new occupations which should be added to a revised list. These include:
    - 5221: Metal machining setters and setter operators
    - 5213: Sheet metal workers
    - 5215: Welding trades
    - 8118: Electroplaters
    - 3111: Laboratory technicians

While this will help to address the most pressing labour challenges in manufacturing, facilitating recruitment from overseas is not the long-term solution that industry requires. This can only come from investment in training the current and future manufacturing workforce.

Through greater alignment of skills and immigration policy, government can support manufacturers to solve both immediate labour shortages and long-term skills gaps. Given the priority attached by manufacturers to apprenticeship training – both as an entry route into skilled employment, and for the upskilling and retraining of the existing workforce – this should focus on the creation of employer incentives in the apprenticeship system.

2. **Carry out a root-and-branch review of the apprenticeship levy**. The apprenticeship levy continues to frustrate manufacturers. Despite a large reduction in the underspend in the levy in the last year, annual starts remain significantly lower than prior to the introduction of the policy and – after an initially strong recovery after the pandemic – appear to be declining again. From highs of 78,840 in 2015/2016 to a 38% reduction in starts in 2021/2022, it is clear that the plan isn't working as expected. To ensure that the system is sustainable and that employers are able to invest in the right forms of training, government should commit to undertaking a full review of the levy.

3. **New employer incentive payments should be introduced for apprenticeship standards that correspond to skills and labour shortages.** Government has previously successfully introduced apprenticeship incentives which have helped to increase starts. Incentive payments

for employers should be introduced for standards which relate to:

   a. The occupations included on the updated Shortage Occupation List
   b. Areas of current and future skills shortages identified by the Unit for Future Skills

Beyond apprenticeship training, manufacturers are keen to prioritise the upskilling and retraining of the existing workforce. This is an investment in keeping hold of the talent they have, and ensures employees are equipped with the technical skills they need to continue to thrive. Make UK welcomes the measures recently announced on the introduction of the Lifelong Loan Entitlement, and the additional funding for Skills Bootcamps and Sector-Based Work Academy Programmes (SWAPs), which will contribute to this effort. However, for manufacturers, this still represents an often-confusing patchwork of support for upskilling and retraining.

4. **Create a tax relief for training investment.** Building on current exemptions for investment in work-related training, government should establish a tax relief for employer investment in upskilling and retraining existing workers that enables employees to refresh, update and gain new skills at lower and intermediate levels.

5. **Support employer engagement with T Levels.** Make UK firmly supports the introduction of T Levels. We are working together with other sector bodies and the Department for Education to ensure that the policy is a success, and that employers in our sector are offering the industry placements to learners that are crucial to this. While we welcome the government taking steps to provide additional financial support and practical guidance for employers, more can be done:

   a. **More work in simulated environments.** In many safety-critical engineering and manufacturing settings, it is typical for apprentices and other employees undergoing training to complete this in a simulated environment. This is not fully reflected in the approach to engineering and manufacturing T Level industry placements, where a maximum of one-third of the placement can take place in such an environment. This should be increased to ensure that employers are comfortable offering placements and learners experience the same approach to training as those entering full-time skilled employment.

   b. **Ability to split the placement between more employers.** There is some concern that the current limit on dividing the industry placement between two employers does not provide enough flexibility. We propose increasing the limit to three employers.

Make UK's work has found that leadership and management skills are among the most in-demand skills for manufacturers, both now and in the future. Digitalisation, net zero and flexible working are all changing the manufacturing workplace. This creates a stronger emphasis on the need for good leaders and managers who can navigate complexity, innovate and manage people effectively.

6. **Introduce a Manufacturing Mentor Scheme:** The current Help to Grow Management scheme is a welcome start to tackling the leadership and management challenge in the UK. However, leadership and management schemes need to be far more tailored, with both sectoral and regional focuses. The Government should look at how it encourages recent or early retirees back into industry to educate and guide the next generation of leaders, managers and business owners. This could be built on existing matching platforms, but with a focus on sectoral peer to peer support.

7. **Enshrine digital skills across the education system.** Manufacturers' skills need for the next decade and beyond are largely defined by demand for digital and green skills as firms consider the rollout of new technologies to improve productivity and reduce carbon emissions. To ensure that employers have access to the skills they need in the long term, government should focus on the delivery of digital skills through pre-16 and post-16 education and training, by introducing a digital skills account for lifelong learning and instituting a digital gatepost to enshrine digital skills across the national curriculum for schools.

Following Make UK's recommendation at the Spring Budget, it is welcome that the Government is currently consulting on expanding support for employer investment in occupational health.

Manufacturers investing in health and wellbeing report improved productivity, reduced sickness absence and better retention of skilled staff. As businesses continue to struggle with high rates of physical and mental ill health impacting their workforces, there is a strong case for more effective support for health at work. The Government should:

8. **Expand tax relief on occupational health services.** Employers of all sizes wanting to offer improved health and wellbeing products and services to their staff cite cost as the main barrier to doing so. Measures currently under consultation to expand the range of services eligible for tax relief as benefits in kind should be implemented as soon as possible.

9. **Work with industry to improve employer and employee awareness of occupational health services and best practice.** Employers report difficulty understanding what is most beneficial to them and the right fit for their business. The Government should work with employer bodies to develop best practice examples and guidance on areas such as training for leaders and managers for employees to receive effective support at work.

10. **Make statutory sick pay (SSP) a day 1 entitlement and reintroduce cost recovery for SMEs.** This would be an important step in reducing presenteeism – particularly for the growing number of employees suffering from mental ill health – and preventing long-term sickness absence. Cost recovery for SMEs would help this additional entitlement and reflect the significant impact employee absence can have on their businesses.

Accelerating electricity market reform and driving energy efficiency

92% of manufacturers see net zero as an important priority for their business

68% have already made investments to help them transition to net zero and 22% plan to in the next 12 months. One in ten currently have no plans to

68% see net zero as a commercial opportunity for their business

The UK is a world leader in the fight against climate change. Reaching the net zero target will require extensive, systematic change across all sectors, including industry. We must get this change right as the products made by industry are vital to life in the UK, and the sector supports local economies across the country. This has been further compounded by the US and the EU's respective Inflation Reduction and Net Zero Industry Acts.

Decarbonisation investment decisions have been driven mainly by the cost of energy and are based Return on Investment (and for international companies, the performance of the asset in the UK compared to other countries). Incentives for capital expenditure, including via the tax system and capital allowances, are key. These should be fairly and proportionately allocated to those who need it, including the mid-market firms (300-500 employees) who, along with the SMEs, represent the average manufacturing business.

11. **Invest in increasing the capacity and flexibility of the national grid as a matter of urgency.** This is critical to enable willing and ready companies to obtain connections which will enable them to feed the energy they generate back into the grid. Doing this early will avoid wasting a proportion of investment in power-generating assets in the first place. Without this, even if the right policies are in place, their implementation will not be possible in practice.

12. **Conduct a gap analysis of which tax incentives and funding are available to the different business populations (SMEs, mid-market, gas and electricity-intensive industries) on energy efficiency and decarbonisation**, so that no category falls through the cracks and is left behind. This should include expanding compensation and exemptions to current schemes.

13. **Introduce a Help to Grow Green scheme:** Existing funds, such as the Industrial Energy Transformation Fund (IETF), should be extended, increased and reshaped into a more accessible fund. The current IETF does not reach manufacturers of all sizes, with the criteria pushing some companies out of being able to access the funds. Application complexities of accessing the fund also mean SMEs and mid-market businesses need to access costly external advice if they want to attempt to use it. A revamp of the fund into a Help to Grow Green scheme would provide smaller non-competition-based funding (e.g., £20k) to small companies, with advisory services (using existing expertise from legacy ERDF staff and Made Smarter as a model – see below) such as energy audit, sub-metering, and help with accessing the right finance, allowing them to take their first implementation steps.

14. **Extend the 12 months 100% business rate reliefs on green plant machinery and equipment, and on building improvements introduced in April 2023.** Manufacturers are making green investments and we welcome current 12 months reliefs. However, green investments should have a minimum of a 3-year relief to reflect business' payback period for their investments as opposed to the current 12 months. The three year relief could be available for a limited time between now and 2035 to spur on immediate investment or bring forward investment plans and then move back to the original 12 months relief.

15. **Take forward the Net Zero Review recommendations on UK carbon and electricity prices:** The energy market reform should be accelerated to aim to put electricity price on a par with gas, by decoupling the pricing of electricity from gas and moving away from marginal pricing models

that do not support growth in business. Moreover, the Government should seek to make the price of electricity internationally competitive. In addition, the Government must look at other policy costs, notably the disproportionate electricity network charges, in a bid to decrease cost.
It should look to work with industry to explore a broader carbon tax mechanism: not only should the Carbon Border Adjustment Mechanism (CBAM) be introduced at speed (before the EU-CBAM kicks in and the UK allowances taper off), but work on product standards should start in parallel. The UK-ETS should also be extended to other sectors (as relevant) and linked to wider ETS schemes to increase the market size.

Boosting productivity through increased digitalization

8 in 10 manufacturers are digitalizing their factories and many are reaping the benefits

3 in 10 companies reported labour efficiencies as a result of investing in digital tools and automation

To boost productivity and drive energy efficiency, Government should also focus on how manufacturers can digitalise to decarbonise. Technologies such as 3D printing, the Internet of Things and artificial intelligence (AI) among others, are rapidly transforming the manufacturing industry. The Covid-19 pandemic, Brexit and the UK's commitment to achieve net zero by 2050 have led manufacturers to adapt like never before. Lower costs, increased productivity, and achieving carbon emission reduction are some of the benefits manufacturers are starting to reap. Digital adoption is creating significant opportunities for investment in new and emerging technologies, placing the UK as a global leader in innovation and supporting the UK's transition to net zero.

16. **Review the changes to the R&D tax credit made in 2023 to ensure it hasn't negatively impacted on innovation.** Manufacturers need certainty when planning investment, and sudden changes in government policy create uncertainty, impacting on companies' willingness to commit to any type of investment. We have previously raised concerns about the impact of the changes to the R&D tax relief on SMEs. Government should commit to review the changes to understand what impact, if any, positive or negative, that the changes have had. If the review concludes that the changes have had a negative impact, Government should consider reverting back to the previous model of relief.

17. **Commit to Made Smarter across the UK.** There remains untapped potential to digitalise factories across the country which could help to increase productivity and stimulate economic growth. Made Smarter is a proven concept that has bought great benefit to those companies that have engaged in the progress, and tackles three major barriers to digitalisation: access to finance, impartial advice and shifting culture change. It provides comprehensive support that includes impartial advise, funding, and leadership training. Government should commit to the full rollout of Made Smarter which has proven to support the adoption of new technology in manufacturing businesses. It should also explore extending the remit of Made Smarter to include industrial decarbonisation.

18. **Expand the R&D tax relief to include capital equipment relating to industrial decarbonisation.** The cost of upgrading capital equipment is cited as the biggest barrier to manufacturers decarbonising their processes. Government should build on the most recent qualifying extensions of the R&D tax relief to include capital equipment for green processing and industrial decarbonisation. It should then look to broaden this to include capital equipment more widely.

19. **Introduce employer incentives for digital and green apprenticeships:** The Government has previously used employer incentive payments for apprenticeships to great effect, most notably during the pandemic. In order to address concerns about skills shortages and support more effective employer investment in apprenticeships, employers should benefit from incentive payments for apprenticeship standards that relate to **digital** and green skills and jobs. These should be identified primarily by the Government's Unit for Future Skills and may also draw upon the work done by the Institute for Apprenticeships and Technical Education to map green apprenticeships.

20. **Delay the proposed changes to the R&D tax credit until 2024:** Manufacturers need certainty when planning investment, and sudden changes in government policy create uncertainty,

impacting on companies' willingness to commit to any type of investment. At a time when the Government recognises the need to encourage greater investment by British businesses, it is sensible to provide more notice of the introduction of significant changes to this vital area of relief for investment in R&D, relied on by so many manufacturers. Make UK would welcome the opportunity to work with Government on R&D Tax Credit Guidance to support members through this.

Increasing the UK's competitiveness as a place to invest and grow UK manufacturing businesses

Manufacturing business investment in 2021 was 4% lower than in 2019

61% of firms re-investment in plant and machinery ever 2-8 years

The manufacturing sector has experienced a business rateable value change nearly four times greater (27.1%) than the national average

Manufacturers have faced unprecedented disruption: from leaving the EU and a global pandemic, to rocketing transport and raw material costs. To remain competitive, we must ensure that manufacturers can overcome these challenges and remain in the top ten largest manufacturers globally. We want the UK to be a place that manufacturers want to grow and expand, and that encourages greater Foreign Direct Investment (FDI).

21. **Immediately, Government should make Government support conditional on beneficiaries adhering to the Prompt Payment Code**. At a time when many manufacturers are struggling in regard to cash flow, it is critical that supply chain companies are paid on time. Many businesses are seeing significant delays and extensions to payment terms. Therefore, Government should make it a condition that any beneficiaries of Government support must adhere to the Prompt Payment Code. A recent Make UK polling of manufacturers revealed overwhelming support for this intervention.

22. **Ensure that the UK Government's procurement process does not overly prioritise lowest tender cost but instead the wider economic cost/benefit.** HM Government procurement still over-prioritises tender price cost, rather than wider economic cost/benefit. One of the potential benefits to the UK's exit from the UK was deemed to be an ability to apply a better set of criteria to public procurement, yet action has not been taken to fulfil this ambition. Government should move swiftly to ensure that the procurement process considers the wider economic benefit in the tendering process.

23. **Enhance the marginal relief available to businesses negatively impacted by the "associate company" rule on corporation tax.** Whilst the increase in corporation tax is undesirable to many manufacturers, the introduction of the associate company rule may unnecessarily increase costs for businesses that make profits within the upper and lower thresholds for corporation tax due to company associations. Though we are not against this in principle to prevent malpractice in the system, the new rules threaten to disproportionately impact SMEs. We can reduce the impact of this rule on SMEs by increasing the marginal relief available to them so that they do not, at least, pay more than they would when without any associations.

24. **Make permanent the full expensing regime for capital allowances and expand to allow for at least the leasing of capital.** The move towards more generous capital allowances these past few years is a positive step for manufacturers, who account for 17% of total business investment in the UK. However, the short-termism and exclusionary nature of recent updates to capital allowances (e.g., super-deduction and now full expensing) will continue to impose barriers to businesses that want to make more sensible and long-term investments.

25. **Extend the multiplier freeze from 1 year to 3 years to give businesses more time to adjust to their new evaluated rates.** Following the VOA's revaluations of property values in April 2023, the Industry Sector saw the biggest change in their rateables values (up by 27%) compared to the whole economy average (7%) meaning the businesses in that sector (which includes manufacturers) are disproportionately impacted by increasing rates. Extending the multiplier freeze would give businesses time to adjust their total costs.

26. **Allow councils to factor in the definition of SMEs (less than 250 employees or below £36m turnover) when applying small business rates reliefs so the reliefs can reach more businesses that need it.** An extra layer of challenge for SME manufacturers that other sectors may not experience due to the type of properties that a single manufacturer could occupy (e.g. factories and warehouses). Small business rates relief does not factor in the definition of SMEs (i.e., in terms of employment or turnover) into the valuation process and given 99% of manufacturers are classified as a micro or SME many businesses are taxed disproportionately more relative to the size of their business.

Supporting British manufacturers to export their goods and services across the globe

UK total exports of goods value was £381bn in 2022, £290bn of this came from manufacturing firms

Manufacturers are natural exporters, and British manufacturers goods are demanded domestically and across the globe. That said, there remains untapped potential to export more British manufactured goods worldwide, starting with greater support and guidance, and allowing easy access to new and existing markets.

27. **Ensure the package of grants and practical support, designed to assist exporters attending trade shows and similar events overseas, remains in step with export market priorities and demands of exporters.** With the closure of the Trade Access Programme in 2021 for the Enhanced International Support Service (EISS), it was thought that a more a bespoke and targeted support programme, focusing on delivering bigger export missions to fewer trade shows, would strengthen UK export reach. There remains a strong argument to strengthen EISS further to provide more grants and practical support to assist exporters attending trade shows and similar events overseas.

28. **The Export Academy (or similar channel) should create a bespoke financial package to boost the skills base for exporters to improve knowledge in exporting.** Company level exporting strategies should be as important as a marketing or business development strategy. However, businesses do not have easy access to provision to help build that expertise domestically. Too often, business export strategies are under utilised. Therefore, there is a need identify partners to build up UK expertise on trade through schools, universities, and within business.

29. **Refresh the UK's Export strategy if the UK is to meet the £1trn in exports by 2030s:** UK Government maintains an ambition to reach the target of £1tn in exports during the 2030s, though our current Export performance remains well behind international comparisons and especially when compared against fellow G7 nations. As has been called for elsewhere in this submission, there is an urgent need for alignment between our Export Strategy and a revitalised industrial strategy, as both support the importance of the UK's advanced and high-value manufacturing sectors. Immediate attention should be given to improvements in our trading conditions with the EU and with other countries, where trade enhancement arrangements through free trade agreements are ongoing or are planned. The government should aim to reduce barriers to trade through co-operation with key trading partners in these areas. This would simplify and digitalise trade facilitation, reducing the cost burden to trade for UK business, and support UK exporters understanding and utilization of new and existing trade agreements, including more investment in market entry assistance, advice and sovereign support to smooth market entry.

Manufacturing homes for the future

Manufacturing is a success story for our economy, with the sub-sectors within it rightly celebrated for their innovation, dynamism, resilient and potential for growth. However, there remains an undiscovered gem within manufacturing in the form of modular housing. Each day manufacturers working in the modular housing sector are making homes for the future. Making homes in state-of-the-art factories, modular house building represents a radical department from traditional building, as homes are precision engineered and built with manufacturing's continuous improvement processes.

With the construction industry needing to recruit nearly 1 million people by 2030, the UK does not have the labour force to meet the Government target of building 300,000 homes a year by 2025. In fact, no Government can come close to delivering the current target of 300,000 homes a year even by 2030 without radically changing how we build our homes. The housebuilding workforce is simply too small. Modular house builders require up to 50% fewer workers to deliver the same number of homes, and 90% of their workforce is from a non-construction background, bringing desperately needed new labour into the industry.

With assembly line processes and the procurement of more innovative materials, modular homes are far more energy efficient, reducing occupant bills at a time of rocketing energy prices. Modular homes are also built with less embodied carbon – up to 45% less in high rise and up to 80% less in low rise – meaning the sector is leading the charge when it comes to achieving the UK's net zero ambitions. This is a sector that has major growth potential and can be the answer to so many of the societal, economic and financial challenges we face.

30. **A modern approach to stamp duty rates, based on the energy performance of newly built homes**. Such an innovation would incentivise the demand side of the housing market and would deliver value for both new homeowners and H.M. Treasury, as government seeks to boost growth in the wider economy and reduce our reliance on imported fossil fuels.

31. **An increased allocation to 20% of the Affordable Homes Programme for modular home building (category 1 and category 2 – with split 50/50 split between the two).** This would help ensure that those who need affordable homes not only benefit from lower costs of rent or purchase but also lower living costs as well, as modular building techniques deliver low carbon, low energy homes.

32. **A staged reform package for our planning system that involves minimal outlay in return for national economic growth in the billions:**

    i. Provide £20,000,000 of funding for 400 - 600 more planning officers across Local Authorities in England.
    ii. Allow for grants from a levelling-up fund of £10,000,000 specifically for Local Authorities that suffer from low tax bases and, therefore, reduced ability for planning departments to deliver much needed development to local communities. Giving such Local Authorities the ability to encourage building will help expand their tax base and ensure they are better able to provide vital local services.
    iii. Introduction of planning penalty schemes (affecting future applications for change of use and development of land) for individual development directors for failure to provide infrastructure as set-out in planning applications. Rogue builders who fail to follow through give the whole construction sector a bad name and increase objections to new planning applications, impacting on industry's ability to deliver much needed homes and national growth figures.
    iv. A shift to presumption in favour of planning permission for EPC A rated homes, helping new homeowners and renters attain low carbon and low energy homes.

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