The Manufacturers' Organisation

MANUFACTURING OUR ROAD TO RECOVERY:

THE 3 POINT PLAN

MakeUK.org

INTRODUCTION

The Covid-19 pandemic is a humanitarian crisis that continues to take a tragic toll on people's lives, however, the outbreak is at risk of turning into an economic crisis also.

The Office for Budget Responsibility (OBR) forecasts a staggering 35% fall in real GDP in the second quarter of 2020, and an unemployment spike of up to 10% – that is 2 million additional people out of work. Crucially, the OBR's forecast is built on the expectation of a V-shaped recovery in which a sharp economic downturn will be quickly followed by a rapid upturn to normality once the lockdown measures are lifted. However, evidence from the manufacturing sector so-far suggests that this is unlikely and instead a W-shaped double dip recession may be on the cards.

The downturn in economic output began in March, continued into April, and it is expected that it will not pick up again until at least July. The OBR expect manufacturing output to fall by 55% in the second quarter this year.

Our economy is also heading for its largest single-year deficit since the second world war, with public sector net borrowing set to increase by up to £218bn this financial year. The OBR estimates a deficit for this year of 14% of gross domestic product (GDP). By contrast, at the peak of the global financial crash it reached just 11%.

While the hit to the UK economy has been unprecedented, not all sectors will be hit equally. The OBR predicts that manufacturing, construction, retail, travel, food industries and education will see the biggest losses but sanitary and social distancing restrictions have also disrupted the services sector in a manner that is likely to last for some time meaning the UK is now more reliant on manufacturers to lead the recovery.

Factories around the world have been forced to close or run on reduced hours, causing mass disruption to global supply chains. Manufacturing output in the UK has fallen sharply, with some reducing production while others have shifted to producing much needed medicines, sanitizers, ventilators, Personal Protective Equipment (PPE) and other equipment for the health service to combat the spread of the disease.

All the indications at the moment are that, even if a gradual easing of lockdown begins soon, the impact of this shock will continue to hit companies and livelihoods for some time to come. Different parts of the economy will recover at different speeds, with export demands, consumer tastes and business models changing.

This unprecedented economic challenge is forcing CEOs to contemplate difficult choices. Some are pulling in, making cuts, and focusing on surviving the storm. Others, however, are taking decisive action to put in place reforms so that when the crisis ends, they can come back stronger.

While Central Banks, supra-national institutions, and domestic policymakers all have key roles to play in supporting our economy, the recovery should be business led. The right response is to focus on supporting the business sector with measures designed to stimulate demand and ensure manufacturers can get back to supplying the goods consumers want and our country needs.

This paper sets out our 3 point plan: **boost economic confidence, ensure a safe return to work and build resilience**. It includes a series of policies to support the manufacturing sector, stimulate recovery and help place the UK economy in the best position to deliver a digital, global and green future.

THE IMPACT OF COVID-19 ON MANUFACTURING

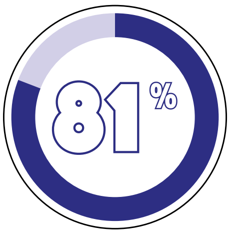
During the current Covid-19 crisis, manufacturing has not been asked to close down like many sectors, with Government understanding our businesses deliver products critical to keeping the country running – from the energy which powers our homes to the medical equipment which is saving lives and keeping our NHS staff safe, to the food and drink products which are still stocking our supermarket shelves across the land.

However, Make UK's latest Manufacturing Monitor found that while 87% of manufacturing companies have continued trading to some extent during the pandemic, one in five companies have furloughed up to a quarter of staff, 15% of those by up to half. And a third of companies will wait to see an increase in orders before taking staff off furlough and getting them back to work.

1 IN 5

ONE IN FIVE COMPANIES HAVE FURLOUGHED UP TO A QUARTER OF STAFF

Over the past two weeks, more than three-quarters (76%) of manufacturers have experienced a decrease in sales while eight in ten (81%) have seen orders fall. A small number have seen increases in sales and orders (6% and 8% respectively) of, for example, medical devices, cleaning products or packaging and some companies have repurposed production to try and meet this demand. However, 13% of manufacturers have either temporarily closed or paused trading.[1] Many others have significantly reduced production, mainly because demand for their products has disappeared or because disrupted supply chains mean that they cannot obtain essential components or raw materials.



OF MANUFACTURERS HAVE SEEN A DECREASE IN ORDERS IN THE PAST 2 WEEKS

Manufacturing is a capital intensive sector where cash flow management is critical which means it is historically particularly vulnerable during the recovery from a recession when the risk of running out of cash is greatest. To ensure a successful return to full production, managers will need to carefully balance supply, demand and cash. To do this, they will need ongoing, flexible support from Government, banks, trade associations and other stakeholders in the coming months.

But they will also need their employees – people are the lifeblood of our sector's businesses and it is their skill and innovation which makes British manufacturers stand out on the world stage. Being in a position to get these workers back into our factories, workshops and technical design labs across the country means marrying up the people and finance elements to make it possible for a recovery in both the short and longer term.

What are our aims?

- **A.** To ensure the quickest possible return to as normal trading conditions as possible.
- **B.** To turn this crisis into an opportunity – by using it as an incentive to adopt new technologies and boost efficiencies.
- **C.** To ensure the UK is best placed to hit the ground running when this crisis is over by putting in place innovative and future facing policies and practices now.

To achieve this manufacturers need a 3 point plan which will:

1. Boost economic confidence
2. Ensure a safe return to work
3. Build resilience

[1]Make UK, Covid-19 Manufacturing Monitor #1 (April 2020)

1. BOOST ECONOMIC CONFIDENCE

Manufacturing has faced different challenges to other sectors. While production facilities have been allowed to remain open, there have been significant reductions in demand, exacerbated by major disruption to global and domestic supply chains. This is particularly true of goods moved by air freight and traded with China and Europe. As a result, recovery will not be linear. Sectors and markets will be affected to differing extents and timescales, particularly as countries and sectors come out of lockdown under their own unique conditions. Those firms that have expanded or repurposed production to support the response to Covid-19 will face further disruptions as they revert their factories and return to normal operations.

Some firms will inevitably struggle, some may have gone out of business already while others may relocate, causing further supply chain disruptions that will take time to resolve. In addition, many companies have eaten into their cash reserves to survive the crisis. It is highly likely that as the wider economy restarts, manufacturing will struggle to return to previous levels of output smoothly or quickly. It is inevitable that social distancing and related safety procedures within production facilities will impact upon the wider performance of the sector, particularly output levels. Additionally, there is an obvious and critical dependence on demand. The automotive sector will struggle, for example, to resume production in a meaningful way until demand is created by the re-opening of vehicle sales facilitates, and similar examples apply to many other sectors.

On that basis, is it essential that Government recognises that manufacturing cannot simply switch on the engine and return to the output levels it was at a few months ago. We recognise the fiscal challenges related to on-going government support but we are calling for a flexible recalibration rather than a cliff edge shock.

The Coronavirus Job Retention Scheme (CJRS) which has allowed employers to furlough staff and avoid redundancies should continue in a flexible form during the recovery phase.

This flexibility would allow firms to bring staff back to work in a measured way, possibly on a part time or short-time working pattern in the first instance, while operations scale up and order books are rebuilt. This will be particularly key to sectors reliant on the reopening of consumer retail or the hospitality industry and those who rely on parts supplied by air freight. It is likely that an immediate end to the CJRS for manufacturers timed to coincide with the easing of lockdown arrangements would be highly premature and could have devastating effects on employment levels within manufacturing. A more sophisticated and tapered approach to this funding would have a hugely positive impact on confidence and help to ensure that the sizeable national investment already made in the CJRS was maximised and not wasted.

Alongside this core commitment, we would ask Government to work with industry on a package of measures that bring further stability whilst focusing on modernisation and building capacity. We must learn the lessons from the past few months and help build and strengthen our manufacturing base both to help employment and ensure that the UK can start to level up, but also, to ensure much higher levels of domestic capability and reissuance. Whilst we must not retreat from our stance on a global Britain, this can be achieved in tandem with a concerted effort to recognise that the UK, which is already one of the top ten global manufacturing nations, could and should seek to expand production, particularly in areas where there is no domestic capability.

As we return to production and seek to achieve these goals, our sector will need a range of support and help, which include up-front financing for labour and raw materials which some firms cannot afford. History shows that it is during the expansion phase after a contraction period that many small and medium sized enterprises (SMEs) struggle most. Some sectors will experience an order 'hangover' in 2-3 months' time and it could take up to 18 months for order books to get back to normal.

How do we ensure manufacturers are supported throughout the recovery phase?

Phase 1: Support manufacturing needs from government during the lockdown:

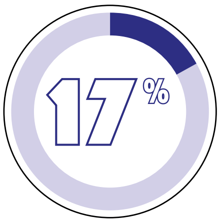
- Joint BEIS/industry/university/ Innovate UK supply chain mapping project.
- Joint Government/industry agreed list of critical products and sector plans to develop/maintain UK capacity in each
- Action to ensure OEMs stick to the prompt payment code, particularly if they receive Government support.
- Joint BRE/industry review of regulation to ensure it supports recovery and future resilience.

Phase 2: Support manufacturing needs from government as the lockdown is lifted:

- Ensure a smart, sustainable recovery by providing additional incentives for innovation, including support for digitalisation and energy efficiency initiatives.
- Small scale grants to SMEs for resilience planning and legal support.

ALMOST TWO-FIFTHS (37%) OF MANUFACTURERS DON'T EXPECT TRADING CONDITIONS TO RETURN TO NORMAL FOR AT LEAST 6-12 MONTHS.

A FURTHER



SAY IT WILL TAKE MORE THAN 12 MONTHS.

The manufacturing sector needs to see bold action from Government with actions that will significantly boost demand, getting our industry and indeed the wider economy back on track.

Government can achieve this and help industry adapt to the "new normal" with the following measures:

How Government can help industry can adapt to the 'new normal':

i) Future Factory Investment Scheme:
Those firms that have expanded or repurposed production to support the response to Covid-19 will face further disruptions as they revert their factories and return to normal operations. Other firms will need to refurbish or repurpose their facilities to adapt to the post-Covid19 environment. A return to production will require up-front financing for labour and raw materials which some firms cannot afford but this challenge coincides with the need to adapt to a changing global trade environment and the Government's commitments to fight climate change. Yet this challenge also provides the UK with an opportunity to adapt to the 4th Industrial Revolution.

Government should implement a scrappage scheme for old IT, plant and machinery equipment to incentivise firms to invest in new technologies that will increase automation, productivity, output and exports. The UK scheme could include an enhanced tax deduction on Business Rates or other Corporation Tax. This would not be a new idea from a purely technical tax perspective as expenditure by business to, for example, rectify contaminated land, already receives a tax deduction at 150% of the expenditure incurred rather than 100%. At a corporation tax rate of 20%, this deduction would save 30p rather than 20p for each £1 spent.

Make UK propose a similar enhanced tax incentive to encourage automation, digitisation and export growth and to help UK firms be best placed to grow their exports once the global economy returns to normal.

Adopting new technologies to counter the Covid19 crisis needs to go hand in hand with digital/upskilling for existing employees that enables them to use these new technologies. The West Midlands already has a 'beat the bots' fund. This model should be replicated throughout the UK.

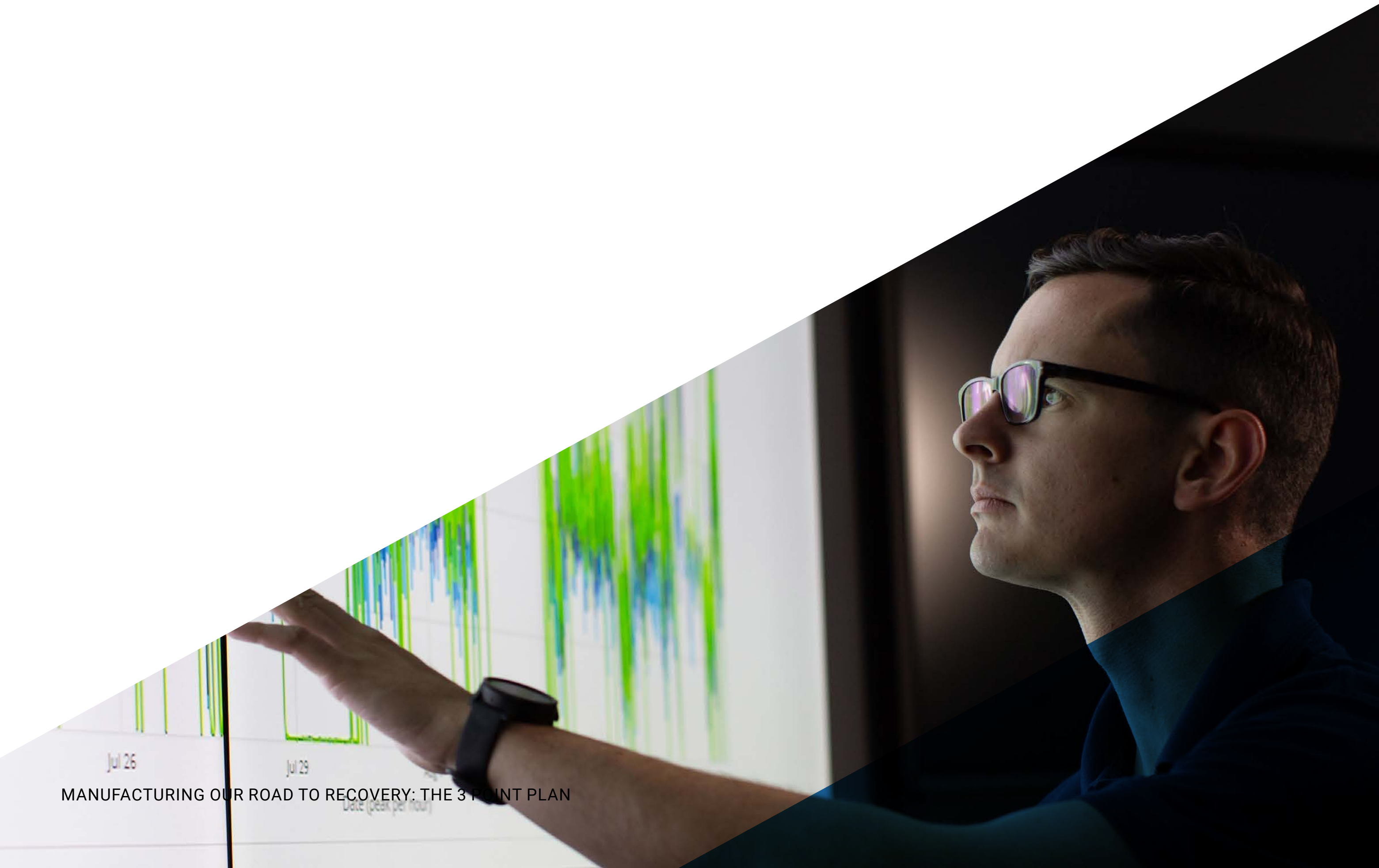
Some examples of these types of technologies:

- Remote monitoring of equipment
- Cloud storage of data
- Data visualization
- Cyber-physical systems
- Robotics and automation
- VR and AR, including for sales, audit and training.

ii) Wheels to work scheme:
Many factories are, by necessity, located in rural areas with few public transport options for staff. Government should reintroduce its former financial supports for the rent/purchase of bicycles, mopeds etc. for rural commuters if there were little public transport alternatives or if social distancing prevents public transport provision.

iii) Retail Online Vouchers:
This will support small and micro enterprises get online. The vouchers would help companies, working with their Local Enterprise Partnerships (LEPs) and/or Catapult Centre, to sell their goods and services online during this difficult period. This is particularly important when so many small businesses are closed. But it is not just of benefit to those SMEs but also to the larger manufacturers who produce the goods the SME retailers sell. Most importantly, the value of the Trading Online Voucher will stand to companies for years to come, will boost their revenue, and will help them to sustain and create jobs into the future. The Irish Government has introduced a similar scheme to the value of ~£2,500 per voucher. Government should also consider incentives and regulatory reforms to encourage greater use of delivery robots and drones to help smaller retailers meet demand for their goods in a safe way.

iv) Boosting apprenticeship training with greater support and flexibility:
The apprenticeship programme, vital to the UK's future talent pipeline, has come under strain as a result of Covid-19, with apprentices being furloughed, some being made redundant and training providers experiencing financial hardship. Government must provide further support for the programme by allowing end point assessments to be carried out and qualifications awarded in a similar way to GCSEs and A-levels, relying on the feedback of training providers. To mitigate a potential fall in apprenticeship enrolments in September, government should offer further support for SME employers in the form of grants for recruiting apprentices. In addition, Government should work with Levy paying employers to explore how Levy funds can be used more flexibly to support much needed up-skilling and re-training, especially of furloughed staff and extend the current lifetime of funds up from 24 months.



2. ENSURE A SAFE RETURN TO WORK

Safety in the manufacturing workplace will be a paramount concern for manufacturers returning to work and reopening production. In order to get businesses to return to work, the following immediate actions are needed:

i. Definitive guidance from the Health and Safety Executive (HSE) on how to operate safely:
HSE need to publish a single set of definitive guidance on how to operate safely and in a way that does not put employees at risk of infection. Where the HSE recommends situations where social distancing rules can be waived, the guidance needs to make clear what specific PPE requirements will be necessary to facilitate this.

ii. HSE review into wider workplace regulations:
To see what might be sensibly amended so as to allow differential operation during this unusual period. This guidance needs to cover all aspects of the workplace, from bottlenecks such as clocking in, floor plans with markings to assist with social isolating, work flow and people flow, to rest rooms and canteen facilities. As most businesses are individual the guide needs to be a generic check list, with examples of good practice.

iii. Access to Personal Protective Equipment (PPE):
Employers in the manufacturing sector need to be confident that they can access all the PPE they need, and without in any way denying supply to the NHS, care sector and other essential services. Manufacturers report that this is key to ensuring staff will be happy to return to work.

iv. On-going and more flexibly accessed support through Government schemes:
Ongoing and more flexibly accessed support through the Covid-19 Business Interruption Loan Scheme (CBILS) and the Job Retention Scheme (JRS) so that employers are able to afford the costs of operating below optimum levels due to enhanced safety requirements and purchase the necessary PPE. This underlines the wider need for more flexible financial support during the recovery period.

v. Help get the manufacturing workforce back to work:
With many workers furloughed, manufacturers will be looking to get back to normal trading as soon as possible but this should reflect the slow pick up in the labour market and economy; most companies won't be in a position to bring back furloughed workers to full-time positions, in a linear fashion or overnight. The cost to government of the JRS can be reduced by giving manufacturers greater flexibility to return furloughed workers on short-time working or reduced hours. The result will allow groups of workers, for example those with health and safety skills that are vital to re-starting production, to be returned to the workplace in a staggered way and help prevent a delay to manufacturers' production cycles; this will also help prevent redundancies.

vi. Practical solutions to childcare:
Practical solutions to childcare, noting that even if schools partially reopen, shift requirements may not match up to opening hours and grandparents and other childminders may not be accessible if they are not part of the household.

vii. Sensible approaches to transport:
Many manufacturing locations are remote and not easily accessible by public transport even during normal circumstances: car sharing if supported by PPE or local authorities laying on bespoke bus services with sufficient capacity for distancing should be considered as well as our proposed wheels to work scheme.

3. BUILD UP RESILIENCE

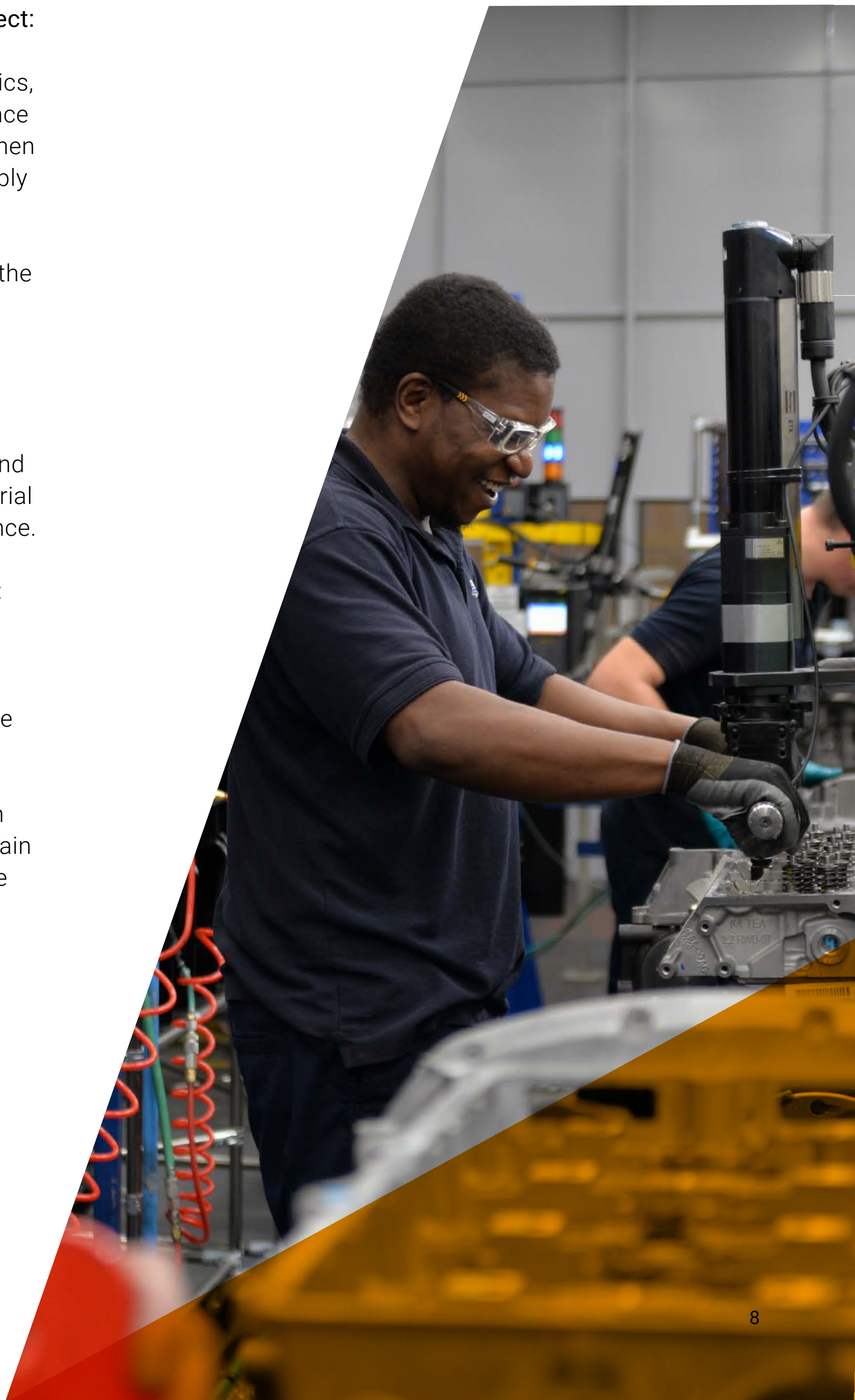
This crisis has demonstrated the vulnerability of supply chains and the consequences of an underinvested manufacturing base with limited domestic capacity to produce critical products. As companies increasingly consider reshoring, the crisis has also highlighted the increasing importance of export success to the UK economy. While the sector has responded magnificently to the challenge, there are things we must do now to protect ourselves for the future. Together, manufacturers and the economy need:

A comprehensive supply chain mapping project: to ensure we have a greater understanding of their vulnerabilities, including transport/logistics, enabling the sector to effectively build resilience and mitigate pinch points in a supply chain when there are external shocks to demand and supply

A process to identify critical products (and components): there is also a need to identify the domestic capacity for these, and put in place plans to ensure they are provided.

Additional fiscal incentives to ensure critical industrial R&D capacity and spend is safeguarded: as well as a joint Government and industry effort to promote and support industrial digitalisation as a means of improving resilience.

A Global Supply Chain resilience programme: which keeps markets open and predictable, and maintaining a favourable business environment, will be critical to spur renewed investment and confidence. International trade rules allow countries to take positive actions to deal with improving trade measures. UK Government should agree co-ordinated action with key economic partner countries to maintain current trade flows and remove administrative restrictions.



Make UK is backing manufacturing - helping our sector to engineer a digital, global, and green future. From the first industrial revolution to the emergence of the fourth, the manufacturing sector has been the UK's economic engine and the world's workshop. The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world's biggest challenges. Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward thinking, bold and versatile sector, manufacturers are engineering their own future.

MakeUK.org

For more information, please contact:

Seamus Nevin
Chief Economist
snevin@makeuk.org

Verity Davidge
Director of Central Policy
vdavidge@makeuk.org

www.makeuk.org/coronavirus

@MakeUKCampaigns

#BackingManufacturing

The Manufacturers' Organisation

MakeUK.org

20.05.P&E.VJD.NB