Spending Review 2021

Make UK's submission to HM Treasury 2021 Spending Review

Introduction

1. From the first industrial revolution to the emergence of the fourth, the manufacturing sector has remained the UK's economic engine and the world's workshop. Despite the sector being hit hard by the impact of Covid-19, early indications show some green shoots appearing in recovering orders, output, and employment. This is critical if the sector is to to have a key role to play in laying the foundations of our new economy. However, in 2022 manufacturers will be faced with an increased tax burden, following the increase to National Insurance Contributions and incoming increases in Corporation Tax. Whilst the sector understands need for this to support our NHS and social care sector, it remains ill-timed and illogical, potentially stifling manufacturers' ability to recover, invest, and grow.

2. To build on these delicate green shoots of recovery the manufacturing sector needs confidence to invest. To encourage boardrooms to make the crucial decision to invest in the UK, and not overseas, business needs a long-term comprehensive plan for the future of UK industry. It is vital that Government focuses its efforts on policy levers that generate revenue through business growth, and not revenue from taxation.

3. The combination of the unique challenges experienced the last 18 months, and the decision by Government to increase the tax burden for manufacturers means that the manufacturing sector will not simply bounce back to where it was before once the wider economy has restarted. Economic history tells us that job cuts are most likely when the economy starts to open again after a downturn because firms need the capital to reset. It is therefore essential that Government recognises the challenges that the industry faces, and puts in place the necessary immediate six-month, and 12-months calls to ensure our most strategically important sector can recover, invest, and grow in the next decade.

4. We want to see Government set a bold, new, brave vision by backing manufacturing using the right policy leavers in the next decade – and this includes focusing on creating a conducive business environment that unlocks further investment, rather than increasing the tax burden on business. Our CSR 2021 submission focuses on how Government can support this collective vision, with the ambition to:

   - Underline the importance of the role UK manufacturing in levelling up the UK
   - Successfully transition to a digital and green future
   - Outline a vision for Global Britain and what that means for UK manufacturers

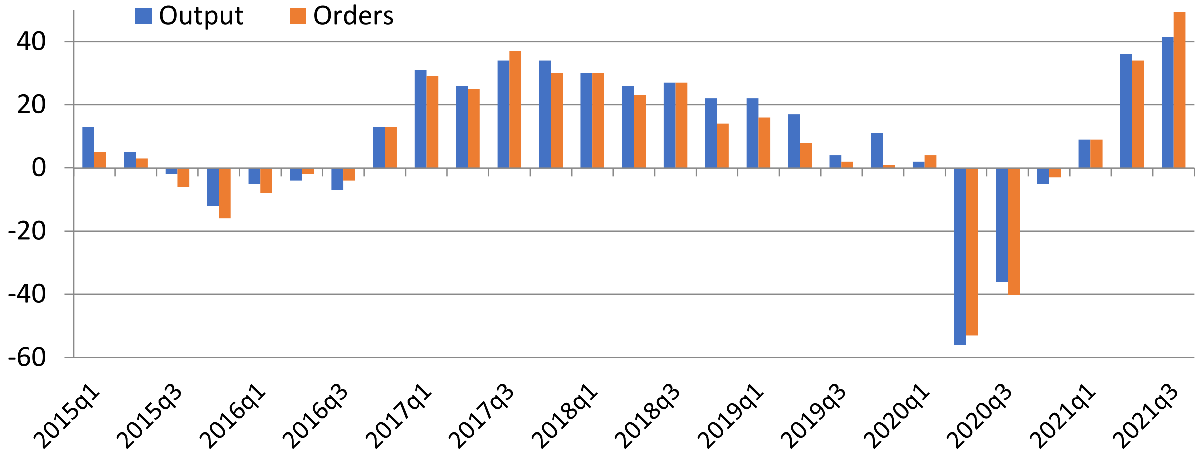
Performance of the UK manufacturing sector in 2021

5. The manufacturing industry in the UK has undergone its most tumultuous period in Make UK's research history in the past year and a half. Prior to the pandemic, confidence within the sector was growing as the industry experienced a short spell of certainty arising from the combination of greater clarity on our new partnership with the EU. Within the space of only one quarter, Make UK research showed its worst-ever figure for manufacturing output in the Q2 of 2020[1]. Output, orders, employment, and investment intentions

[1] Make UK / BDO, Manufacturing Outlook Q2, 2021

all sunk into severely negative territory, and this slump was also accompanied by the ominous expectation from manufacturers that the quarters following on from this crash would continue to be tough.

Chart 1: Output and Orders crashed at the height of the pandemic before showing signs of recovery in 2021, %, balance of change



Source: Make UK, Q3 Manufacturing Outlook Survey, 2021

6. During the national lockdowns the manufacturing industry was granted amnesty from legislated shutdowns, however this had little effect on manufacturer's ability to maintain operations. Wider market issues on both the supply and demand side limited firms' ability to perform. Even where orders hadn't been cancelled, given many UK manufacturers sit within tiered supply chains, a domino effect of supply issues was often observed. As the sector and wider economy looks to recover, building in resilience and agility will be critical to our success in the coming years.

7. Manufacturers made wide use of pandemic-relieving Government policy initiatives. None more notably than the Job Retention Scheme, which afforded the industry a tool to ensure critical talents and skills were not permanently lost from the UK's manufacturing base. Securing appropriately skilled labour within the sector has been an ever-present challenge for the UK's manufacturing industry, so minimising the amount of permanent labour-exit from the sector was paramount to ensuring the industry would be able to recover in line with the wider UK economy.

8. The first green shoots of recovery for the sector were observed in the first quarter of 2021. By the second quarter of the year the manufacturing sector's recovery was in full swing. Pent up demand was being realised, and as activity levels increased globally, so too did they within the UK's manufacturing sector. Just as the sector had witnessed its worst-ever output performance 12-months prior, the second quarter of 2021 marked the highest ever output performance in Make UK's search history reporting a balance of 36%, before breaking this record again in Q3 2021 reporting a new record balance of 42% of manufacturers indicating an increase in output[2].

9. Although it's largely understood that these inflated performance figures will not be sustained in the medium term, manufacturers still expect to post even higher figures in the fourth quarter of 2021. At present, the limiting factors for the UK manufacturing sector's recovery exist on the supply side. The issues concerning cost-inflation and materials access, are a symptom caused by both strained supply chains and a global increase in activity that has seen international demand for inputs soar. As it has not been the UK's manufacturing sector alone that has bounced back from the pandemic, competition for inputs in the form of both materials and labour has been growing.

10. As manufacturers' increasingly come to take the view that these inflationary input pressures are unlikely to be transitory in the short-term, sale prices are now rising at pace as the sector endeavours to relieve

[2] Make UK / BDO, Manufacturing Outlook Q3, 2021

pressure on its margins. This is something the industry had been reluctant to do at the outset of this inflationary spell, as within the context of the UK's new EU and global trading relationship, the sector had been keen to maintain an offering that is as competitive as possible amongst the throng of global post-pandemic activity.

Economic outlook for the UK manufacturing sector 2022

11. Make UK's Q3 2021 Manufacturing Outlook report finds that UK manufacturers have continued to expand as pent-up demand benefits the sector's return to growth following many months of turmoil. Last quarter manufacturers reported output levels expanding at record rates, thanks mainly to growth in domestic orders. However, export orders have also continued to improve since the start of the year as manufacturers from the UK side better adapt to new trading conditions. Yet, some risks remain as manufacturers from the EU side are only beginning to understand the weight of the changes in the UK-EU relationship.

12. The third quarter's figures have shown remarkable improvement across all our primary metrics, with 8 out of 10 rising to record balances. The latest data confirms that the bounce back which started early this year has maintained speed till now with supply-chain disruptions and labour shortages highlighted as the main barriers holding manufacturers back. Still, we are yet to achieve any new growth as on average manufacturers are still clawing back lost output from 2020.

13. An output balance of 42% this quarter indicates that the largest share of manufacturers ever has increased their output levels, relative to those that have reported a decrease. This continual expansion in output is mirrored by the continual growth in order books both domestically and internationally. However, the current total order balance stands at 49%, greatly exceeding the growth in output as manufacturers struggle to meet demand with supply. Both the UK order and export order balances have expanded to record levels this quarter, reporting at 48% and 37% respectively. The UK order balance has grown in positive territory for the last three quarters now, meaning the domestic market may well be establishing itself as a reliable source of demand for UK manufacturers. This is likely driven partly by the increased frictions between UK-EU trade leading to some manufacturers to seek new relationships with suppliers at home. However, exports are also improving with the orders balance here jumping from 22% to 37% this quarter.

14. The biggest issue to dominate UK manufacturer's agenda in recent months are supply-chain related issues, which in turn are leading to rising cost pressures and increased selling prices. Both UK and Export prices reported at a record high balance of 49% and 43% respectively, with expectations prices would rise further in Q4 2021. For the first half of this year manufacturers were passing on costs only partially, as evidenced by negative balances for margins. However, this quarter it appears margins are increasing again, indicating that manufacturers are passing on higher costs at greater rates down the supply-chain, which in turn are increasing their revenues.

15. With the Job Retention Scheme (JRS) closing this month, there remains concerns that redundancies will increase in various segments of the economy. However, the recent boom in activity suggests the impact of these job losses will be relatively mute on the overall economy. The employment and investment intentions balance have now expanded for two quarters in a row, with the latter reporting at its highest ever, highlighting the impact greater certainty had on manufacturers confidence in investing.

16. Both business and economic confidence, where confidence is scaled from 1-10, have improved since Q2. Business confidence reported at a 7.7, whilst confidence in the UK economy came in just below 7.4, the highest level of optimism for both metrics ever. The result continues to be fuelled by the reopening of the economy and new work returning to manufactures up and down the UK.

17. Make UK forecast the manufacturing industry will grow by 7.1% in 2021, and by 4.1% in 2022. Whilst UK GDP is currently expected to grow by 7.3% in 2021, and 6.7% in 2022. These forecasts assume vaccine effectiveness is strong and that no new lockdowns will be taking place for the foreseeable future.

Table 1: Overview of Q3 2021 Manufacturing Outlook results

INDICATOR	BALANCE	CHANGE	
Confidence	7.7	↑	Business confidence reaches a new peak
Output	42%	↑	Output balance highest on record
UK orders	48%	↑	UK orders balance highest on record
Export orders	37%	↑	Export orders recovering quickly
Employment	23%	↑	Jobs continue to grow but at a slower rate
Investment	37%	↑	Investment intentions highest on record

Source: Make UK, Q3 Manufacturing Outlook Survey, 2021

Summary of Make UK CSR asks:

Immediate term:
Extend the 130% investment super-deduction beyond March 2023 to incentivise manufacturers, specifically SMEs
Make Government support conditional on beneficiaries adhering to the Prompt Payment Code
Extend the Kickstart scheme beyond December 2021
Modify the Job Support Scheme (JSS) to support manufacturers beyond September
Reform SSP and allowing employees to claim SSP from day 1 of illness rather than day 4
Extend the Help to Grow schemes, creating a Help to Grow Green programme
Establish a taskforce, in partnership with industry and energy providers, to map and predict potential impacts
Expand the Help to Grow Digital to other software, designed with manufacturers in mind.
Rollout Made Smarter adoption programme across the UK
Introduce a financial package for exporters to improve technical capability and provide grants and practical support to assist exporters
Put HGV drivers on the shortage occupation list

Within the next 6 months:
Fix business rates including simplifying the process, removing plant and machinery from non-domestic rate calculations, and exempting green investments from counting towards the rateable value
Introduce financial instruments that allow manufacturing businesses to manage their debt sustainably.
The Skills and Productivity Board should work in partnership with the National Manufacturing Skills Taskforce (the Taskforce) to identify and access critical skills needs in the manufacturing sector
Enable employers to use up 20% of levy funds to be allowed to support wage costs for apprentices and double the incentive payment for employers
Develop, in consultation with the Taskforce, an online, digital skills account for employees
Offer support, such as VAT relief to help kick start the smaller players in the intensive or high energy raw material supply chains
Prioritise making access to funds supporting the sector's transition to net-zero simpler and introduce support packages to enable a faster transition
Set out plans to prioritise digital connectivity across all regions for businesses
Outline how to take forward feedback from R&D tax credit relief consultation
Ringfence funding to aid businesses specifically SMEs to become more cyber secure
Develop further on-the-ground support with in-market contacts, agents, and other advisors with the local knowledge to help companies succeed in new markets
Bring forward a package of grants and practical support to assist exporters to attend trade shows and similar events.
Explore an 'Emergency Temporary Visa'
Establish a new cross-Government unit to monitor and track market access regulations in key export markets, including the EU

Within the next 12 months
Allow employers to spend up to 20% of their levy funds on capital expenditure and provide additional funding for providers for capital equipment
Work with industry and other stakeholders on developing a long-term generic crisis management tool to be available for labour protection
Explore the introduction of an Export Tax Credit to support successful exports
Establish cross industry and government resilience taskforce. This taskforce would assess the supply chain disruptions throughout the crisis and establish an action plan for future lockdowns or pandemics

The role UK manufacturing can play in levelling up the UK

A business environment to spur on regional investment

18. Levelling up the UK is one of the signature challenges of our time. The announcement that the Ministry of Housing, Communities and Local Government will become the Department for Levelling Up, Housing and Communities is a signal proof of the government's commitment to delivering on its central mission to level up every part of the UK by addressing longstanding and interlocking challenges of productivity, skills, and place. As Andy Haldane, the head of the levelling-up task force, has recognised, relying on infrastructure spending as the route to levelling up has a long history of failure in the UK and other countries. The levelling-up strategy must therefore use a more local strategy that involves capital spending, skills, culture and education and manufacturers can be at the heart of that agenda.

19. **Immediately, Government should extend the 130% investment super-deduction beyond March 2023 to incentivise manufacturers, specifically SMEs, to investment.** The government has offered unprecedented support for businesses during Covid. Even so, pandemic-related economic shocks and the accompanying uncertainty have chilled business investment. Make UK's quarterly Manufacturing Outlook report shows that firms across the UK are keen to cement their economic recovery with investments in new productivity enhancing and green technologies. Extending the super-deduction for at least two years will allow manufacturing companies to cut their tax bill by up to 25p for every £1 they invest, ensuring the UK capital allowances regime provides a strong incentive for firms to invest in their future growth and enhance their global trade.

20. **In the next 6 months, Government should fix business rates.** While the manufacturing sector continues to stabilise, our member companies are facing a long road ahead to normal trading conditions with potential global supply chain disruptions, increasing energy costs, and persistent skills shortages all acting as a barrier to growth and recovery. Restaurants and shops were given a 15-month holiday from business rates during the pandemic, but manufacturers were not. UK manufacturers are therefore keenly awaiting the final report of the Government's fundamental review of business rates this Autumn and will hope to see a significant reduction in the cost of business rates for factories and manufacturing facilities. The new Business rates model must reward those firms that invest in their factories, rather than the current system which taxes businesses for investing in growing the economy. This should include

    - **Simplifying and improving the consistency of administrative processes**: The system remains excessively complex and particularly confusing to SMEs. There is also significant variation in the approach to discretionary reliefs by different collecting authorities which is unhelpful. A standardised, consistent approach would be preferable and easier to navigate, particularly for suppliers and SMEs. The intention to create a system that will incentivise behaviours that boost local economic growth is of great importance to manufacturers as well. This is of particular importance to areas in which rates are high and as such businesses are reluctant to perform these behaviours
    - **Removing plant and machinery (P&M) from non-domestic rate calculations**: Manufacturers would then feel free to invest in machinery that can boost productivity and help their firms to grow. The current system including plant and machinery is particularly punitive because when making an assessment the value of the P&M is taken into consideration. With new, modern P&M having a higher value, and therefore carrying a higher tax liability, this actively discourages investments in new P&M. This is particularly relevant when compared with business rates in our European counterparts.
    - **Exempting green and smart investments from counting towards the rateable value:** Investment in green technologies and energy efficiencies should not come at additional costs to business in the form of higher business rates. Green and smart investments should not be counted towards the rateable value of business premises to encourage manufacturers to invest in new digital technologies as well as sustainable technologies which can lead to reduced cost, increased productivity and supporting the net-zero target.

A business rates system that rivals our international competitors

In France, the 2010 contribution économique territorial (CET) removed the inclusion of plant and machinery from the French business rate equivalent, taking into consideration the negative impact that it had on French manufacturers.19. If the UK is to compete with our international counterparts in this changing political environment, it would be sensible to ensure similar, if not better provisions with regards to non-domestic rates.

A business rates system on par with European competitors would encourage inward investment and infrastructure upgrades. OECD data shows that the UK has the highest level of recurrent property taxes of any OECD country measured both as a proportion of GDP and as a proportion of total taxes.

21. Manufacturers currently find themselves in the midst of a cash flow crisis, the severity of which is comparable to the Global Financial Crash in 2008/9. In many cases, businesses have increased their level of debt during the pandemic to ensure business continuity, both from private lenders and Government schemes such as the Coronavirus Business Interruption Loan Scheme (CBILS). While output is starting to show signs of recovery, uncertainty in the trading environment has meant that these manufacturers can't be certain of their short-term trading circumstance, and whether suitable cash will be flowing into both keep the business afloat, and to service their debts.

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. 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.

23. **In the next 6 months, Government should introduce financial instruments that allow manufacturing businesses to manage their debt sustainably**. The Government should ensure that these businesses, especially those who have taken out Government backed loans, are not suffocated by their debt obligations in the short term in order to enable these businesses to recover from the economic impacts of the pandemic to their fullest potential. If businesses are not afforded the financial space, they need to restart production in earnest, there will be severe economic consequences for the UK's production industry in the medium to long term. Make UK is currently surveying its members on the topic of cash and credit and would welcome the opportunity to share these findings and accompanying recommendations in the coming weeks.

The case for UK manufacturing to have a central role in levelling up is echoed across stakeholders

The manufacturing sector in recent years has proven itself to be both resilient and versatile in managing the difficulties posed by both our exit from the EU and the Covid-19 pandemic. As Government begins to set out its plan for levelling up, the case for the UK manufacturing sector to have a central role in these plans is stronger than ever.

This is largely backed by the think tank 'Onward' who, alongside the Levelling Up taskforce which argues the manufacturing sector provides both higher wages and stable, sustainable jobs for workers – particularly in lagging areas of the country. The report found the wage premium for the median worker is over 15%, demonstrating the sector's ability to not only deliver well-paid, but sustainable jobs. Furthermore, this earnings premium appears to apply across qualification levels, suggesting it is not just driven by a greater proportion of employees in manufacturing having higher qualifications.

However, as the report outlines, manufacturing is space-intensive and more likely to locate economic activity in town and rural settings, which are in disproportionate need of levelling up. If Government policy is able to promote manufacturing, particularly advanced manufacturing, Onward's analysis shows that some of the places most in need of levelling would benefit the most. Government should therefore back the manufacturing sector, as it can significantly boost what is continuously identified as the biggest domestic policy priority – levelling up.

Source: Onward, Making a comeback - How a manufacturing renaissance can level up the country,

Training the next generation

24. Adapting our education and skills training market to deliver the skills manufacturers will need now, and in the future, will be critical to our recovery. The pandemic has had a profound impact on the ability of manufacturers to recruit apprentices, with less than half saying they would take on an apprentice in the next year. However, with almost 6 in 10 looking to recruit apprentices in the next 12 months, there is an opportunity for Government to capitalise on this forward planning by businesses3. Furthermore, there is growing demand from manufacturers for skills at Level 4 and above. Whilst much of this is driven by greater digitisation in the sector, the acquisition of 'green skills' will see more manufacturers require more technical, advanced skills in the future.

25. **Immediately, the Government should extend the Kickstart Scheme beyond December 2021.** Despite the difficulties in setting up the scheme and making it an attractive proposition for manufacturers, it now has sufficient awareness and interest across the sector. Critical to this interest has been Make UK becoming a gateway. To date Make UK has supported manufacturers to create over 400 vacancies and place over a quarter of those Kickstarters since inception. As many Kickstarters are coming to the end of their experience, manufacturers are now looking to place them onto apprenticeship programmes, supporting them filling immediate skills gaps. An extension to the scheme to December 2022 is another crucial talent pipeline for businesses, at a time with labour shortages in the sector is a key concern.

26. **In the next 6 months, the Skills and Productivity Board should work in partnership with the National Manufacturing Skills Taskforce (the Taskforce) to identify and access critical skills needs in the manufacturing sector.** The Skills and Productivity Board should engage with the Taskforce in a similar vein to the Migration Advisory Committee, collating evidence, and data to develop informed recommendations to Government on skills issues, for example to future proof workforces. In the immediate term, this should focus on local data to inform the development of Local Skills Improvement Plans (LSIPs), which will be crucial to matching local skills demand from manufacturers with local supply.

[3] Make UK, Retain, Recruit, Revise – The Apprenticeship Levy four years on, 2021

Recruit, Retain, Revise – What must happen on the Apprenticeship Levy

As a sector, manufacturing knows what it wants from the apprenticeship system - a targeted, sectoral approach to ensure funds are being used to create and support high value apprenticeships, in high growth sectors such as manufacturing.

In the next 6 months, manufacturers want to see:

Manufacturers are to use up to 20% of their levy funds on wages. Wage costs are a considerable cost for manufacturers, especially given the sector pays above the national average. To support the creation of well-paid employment, Government should allow up to 20% of levy funds to be allocated to support wage costs for current as well as new apprentices. One in four companies said support for wage costs would encourage them to recruit more apprentices in the next 6-12 months, as well as help retain existing ones. This can support the need to drive up completion rates of apprenticeships in the short-term.

For SMEs: Double the current incentive payment, targeted at just SMEs Allowing levy payers to use their funds on wages would mean the Apprenticeship Incentives could be targeted at SMEs. The incentive payment should then be doubled to support the wage costs for SMEs.

Ability to use up to £500 of levy funds to support young people to catch-up their learning, and or pre-apprenticeship support. Research shows that learners in the manufacturers and engineering fields have been hit the hardest by the pandemic, due to the levels of on-the-job-training. As a temporary measure, manufacturers should be able to access up to £500 levy funds, per learner to support these learners when starting an apprenticeship, and or returning back their apprenticeship.

For Providers: Additional £500 per learner paid directly to providers for catch-up and pre-apprenticeship learning: This £500 per learner should also be replicated for non-levy payers, with an additional £500 paid to providers to support learners training with small businesses.

In the next 12 months, manufacturers want to see:

Manufacturers able to use up to 20% of their levy funds on capital expenditure. Capital costs are considerable when delivering manufacturing and engineering apprenticeships, and while the training costs are arguably covered by the funding bands, they take no account for capital expenditure. In the longer term, Government should explore how manufacturers can use up to 20% of their levy funds on capital expenditure - 14% of levy paying employers said this would encourage them to take on an apprentice in the next 12 months. 15% of non-levy payers said the same. This can be achieved by extending the transfer model to allow transfers to be used on capital expenditure and wage costs for SMEs.

An extension to the lifetime of funds from 24 months to 36 months for the next 12 months Manufacturers able to use up to 20% of their levy funds on capital expenditure. As the economy recovers, business demand will return slowly - 24% of levy paying employers and 34% of non-Levy paying employers said a pickup in demand would encourage them to recruit more apprentices. Extending the lifetime of funds can ensure if manufacturers are not currently in a position to invest, they still can do once demand picks up, and or transfer to non-levy payers in their supply chains.

For Providers: Further support for colleges and providers on capital expenditure should also be considered. Given the considerable costs associated with training a manufacturing and engineering apprentice, Government should offer further support for capital expenditure for providers to support the provision of manufacturing and engineering apprenticeship training.

By the end of 2020, manufacturers want to see:

The launch of a full review of the Apprenticeship Programme and its future. There remain real concerns with the sustainability of the levy in its current form. Firstly, the financial sustainability, but also the different standards that will be needed to reflect the changing skills necessary to build back better. Government should launch a full review of the Apprenticeship Levy programme, with a public call for evidence. The review should conclude and make recommendations on how the funding mechanism can better support the growth and demand of the apprenticeship programme, and skills required in the next 5-10 years.

Building future fit workforces

27. The impact of the pandemic on the manufacturing workforce has been significant. From embracing remote working and learning, to upskilling and retraining employees to adapt to new digital ways of working, the pandemic has changed the way the sector works. Our research shows 91% of manufacturers had benefitted from adopting new digital technologies during the pandemic, with a quarter saying new digital technologies had boosted productivity[4]. Building adaptable, resilient workforces will be crucial to the success of not only the sector, but the wider economy. For every one job created in the manufacturing sector, another three are created in support industries, underlying the sector's key role in levelling up[5]. But to do this, manufacturers need access to the right skills, in the right places.

28. **Immediately, Government should modify the Job Support Scheme (JSS) to support manufacturers beyond September.** There remains a risk that once the Coronavirus Job Retention Scheme (JRS) expires in September there is going to be an increase in redundancies for skilled viable jobs in some of our most valuable industries and so some form of tapering off of employment support should continue in the medium term. Make UK evidence indicates the uncertainty of supply e.g., raw material is currently hindering the sector's growth. A modified JSS would support businesses where there is a stream of work available for employees, but that stream is increasingly staggered due to the uncertain nature of access to and deliveries of resources.

29. **Immediately, Government should look at reforming SSP and allowing employees to claim SSP from day 1 of illness rather than day 4.** During the height of the pandemic, Government rightly allowed employees taking sick leave due to covid-19 access to SSP from day 1. However, this is due to come to an end at the end of September in line with the end of JRS. Make UK's latest research revealed that an increasing number of both short-term and long-term sickness absence was due to employee's mental health[6]. In addition, increases in presentism is not conducive to building future fit, healthy workforces. Government should pay SSP from day 1, allowing employees to take early action to protect their mental health will avoid long absences later down the line.

30. **In the next 6 months, Government should develop, in consultation with the Taskforce, an online, digital skills account for employees.** This would allow individuals to access and undertake either sector specific, or more general digital skills training at various points of an employees' career. As we transition to a digital and green economy, acquiring the digital skills to do so, will become paramount. A fifth of manufacturers said, job roles at Levels 4 and 5 would be needed in the next two years – more than those at Level 3 (17%)[7]. And 80% of manufacturers are confident that Industrial Digital Technologies (IDTs) will be a reality in their businesses by 2025[8]. Both of these are key drivers in needing to develop a more flexible, modular approach to learning, whilst still remaining rigorous for business's needs. With more and more employers and employees demanding more modular-based learning, a digital skills online account gives them the ability to upskill, as well as transfer those skills to other, growing sectors.

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[4] Make UK / Sage, Digital skills for a digital manufacturing future, 2020
[5] Make UK / RSM, Reviving and rebalancing regional economies through manufacturing, 2020
[6] Make UK, Health and Wellbeing 2021: The importance of mental health, 2021
[7] Make UK / RSM, Reviving and rebalancing regional economies through manufacturing, 2020
[8] Make UK / Infor, Bouncing Back Smarter: Innovation Monitor, 2020

Make UK writes to Chancellor, Rishi Sunak MP to modify and extend the Job Support Scheme (JSS)

While official statistics point towards fewer employees being on furlough and more at work, we must be mindful that not all industries are equal and not all are dealing with the same situations due to the pandemic domino effects that have exacerbated supply-side challenges. Modifying the JSS would enable firms facing difficulties to utilise their workforce more flexibly and ensure they can return to 100% capacity once these disruptions subside. We also recommended that those employees who are users of the JSS spend part of the time where they are not in work undertaking training, for example through the Government's new Skills Bootcamps.

In the next 12 months, there remains a risk that social restrictions and lockdowns may return later down the line should infections increase, and vaccine effectiveness be limited. In this situation the benefits of the JRS do outweigh the costs by preserving the nation's capacity to produce and allowing it to bounce back faster. Therefore, to ensure confidence levels do not fall below a minimum level that enables firms to at least plan for the future should such restrictions return, we ask that the Government offers a guarantee the JRS will always be accessible during temporary economic shutdowns.

Going forward, the JRS has shown that during a crisis saving jobs is a sustainable solution to preserving the UK economy's long-term health. We see a strong case for a long-term generic crisis management tool to be available for labour protection should there be other challenges in the future that risks large scale redundancies across the nation. In the next 6 months, Government should consult with industry and wider stakeholders on what the mechanics of this would be.

Transitioning to a digital and green future

Supporting the green industrial revolution

31. The UK manufacturing sector has a key part to play in the transition to a net-zero carbon economy, not only by cutting its own greenhouse gas emissions, but also and more crucially through the innovative products, processes and services that will become an integral part of the green industrial revolution. The overwhelming majority (98%) of manufacturers are aware of the Government's net zero target, however being aware is one thing and achieving it is another. Yet, the manufacturing industry is ready to step up to the challenge with 77% say net zero by 2050 will be achievable in their business9. Government use this optimum moment to work with the sector to put in place the necessary changes to meet this joint ambition.

Addressing the emerging energy crisis

Energy pricing (particularly electricity but more recently gas) are a major barrier for many energy intensive and smaller manufacturing businesses. This urgently needs to be resolved, particularly as the distribution of hydrogen, is the only alternative source of reliable power outside industrial clusters, is not projected to reach the necessary critical mass until the mid-end 2030s.

The emerging energy crisis with the collapse on many UK gas suppliers and global shortages of supply is a huge risk to the sustainability of UK industry at the very moment firms are at their most vulnerable.

Immediately, the Government should establish a taskforce, in partnership with industry and energy providers, to map and predict potential impacts. The energy crisis taskforce would oblige suppliers to contact SMEs and other vulnerable business customers to forearm them of impending disruptions and help those firms plan contingencies in order to minimise and mitigate the potential impact on individual companies and our economy.

For the trade exposed EIIs, who are disproportionately suffering from the much higher energy prices in the UK to produce raw materials domestically, every effort should be made to bring UK energy prices at a parr with their European counterparts. **Extra support, such as VAT relief, is needed to help kick start the smaller players in the intensive or high energy raw material supply chains (**who do not benefit from the same compensation for carbon taxation as the big players)

Work together with Ofgem, distributors, the BEIS and industry, to identify and unpick the contradictions between both energy, carbon, and tax administration policy landscapes which constitute the bulk of the energy bills. The current reforms on energy and on carbon pricing are still being introduced in separate silos and do not resolve the conflicts across policies areas (e.g., tax administration, carbon, and energy) which have built over time. Thorough and urgent work is needed across departments and with all the relevant stakeholders to take a holistic approach to tackle this issue.

32. **Immediately, the Government should extend the Help to Grow schemes, creating a Help to Grow Green programme.** 6 in 10 manufacturers said they require management skills in order to manufacturer good and products in a more sustainable way[10]. Government should work with industry, through the Green Jobs Taskforce, to develop, introduce and fund a Help to Grow Green sustainability and leadership programme, enabling managers to attend quality training courses on net-zero awareness. This includes private finance and the literacy and confidence of companies using financial services should be built up to understand and request climate-aligned financial products.

33. **In the next 6 months, Government should prioritise making access to funds supporting the sector's transition to net-zero simpler and introduce support packages to enable a faster transition.**

[9] Make UK, Demystifying Net-Zero, 2021
[10] Make UK / Sage, Unlocking the skills needed for a digital and green future, 2021

Businesses need to have immediate support and for the first few years to enable and kick-start the green industrial revolution and longer-term support to meet the ambitious but necessary net-zero targets. Supporting businesses on their journey now at low cost will make them more resilient to any future pandemics and climate change and should dovetail with the shorter-term and longer-term recovery plans.

Government should put in place net zero financial measures that ensures that:

- **Industry has access to new long-term green finance products**. Where the repayments are based on the projected business's profit from the investment e.g., for costly robots or other assets) should be more widely available. The Contract for Difference models, which were successful in the energy sector could be replicated in other sectors. More flexibility by enabling the bundling of finance to mitigate short payback investments with long payback ones could enable businesses to manage their overall finance more easily.
- **All funding opportunities that have full geographical coverage:** there are a wide range of schemes available (as we have outlined above), however not all are available to every business. Therefore, funding opportunities should be national to eliminate any inequalities between regions and prevent manufacturers from being unable to access what is needed.
- **Funding cycles mirror long-term investment cycles:** The financial support that is available to manufacturers must match the needs of the sector including being longer-term. Manufacturers have long investment cycles when it comes to plant and machinery or investing in digital and green technologies. The sector should be consulted on to ensure any financial instruments meet their requirements.

This should be accompanied by a wider practical support package that delivers:

- **Access to specialised expertise get manufacturers on the right and fast track**: Government should create a centralised point of reference for information in net zero (e.g., a net zero official government website) including where to find the little-known funding and tax credit opportunities that can apply to manufacturers in their net zero efforts e.g., to understand whether they qualify and help them with their applications.
- **Incentives for lesser but still high energy users to electrify their operations**: Government should work with industry to explore how it can offer incentives to help high energy users who are not energy intensive enough to benefit from the current compensation schemes to electrify their operations
- **Help for businesses on their first step to Net Zero by measuring their carbon footprint measurement:** A carbon footprint calculator from a trusted source should be made available and help (grants) with investment in new software and hardware that will allow all businesses to measure their own emissions, so they have a baseline position to work from.

Accelerating our digital progress

34. Our economy is undergoing a profound digital transformation, that has the potential to transform not just businesses, but the way we learn and collaborate making us more productive, resilient, and sustainable. The Government's commitment to achieving national spend on R&D of 2.4% by 2027 is critical, and Make UK welcomed the additional public expenditure announced in March 2020 to help achieve that. However, innovation is not just about cutting-edge technology in a few sectors. In order to make a real difference to productivity, resilience and jobs, R&D needs to be encouraged across all sectors, and all sizes of business.

35. **Immediately, expand the Help to Grow Digital to other software, designed with manufacturers in mind**. As businesses get back to some form of normality, Help to Grow Digital is one of the key government initiatives, manufacturers believe can enable small and medium-sized enterprises (SMEs) to become more resilient and to take more advantage of digital technology. During the pandemic, companies able to take advantage of the latest digital technologies to adapt to social distancing restrictions were the best able to cope with the unprecedented challenges Covid-19 posed for industry. However, not all firms were able to adapt equally. The nature of manufacturing means that firms in the sector are unique and thus require bespoke solutions. Help to Grow Digital should be run in coordination with Made Smarter to ensure that Made Smarter's cutting edge insights and insider understanding of how British manufacturers operate can be best applied to help digital adoption in the sector.

36. **Immediately, Government should rollout Made Smarter adoption programme across the UK.** There is widespread enthusiasm for, and commitment to increasing the pace and scope of our national efforts to promote industrial digitalisation. In order to deliver this, Government must build on the Made Smarter Northwest pilot and replicate its success nationally, with a complete roll out across all regions. The Made Smarter pilot saw small businesses not only supported financially to purchase IDT investments, but they had access to a complete advisory service taking them through the technologies which would best benefit their companies, mentoring in how to optimally utilise them sitting alongside support for change management skill building.

The Made Smarter Technology Adoption Pilot shows how manufacturers are increasing resilience through digital technology

Make UK research finds one in five companies in the North West are in the revolution phase of digital adoption, second only to the South East at 33% - this demonstrates that the Made Smarter scheme is working. The pilot saw small businesses not only financially helped to purchase IDT investments, but they had access to a complete advisory service taking them through the technologies which would best benefit their companies in terms of increasing productivity and building resilience.

Lessons should be learnt from the success of this pilot on how even more manufacturers across the country can benefit from the pilot – and more widely the adoption of technology. Rolling out the Made Smarter pilot to the rest of the UK can increase R&D spending and support UK manufacturing power ahead to the top of the global stage in both innovation and productivity.

37. **In the next 6 months, Government should set out how it plans to prioritise digital connectivity across all regions for businesses.** Digital Infrastructure underpins the economic, cultural, and social infrastructures to develop places where people want to live, work and visit. For businesses this is crucial to more productive economic activity - that is why 69% of manufacturers said they plan on investing in their IT infrastructure in the next 12 months. But Make UK / RSM Reviving and Rebalancing Regional Economies through Manufacturing (November 2020) 12 since the Government launched its digital strategy in 2017, progress has been slow. Many manufacturers are located in rural areas where connectivity can be severely limited, directly impacting their ability to do business. As a result, 41% of manufacturers said the Government should prioritise digital connectivity in towns and rural areas, to unlock productivity but crucially drive greater innovation.

38. **In the next 6 months, Government should outline how it plans to take forward feedback from R&D tax credit relief consultation.** To spur investment and productivity we need the process of applying for R&D tax reliefs to be digitalised and simplified. Make UK has called for several changes to immediately support, which have been echoed in our R&D tax credit relief consultation submission, these are:

- **Expand R&D tax credit to include digital technologies in qualifying expenditure.** We were pleased to see the Chancellor launch this call for evidence to explore this further. However, the current proposals seem limited. Plant and machinery costs in manufacturing are significant and are often a barrier to investment including in R&D. Companies utilising existing plant and machinery for R&D activities should be able to claim relief against the "opportunity cost" of that plant being used for R&D as opposed to commercial production. This cost could be based on the hourly recovery rate or charge out rates for the specific machine being utilised. Very few manufacturers would buy new plant specifically for use in an R&D project, most will utilise plant already in use within their company and this subsidy would ease the decision to remove a machine from production to support R&D activities.
- **Double the R&D tax credit for manufacturers.** We were pleased to see the tax credit rate of relief for those claiming through the RDEC scheme raised from 12% to 13%, however, to make a real difference, we urge the Government to go further and have made calls to double the tax credit. Greater fiscal incentives for R&D including doubling R&D tax credit. A third (32%) of manufacturers said an increase incentive for R&D investment will have an immediate and positive impact on the sector.

- **The government should explore ways of using R&D tax credits to incentivise investment in green technologies and future fuels in particular.** The current global energy crisis has brought home just how serious the needed transition to green energy is for our economy and planet. However, green electrification is not possible in all areas of manufacturing and new and improved technologies and fuels will be needed going forward. Government can use R&D tax credits to help crowd in investment in a vital area for UK industry.

39. **In the next 6 months, Government should ringfence funding to aid businesses specifically SMEs to become more cyber secure.** Cyber security needs to be at the heart of all digital infrastructure plans for manufacturers, yet 1 in 8 manufacturers said cyber-attacks are deterring them from digital adoption[11]. Manufacture ring is made up of large and complex supply chains, the larger businesses at the top of said supply chains will have a comprehensive cyber security system, however further down the chain, many SME's do not have such security and these companies will be the ones targeted by cyber criminals. In order to protect industry Government should ringfence to support SMEs become more secure funding to become more cyber secure and to protect the large and complex supply chains industry relies upon.

[11] Make UK, Cyber Resilience – The Last Line of Defence, 2021

Global Britain and what that means for UK manufacturers

Easing current trading issues

40. Trade barriers can slow down or stop companies from exporting goods or services to an overseas market and lowering trade barriers can revive global productivity. According to analysis by HMRC, customs duties paid by UK businesses shot up from £1.6bn in the first half last year to a record £2.2bn in the same period this year. UK businesses weren't given enough time or help to prepare for the cost of Brexit or the masses of paperwork and the scale of the impact of new rules on importers and exporters is only emerging now with the result that many British businesses have found it incredibly hard to trade. It is imperative that government work with industry to ease the many trading issues British businesses currently face and ensure UK manufacturers can get back to growing our exports and driving our economy.

41. Since the beginning of 2021, the trading landscape for manufacturers in the UK changed fundamentally and many businesses which have never traded outside of the EU Customs Union and Single Market have had to become familiar with new trading formalities. Make UK research shows that customs and logistics are the most challenging aspects of these new trading rules. While we believe in time these new rules are becoming part of business as usual and despite the significant disruptions were seen at the beginning of 2021, as knowledge and experience improved, predictability is returning to supply chains, albeit with additional costs and greater lead-in times for supplying EU customers and sourcing EU input.

42. It is important to acknowledge that, while a majority are reporting an improving picture, one-third of manufactures are still reporting that customs formalities, such as completing paperwork, remain a significant obstacles and impeding business efficiency. It is welcome that the UK Government has recognised the specific issues faced by SME businesses and has introduced the SME Fund. However, manufacturers are disappointed by the limitations on applying for the fund, as they are exempt if a company has had even one experience trading outside the EU. Having traded once with a partner in a non-EU market does not necessarily mean that a business is fully familiar with the obligations.

43. **Immediately, Government should introduce a financial package for exporters to improve technical capability and provide grants and practical support to assist exporters.** With the changes to the UK import controls, the ending of the easement on Rules of Origin certificates and the increased focus on finding opportunities it will be important for the Government to boost the skills base, which this financial package would seek to do. This should also include the consideration of a new SME fund.

Establishing a competitive trading environment

44. Having left the European Union, the UK has started a new chapter in our history. Our Trade and Cooperation Agreement with the EU gives us the freedom to do things differently and better economically. In the years ahead, agility and speed of action will enable us to deliver for our economy, enhancing our prosperity and security. We must continue to be a global champion of free and fair trade and to ensure that the openness of our economy – to the free flow of trade, capital, data, innovation, and ideas - means that the UK remains one of the best places in the world to do business.

45. Working with and through the UK's diplomatic network the UK Government can review the level and type of services available to exporters. The services that companies are interested in range from the soft measures such as introductions to potential partners and hosting more sector specific market events, to more concrete assistance in understanding local regulatory standards and supporting risk assessment.

46. **In the next 6 months Government should develop further on-the-ground support with in-market contacts, agents, and other advisors with the local knowledge to help companies succeed in new markets.** Manufacturers would like to see more 'boots on the ground' industry specialists in overseas markets to help understand the specific requirements of exporters, reporting on market research and establishing a database of overseas companies in each country as a basis for market research. Equally important is improving 'ease of doing business' guides for key export markets, the development of in-market contacts, agents and other advisers who have sector and in-market expertise.

47. It is therefore important that we look at the long-term funding of export support. While grants and funds can provide temporary support needed to adjust to a new trading environment, a long-term incentive should be provided to encourage manufacturers to invest in the skills, knowledge, and the development of an export strategy.

48. **In the next 12 months, Government should explore the introduction of an Export Tax Credit to support successful exports.** Government should consult with industry and wider stakeholders on the mechanics of this, but the principle would be to provide the incentivise needed to invest in finding new opportunities and investing to grow exports.

49. Direct financial support is only part of the picture and manufactures also highlight the need for exporters (new and experienced) to understand the dynamics and culture of trading partners in developing opportunities and growing exports. It will be important for a renewed and committed focus to a UK Government export strategy to leverage the power and influence of the UK's international and diplomatic services to provide value-based bespoke, tailored and market specific support and intelligence to firms looking at maximising existing relationship and seeking new markets.

50. **In the next 6 months, Government should bring forward a package of grants and practical support to assist exporters to attend trade shows and similar events.** This must include the replacement of the Trade Access Programmes funding with policy designed at and related and targeted trade events.

A flexible, fit-for-purpose immigration system: learning lessons from the HGV driver shortages

Since January 2021, businesses wanting to recruit from outside of the UK have had to navigate the new points-based system. This would have been, and still is, a step change in recruiting from the EU for many businesses, who previously benefited from free movement of people. Under the new points-based system employers must go through the steps required to recruit from outside the UK, including becoming a sponsor, paying the costs associated with recruiting from outside the UK, including the immigration skills charge and health surcharge, as well as understanding the system itself and the minimum salary thresholds and qualification levels required.

Given many businesses have held back on recruitment for the large part of 2021 it is likely that the full impacts of the new system are being felt. As demand picks up, and so does recruitment, employers may not find the skills they need in the domestic labour market and look to recruit from outside of the UK. We expect that we will begin to see frustrations with the system at this point.

We remained concerned that while we have seen some positive measures introduced within the system, such as the skill level threshold being at Level 3, as opposed to Level 6, certain aspects, including the shortage occupation list, are not yet flexible enough to meet the needs of business, particularly at times of high demand and a lack of domestic labour. Even, then, the shortage occupation list does not deliver what is needed in times of crisis.

An example of this has been the recent, and indeed on-going, HGV driver shortage. While the Government has now issued fast-track visas, the number on offer are a drop in the ocean. Moreover, this intervention has come far too late.

There is a strong case to put HGV drivers on the shortage occupation list with immediate effect. However, there is stronger case for Government to go further and explore an 'Emergency Temporary Visa' which would enable employers to quickly recruit from outside of the UK, without facing the hurdles and costs of the SOL at times of high demand. Government should use the existing Home Office Employers Group to scope out how this would work in practice.

Embedding resilience and agility

51. The UK is emerging from the pandemic with renewed determination and optimism. Our journey to recovery has already begun and we are resolved to build back better, ensuring that we are stronger, safer, and more prosperous than before. The COVID-19 pandemic reminded everyone just how vulnerable industry and our economy can be to external shocks. British manufacturers showed extraordinary resilience and agility in adapting to the challenges created by the global pandemic. Those working in our industry were at the forefront of global efforts to combat the disease, helping to produce the food, medicines and equipment society relies on to keep moving. There are many lessons that can be learned from this experience but, unfortunately, Covid-19 is unlikely to be the last pandemic the globe face. It is vital therefore that plans are now put in place to ensure those lessons are shared and applied across our economy in advance of any future disruptions that may be lying in wait.

52. While we have focused above on the technical skills needed to support manufacturers adjusting to the new trading environment and to investing in skills and knowledge to take advantage of export opportunities, it is important to address broader barriers to trade. Customs procedures remain a challenge and easement a key priority, however these border formalities can to some extent be predicted and will in time become business as usual. This means that any additional costs and delivery times become predictable and can be built into business models.

53. What is less predictable is the regulatory environment in which manufacturers will both operate and the legislative environment in which their products will be sold in. It is essential for manufacturers have access to the widest possible market for the products and goods which they supply. Make UK's position has always been to ensure that manufacturers can sell one product to multiple markets rather than having to make multiple products for multiple markets. There are many areas of technical market and product regulation where the UK and key trading partners are unlikely to diverge in determined outcome, such as ensuring consumer and workers safety, therefore creating parallel regulatory environments only creates additional bureaucracy and cost with no material benefit.

54. While Make UK is not against regulating differently from key trading partners particularly in new technologies and cutting-edge processes, it's important to recognise that any divergences in legislation have the potential to create a nontariff barrier without significant benefit. It is important therefore for the UK to pursue where possible mutual recognition agreements but also to consider from a UK perspective whether legislative changes can be mirrored to ensure that products remain compatible with the market legislations both at home and abroad.

55. **In the next 6 months, establish a new cross-Government unit to monitor and track market access regulations in key export markets, including the EU.** This will enable the tracking, monitoring and analysis of policy developments and consultation with industry on the impact of the policy developments on UK trade with key trading partners, including the EU.

56. What the pandemic and the recovery have shown is the importance of understanding supply chain resilience and identifying key challenges for manufacturers. We therefore encourage the UK Government to work with the sector to effectively map out a global supply chain resilience programme, allowing manufacturers to make it global, by agreeing coordinated action with key economic partner countries to maintain current trade flows and removing administrative restrictions. This will support manufacturers to move goods, products, and services with ease through smart supply chains and global logistics.

57. In the future it is essential that the governments of key markets work together to ensure essential supply chains are protected and ensure that measures to restrict production or the lifting of measures are coordinated across the international market as far as possible. This must be done in consultation with industry and the logistics sector to ensure that unnecessary disruptions can be avoided in the future.

58. **In the next 12 months Government should establish cross industry and government resilience taskforce. This taskforce would assess the supply chain disruptions throughout the crisis and establish an action plan for future lockdowns or pandemics**. This group should be tasked with mapping out a global supply chain resilience programme.

For further information

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