# SPRING BUDGET SUBMISSION

## About Make UK

Make UK, The Manufacturers' Organisation, is the representative voice of UK manufacturing, with offices in London, every English region and Wales.

Collectively we represent 20,000 companies of all sizes, from start-ups to multinationals, across engineering, manufacturing, technology and the wider industrial sector. Everything we do – from providing essential business support and training to championing manufacturing industry in the UK and internationally – is designed to help British manufacturers compete, innovate and grow.

From HR and employment law, health and safety to environmental and productivity improvement, our advice, expertise and influence enables businesses to remain safe, compliant and future-focused.

### UK manufacturing is the engine of our economy

**UK manufacturers are developing the solutions today to address the significant societal challenges of the future, ranging from cutting-edge renewable technologies to the development of environmentally friendly aerospace solutions. It delivers highly paid jobs across the whole of the country, securing growth in every region.**

But it can go even further. By increasing the manufacturing sector from 10% of UK GDP to 15%, we can add an extra £142bn to the UK economy of economic growth to the economy whilst driving a substantial uplift in long term domestic and foreign investment.

We will achieve this ambition by actively pursuing growth, fuelling innovation, and driving technological advancements by significantly increasing the per capita presence of robots in the UK. This deliberate initiative is geared towards not only boosting productivity and efficiency but also transforming the industrial landscape. Our ambitious targets involve a rigorous plan to halve industry carbon emissions (scope 1 and 2) by 2030, with a laser focus on enhancing energy efficiency across the board. Simultaneously, we are dynamically shaping a sustainable future workforce through intensive and targeted personnel training programs. As we set our sights on advancing in the global manufacturing rankings, propelling ourselves from the 8th to the 7th nation, these endeavours are steadfastly guided by a proactive and comprehensive long-term industrial strategy.

**To move beyond ambition and into reality manufacturers cannot succeed alone. We need Government to ensure a stable business environment and a long-term ambitious and modern industrial strategy.**

Make UK welcomed the Government's 2023 Autumn Statement. It provided a much needed level of certainty for manufacturing businesses making investment decisions by announcing policies such as permanent full expensing. The manufacturing sector also welcomed measures to boost engineering apprenticeships and stimulate advanced manufacturing, which will be vital to boosting high-value growth and high-skill employment in our economy.

Following the Statement, Make UK ran a snap survey of 100 manufacturers to capture our member's initial thoughts:

**Full expensing**

59% of manufacturers surveyed reported they will take advantage of full expensing, with a further third of manufacturers (33%) reporting they might take advantage. We asked whether manufacturers would like to see the inclusion of second-hand machinery: most manufacturers (83%) would like to see the inclusion of second-hand machinery in the full expensing policy.

**Apprenticeship pilot**

Regarding what should be tested in the apprenticeship pilot, manufacturers reported that they would like to see an emphasis on retraining existing workers (65%), with roughly half of manufacturers wanting financial incentives (54%), better pathways for school leavers (54%) and more flexibility in training delivery (49%) to be included.

**Made Smarter**

Roughly half of manufacturers (47%) will take advantage of the Made Smarter programme once it is rolled out, with 16% having already taken advantage. Roughly a third (37%) are not planning to use the programme: we are speaking with manufacturers about the possible reasons for this.

**National Living Wage (NLM)**

We asked what manufacturers think the impact will be from the rise in the National Living Wage (NLM). There was a mixed response, with roughly half of manufacturers (55%) reporting they see it as an increase in pay for their lowest paid employees, (53%) also say it is an increase in pay for the rest of the workforce (53%). Half say that it will increase the prices of goods (47%).

As we look to 2024 and beyond, our members' focus is on:

- Tackling current labour shortages and building a workforce fit for the future
- Driving affordable, clean and secure energy supply
- 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

As always, the industry stands ready to work in partnership with Government to reshape our economy and boost economic growth.

## The importance of UK manufacturing: The Facts

The UK is now the 8th largest manufacturer in the world, formerly 9th we overtook France last year

The UK manufacturing sector delivered £224bn work of output in 2023

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

### Our key recommendations:

1. **Expand full expensing capital allowances to allow for the leasing of capital and upcycling of 2nd hand plant & machinery.**

2. **Extend the business rates standard multiplier freeze from 1 year to 3 years to give businesses more time to adjust to their new evaluated rates.**

3. **Enhanced deductions for specific classes of R&D activities, such as R&D resulting in direct reductions in carbon emissions, digitalisation and automation that result in increased productivity.**

4. **Reduce employer National Insurance contributions to ease pre-profit taxation burden on SME employers.**

5. **Review the energy and pricing system to support the transition from fossil fuels and ensure a reliable and economically sustainable supply of clean energy in the future. The top priority should be aligning the UK-CBAM with the EU-CBAM timescales to provide a level playing field with EU competitors and prevent potential trade diversion of high-emission industrial products into the UK market.**

### Our long list of recommendations:

### Creating a sustainable workforce

**We must create a future-fit talent pipeline to power manufacturing and engineering into the future and ensure the existing workforce is equipped with the skills needed now and in the future.**

1. **Reduce employer National Insurance contributions to ease pre-profit taxation burden on SME employers.**

2. **Continue work with the industry on the apprenticeship growth sector pilot.**

3. **Support employer engagement with T Levels ahead of the introduction of the Advanced British Standard, focusing on more work in simulated environments, and having the ability to split the placement between more employers.**

4. **Introduce a Manufacturing Mentor Scheme**

5. **Enshrine digital skills across the education system.**

6. **Expand tax relief on occupational health services.**

7. **Make statutory sick pay (SSP) a day 1 entitlement and reintroduce cost recovery for SMEs.**

### Benefiting from a net zero economy

**A net-zero economy offers significant opportunities for UK manufacturers. We must ensure manufacturers can capitalize on this, producing sustainable goods and services to decarbonize and lower prices for consumers in the future.**

8. **Review the energy and pricing system to support the transition from fossil fuels and ensure a reliable and economically sustainable supply of clean energy in the future. The top priority should be aligning the UK-CBAM with the EU-CBAM timescales to provide a level playing field with EU competitors and prevent potential trade diversion of high-emission industrial products into the UK market.**

9. **Increasing the capacity and flexibility of the national grid as a matter of urgency**.

10. **Conduct a gap analysis of which tax incentives and funds are related to improving energy efficiency and decarbonisation to ensure a complete solution across all the different business**

populations.

11. Roll-out the Business Energy Advisory Services (BEAS) scheme nationally.
12. The Industrial Energy Transformation Fund (IETF), should be extended, increased and reshaped into a more accessible fund for SMEs and mid-market businesses.
13. Extend the 12 months 100% business rate relief on green plant machinery and equipment, as well as the 100% business relief on building improvements introduced in April 2023.
14. A carbon accounting framework should be developed for comparability of emissions data and to avoid administrative burden on industry engaging with different schemes.

## Unlocking innovation and driving technology

15. Enhanced deductions for specific classes of R&D activities, such as R&D resulting in direct reductions in carbon emissions, digitalisation and automation that result in increased productivity.
16. Review the changes to the R&D tax credit made in 2023 to ensure it hasn't negatively impacted innovation.
17. Take forward the commitment to roll out Made Smarter Adoption and evolve the programme to replicate a modern-day Manufacturing Advisory Service.
18. Expand the R&D tax relief to include capital equipment relating to industrial automation and decarbonisation.
19. Introduce employer incentives for digital and green apprenticeships.
20. Incentivise automation to help manufacturers address labour shortages.

## Reducing the costs and barriers to doing business and trade

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

21. Expand full expensing capital allowances to allow for the leasing of capital and upcycling of 2nd hand plant & machinery.
22. Extend the business rates standard multiplier freeze from 1 year to 3 years to give businesses more time to adjust to their new evaluated rates.
23. Immediately, Government should make Government support conditional on beneficiaries adhering to the Prompt Payment Code.
24. Ensure that the UK Government's procurement process does not overly prioritise lowest tender cost but instead the wider economic cost/benefit.
25. Enhance the marginal relief available to businesses negatively impacted by the "associate company" rule on corporation tax.
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.

## 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. The Export Academy (or similar channel) should create a bespoke financial package to boost the skills base for exporters to improve knowledge in exporting.

29. **Refresh the UK’s Export strategy if the UK is to meet the £1trn in exports by 2030s**

30. **Improve access to specialist teams in HMRC to deal with international trader issues.**

31. **Improve the Inward Processing (IP) procedure available to businesses**.

32. **Simplify and clarify the Bill of Discharge (BoD) procedure**.

## Manufacturing homes for the future

33. **A modern approach to stamp duty rates, based on the energy performance of newly built homes**.

34. **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).**

35. **Reforming our planning system so that it incentivises the production of greener homes.**

## 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. This raised concerns of a potential technical recession within the sector, which worsened when the ONS revised its GDP growth rate for the third quarter to indicate a contraction overall for Q3. Fortunately, the findings of the fourth quarter research shows that Q3 was a blip in the data, and that manufacturing activity across 2023 was generally positive, albeit growth was expected to fall somewhere between 0% and 1%.

However, the potential risk of a recession has not been eliminated as this year carries several headwinds, including the risk of higher energy prices, restrictively high interest rates and labour shortages which will stunt the growth of the industry. Until now, manufacturing activity has been propped up by a strong backlog of orders which have evidently become dry in our recent surveys. Therefore, we must now act to grow the sector by generating new demand. This must focus on key areas such as closing the skills gap, generating new trade opportunities, and increasing our capacity through investment. The UK Government has already taken several steps in the right direction, but more work needs to be done to ensure we do not fall behind our competitors.

The latest results of our quarterly survey (Q4 2023) reveal the following:

- Output volumes expand quickly, but total orders growth fails to follow suit
- Export orders exceed domestic market performance for the first time since the pandemic
- Rate of Price rising behaviour continues to slow, and margins persist in slow recovery
- Labour growth rebounds but investment slows
- Confidence indicates stability in performance expectations
- UK GDP forecast – 2023: 0.6%, 2024: 0.4%
- Manufacturing GVA forecast – 2023: 0.8%, 2024: 0.1%

### 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.

## Use the Advanced Manufacturing Plan as a springboard for a long-term vision that is truly ambitious

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

Make UK was pleased by the announcement of the £4.5 billion Advanced Manufacturing Plan (AMP) publication and believes it will help deliver better coordination across manufacturing, in particular the clean energy sectors. It is critical that the UK economy benefits fully from new technological opportunities, which is why we welcome the Government's new battery strategy.

Make UK would like to see the AMP used as a vehicle to plan for a longer-term vision that builds on the investment appetite of the sector and takes advantage of net zero to boost the economy. Manufacturers need a framework to guide them beyond 2030, and whilst AMP has laid the foundations, it should be developed further so the entire manufacturing sector, and not just the flagship sectors dominated by major manufacturers, can thrive in a low carbon economy. Developing an industry plan that extends beyond 2030 is crucial, providing businesses with policy continuity for informed decision making.

Understanding how to incorporate manufacturing supply chains will be important. Supply chains have a key role in supplying components and services for clean energy in the future low-carbon economy. Greater attention should be given to supporting smaller supply chain businesses providing crucial components to larger businesses in sectors such as food and drink, furniture and textiles. These businesses need help to achieve net zero and take advantage of its benefits, including reducing energy usage and costs, cutting emissions and boosting productivity.

## Creating a sustainable workforce

***There are 69,000 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.***

***We need to reduce the number of unfilled vacancies from 3 in every 100 to 1.6 in every 100 (pre-pandemic levels), and increase apprenticeship starts in manufacturing to pre-Levy numbers.***

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 supporting businesses to recruit the people they need at all levels – whether from within the UK or overseas – and continue to invest in training.

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 69% 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, a further 37.9% experienced a lack of the right qualifications, and 37.9% did not receive enough applications to fill all of their vacancies.

1. **Reduce employer National Insurance contributions to ease pre-profit taxation burden on SME employers.** Manufacturers welcome the actions taken by the Government through 2023 to support people back into work, particularly through expanded access to skills training and improved support for occupational health and wellbeing. However, a significant majority anticipate increasing employment costs in 2024, providing a barrier to recruitment and threatening to undermine the positive measures already taken. There is more that the Government can do to support employers to ensure that they can recruit the people they need. Following the reductions to national insurance contributions for employees and the self-employed at the Autumn Statement, the Government should make it easier for employers to recruit by reducing employer contributions too.

2. **Continue work with industry on the apprenticeship growth sector pilot.** Make UK strongly welcomes the progress that has already been made in developing proposed measures to reverse the decline in engineering and manufacturing apprenticeships over recent years. As the Treasury and Department for Education continue to take this forward, manufacturers look forward to benefitting from proposed support for capital expenditure associated with apprenticeship training delivery and improved provider capacity so that they can access the right training where it is most needed.

3. **Support employer engagement with T Levels ahead of the introduction of the Advanced British Standard.** Manufacturers support the principles which underpin the proposed new Advanced British Standard, but there remain some existing concerns about T Level delivery which need to be addressed. This is not only crucial for learners taking T Levels over the next decade but also the success of the ABS, which will depend on positive employer engagement and their ability to offer industry placements.

    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.

4. **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.

5. **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.

Make UK has consistently called for better support for employer investment in workplace health and wellbeing, and the Government has made good progress with the measures announced at the Autumn Statement. 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 continues to be a strong case for more effective support for health at work. The Government should:

6. **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 consulted on last year to expand the range of occupational health services eligible for benefit-in-kind tax reliefs should be implemented as soon as possible.

7. **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.

## Benefiting from a net zero economy

***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.***

***68% see net zero as a commercial opportunity for their business.***
***We aim to halve industry carbon emissions by 2030.***

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 global race to net zero for low-carbon technologies and raw materials and the US and the EU's respective Inflation Reduction and Net Zero Industry Acts, China and other economies across the world.

Decarbonisation investment decisions have been driven mainly by the cost of energy and are based on 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.

8. **Review the energy and pricing system to support the transition from fossil fuels and ensure a reliable and economically sustainable supply of clean energy in the future:**

    a. **The existing carbon taxation, relief schemes and other incentives should be reviewed to identify incoherences and inefficiencies.** Ensure there is a complete and coherent 'carbon and energy' solution, available across business populations e.g. not only for the Energy Intensive Industries (EIIs e.g. via the CPS compensation/ RE exemption schemes, Climate Change Agreements, and the Capacity Market), but also for the less energy intensive manufacturers. Other energy policy costs, notably the disproportionate electricity network charges, should be examined in a bid to decrease the cost of energy

    b. **The energy market reform should be accelerated** so that electricity prices are competitive with electricity prices internationally and with gas prices to enable the switch to low-carbon energy. Proven tools should be used e.g. Contracts for Difference or the Capacity Market.

    c. **UK Carbon Border Adjustment Mechanism (UK-CBAM):** while the announcement of the UK CBAM is widely welcome, the one year difference between the implementation of the UK-CBAM (in 2027) versus the EU CBAM (in 2026) will increase risks for domestic industries and could cause de-industrialisation. It is crucial, therefore, that the UK-CBAM aligns with the EU-CBAM timescales to ensure a level playing field with EU competitors and prevent potential trade diversion of high-emission industrial products into the UK market.

       To ensure there is a balance ensuring environmental goals without imposing a pre-determined solution at the cost of UK manufacturing Government should adopt a flexible approach to the CBAM application and engage with all stakeholders in manufacturing, including the supply chain as each sector and material, has specific circumstances relating to their respective markets.

    d. Work on **product standards** should start in parallel as the CBAM is insufficient to prevent carbon leakage.

    e. **The UK-ETS should also be extended to other sectors** (as relevant) and linked to wider ETS schemes to increase the market size.

9. **Increasing the capacity and flexibility of the national grid as a matter of urgency** Promptly resolve queue management issues for access to connections on a 'first ready, first served' (rather than on a 'first-come' basis). 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. Adjusting the Demand Flexibility Scheme (DFS) to work for the manufacturing sector will enable many more participants to access it. 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 jeopardising the overall energy security.

10. **Conduct a gap analysis of which tax incentives and funds are related to improving energy efficiency and decarbonisation to ensure a complete solution across all the different business populations (SMEs, mid-market, energy-intensive industries (for both electricity and gas))** so that no category falls through the cracks and is left behind. This should include expanding compensation and exemptions to current schemes.

11. **Roll-out the Business Energy Advisory Services (BEAS) scheme nationally**: an earlier assessment of the success of the WM-BEAS pilot scheme to enable an earlier national roll-out (if deemed successful). In addition to the energy audit, sub-metering, and plan proposed, the scheme should include help with accessing the right finance. This would increase the chances of participants actually taking their first implementation steps.

12. **The Industrial Energy Transformation Fund (IETF), should be extended, increased and reshaped into a more accessible fund for SMEs and mid-market businesses.** While we welcome the recent announcement on the reduction of the size of projects to £75K, the current IETF is still not very accessible to smaller manufacturers due to the fund matching levels required upfront. Application complexities to the fund also mean SMEs and mid-market businesses need to access costly external advice if they want to attempt to use it.

13. **Extend the 12 months of 100% business rate relief on green plant machinery and equipment, as well as the 100% business relief on building improvements introduced in April 2023.** Manufacturers are making green investments and we welcome the 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 first three-year relief could be available for a limited time early in the duration period of the scheme (between now and 2035) to spur immediate investment or bring forward investment plans.

14. **A carbon accounting framework should be developed** for comparability of emissions data and to avoid administrative burden on industry engaging with different schemes, to bring consistency and transparency across different schemes and with independent measurement, reporting and verification.

## Unlocking innovation and driving technology

***8 in 10 manufacturers are digitalising their factories and many are reaping the benefits of that transformation.***

***3 in 10 companies reported labour efficiencies because of investing in digital tools and automation.***

***We need to increase the UK's robotics density to move from 25th place globally into the top 10.***

To boost productivity and drive energy efficiency, Government should focus on incentivising manufacturing businesses to digitalise and automate the processes with an outcome to decarbonise, increase productivity and efficiency and build resilience. Technologies such as simulation, 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 efficiency, and achieving carbon emission reduction are some benefits manufacturers are starting to reap. Digital adoption and automation are 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.

15. **Enhanced deductions for specific classes of R&D activities, such as R&D resulting in direct reductions in carbon emissions, digitalisation and automation that result in increased productivity.** Allowing companies to claim relief on 130% of capital investment in the year of investment of specific areas of expenditure may accelerate the speed to meet net-zero targets and increase productivity.

16. **Review the changes to the R&D tax credit made in 2023 to ensure it hasn't negatively impacted innovation.** The Government announced at the Autumn Statement that the research and development expenditure credit (RDEC) scheme will be merging with the enhanced support for R&D intensive SMEs scheme. This will result in a single R&D Expenditure Scheme modelled on the existing RDEC scheme brought another wave of uncertainty about how these changes will affect manufacturers. Government should clarify what the newly integrated scheme entails.

    The merger might further reduce the benefit rate for SMEs, who will already be feeling the impact of the deductions that took effect on 1 April 2023. If, as is expected, the headline rate of relief under the new merged scheme remains at 20%, then the resulting net tax benefit for claimants will be 15%, further erosion of the net tax benefit loss-making SMEs, which will have seen the net benefit fall from 24.7% before April 2023 to 15% after April 2024, an overall reduction of 39.3%. Similarly, if the headline relief rate of 20% is maintained under the new merged scheme, the impact for loss-making SMEs not qualifying as R&D intensive will be a net tax benefit of 16.2% (as loss-making companies will pay a 19% corporation tax rate on relief received against R&D expenditure).

    Manufacturers need certainty when planning investments, and sudden changes in government policy create uncertainty, impacting companies' willingness to commit to any investment. We have previously raised concerns about the impact of the changes to the R&D tax relief on SMEs. Government should commit to reviewing the changes to understand what effect, if any, positive or negative, the changes have had. If the review concludes that the changes have had a negative impact, government should consider reverting to the previous model of relief.

    We understand the creation of the single merged scheme was to simplify the old tax relief scheme. However, by the look of things, we are still left with two schemes: one scheme for R&D-intensive SMEs and a second for the rest. Furthermore, the range of changes and additional requirements introduced over the last two years has made it increasingly difficult for SMEs to manage their R&D tax relief claim process to maintain compliance with the everevolving legislation, not to mention the problems in building medium-term investment plans to account for the multiple changes in net tax benefits over the same period.

Concerns remain around high levels of non-compliance in claims. Our members reported that more than half of all R&D claims submitted in the first six weeks of the new Additional Information requirements were invalidated due to non-compliance.

17. **Take forward the commitment to roll out Made Smarter Adoption** and evolve the programme to replicate a modern-day Manufacturing Advisory Service. Currently, the experts and advisors tasked with executing the adoption program to enhance productivity in manufacturing SMEs are predominantly concentrated on digital adoption. Our findings indicate that SMEs require a more comprehensive advisory service, offering impartial guidance on decarbonisation, lean manufacturing, skills development, and challenges related to supply chains. The provision of these expanded advisory services has the potential to guide small to medium-sized manufacturing firms in the right direction, fostering their growth and enabling them to scale up their businesses, thereby positively impacting the economy.

18. **Expand the R&D tax relief to include capital equipment relating to industrial decarbonisation.** The cost of upgrading capital equipment is the most significant 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 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 significant effect, most notably during the pandemic. To address concerns about skills shortages and support more effective employer investment in apprenticeships, employers should benefit from incentive payments for apprenticeship standards related 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. **Incentivise automation:** 60% of surveyed members agreed that the main benefit of automation is the rise of productivity, followed by 50% improvements in efficiency and overall quality. Automation reduces the need for lower skilled level jobs and creates opportunities for new job creation for higher better paid jobs, and better quality jobs which have a positive impact on the economy. Roles that are needed to accelerate automation should include data analysts, robotics engineers etc. Please see point 18.

## Reducing the costs and barriers to doing business and trade

***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***

***The share of companies who believe the UK is losing competitiveness against the US, India and China dwarfs those who believe the UK is gaining.***

***We need to move into the top half of the tax competitiveness index.***

Manufacturers have faced unprecedented disruption in recent years, from wars to pandemics to rocketing transport and raw material costs, and reduced access to foreign skills. To remain competitive, the UK must ensure that manufacturers can overcome these challenges and remain in the top 8 largest manufacturers globally. It is in everybody's interest for the UK to be a place where manufacturers can grow and expand, and that encourages greater Foreign Direct Investment (FDI).

21. **Expand full expensing capital allowances to allow for the leasing of capital and upcycling of 2nd hand plant & machinery.** Making full expensing permanent was the right thing to do and will help most manufacturers. However, the tool still remains somewhat exclusionary by not allowing for leased and 2nd hand plant & machinery. Our studies show that nearly 15% of manufacturers access capital goods through leasing and these businesses are exclusively SMEs.

22. **Extend the business rates standard multiplier freeze from 1 year to 3 years to give businesses more time to adjust to their new evaluated rates. Following** the Valuation Office Agency'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.

23. **Immediately, Government should make Government support conditional on beneficiaries adhering to the Prompt Payment Code**. At a time when many manufacturers are struggling regarding cash flow, supply chain companies must be 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 survey of manufacturers revealed overwhelming support for this intervention.

24. **Ensure that the UK Government's procurement process does not overly prioritise the lowest tender cost but instead the wider economic cost/benefit.** 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 EU 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.

25. **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 for affected 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.

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

***The manufacturing sector contributed over £432 billion to the nation last year, of which over £230 billion was exported to the EU – a 26% increase in export value from 2021***

British manufacturers goods are exported across the globe yet 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. Make UK's recent research on the EU-UK Trade and Cooperation Agreement (TCA) highlighted that many challenges, such as customs and rules of origin continue to hinder export growth to the EU whilst trade deals with major economies have shown little progress.

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 replaced by the Enhanced International Support Service (EISS), it was thought that this more a bespoke and targeted support programme 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. Running alongside a strengthened EISS, the UK Government should establish a grant scheme to achieve export growth. The scheme would provide financial assistance for aspiring and current exporters. The scheme would support manufacturing and industrial products and would provide grants and reimburses with a particular focus on assisting small and medium businesses with their export promotion expenses.

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.

30. **Improve access to specialist teams in HMRC to deal with international trader issues:** Unlike other tax areas managed by HMRC VAT, Corp Tax, PAYE, National Insurance etc, issues around Customs usually need immediate attention to keep goods moving and avoid costly delays (e.g. demurrage, missed deadlines for customers, missed shipping etc.). This could be achieved in any, or all, of the following ways:
    a. Separate Customs from the rest of HMRC as there are fewer external agents for Customs matters (as opposed to accountants on every high street) and, unlike the other taxes.
    b. Give agents access to a dedicated team at HMRC who can assist
    c. Reduce the admin costs to give businesses more time to input internal processes to

handle customs themselves.

31. **Improve the Inward Processing (IP) procedure available to businesses**: This has been the most popular special procedure available and should be enhanced in the following ways: – Increase the number of times a business can move goods in a calendar year from 3 to 20: Currently businesses can import under IP only three times in a calendar year, provided each movement is below £500k in value, without the need to go through the authorisation process. This change would particularly benefit SMEs. – For SMEs, reduce the value of each movement to £20k to rebalance the increased number of movements: It would greatly benefit SMEs, and not expose HMRC to any greater revenue risk, if they were to allow 20 movements to happen for up to £20k. This would mean regular but smaller value movements would not require full authorisation, greatly reducing red tape.

32. **Simplify and clarify the Bill of Discharge (BoD) procedure**: More specifically, simplification should be directed at the BoD 1 for authorised businesses and BoD 3 for Authorisations by Declaration. The BoD can be confusing to businesses as it is unclear what data is required for compliance, particularly following the recent Thyssenkrupp ruling which resulted in a huge penalty for BoD errors.

## 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, resilience and potential for growth. However, there remains an under exploited gem within manufacturing in the form of modular housing.

Every 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 departure from traditional building, as homes are precision-engineered and built with the continuous improvement processes that are central to manufacturing's success.

With the construction industry needing to find nearly 1 million high-skilled workers by 2030, the UK does not have the labour force it needs to meet the Government's target of building 300,000 homes a year by 2025. 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 UK's 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 modular's workforce is from a non-construction background, bringing desperately needed new labour into the wider construction industry.

With assembly line processes and the use of highly innovative materials, modular homes are 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 for the wider construction industry 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. To do so, the sector needs to be given the chance to develop an order book sufficient to allow businesses to reach their break-even points. This can be achieved through three simple approaches which complement the Government's wider policymaking efforts and come at no or little additional cost to the Treasury.

33. **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.

34. **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.

35. **Reforming our planning system so that it incentivises the production of greener homes.** This can be achieved by creating a 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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