

Submission from the Engineering and Machinery Alliance (EAMA) to the Chancellor of the Exchequer, ahead of the autumn statement on November 22nd

Main recommendations:

- Increased advocacy for manufacturing and engineering.
- Commit £500 million over eight years to a coherent, long-term, national programme of support for the adoption of best technology and processes in UK manufacturing.
- Increase involvement in long-term finance guarantees for SMEs.
- Strengthen the r&d incentives for SMEs and weed out bogus claims.
- Work with EAMA members and other trade associations to provide training and apprenticeship support for SMEs.
- Incentivise schools to work with engineering employers, who would respond positively.
- Address the failure to turn research sufficiently into long-term value for the UK, including through manufacturing.
- Expand the UK government's reduced and narrowed export and ambition and work more with EAMA members and other trade associations, with offer effective partnership and outstanding value for money for the taxpayer.

Context

1. EAMA (see appendix and end of this submission) recognises the difficult challenges facing the government, businesses and individuals. The business climate is increasingly difficult and it was no surprise to see the sharp increase in insolvencies announced in September.
2. Sub-sectors EAMA represents in manufacturing and engineering are critical to economic success, international competitiveness and security. In contrast to some sectors of the economy, they are sectors with the potential to soak up intellectual property and build long-term retained value. Capability lost often goes abroad and is often difficult to regain.
3. We argue that manufacturing is critical to economic success and that “services superpowers” such as Switzerland and Singapore indicate the potential for a balanced economy. Their manufacturing sectors contribute at least twice as much to GDP at that of the UK.
4. Our ambition is to have a highly advanced manufacturing sector, already worth £220 billion a year. Advanced should mean using best technology and processes in order to be highly competitive and sustainable. We are concerned that the term “advanced” in this context is sometimes ill-defined or, worse, taken to mean specific product sectors, often undefined. Advanced should be about process, not product.
5. Now is the time to make serious investment in the future. Government, rightly, urges companies to invest. We believe it should also invest in support of SME manufacturers, as most nations with serious ambitions for manufacturing have. We draw attention also to the imperative, identified in the Levelling Up White Paper in 2022, that “we must... reverse the historic decline of manufacturing in the UK”.
6. The government puts much effort into attracting foreign direct investment (FDI), which can indeed bring value. However, a significant portion of FDI is inter-company debt which can quickly be recalled and there is a belief that we can lose domestic competition through takeovers from overseas. We need stronger focus on encouraging investment and growth among British-owned companies and others with a long-term commitment to creating and retaining value in the UK. This is essential to strengthen UK supply chains, to maintain appropriate skills, to ensure appropriate levels of tax is received and to ensure sovereign capability and economic resilience.
7. EAMA and its members enjoy good relations with the government departments which most influence our sector. However, we believe that a greater partnership with government would help boost UK performance and achieve shared goals, and this is a recurring theme in this submission. EAMA and its members offer outstanding value.

Increased advocacy

8. We seek increased advocacy from ministers for the manufacturing sector and related engineering, mindful of the imperative that we must reverse the historic decline of manufacturing in the UK. Such advocacy would have a positive impact at many levels – from policy-making, to encouraging investment to recruitment into engineering.

Support for SME innovation

9. Made Smarter Adoption must be improved to become a coherent, national, long-term programme to improve the technology and processes in SME manufacturing. We have no strong views on whether the

Made Smarter brand name should be retained.

10. With that, the UK can build on the expertise already in the UK to realise the potential for a world-class advanced manufacturing sector, making contribution to GDP that is more in line with that of services super-powers such as Singapore and Switzerland.
11. Our ask is a commitment to an investment in Made Smarter Adoption in the order of £500 million, spread over eight-to-ten years. This would:
 - a) give the funding certainty to allow for planning well beyond the short-term, immediate horizon that has limited the effectiveness of such programmes in the past;
 - b) build confidence and awareness among SMEs, which would increase effectiveness;
 - c) encourage in-programme improvements to be made; and
 - d) encourage investment, including FDI, by sending a credible message that the government is serious about manufacturing and developing the capability of the UK supply chain.
12. The government has recently approved a £500 million support package for Tata's steel business in South Wales. This comes on top of £500 million for Tata's JLR business to build a battery factory and £1 billion in government loan guarantees. A total of £2 billion of government support for Tata in the UK.
13. We make no complaint as to the scale of this support for Tata, which is a large global company leading in a period of rapid change. Like you, we look forward to a good return for the taxpayer on this investment. Our point is that a long-term programme supporting SME adoption of best technology and processes is also necessary and will be money well invested. Trade associations can help to make the programme successful.
14. Value for taxpayers' money is, rightly, a key consideration. We have no doubt that outstanding value can be achieved but perhaps insufficient attention has been made to proving the point. We would welcome an indication from HM Treasury as to an appropriate formula.
15. EAMA can contribute to implementation of a "Made Smarter Adoption" programme, helping to building understanding, engagement and development. We envisage the High Value Manufacturing Catapult having an important role – mindful, however, that the HVMC has been insufficiently directed and resourced to engage with and support SMEs.

Turning research into long-term value

16. The UK's return to Horizon Europe – which we welcome – highlights a much-discussed issue that is widely recognised within government and industry: how to turn research into long-term investment in the UK, especially in manufacturing and related services. We urge government to address this as a specific topic, with a review encompassing Innovate UK's support for SMEs.

Turning research into long-term value

17. As we have argued before, there is an opportunity for government to play a greater role in supporting engineering firms to secure long-term funding, including for green transition. We note that some funding in which UK Export Finance is involved is repaid over more than ten years.

Power grid

18. EAMA welcomes the pragmatic approach to net zero announced by the prime minister in his speech of September 20th 2023. We need to both maintain momentum and aim for what is achievable. The emphasis on accelerating improvements to the national grid is especially welcome. We recommend that all new buildings be required to have solar capability.

R&D tax credits

19. Government has been reviewing R&D tax credits. It should focus on giving strong support for companies making genuine claims, based on a system that is as clear, simple, and appropriately targeted as possible. We fully support the ambition to clamp down on abuse of the system and, given the prominent role of advisers in that abuse, we would support regulation of advisers.
20. The importance to SMEs of maintaining cash flow should be considered a priority in any scheme re-design. Cash flow is important to SMEs at any time, but especially as they are recovering from supply chain and demand difficulties and seeking to invest in the future.

Skills

21. Skills is a pressing issue for most companies in EAMA sectors, whether they are manufacturers or supporting distributors. SMEs have an especially difficult challenge. Their training overheads are, as a percentage, higher than those of large companies and they have greater exposure to poaching by large companies. When that happens, the only loser is the investing company – the individual is no worse off, nor is HM Treasury.
22. A cost-effective way to encourage quality training would be through practical advice and support at a national level, addressing specific sub-sector and specific skills. This would be best designed and delivered with trade associations, such as those in EAMA. We propose a partnership with government.
23. University Technical Colleges have been a success, developing engineering skills and a pipeline for further and higher education. Lessons learned should be rolled out more widely, and schools encouraged to work with engineering employers. We have proposed recognising STEM extra-curricular activity in Ofsted inspections/ Companies would respond to interested schools with time and funding.

Exports

24. The UK's export ambition has reduced and narrowed, as evidenced in the Export Strategy 2021. Evidence from EAMA members supports broader findings that the number of companies looking to export has declined in recent years due, not least, to the difficulties of exporting to the EU. We need to reverse that decline.
25. EAMA's members can provide outstanding effectiveness and value for money to the taxpayer in partnership with government and are willing to be challenged. The Export Strategy 2018 contained a clear statement of the important of working closely with trade associations and other partners but, in the past two-three years, we have seen that impetus go into reverse, as DIT, now DBT, narrowed its focus and preferred to do more itself. We urge a reversal in the decline of financial support for exporting, following the ending of the Internationalisation Fund and previous programmes.

26. Export control procedures are becoming increasingly problematic for UK firms, particularly where China is concerned. We have evidence, some of which has been shared with your officials, that orders are being lost that the products and technologies are then picked up by our strategic allies, including the US, Germany and Japan. The clear risk is that both UK export earnings are lost and that investment in the UK is discouraged, both among firms that are already here – including those that are UK-owned – and foreign direct investors.
27. Member firms report that the Export Control Joint Unit process is a) uncertain b) slow and c) sometimes comes up with refusals which responsible exporters believe are made with no good reason. All these concerns are damaging and should be addressed, including by increasing the expertise and resources available, if necessary.

EAMA would welcome the opportunity to discuss any of these points with you.

Jack Semple

Alliance Secretary

2nd October 2023

Appendix

About EAMA: The Engineering and Machinery Alliance comprises trade associations representing firms in the following sectors: machine tools and tooling; additive manufacturing/3Dprinting; automation and control; plastics; turned parts sub-contracting; compressed air systems; fluid power systems; printing technology; agricultural equipment; laboratory equipment; and solids handling and processing systems.

Member associations: Agricultural Engineers Association; British Compressed Air Society; British Fluid Power Association; British Turned Parts Manufacturers Association; Gambica; Gauge and Toll Makers Association; Manufacturing Technologies Associations, Printing Industries Confederation; Solids Handling and Processing Association.



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