

EAMA comments on Autumn budget 2021 and spending review

EAMA's comments are centred on advanced engineering and manufacturing, and the UK's machinery and component supply chain. These are essential enablers of economic recovery and future prosperity.

Manufacturing tends to work in internationally competitive sectors, so that intellectual property, jobs and businesses, once lost, are difficult to replace; much more so than in many sectors, subject mainly or wholly to local competition.

- 1** We would have liked to have seen specific, positive mention by the chancellor of **advanced engineering and manufacturing**. On the other hand, one can point to announcements of support over the past 12 months for automotive, hydrogen, offshore wind and other sectors as part of the net zero drive, all reprised in the detailed documents from the Treasury. Whether that support is **competitive at international levels**, whether the government is doing enough to support firms that are competing in international markets in terms of technology adoption and business improvement, and whether the government fully appreciates the value of manufacturing in leading UK economic recovery, will continue to be debated.
- 2** We note the High Value Manufacturing Catapult's **strategic target to double the contribution made by manufacturing** to the UK economy by 2030. It is an ambitious target which we would strongly support, insofar as we would like to see a resurgence in manufacturing, a sector that has flatlined in recent decades.
- 3** We are keen to learn where ministers stand on the implied strong growth in manufacturing. (The recent report from HVMC and others, *Robotics and Automation: a new perspective* highlights the importance of adopting Automation & Robotics to the success of UK manufacturing.)
- 4** One vital area remains support for **business improvement and adoption of technology**, which should be seen as an investment in the future which will be more than justified by the returns. This area has seen modest levels of funding hitherto, especially in comparison with the huge sums committed, rightly, to supporting sectors elsewhere; a step-change is needed. EAMA has been urging that the HVMC be given a stronger mandate and more funding to support SMEs' business

improvement and adoption of technology. The Knowledge Transfer Network also has an important role to play. We would urge close collaboration with EAMA and other trade associations.

- 5 The increased funding for **Innovate UK – UKRI** is welcome, but it is unclear how it will be allocated. The government has hitherto focused mostly on innovation and seen **adoption** as quite different - even though the impact of adoption is to innovate at the levels of both individual companies and the UK economy. Notably, the Innovation Strategy, published this summer, stressed the importance of adoption, at which the UK's record is poor, and of *“providing businesses with access to the support, knowledge and skills required to take advantage of the latest innovations ... lack of adoption typically leads to lower profits for the firms, and lower growth and productivity for the economy as a whole”*. We think this is right – and makes the case for a substantial increase in funding support.
- 6 **Skills**: A transformation is needed in the skills landscape, and there is much to do. We are not certain from what we have heard so far that government is providing adequate funding support for that in our sector. We question whether the pace of change around digital is appreciated within government.
- 7 It is for the industry and individual sectors and their trade associations to play their part. The HVMC has asserted that *“there is a **workforce crisis in UK manufacturing**”* that is holding back investment in technology. EAMA members are considering the extent to which they agree with that assessment with respect to their sector, what actions their sector should take and their asks of government.
- 8 We welcome and promote (Help To Grow) **HTG - Digital** (as we do HTG – Management); however, they do little to address the urgent specialist issues in our sector.
- 9 **Made Smarter Adoption** – the new spending review funding is better than no funding, but we are disappointed that a national roll-out of MS Adoption appears to be off the agenda. Something similar is needed.
- 10 The mention last week of a *“**return on investment tool** in October 2022 to ensure employers can see the benefits apprentices create in their business”* will be awaited with much interest, to see how effective it is. EAMA will support DfE's strong promotion of apprenticeships.
- 11 We welcome the extension of the £1 million limit on **Annual Investment Allowance**. It is important to maintain an attractive tax regime to support SME investment, longer term.
- 12 We welcome the widening of the **R&D tax credit regime** to cover cloud computing and digital, and for cutting-edge research into machine learning and data analytics. Anecdotally, the announcement has sparked further interest in R&D tax credits. We support the planned clamp-down on abuse of the system, which often takes place under the guidance of R&D advisers. HMRC should be vigorous in reversing the trend of non-compliance and its efforts will be most effective if it makes sure that its efforts and enforcement successes are known across the business community.

- 13 There is strong **regional focus** on many of the government's policies, including the development of regional business clusters. EAMA supports the regional and devolved nation focus. However, within the advanced engineering sector, we should *additionally* be aware of, and develop, **UK-wide clusters and capability**, which will help to attract investment. Trade associations can help with that. EAMA will shortly produce a brief paper on this subject.
- 14 The potential for **inflation**, and wage inflation, concerns member firms. Next April, most employees are going to notice a drop in their net income per week/month as a result of the roughly 10% increase in National Insurance (and the nil uplift in the value of personal allowances to offset inflation). Energy bills are rising. Many members, aware of the input cost rises that have yet to feed through fully to consumers, wonder if current published forecasts for inflation are on the low side. With current rates of inflation, people may be thinking in terms of 7-8% pay rises, just to stand still. There have been reported examples of HGV drivers at large companies, working on specific contracts, gaining increases in the range of 17 to 23%. Wage inflation levels are hard to gauge, with traditional yardsticks currently being considered unreliable, and future settlements will be influenced by inflation rates.
- 15 **NI increase/ National Health and Social Care Levy**. We make no comment on the necessity of raising tax levels. However, the creation of another new tax works against achieving the aim of simplifying the tax system.
- 16 About the 12-month **business rates relief for green investment** – it is early days, but it is likely that the government will be asked to make this measure permanent – something EAMA would support.
- 17 The Office for Budget Responsibility's forecast for modest medium-term **growth** will be cause for concern. The question is sometimes heard, "where is UK growth going to come from". Our response is that much of it must come from advanced engineering and manufacturing.
- 18 We note that **OBR forecasts a long-term economic reduction in productivity of 4% as a result of the UK leaving the EU**, but with a high degree of uncertainty about that forecast and the risk apparently that the impact may well be greater. Members are aware of the risks reflected in the OBR's forecasts and Lord Frost's assessment of the potential impact of conflict over the implementation of the Northern Ireland Protocol.
- 19 Department for International Trade: Of particular interest will be both the overall budget for **export support**, efforts to increase exporting expertise, and how the various regions and devolved nations interact and access DIT support. The new strategy will, we assume, also set out what DIT will do to support attendance at trade shows abroad. The Tradeshow Access Programme has been scrapped but nothing put in its place (other than, short-term, through the Internationalisation Fund).
- 20 EAMA is urging earlier and closer working with trade associations on export support. The

importance of collaboration with trade associations is explicitly recognised in the **Export Strategy 2018**. We would like to see that carried forward in the new strategy and reflected in subsequent engagement. (In her foreword, then-minister Baroness Fairhead said: *“Critical to the delivery of the Export Strategy is the effective joining-up of government actions – not just across departments but also with trade associations and other export support providers.”*)

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