

Submission from the Engineering and Machinery Alliance to the chancellor ahead of Budget Day, March 15, 2023

Overview

- 1 This submission from the Engineering and Machinery Alliance (EAMA)* sets out comments and recommendations ahead of the chancellor's Budget on March 15.
- 2 EAMA supports the economic ambitions for the UK as set out by the chancellor and the prime minister. We note the PM's three pillars - capital, people and ideas - and the chancellor's "four "Es", enterprise, education, employment and everywhere. Our submission addresses these themes.
- 3 The chancellor's speech on January 27th on the plan for growth set the right ambition. We need to move swiftly to bold implementation in a way that invests in the future and builds long-term retained value in UK advanced engineering and manufacturing.
- 4 We agree with Chris Skidmore's Mission Zero review that upgrading of the power grid is an urgent priority – this is an issue often discussed by companies, many of which wish to invest in on-site power generation.
- 5 Members are concerned that, while we are making progress in some areas towards net zero we are creating insufficient long-term retained value for the UK. One example is off-shore wind.
- 6 We support the government's objective of attracting more foreign companies to set up and to develop engineering and manufacturing operations in the UK. The proportion of foreign-owned firms is relatively high, however. The UK would increase its intellectual property and overall retained value if there was stronger development of firms that were UK-owned and committed to doing development work in this country.
- 7 As an overview of 2022, firms in the machinery and component supply chain that EAMA represents had, generally, a good year. They are positive at the start of 2023 – more so, perhaps, than those in many other sectors – although they are more cautious for prospects towards the end of this year.
- 8 Members seek a constructive and positive approach to our relations with the European

Union. It may be that there are particular aspects of EU law that we may find it beneficial to change but we hear no calls for reform of retained EU law as it affects the machinery sector to be a priority. There are more important issues to address.

Advocacy for advanced engineering and manufacturing

- 9 “We must... reverse the historic decline in manufacturing in the UK.” This imperative – apparently new – was set out the Levelling Up White Paper (February 2022). The new government must re-commit to that part of the white paper and Budget day is the perfect opportunity to do so and to raise confidence across the sector.
- 10 It is important for the chancellor to start setting out how the government will contribute, with industry, to achieving the goal of expanding UK manufacturing. As part of that, government should develop a greater understanding of the advanced engineering supply chain capabilities, how they can be developed, and gaps that may need to be addressed in the national interest. EAMA members can help with that.
- 11 Ministers should make clear what they are referring to when they talk about advanced manufacturing. It should be about how products are made, not the products themselves. Revival of manufacturing in the UK should be across a broad spectrum of products and supply chains.
- 12 We should be ambitious. The High Value Manufacturing Catapult’s (HVMC) vision, of doubling manufacturing’s contribution to GDP to 20% by 2030, is achievable with the right policy initiatives, energy and sense of necessity.
- 13 Government spending in this area is investment in the future. The sums required are modest indeed, in comparison with those spent as a result of Covid, rising energy costs and even incentives for drivers to acquire electric cars; and the future returns would be substantial.
- 14 EAMA has more on the true impact of manufacturing and the multiplier effect of the sector here:

[True Impact of UK Manufacturing - EAMA](#)

[Reversing the decline in manufacturing in the UK - key messages for Conservative MPs and leadership candidates \(eama.info\)](#)

Recommendation 1. The chancellor should explicitly state that expanding UK manufacturing is a central aim of the government, including strengthening the supply chain.

Recommendation 2. The chancellor should make clear that advanced manufacturing is not about which products are made, but how products are made.

Support for innovation and business improvement

- 15 Government is right to support innovation and to identify that we need to be much more successful in turning innovation into long-term value for the UK. There is a policy fault line between innovation and manufacturing that government must bridge.

- 16 More support is needed for the adoption of new technology, skills and processes. The UK has world class advanced engineering and manufacturing companies but the government must do more to help to accelerate progress in the application of digital technologies, automation and robotics in the industry as a whole. Opportunity exists for transformation.
- 17 We urgently need a coherent, national, funded, long-term programme to help firms to improve their skills, processes and adoption of technology. The Westminster government is highly unusual among peer nations in not having such a plan. The programme could be achieved by:
- building on the lessons learned from the disparate, regional Made Smarter Adoption projects of recent years and similar programmes; and
 - making better use of the outstanding assets we have in the HVMC, universities and other organisations that have potential to provide much stronger support to SMEs than they do at present. Trade associations - such as those in EAMA - can make an important contribution to developing and implanting such a plan.

Recommendation 3. The chancellor should announce the intention to develop rapidly a coherent, national, long-term plan to support innovation and adoption of new processes and technology by SMEs in advanced engineering and manufacturing.

Tax incentives and funding support

- 18 Incentives are especially important for sectors that compete internationally – especially the manufacturing supply chain, as it seeks to innovate, to compete and to achieve net zero through a period of rapid technological change in fiercely competitive international markets.
- 19 Every sector of the economy has a case for incentives. However, the case for advanced engineering and manufacturing is particularly strong. The loss of manufacturing firms is especially damaging, as the IP, well-paid jobs and tax revenues are much harder to replace, compared with firms in many other sectors. There is also likely to be a greater impact on the UK supply chain ecosystem, national resilience, and the ability to lead rather than to follow on net zero. Similarly, there are particularly strong positives when manufacturing expands. Innovation in net zero must bring lasting retained industrial value to the UK.
- 20 We welcomed the setting of the annual investment allowance at £1million in the autumn statement. This is an important and effective incentive for investment across the economy. The £1million AIA should be a baseline, with additional incentives for improving international competitiveness and investments that contribute to the creation of clean energy or reduce energy use.
- 21 The super-deduction (SD) brought forward investment and would continue to be effective if extended.
- 22 Confidence around R&D tax credits for SMEs needs to be restored, urgently. The autumn statement's reduction in credits for SMEs has weakened the cash flow of some of our most innovative and go-ahead companies, at a time when they are facing inflationary wage, energy and supplier costs – and all because of HMRC's inability to counter an increase in abuse of

the tax credit system. The decision last autumn should be reversed for those with legitimate claims; and we look to the chancellor to restore confidence that the government wishes to give strong support to R&D at SME advanced engineering and manufacturing companies.

- 23 Plans for energy cost support from April have disappointed EAMA members. Before the energy cost crisis, industry already faced an energy pricing regime that disadvantaged firms against even European competitors. The Energy Bills Discount Scheme is seen as being of marginal benefit and most manufacturers in EAMA are puzzled as to why they will get less support than museums and nature reserves. The support for SMEs with significant energy use but outside the current mechanism for additional support should be reviewed in the Budget.
- 24 UK advanced engineering and manufacturing companies have insufficient access to funding – a general weakness that we note the government seeks to address through reform of bank regulation (as does the EU) and other reforms. We note that Israel – a country from which the Levelling Up White Paper said we could learn – has brought forward a scheme to support funding for manufacturing over periods of up to 12 years. This looks to be the sort of initiative that would add important strength to the evolution of UK manufacturing.

Recommendation 4. Bring forward a successor scheme to the super-deduction, with a focus on energy-saving investments and on sectors, such as manufacturing, that are competing in international markets and investing towards net zero.

Recommendation 5. Re-instate the value of R&D tax credits for legitimate SME claims in advanced engineering and manufacturing and re-assure SMEs with a long-term system of tax support.

Recommendation 6. The chancellor should review the new Energy Bills Discount Scheme to ensure that manufacturing is adequately supported. Longer term, HM Treasury should consider how to make the UK's energy costs to the sector more internationally competitive.

Recommendation 7. Set a goal for long-term funding support for manufacturing, such as the 12-year scheme created for the sector in Israel.

Skills and training

- 25 In Budget 2022, Rishi Sunak called for ideas on how to incentivise SMEs to invest more in training. In his Mais lecture, also last March, he highlighted how little UK firms spend compared with competitors in other countries. Skills is an issue frequently discussed by SME firms at meetings of EAMA member trade associations, where there is agreement on the importance of investing in training. Increasingly, the reality is that for many firms this means finding routes other than apprenticeships.
- 26 Three problems face many SMEs in the machinery sector. Investing in a trainee, especially a new entrant into the sector, is expensive and carries a significant risk that the employee will leave before he or she has become productive for the business. The risk has increased in the past year or so, as large companies have compensated for their own under-investment in training by recruiting from other companies.

- 27 When a newly-qualified person moves job, the economy continues to benefit from the trainee's increased skills. HMRC continues to benefit from his or her earnings. The loser is the company that has made the investment in that training. Any scheme that can mitigate this loss would be welcome.
- 28 The second issue is a lack of appropriate training, especially for apprenticeships. There is a crisis in FE technical and engineering education and companies are adjusting as best they can, with in-house resources and help from suppliers.
- 29 EAMA members point to under-funding from central government for apprenticeships. Funding is insufficient, in some cases, for any colleges to take on approved apprenticeship courses.
- 30 The Bootcamp initiative has potential in engineering, for upskilling existing workers. That it has had little impact in the sector is largely due to way the initiative has been devolved to regions, which find it harder to organise engineering courses. As a consequence, we hear of a very large employer negotiating a regional grant for £500,000 to upskill their engineers with a local college, but there is little opportunity, in practice, for smaller firms.
- 31 The apprenticeship levy is as much a taxation and large company budget issue as it is a skills issue. Nonetheless, reform is needed to allow companies to spend the money more flexibly. A proportion of the levy should be allowed to be spent on relevant training, whether or not an apprenticeship; and to be shared with companies in the firm's supply chain.
- 32 Private sector training is becoming more popular with companies and partnerships between FE colleges and the private sector should be encouraged. The private sector can be more successful in recruiting and retaining teachers in further education.
- 33 Trade associations are playing an increasingly important role in influencing the delivery of skills training. This should be encouraged and supported by government.
- 34 Thirdly, members look to schools to do more to encourage and to prepare young people. At present, Ofsted inspections give no credit for extra-curricular activities related to STEM (science, technology, engineering and mathematics), nor are schools encouraged through funding. Both these issues should be addressed, so that schools are encouraged and enabled to promote STEM more effectively. Were this to be done, firms in the machinery sector would respond with additional efforts to engage with schools. A number of EAMA member companies already invest in supporting their local schools – in some cases, they invest quite heavily.

Recommendation 8. Explore ways of de-risking SMEs' investment in training towards engineering qualifications.

Recommendation 9. Improve funding support for extra-curricular STEM activities in schools and amend Ofsted inspections to encourage schools to promote STEM in this way.

International Trade

- 35 All EAMA's members have an interest in increasing exporting and EAMA is a strategic

partner of UK Export Finance – which we believe should be on the checklist of all advanced engineering exporters.

- 36 However, we have seen the UK's export ambition reduce and narrow, and support for firms to go abroad and seek business all but end. The Internationalisation Fund closed for applications on 5th January 2023 with no indication – as yet – as to what will replace it.
- 37 There is much EAMA's trade association can offer and we seek a partnership with DIT to transform the exporting performance of firms in our sector. We agree with the Export Strategy 2018, which stated: *“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.”*

Recommendation 10. Engage with trade associations, including EAMA, to design and implement a plan to encourage greater export ambition and activity, including across a broad base of advanced engineering and manufacturing.

*About EAMA

- 38 The Engineering and Machinery Alliance is made up of trade associations serving the UK machinery and component supply chain. Each member should be viewed as a national cluster of capability in a given sub-sector and is actively involved in supporting recruitment into their sector and training, export and trade.
- 39 Firms represented are involved in: machine tools and tooling; additive manufacturing/3D-printing; 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.
- 40 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.

Jack Semple
Alliance Secretary
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