Comments on the **chancellor's autumn statement** & the OBR report of November 17th

Overview

Firms were expecting most of what was in the OBR and the autumn statement and reaction was muted as a result.

We recognise the huge task facing the chancellor and agree that the UK needs to maintain credibility. We noted the chancellor's comment that Rachel Reeves had not, in the main, attacked his policy announcements; and that that was important for the markets.

There was not enough about growth.

The autumn statement came as the firms EAMA represents were – generally - still relatively positive, compared with many other sectors. Manufacturers and other high energy users have strong concerns over energy costs and also recruitment and skills issues.

Corporation tax The increase in the headline rate is unwelcome but in EAMA's sector appears to have been accepted with little comment, as it was both accepted and companies are focused on other issues, such as energy costs, which undermine their ability to make profit.

Annual Investment Allowance The £1 million rate is welcome, albeit expected. The impact is slightly diluted due to the increase in corporation tax. AIA is now, clearly, the main investment incentive.

We would like to see sustained, targeted, and easy-to-understand investment support for manufacturing technology and for training.   The manufacturing sector would benefit from long-term investment support facilities, such the scheme to support investments over as long as 12 years, which exists in Israel. (The Levelling Up White Paper referenced Israel, along with South Korea, as a country from which the UK could learn, on manufacturing.)

Devolved powers Suffolk, Cornwall, Norfolk and "an area in the North-East" are all to get mayors and soon over half of England will be covered by devolution deals". We watch with interest the expansion of regional and devolved powers. We agree that regional clusters will bring benefits. We also need also a coherent national view, especially in manufacturing and engineering. EAMA's trade associations are national clusters of capability and can help with that.

Training tax incentives and other skills initiatives In March, then-chancellor Rishi Sunak asked for ways to incentivise SMEs to train. The absence of a tax incentive for training indicates that he has not found any workable answer as yet. This remains a critical issue, however, if the UK economy is to remain competitive.

We note the absence of further funding for Further Education. In engineering and manufacturing, there is an urgent need to improve the quality of training. Too often, students are working with out-of-date technology and teachers are poorly-equipped for the subject, leading to the level and depth of knowledge given to students being below the level required by industry. Some of the mathematical studies taught by teachers and lecturers do not cover many of the in-depth analytical techniques required by engineering organisations to drive innovation.

Greater co-operation among public and private sector training providers would help to reverse decline. Private sector influence should be expanded. Not all private sector providers are good, but many are. It is common for firms to choose private sector providers where they are available, in preference to FE colleges.

We welcome the Bootcamp initiative and Help To Grow schemes, both referenced in the autumn statement. However, both could be more effective for our sector. HTG – Management would be more effective if it addressed the key issues in our sector, and HTG – Digital should be expanded to include issues such as Enterprise Resource Planning (ERP) and digitalisation.

EAMA's trade associations are active in promoting and helping to organise training and apprenticeships, and setting standards for their specialist sectors. We believe that industries need to become more involved in the delivery of training, as well as standards.

R&D tax credits The increase in R&D Expenditure Credit (RDEC) is positive. However, the cuts to SME tax credits are unwelcome and unjust. They penalise compliant firms and discourage investment. The strongest reaction has come from those where the incentive is best understood and most influential. It is frustrating that HMRC has allowed inappropriate and fraudulent claims to develop and to reach the levels they have, and that the government has responded by penalising bona fide firms.

We note that the OBR calculates that R&D will not be adversely affected overall. However, SMEs will be dismayed that they are expected to lose out, for greater support to be channelled to large companies.

EAMA would be happy to work with government to promote understanding and compliance. We welcome the announcement that a better system for SMEs is being sought but would like to see more detail. The current scheme is overly complex – and companies find the complex impact of the changes announced in the autumn statement difficult to understand and to calculate.

(At the CBI annual conference, the prime minister twice referred to the RDEC increase without making any reference to the SME cut or even the desire to find a better system. The omission was noted, with concern.)

Innovation We note the chancellor's comments that the UK "remains a science super-power… and economies will be defined by new developments in artificial intelligence, quantum technologies and robotics… I want to combine our technology and science brilliance with our formidable financial services to turn Britain into the world's next Silicon Valley."

We welcome the ambition but question whether the language is appropriate. We are frozen out of research programmes that the government is keen for the UK to participate in and some of the "brightest and best" are leaving the UK rather than being attracted to come here. In addition, key decisions are to be made in coming weeks, we understand, that will decide whether the UK has the prospect of an automotive industry in the future.

The near-absence of a UK-owned robotics companies was highlighted to the PM by James Wroath, chief executive of Wincanton, at the CBU conference on November 21st. We support Wroath's desire to see more British companies in this market at to work with government to achieve that. We recommend that government considers establishing something akin to, for example, Singapore's National Robotics Programme.

Manufacturing as a growth industry The chancellor announced that by end-2023, changes would be made to "EU regulations in our five growth industries: digital technology, life sciences, green industries, financial services and advanced manufacturing". There was no hint as to the nature of those changes, how deep they would be or in which sectors. This lack of creates frustration and gives rise to speculation and uncertainty.

Government should make clear, as a priority, what changes it proposes. Our members are broadly content with our current EU-derived product regulation – even those members that have regulatory improvements to propose. Machinery-related firms do not see changes to EU rules as a priority – the issues for the sector lie elsewhere, for example energy costs and infrastructure, recruitment, skills, planning and investment. In addition, they have a poor opinion of government's use of Brexit freedoms so far, due to the continuing policy chaos around issues such as UKCA, which has cost UK companies money and staff time that they can ill-afford in working to meet a regulation in which they see little or no benefit and the purpose of which has not been explained.

Nor is there clarity as to what the chancellor means by advanced manufacturing and this needs to be clarified. We have the impression that, for some in government, this means selected sectors including cars, aero and aspects of maritime. A broader view of manufacturing is needed, in which "advanced" describes the process by which a product is made, not what it is. For example, kettles – to which Boris Johnson referred in his last speech as PM – can be made by advanced manufacturing.

The Levelling Up White Paper in February stated: "We must… reverse the historic decline in manufacturing in the UK." We urgently need to hear from the Sunak government that it agrees with that imperative and what it intends to contribute, including driving improvement across the supply chain. It is disappointing that the chancellor did not take the opportunity of the autumn statement to make that clear.

The UK is sometimes compared with strong, supposedly service-orientated economies such as Singapore and Switzerland. Both countries take manufacturing much more seriously than does the UK. Swiss manufacturing's contribution is double that of the UK's (at 19%) and Singapore's is 20%, with a publicly-stated target of raising that to 30% by 2030. The BEIS-funded High Value Manufacturing Catapult revealed a vision of raising UK manufacturing from under 10% to 20% of GDP by 2030 but this is not agreed with government. If a specific target is not acceptable, advocacy and commitment to work with industry and trade bodies towards a broadly-based manufacturing revival is nonetheless needed.

Investment and UK retained wealth The UK benefits greatly from inward investment from overseas companies. We support the government's objective of attracting more foreign companies to set up and to develop engineering and manufacturing operations in the UK, although there should

be more focus on the long-term contribution to UK skills and supply chain. The proportion of foreign-owned firms is relatively high, however. The UK would increase its intellectual property and retained value if it were to implement a plan for a stronger development of firms that were UK-owned and committed to doing development work in this country.

UKRI and Catapults We welcome the increased funding support for Catapults through UKRI and are keen to learn details, especially regarding support for innovation, commercialisation and upskilling among advanced engineering and manufacturing SMEs. We have argued that the HVMC needs to be directed to be more effective in supporting SMEs and given the resources needed to achieve that.

Made Smarter Inclusion of the East Midlands to the Made Smarter Adoption scheme was announced but is an example not so much progress as the paucity of government policy in this area: the scheme is poorly funded, varies hugely from one region to another and is unavailable in much of the country. We urgently need a coherent, sustained, well-understood national programme of upskilling that provides real value to SMEs - as our competitors have. The expense would be a trifling sum for government and would be money well invested in the country's future.

(At the CBI annual conference, the PM referenced Made Smarter twice. He said it is spreading best practice across the country but he is mis-informed, for the reasons stated.)

Exports DIT's export ambition narrowed and diminished between the 2019 and 2021 Export Strategies, with the ambition to increase exports' share of the GDP replaced by a nominal value of £1 trillion a year by 2030, which is likely to be achieved without any increase in real terms, due to inflation. UK firms need, generally, to be much better at exporting than they are, especially given the tougher conditions for exporting to Europe. Stronger support for SMEs is needed, including to attend trade shows abroad. In this and a range of other activities DIT should be more active in partnering with sector trade associations, such as those in EAMA. The importance was explicitly stated in the 2019 strategy.

Innovation There is a fault line between innovation and its practical application in UK manufacturing which must be remedied. That will not happen without government leadership, alongside industry.

Capital budgets The absence of further immediate cuts is welcome. However, investment will fall short of what is needed. George Osborne identified the failure to maintain capital projects as a big mistake when he was chancellor. The error should not be repeated.

Net zero The near-absence of reference to net zero in the autumn statement is disappointing. There is a momentum in industry towards net zero, especially coming from large companies, but firms were also looking for leadership and clarity from government. Instead, more doubt has been sown, which risks working against UK investment and growth.

We await the Skidmore Review of net zero. It is right that we review current policy and the way that net zero is expressed. Setting net zero as a target for UK territorial emissions risks policies that simply drive jobs and wealth creation abroad and do nothing to help combat climate change.

A combination of improved regulation – which need not necessarily conflict with rules in other jurisdictions - and targeted investment support would help with the net zero transition in the UK and to boost international competitiveness and exports.

EAMA members see a wave of interest in energy efficiency in industry, from buildings to efficiency of machines and processes. There is a thirst for information. We need to catch this wave and build on it, and several EAMA members are active on behalf of their sectors. We can achieve more, however, with government engagement.

Brexit Our relationship with the EU was hardly mentioned in the autumn statement. However, firms EAMA represents feel the impact of the change in our relationship and note the OBR's assessment. Firms have adjusted to the current conditions as best they can and are resigned to the fact that little is likely to change, at least for the better. The EU is a key supplier of materials and components and a key export market for many EAMA firms but trading is slower, more difficult and more expensive than before. Some firms no longer supply Northern Ireland because it is too difficult. Customs delays remain a current problem and some firms require their haulier to carry only their products, whether or not the vehicle is full. It is more difficult to justify investment in the UK.

We urge ministers to do what they can to improve relations with the EU and to support positive relations businesses and customers in Europe.

Jack Semple
EAMA Secretary
2 December 2022