

MANUFACTURING: STATE OF THE INDUSTRY, THE POTENTIAL FOR GROWTH

From the first industrial revolution to the fourth, the UK manufacturing sector has been the UK's economic engine, and world's workshop. Manufacturing is a cornerstone of the UK economy. Not only does it provide high-quality, long-term jobs which pay well above the average, it pumps massive value back into the economy through investment, research and growth. Beyond being critical to the domestic economy, UK manufacturing continues to be a key player in the global production space.

BY BOOSTING MANUFACTURING, WE CAN CREATE ECONOMIC GROWTH

If manufacturing output as a share of UK GDP were to increase from 10% to 15% this year, that could result in an extra £142bn to the UK economy.¹

We can make this possible by supporting the sector to fulfil its growth ambitions. Manufacturers told us they plan to grow their businesses and create more jobs in the sector over the next five years.

BUSINESS GROWTH

Over half (52%) of manufacturers intend to grow their business by over 20% in the next 5 years

Around a quarter (24%) intend to grow their business by up to 20%

Around one in five (18%) have plans to grow by up to 10%

EMPLOYMENT

By growing their business over one in five (21%) manufacturers said employment would grow by over 20% in the next five years

Almost one in five (19%) said staff numbers would increase by up to 20%

Over a third (35%) of manufacturers said employment would increase by up to 10%



MANUFACTURERS CANNOT DO THIS ALONE. THEY NEED THE RIGHT SUPPORT FROM GOVERNMENT TO CREATE THE RIGHT BUSINESS ENVIRONMENT TO ENABLE THEM TO THRIVE.

The focus of Government policy must be to ensure that the UK is the best and most competitive place for manufacturers to do business and to invest in people, capital and ideas. We asked manufacturers to pick the top three initiatives that would help them grow their business in the next five years.

Manufacturers ranked them as follows²:

1. INCENTIVES FOR INVESTMENT
 2. INVESTMENT IN APPRENTICESHIPS
 3. STRONGER LOCAL INDUSTRIAL STRATEGIES
 4. GREATER SUPPORT FOR EXPORTS
 5. GREATER INVESTMENT IN INFRASTRUCTURE
 6. BETTER INCENTIVES TO INVEST IN R&D
 7. A REDUCTION IN REGULATION
 8. BETTER ACCESS TO FINANCE
 9. HELP FOR INVESTMENT IN DIGITAL TECHNOLOGIES
 10. A MORE COMPETITIVE BUSINESS RATE REGIME
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²Manufacturers were asked to pick up to three

HELPING MANUFACTURERS FULFIL THEIR GROWTH AMBITIONS



Building future workforces:

Manufacturers have championed apprenticeships for decades. Apprentices are the lifeblood of many manufacturing businesses across the country. However, over the past few years, apprenticeship numbers have fallen. In fact, the number of manufacturing and engineering apprenticeship starts have reduced from 36,170 in 2016/17 (pre-Apprenticeship Levy) to 32,000 in 2021/22. While the pandemic led to many companies having to make tough choices on training, including apprenticeships, it is the trend that we see since the introduction of the Apprenticeship Levy that has been most concerning. A policy that should have been a win-win for the sector, has become a lose-lose.

1 IN 3 (28%) MANUFACTURERS SAID THAT GREATER INVESTMENT IN APPRENTICESHIPS WOULD MAKE A BIG DIFFERENCE TO THEIR ABILITY TO GROW

While the Government has hinted at some reforms to the operation of the Levy, more fundamental reform is needed. This includes giving employers greater flexibility on how their Levy funds are spent. As part of a commitment to reform the Levy itself, Government must also look at the surrounding components, including how employers and providers are incentivised to invest in training and the apprenticeship standards that will deliver the skills that manufacturers need over the next five years.



Tapping into new global markets:

Manufacturers are major players in the global export market, exporting their high value and quality goods whilst seeking opportunities to strengthen and establish new trading relations with customers across the globe. To help manufacturers to grow in the next five years more export support is needed so they can compete successfully in global markets.

Long-term incentives should be provided to encourage manufacturers to invest in the skills, knowledge, and the development of export strategies. The UK should also lead the world on rebooting confidence in global trade and the

**OVER 1 IN 5
(22%) MANUFACTURERS SAID THAT
GREATER SUPPORT FOR EXPORTS
WILL HELP THEM GROW THEIR
BUSINESS**

importance of the international rules-based system on trade. Considerable disruption and volatility over the past two years caused by the coronavirus (COVID-19) pandemic, supply chain disruption, global recession, geo-political developments and the recent surge in energy prices, has impacted on the UK's trade performance compared with other major industrialised nations. The Government should look to reduce trade barriers rather than risk trade dispute or disruption which run counter to boosting economic growth through trade and supporting UK exporters.



Accelerating digital adoption and innovation:

Cutting edge technologies such as 3D printing, the Internet of Things and artificial intelligence (AI) are rapidly transforming manufacturing industry as part of the 4th Industrial Revolution. The pandemic and the UK's commitment to achieve net zero by 2050 have led to manufacturers adopting these technologies like never before. Lower costs, increased productivity, and achieving carbon emission reduction are some of the benefits manufacturers are starting to reap but barriers remain – notably access to finance, skills and knowledge.

One way in which Government could tackle all these barriers in one go would be to roll out Made Smarter across all regions. Made Smarter is a proven concept, which has already helped manufacturers digitalise their production processes across pilot regions in the UK. If Government were to commit to a nationwide scheme, it would undoubtedly help turbo-charge greater digital adoption across the country.

To ensure that the UK remains a global leader in digitisation and innovation, it must create an innovation eco-system that is globally competitive. Existing evidence says digital technologies improve productivity and help energy efficiency and waste management which has a positive impact on achieving net zero targets. Expanding the R&D tax credit system to include capital equipment would send a clear message to industry that the Government is committed to increase productivity and decarbonisation.

**AROUND 1 IN 5
(21%) MANUFACTURERS SAID
BETTER INCENTIVES TO INVEST IN
R&D WAS KEY FOR GROWTH**

13%
**OF MANUFACTURERS SAID
HELP TO INVEST IN DIGITAL
TECHNOLOGIES WILL ENABLE
THEM TO GROW**



Creating a competitive business environment:

If manufacturers are to invest in digital technologies, industrial decarbonisation, innovation and people, they will need access to finance. Yet, manufacturers are struggling with increased business costs, cashflow and an ability to access the finance their business needs. As the wider economy enters an embattled period in the second half of 2022 stemming from rising costs, manufacturers will see their available capital for investment limited. To minimise the negative investment-detracting impact this will have, the

Government must implement, or re-issue, lending market interventions to make sure businesses have good access to capital. The outgoing Recovery Loan Scheme, which is set to close on the 30th of June 2022, should be extended further or re-issued in a similar capacity to provide businesses with the tools to grow and invest through challenging upcoming business environment.

To help manufacturers grow their business they need the right incentives to invest. The super-deduction has been an example of how Government policy can accelerate investment. That said, the exclusions tied to the scheme, such as leasing, means it has not been as accessible to manufacturers than other schemes such as the Annual Investment Allowance. To give manufacturers the confidence to make long-term investments over the next five years, Government should make the Annual Investment Allowance increase permanent as part of its consultation on capital allowances, and in the interim extend the super-deduction.

46%

OF MANUFACTURERS SAID GREATER INCENTIVES TO INVEST WOULD HELP THEM GROW THEIR BUSINESS

OVER 1 IN 5

(23%) SAID IMPROVED INFRASTRUCTURE WILL HELP THEM GROW THEIR BUSINESS

SOME 16%

OF MANUFACTURERS SAID A REDUCTION IN REGULATION

17%

OF MANUFACTURERS CHOSE BETTER ACCESS TO FINANCE TO HELP MAKE A DIFFERENCE TO GROWING THEIR BUSINESS



A BOLDER AND MORE AMBITIOUS VISION FOR MANUFACTURING IS NEEDED

Government needs to set a bolder vision for manufacturing. The Government's Plan for Growth is failing to hit the mark with manufacturers and there is a fear that ambitions to transition to net zero, build a workforce of the future and a Global Britain, will be at risk without more dedicated action and targeted support for sectors such as manufacturing.

THREE-QUARTERS OF MANUFACTURERS ARE UNAWARE OF THE GOVERNMENT'S PLAN FOR GROWTH

Manufacturers require the stability and a conducive environment to grow and expand, therefore the Government should set out how to reverse the decline of the manufacturing sector, and see it grow as a proportion of the UK economy within the next decade. A firm target must be put in place to increase manufacturing's share of GDP. Policies should then follow that help reach that target within a set timeframe, this includes how our local ecosystems, including infrastructure, transport and connectivity, can unlock and power our industrial base.

9 IN 10 MANUFACTURERS THINK THAT THE GOVERNMENT SHOULD INTRODUCE A NATIONAL TARGET TO GROW MANUFACTURING'S SHARE OF GDP

Supplementing this target should be a long-term manufacturing strategy. The recently announced Manufacturing Investment Prospectus is a positive step forward, however it needs to have longevity and not be subject to political chop and change.

Manufacturers are clear that without a strategic plan for how we tackle the immediate issues as well as plan for the future, we risk shrinking our industrial base at a time when we need it the most.



GROWING OUR MANUFACTURING SECTOR TO 15% OF UK GDP COULD ADD AN ADDITIONAL £142BN WORTH OF OUTPUT TO THE UK ECONOMY

A key element of a long-term manufacturing strategy is local power for local leaders. When asked who should be tasked with overall responsibility on how to spend any allocated levelling up funding in their region, a quarter of manufacturers said they want City Regional Mayor to have that responsibility, followed closely by Local Councillors (22%)³.

Devolution will be central to not only achieving the ambitions of the levelling up agenda, but more importantly, sustaining the importance of local solutions to local challenges over the next five years as manufacturers seek to grow.

27%
OF MANUFACTURERS PUT STRONGER LOCAL INDUSTRIAL STRATEGIES IN THEIR TOP THREE WAYS GOVERNMENT COULD SUPPORT THEM GROW THEIR BUSINESSES

EVERY MANUFACTURER WE SURVEYED AGREED THAT GOVERNMENT SHOULD INTRODUCE A LONG-TERM MANUFACTURING STRATEGY

Within the strategy, Government should set out ambitious policies that have longevity and reflect the investment cycles – whether that is in people, capital or ideas – that manufacturers have within their business.

To kickstart these ambitions and give manufacturers the confidence to make bigger and bolder investment decisions, Government should:

1.

Make the Annual Investment Allowance
increase permanent

2.

Expand the R&D tax relief scheme
to include capital expenditure

3.

Reform the Apprenticeship Levy to
make it work better for business

4.

Create a business rates scheme
that helps, not hinders, business
investment decision

5.

Deliver simple bespoke export
support to business including
improving access to local market
knowledge



Make UK is backing manufacturing - helping our sector to engineer a digital, global, and green future. From the first industrial revolution to the emergence of the fourth, the manufacturing sector has been the UK's economic engine and the world's workshop. The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world's biggest challenges. Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward thinking, bold and versatile sector, manufacturers are engineering their own future.

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