HOUSE OF LORDS

Select Committee on Economic Affairs

Corrected oral evidence: Employment and Covid-19

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Lord Fox; Baroness Kingsmill; Lord Livingston of Parkhead; Lord Monks; Lord Skidelsky; Lord Stern of Brentford; Lord Tugendhat.

Evidence Session No. 13 Virtual Proceeding Questions 105 - 113

Witnesses

I: Paul Everitt, CEO and FIL Chairman, ADS Group; Andrea Hough OBE, Managing Director, ATEC; Paul Davies, President and Managing Director, Alexander Dennis Ltd; Ben Fletcher, Executive Director of Policy and Engagement, Make UK.

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Examination of witnesses

Paul Everitt, Andrea Hough, Paul Davies and Ben Fletcher.

Q105 **The Chair:** All our witnesses are here, so we will move seamlessly to the second session. Our witnesses from the first session are very welcome to stay on and listen, if they wish to do so.

I welcome Paul Everitt, Ben Fletcher, Andrea Hough and Paul Davies. Would you introduce yourselves, starting with Paul Everitt, and then I will ask the first question?

Paul Everitt: I am the chief executive of ADS, which is the UK's national trade association for aerospace, defence, space and security.

Ben Fletcher: Good afternoon. Many thanks for the invitation. I am the executive director of policy and engagement at Make UK, a trade association that represents a breadth of manufacturers employing about 2.7 million people across the UK economy.

Andrea Hough: Thank you for inviting me today. I am the managing director/owner of an SME manufacturing business based in Manchester. We are a specialist support solution provider for the defence and aerospace market.

Paul Davies: Thank you for the invitation. I am the President and Managing Director of Alexander Dennis Ltd. We are the UK's largest bus and coach manufacturer.

The Chair: You have been having a really hard time recently, I guess.

Paul Davies: We have indeed.

Q106 **The Chair:** That brings me to my first question. Are UK manufacturers in danger of losing their competitive position in world markets?

Paul Davies: From a bus manufacturing perspective, without question, there is a real threat of long-term damage to our industry, given the ongoing uncertainty around demand for new fleet in our instance. It has wider implications on our sector, because it impacts not only on ADL and our manufacturing peers but on the UK-based supply chain that supports the industry.

From an ADL perspective, the UK is the absolute bedrock of our business, but we should not forget that the UK is a very well-respected point of reference internationally. Indeed, all the UK bus manufacturers have an international track record and aspirations on one level or another. In our case, we have grown and leveraged our success and resources in the UK to grow internationally in APAC, North America and Europe. In fact, 10 years ago, only 20% of our revenues were UK derived and today it is 50%. If UK demand remains subdued for a sustained period, or contracts further, it would undoubtedly impact our ability to invest in and develop new products and resources, not only to maintain a strong UK business but to grow internationally.

Andrea Hough: As I said, I am part of defence industry, but I have spoken to quite a few of my local SMEs in different parts of manufacturing industry. The feedback I got was that, yes, there has definitely been a slowdown of orders. One of the main things that they fed back to me was that closing deals around the world was much harder for some of them because of the restrictions on travel and the lack of track and trace at airports. That is impacting on their being able to close a deal when they are in competition with other businesses around the world.

They expected that the loss of skills due to the reduction in apprenticeship take-ups this year, where some of them have had to cut back, would have a longer-term impact on their ability to support their international orders. Finally, there was general concern among my network about the number of small businesses that had taken advantage of CBILS, bounce-back loans, et cetera. Those were gratefully received, but they are worried about future viability when the repayments start in eight or 10 months or so, and the impact that will have on them being able to trade successfully internationally.

Ben Fletcher: From our perspective, looking at it pan-sector, the great advantage that Britain continues to have is that we trade on the hallmark of quality. We are not competing with China for the assembly of iPhones and iPads; we are a manufacturing nation with a reputation for quality around the globe. We do very high-quality, high-tech work, and very specialist work, and that will not ebb away overnight.

Some of the concerns you have heard from Andrea and Paul are consistent with what we hear from our members. There is a real challenge and, as the domestic market is very low on demand, firms may close. Businesses cannot survive exclusively on either exports or the domestic market. Many of our firms require sales to both.

Manufactured goods account for almost half of all the UK’s exports, although manufacturing is only about 12% of the economy. That need is really important. If domestic demand continues to be low in some sectors—aerospace is a great example of that, and I am sure Paul Everitt can talk about that later—there will be a real challenge in the global market, because firms without enough domestic demand may struggle to survive to take advantage of global orders. There are some real challenges. There is a very close relationship between the domestic market and the export market. If the domestic market continues to contract in some areas, there is a real problem for us being able to sell overseas.

Paul Everitt: I absolutely agree that there are significant risks for the UK in that it will lose capability in the coming period and be poorly placed to compete internationally. From an aerospace perspective, what we see in a variety of countries, notably France, Germany and the US, is specific and tailored support being provided to their airlines and their aerospace sectors. In effect, their Governments are buying future market share. They are ensuring that they have a level of domestic demand by protecting their airlines and, by providing support to their aerospace manufacturers, ensuring that they are better placed to take advantage of the upturn in demand in the years ahead.

From a UK perspective, it is a great worry; all sectors are struggling, aerospace in particular, from the impact of the pandemic. For us, there is perhaps a more strategic issue about how well we will be placed, both to deal with the return, hopefully, of demand, but, more importantly, some of the big technology shifts that will occur over the next five to 10 years.

Baroness Bowles of Berkhamsted: I want to follow up on what was said about manufacturing being 50% of exports. Is that measured in the end product as to how much of what is in the product is not of UK origin?

Paul Davies: It is a revenue split, more than anything else.

Baroness Bowles of Berkhamsted: Quite a lot of it has probably been imported before it has had things done to it and re-exported as a product.

Paul Davies: There will be a mix. I would make the point, though, that the design expertise and development element originates in the UK, so that is UK derived value.

Baroness Bowles of Berkhamsted: Understood.

Lord Fox: We heard from the previous witnesses that there might be a case for sector support to maintain capability. Paul Everitt, you alluded to that. I assume that you, and similarly Make UK, have put the case for sector support to government. What response are you getting? What are you asking for to try to deliver support for skills and businesses across the UK?

Paul Everitt: Yes, we have been making a case for sector-specific support. Currently, there is a package of measures that are both specific and more general. Perhaps I could address the two specific asks that we have made of government, which are being presented as part of bids in the spending review.

One is a significant increase in R&D funding for the Aerospace Technology Institute, so that the UK can take and retain leadership in delivering net zero aviation for the next generation of aircraft.

Our second specific ask is about providing long-term capital funding for the UK supply chain. Patient capital is a proposition that includes some support from government, some support from industry itself, and the leveraging of significant private equity to provide funding that is not debt funding but more longer term, so that companies are not only able to meet the liquidity challenges that they will face over the coming six to 12 months, but will have the resources they need to invest in their own productivity and technology, so they are placed for the long term.

Lord Fox: It might be good if you could write to us with details of the structure of that funding, because it sounds quite complex.

Paul Everitt: I would be absolutely delighted. It is very common, because it is being used in other countries for similar purposes, but we are happy to write.

The Chair: Lord Monks wants to ask a question that is related to that, but slightly broader.

Q107 **Lord Monks:** How effective have you found the Government’s employment and financial support schemes? Perhaps I could chuck in a more topical question. Looking forward, is the requirement in the job support scheme for workers to be working a third of their hours viable in the manufacturing sector?

Paul Everitt: The furlough and job retention schemes were very successful. There was a big take-up, certainly across the aerospace sector. The picture is a bit more mixed with the various loan schemes. Some companies do not want to take on debt finance. Some felt that they had enough liquidity, and others were looking for other measures, hence the development of the proposition we made.

As we look forward to the job support scheme, the challenge for many is that they have already made assessments of their future demand and are restructuring their businesses. Sadly, we have seen a high number of redundancies across the sector. Although the support scheme is relatively attractive, it is not long enough, at only six months, to provide the assurance that companies need. In our sector, we are likely to be in a period of relatively low demand for perhaps as long as another 18 months to two years. The phrase that has been used about the six-month scheme is that a bridge that only goes half way across the river is not quite sufficient to get us to the other side of this particular problem.

Ben Fletcher: Perhaps I could come in on the back of that from the perspective of the wider manufacturing sector. The job retention scheme was incredibly valuable and undoubtedly was responsible for saving a lot of jobs. The feedback from member companies was very substantial in that regard over the spring and summer. Manufacturing was not asked to close; it was not like hospitality, but the overall collapse in demand meant that, although 95% of manufacturers carried on operating, only about 5% of them were anywhere near full capacity in that period, so the job retention scheme was very valuable. What we are—

The Chair: I am sorry to interrupt. You talked about it saving jobs. Do you think those jobs have been saved?

Ben Fletcher: They were saved in the short term. We are now moving to a real challenge that is very much linked to demand. There are sectors of manufacturing, such as pharmaceuticals and food and drink, where current levels of output are very close to normal; there are strong levels of demand, and that is pushing a lot of work through. Those jobs have come back. They were supported by the job retention scheme, and people have returned to work and employment is very high.

We are very conscious that firms are now starting to fall between two stools. Our evidence and the member surveys we are doing suggest that redundancies are increasing quite substantially because the job support scheme is not sufficient. Paul talked about the time. There is also the issue of how much work you need to make it economically viable to bring people back on to the job support scheme.

Aviation is a great example. It is an industry where we have had stats to suggest that, globally, in the three summer months of the year, only one wide-bodied plane was delivered anywhere in the world. Service parts are a huge part of the economy in that sector for keeping planes in the air. Because planes are not flying, there is very limited demand for service parts as well as for new planes. Those factors mean that there is virtually no demand in that part of the sector, so there is not enough work to bring people back, even on a part-time basis. There is no job retention scheme from 1 November, so we will have a systemic challenge for a long period.

The comparison between where we stand and where some of our competitors in Europe stand—France and Germany in particular—is quite stark as regards the confidence they have injected into those sectors for the next year, with a degree of certainty about that support continuing.

Paul Davies: I echo the comments of the two previous witnesses. The job retention scheme offered our industry a lifeline and some breathing space, which was much welcomed. We have utilised that as far as we practically can. We are very grateful for that, but the fundamental demand driver has not changed, and, ahead of the scheme ending, we have had to take restructuring actions accordingly. I echo the previous comments: the economics of the job support scheme do not work for us. We would much rather have people working full hours than have some working part-time. It may fit some businesses; unfortunately, it does not fit ours.

Andrea Hough: I echo that from the SME network in the Greater Manchester area. The majority of people I spoke to were very grateful and pleasantly surprised, to be honest, by the JRS scheme. I have not spoken to anybody, apart from perhaps one food manufacturer, who will consider using the JSS scheme. Their view would be to allow the JRS scheme to be extended in certain industries, in certain parts of the manufacturing arena, to help people who are struggling.

Some of us have managed to get through Covid and reduce our headcount only slightly. I had a 10% reduction in my headcount, and that is fairly similar across the north-west region that I represent. I agree with Ben and the others that the JRS scheme was greatly appreciated, but the JSS scheme seems less likely to be taken up in the same way.

Lord Monks: I notice from the Make UK evidence that something like 42% of people who responded have made redundancies, and two-thirds have not ruled out further redundancies in the future. Does anybody have any particular observations to make about what support you can put in place when you are declaring redundancies? What help can you give the victims of that experience?

Ben Fletcher: One of the things we have called for is a real focus on a skills task force. Manufacturing in the UK, as I said earlier, is populated predominantly by very highly skilled, very capable people. We have called for a package of measures. We would like more support in sectors where demand is low, to stop redundancies. If there are redundancies, we would work with the TUC and other partners on an ambition for a national skills task force.

It is absolutely clear that skilled jobs could be deployed elsewhere. There has been a definite focus from the current Government on boosting the green economy. Many things could be done to take specialist engineers and skilled people from one sector to another, but it will happen much faster and much more effectively if there is a degree of support, and the ability for firms to be matched with employees with the right skills.

There is also an opportunity for us to upskill our economy. We know that digital skills will be vital for the future, and there could be a real injection, while the economy recovers, by taking people who have a highly and very technically skilled background, where there may not be any work for them in a particular sector. They could be encouraged and financially supported to train during that period, so that they have the digital skills to adapt and work in a growing sector of the economy when the strength of the economy returns in a few months or years.

Lord Stern of Brentford: Could you draw out the remarks you made about long-term restructuring, for example net zero flying—the same applies to coaches—and getting through this very difficult couple of years? You mentioned that other places are getting more help than you are, particularly in Europe. Were you referring to the role of the European Investment Bank in helping long-term restructuring while at the same time providing immediate support? If so, do we need a national investment bank in the UK, given that we no longer have access to the EIB?

Paul Everitt: The support schemes I was referring to were national schemes. In France, they provided a package of measures to support Air France and in Germany a package of measures to support Lufthansa. Alongside that, they have put a number of measures in place. One is a significant increase in specific funding for new technology. There is recognition that revenues for all companies in the aerospace and aviation sectors are very low, if anything at all, and one of the natural areas that people will cut back on is expenditure on R&D or skills and training.

On the availability of significant public funding for those areas, what we would term the gearing of that funding is typically 50:50 for R&D activities in the UK. Gearing in France and Germany is going up to between 70% and 75%. There is a level of internationally mobile R&D investment and it is much more likely that that investment will go to places where that gearing is high rather than where it is relatively low.

We are having an ongoing discussion with the Government. They have made some commitments to improve the gearing on existing schemes, but we need a step change in the overall level of investment so that the UK does not fall behind.

In aerospace, there are only two large aircraft manufacturers: Airbus and Boeing. You need to be on one of those programmes. Clearly, in the UK we have dedicated more resource to Airbus and have a much bigger market share. If we do not keep pace with our colleagues in France and Germany, the danger is that the UK supply chain will ultimately lose out over the course of the next five to 10 years.

The Chair: Mr Davies, do you want to comment on the redundancy issue? I know you have had to cope with a number of redundancies.

Paul Davies: To go back to an earlier point, from a bus industry perspective there was a pledge made by the Government in February, pre the Covid outbreak, to deliver 4,000 green buses. There has been engagement in that area; it was stated in February and reiterated in July, so we are ready to step in and deliver that commitment. I speak on behalf of not only ADL but our peers in the manufacturing sector. The sector will be pivotal to delivering the green recovery.

From a manufacturing perspective, I come back to the demand issue. We need a steady diet of demand. It is simply impossible for us to turn our facilities on and off. We can flex from high to low demand, but it is impossible to manage close to zero demand. Unfortunately, we have had to initiate a restructuring programme that will see us lose between 25% and 30% of our skilled workforce, sadly.

Q108 **Lord Skidelsky:** There has been a continuous emphasis on demand in the replies and statements of the witnesses. I want to go to the question of local lockdowns. What further support do manufacturers need in areas affected by local lockdowns? Local lockdowns are shocks to demand and they mean less activity, and we do not how long they will last, but, of course, we know where the big areas are and some of them are very big conurbations. Should there be extra support for demand in areas that are locked down, and, if so, what kind of support?

Paul Everitt: I repeat what was said a little earlier. In our defence businesses, there has been no break in production. Defence employees are regarded as key workers and have been able to continue to work. In other sectors in aerospace where there is demand, they have been able to work through. Companies have put Covid-secure working environments in place, and, as long as people are allowed to travel to production facilities, we are able to continue. The local lockdowns have not been overly problematic to date.

Lord Skidelsky: That is in your sector.

Paul Everitt: Correct.

Lord Skidelsky: What about other sectors?

Paul Davies: I echo what Paul said a second ago. Local Covid cases have not impacted on our ability to manufacture. It is done in a safe, Covid-protected environment. The challenge for our industry, speaking specifically about buses, is a bit like the furlough scheme. The furlough scheme is keeping the world from going back to work, as is the working-from-home agenda. In our industry, that stops people using public transport, which impacts on the revenue of bus operators and, subsequently, on the demand for new buses. It starts from there and works down. We have been able to work through local cases. We have five sites across the UK, so we are at risk across the board. Generally, we need the back-to-normal environment to be able to get through the crisis.

Ben Fletcher: From a wider manufacturing perspective, and without repeating too many points, manufacturing carried on. I said earlier that 95% of our members reported that they had some form of activity even at the height of the national lockdown, and that is expected to carry on. With the punch in demand, the problem is that often it is felt in unexpected ways. If there is a geographical lockdown in a town in the Midlands or a city in the north-west, for example, and hospitality is either closed or seriously restricted, we pick up that manufacturers in the food and drink industry, supplying those restaurants, might be based in another part of the country, so they are not eligible for any kind of support, even though a very large section of their demand, their customer base, has been forced to close or has been put on severely limited hours.

One of the real challenges is the cumulative effect of local lockdowns. There is a large proportion of the country operating under some form of lockdown measures, tier 2 and tier 3, in big cities such as London, Birmingham and Manchester. We will undoubtedly find over the next few weeks and months how that cumulative effect plays out, but it will not necessarily be in the same geography, because the supply chains, as you know very well, are incredibly complex, both in the UK and across Europe.

Lord Skidelsky: You are saying that there may be little scope for measures targeted on the areas affected by local lockdown.

Ben Fletcher: It is very hard to do those things simply by geography. We have to look a little more extensively and cleverly, and we need to understand how the supply chain feeds local economies rather than saying that it is simply about a city economy or a county economy.

Lord Livingston of Parkhead: I want to pick up on the last two questions and a comment on employment by Paul Davies and Andrea Hough. Regretfully and understandably, with the reduced demand, you have had to restructure your businesses. How long will it be before there is a permanent scarring and you will not be able to recruit people if, let us say, demand returns? Has it happened now or, if it happens in the next six to 12 months, will we be able to bring people back?

Clearly, you have lost a lot of skilled people. I would be interested to understand the temporary and permanent nature of what has happened. By the way, when I was a Trade Minister, I supported Alexander Dennis around the world, so I am particularly sad to see the challenges you have just now.

Paul Davies: I am sure we met once at an event. It is a difficult question to answer specifically. We are quite a traditional industry. If you look at our demographic, we have probably lost a number of senior team members for good, because they are at the stage when they will not return to work. We have been on a big self-help agenda trying to survive the crisis, trying to eke out our order book and runway as far as we possibly can. We have seen some small signs that things are starting to improve a little—the Scottish Ultra-Low Emission Bus Scheme, for example. There are some questions later on regarding the supply chain. The industry has been damaged to some extent anyway, just by the relative downsizing. We need to be realistic; some of those skills will not return to the industry.

Andrea Hough: I agree with Paul. We had to let five people go. Fortunately, I had four volunteers, but they were all at the tail end of their careers and were my very experienced technical staff. Although I support an apprenticeship training programme, we as an industry struggle to bring young people in. My problem going forward, which a lot of my local companies will experience, is that we have lost older skilled people and we are not bringing in enough younger skilled people at the other end. The apprenticeship training school that I work with in Liverpool, which has a state-of-the-art facility, is 60% down on its apprentice intake this year, and in the next two to three years that will have a dramatic impact.

Lord Livingston of Parkhead: Is that because of demand from companies, which I can understand, or is it a continuing problem that people are not putting themselves forward for apprenticeships? You mentioned that people said they were not applying.

Andrea Hough: It is particularly on the back of Covid. That particular apprentice training school based in Liverpool had a lot of apprentices coming through the JRS, through the automotive industry, the food industry, Nestlé and companies like that. They have all put their programmes on hold for this year; they have made redundancies and they do not feel the time is right to continue with their apprenticeship programme.

In an industry that was just beginning to get a bit of traction in inviting and encouraging young people to join the industry, it is worrying that we will now start the gap all over again. I know there has been talk in government about looking again at the apprenticeship levy and the impact on SMEs and how we can move that forward. That has to be made a priority, otherwise, as Paul said, our gap will get bigger on the back of Covid in international trade anyway.

Ben Fletcher: May I briefly underscore Andrea's point? Make UK has run a very large manufacturing apprentice training centre in the West Midlands for many years. We put the proceeds from our income from member contributions into supporting the industry by providing a high-quality training facility. We would normally have started over 300 apprentices in the September intake, but this year we are taking in fewer than 100.

That is not about the interest from young people. If anything, the interest from young people was stronger this year. People have seen things in the television news and elsewhere about the ventilator challenge and the way British manufacturers stepped up to help support things such as PPE, and it enthused young people. The challenge has been firms physically having the financial and the time capacity, given their other pressures, to commit to big apprenticeship starts. Talking to other providers around the country, that has been an enormous challenge and, if we leave it unaddressed, it will come back to haunt us in a few years' time.

Lord Fox: What would you do straightaway to the apprenticeship levy to help the situation, both at SME level and larger company level?

Andrea Hough: If I am totally honest, I am not sure. We rely locally on being able to place apprentices on the back of some of the large organisations in the aerospace business in my local area in the north-west that are not taking up their full levy. Although there is more of that available at the moment, it is hard to persuade SMEs, as Ben said, to invest in young people when they have just made redundancies and they are worried about either the CBILS or the bounce-back loans they have taken. I do not have an answer for that question. Ben is probably closer to the work that Make UK does with the Government to try to impact the apprenticeship levy.

The Chair: Does anyone have an answer?

Ben Fletcher: Lots of SME companies that are not levy payers are feeling really nervous about starting apprentices. There should be some real financial commitment to encourage those firms to take on an apprentice. The cost of an apprentice for three years for an SME can be substantial. Although the Government have provided some incentives, which I think acknowledge the problem, the money is not enough to build SME confidence. I know that we cannot put money into every problem, but this is an area where a financial investment would be very valuable.

Slightly larger firms are very nervous about the inflexibility of the levy scheme and how they can use and access their funds. We have been long arguing, before Covid, for much more flexibility in the way levy funds are deployed. Covid is just magnifying that problem. We would argue for more simplicity in that. We would be very happy to provide written evidence to the Committee on our stance on the apprenticeship levy if that would be helpful.

The Chair: It would be very helpful. The Committee did a report called

Treating Students Fairly, which looked at the apprenticeship levy. We found that some businesses were using the levy to send people to do a master's degree at business school, which was not the intention of the scheme.

Ben Fletcher: Absolutely. It is a significant concern for us. It was an idea with a great outcome and objective in mind, but it has not quite delivered. This is a great opportunity for us to look at that, because those funds should be targeted at areas where there is a shortage of skills and at young people who would benefit from them.

Q109 **Lord Stern of Brentford:** My question has in part been covered by the discussion that we have just had, but I want to relate it to the Kickstart scheme, which is not quite the same as what we have just been discussing, although it is related. Are you or any of your members planning on using the Kickstart scheme? Are there aspects of it that prevent you from doing that?

Ben Fletcher: Make UK is positive about the Kickstart scheme. We are an intermediary. We have been working with SME firms. We have used some of the fantastically skilled and talented people who work in our apprentice training centre. Because apprentice starts have been down this year, we have worked with SMEs to help introduce them to young people who might be of interest to them through the Kickstart scheme. There has been an appreciable level of interest, and we hope to continue that. We are strongly supportive of it.

The challenge overlaps with the conversation we have just been having about apprenticeships. In manufacturing, the real need is for skilling and upskilling. The Kickstart scheme is good, but it will not replace the requirement for apprentice training in a long-term three-year programme. Apprentice training in manufacturing engineering is often incredibly expensive and demanding. Kickstart is good. We support it and it has a place, but given the fundamental skills shortage—30% of vacancies in manufacturing are not filled for three months because we have a shortage of technical skills—the Kickstart scheme alone will not address that.

Lord Stern of Brentford: Do you think there should be an effort to integrate the Kickstart ideas, if not the scheme exactly, much more strongly with apprenticeship schemes and that they should try to put them together?

Ben Fletcher: I think so. I said earlier that we recognise that there is no bottomless pit of money and we have to find other solutions, not simply money. In this area, we need more flexibility. There is great interest; firms want to work on those kinds of schemes and take people on. If we could think about how we bring together schemes such as the Kickstart scheme, the apprenticeship levy and other initiatives, and put a bit more money into that pot, there would be a real acceleration of uptake. There has to be recognition that, in our sector, it is so hard to provide training because the costs of buying the equipment to do the training are so high, and they are costs that follow on to the employer. There is no cheap solution to this problem in manufacturing; training engineers and training skilled people in manufacturing is not a cheap process.

Lord Stern of Brentford: Are you working on the design of schemes, not just leaving it to government?

Ben Fletcher: We have put a couple of ideas to government. Again, we can supply those to you in writing. We put some suggestions in our submission on the comprehensive spending review. Our focal point has been revision to the apprenticeship levy structure, because that has been the longer-term issue. The Kickstart scheme is slightly newer. There are lots of suggestions about how you could make the levy scheme more flexible to achieve some of the objectives, and we are happy to keep thinking about how to bring the Kickstart scheme into that orbit as well.

Q110 **Lord Tugendhat:** Is there any one investment in infrastructure that would provide the most effective boost for the manufacturing sector? In that connection, how important is government R&D to manufacturers? It would be easiest if each of you answered, unless you all agree.

Paul Everitt: From our point of view, there is no specific infrastructure project, but significant additional support for R&D is definitely a bedrock for us in improving our own competitiveness and preparing for the future. We appreciate that much of the investment that has gone into things such as the High Value Manufacturing Catapult, and the capital equipment that it has made available can be utilised by small and medium-sized businesses to drive their own productivity. As I say, our focus is very much on aerospace R&D and the net zero and jet zero agendas.

Ben Fletcher: From a Make UK perspective, there are two things I would add. The challenge for manufacturing across all the different subsectors over the next few years is the increase in digital technology and the need to modernise production facilities and techniques. For firms to be confident to invest in that, there needs to be a much stronger, very high-capacity, high-speed broadband network. Manufacturing is often operational outside city centres, not in areas of high population density, and often those are the areas where the broadband network is already weakest. If you wanted to make a big step change, there would be a real commitment to—pardon the phrase—turbocharging the rollout of high-quality, high-capability broadband, because that would give firms the confidence to invest in some of the new machinery and new capability to modernise their production facilities.

We have a close relationship with our sister trade association UK Steel. One of the things we have long argued for is that on a lot of the big infrastructure projects, such as HS2, we go back to some of the earlier conversations. Many British firms can supply equipment, capability and core products. If there was a real commitment from government, as there was, for example, in the 2012 Olympics, to ensure that major contracts went to British suppliers, it would be a huge shot in the arm at the moment and would have a huge impact on the success of those big infrastructure projects.

Paul Davies: I can speak to the bus industry, and I apologise in advance for repeating myself. Our situation is somewhat unique, in the sense that there has already been, as I said earlier, a pledge to invest in 4,000 green buses. It is the lag in time from those statements to action being taken that causes us the most frustration. Whether it is ADL, or any of our peers, we stand ready to deliver on the commitment that has been made by the Government.

The bus operators themselves are wholly supportive. As I said earlier, given their ridership challenge, because of the lack of public transport usage and the declining revenues caused by that, they are reluctant to commit independently to that level of investment. We have been calling on the Government for a 1,000 bus emergency order placed directly by the Government to help our industry survive this crisis and tide us over until such time as we get back to some semblance of normality.

The Chair: How much do 1,000 buses cost?

Paul Davies: Part of the challenge is that, of the £5 billion pledged, £2 billion was for cycling and walking initiatives, and another £2 billion of the remaining £3 billion has been used as part of the CBSSG, which is the cost support offered to bus operators to allow them to continue to run essential bus services while they have not had the passenger ridership to support revenue to cover their costs. The context of the funding was to provide support for 75% of the price difference between a traditional diesel bus and an electric bus.

The Chair: How much is that?

Paul Davies: I will need to come back to you on the specifics of the numbers. [1]

The Chair: Thank you.

Andrea Hough: I agree with Ben about infrastructure improvements. My feedback was definitely a plea for much faster broadband. In the north-west, we have a lot of rural areas and we are part of the Made Smarter pilot scheme. One of the big initiatives there is to push forward with Industry 4.0.

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[1] Supplementary letter provided with further context and detail. In short, this is an investment that benefits the whole sector for the long term while supporting the Government's decarbonisation agenda. Including infrastructure, 1,000 battery electric buses are expected to cost ~£450m. With operator contributions and private financing considered, the Government investment required could be substantially lower. Looking at the funding formula utilised for the All-Electric Bus Town scheme as a reference point, the equivalent vehicle mix could be delivered at a cost to Government of ~£185m. It should be emphasised however, given the significant fall in ridership, sizeable incentive is critical to encourage operators to invest in new green buses in the short term.

The greatest feedback we get is that local manufacturers are still struggling with Industry 3.0, and one of their real issues is not having adequate broadband to take up some of the new technologies. On the Made Smarter commission, we are discussing at the moment the national rollout of that. It would definitely help smaller companies around the UK. It is 50%-funded projects. A lot of the technology advances that most of us SMEs have to embrace over the next few years will rely on better faster broadband and wider use of wi-fi across factories. To echo what Ben said, the key for my area is the rollout of 5G.

Lord Fox: May we ask for an interim report on what you are doing with Made Smarter? If you have anything written on progress with that pilot, that would be interesting.

Andrea Hough: We can do that.

The Chair: Lord Tugendhat, do you want to come back on your question?

Lord Tugendhat: No, I just wanted to note that the almost total unanimity on the broadband point is extremely interesting. That is all I wanted to say.

Lord Skidelsky: To coin a phrase, is Whitehall the slow bus in all this talk of rollout? Can they not do things quicker? What are the hold-ups? You get a commitment, you expect something to happen, and you are frustrated because nothing happens. As a historian, it reminds me of the debate between Lloyd George and Asquith in the First World War. They needed munitions and the Government said that it would take a year to get any more. Lloyd George said, "It will take six months. I'll do it", and he did it. I am not suggesting that we are in a wartime situation, but we are in a pretty serious crisis. Where is the hold-up coming from? That is what I want your sense of.

The Chair: Who wants to be brave and answer that question?

Paul Davies: I feel that perhaps it is directed at me. Let me speak to the bus industry challenges and the Government's previously stated pledge. There has been regular contact with government, and I would say that there is a very high level of awareness of the situation our industry is in, not only from the manufacturing perspective but on the operations side. It is difficult for me to answer specifically, because I am not familiar enough with the workings of government to be able to explain the reasons why there is a delay. Slow bus is perhaps a useful comparison. There is clearly good will, but, as I said earlier, time is of the essence for us. I cannot answer the specifics of your question, but I can tell you that there is a high level of awareness within government about the status of our industry challenges.

Lord Skidelsky: That is very diplomatic. Do any of our other witnesses have an explanation of why one gets delays in the rollout, which seem unreasonable from the other side?

Ben Fletcher: It is difficult to talk about the systemic challenges over a long period. At the moment, the conversations we have with government seem to be stuck on a bit of a cyclical roundabout, in the sense that every conversation about pushing very hard on the next level of big infrastructure projects or the next big investment in broadband technology, or whether the Government will fund the fantastic Made Smarter scheme, is that it was going to be an issue for the spring Budget, but Covid started. It would have been taken forward and accelerated in the autumn Budget but Covid carried on, so it will be taken forward in the comprehensive spending review and will be addressed more systematically in next year's Budget.

There is a challenge. We absolutely recognise that and we have huge sympathy for the Government in the challenges they face at the moment, but, ultimately, decisions and clarity for business—all those things—seem to be pushed back to the next big government statement and then to the next one after that. A real focus on three or four big priorities, and absolutely red lining those and making sure that they happen, would be very valuable and would give industry real confidence. If people knew that it would definitely happen, it might start to unleash some of the investment decisions.

Lord Livingston of Parkhead: With an interest in 5G now and in broadband in the past, I assume we are talking private networks for 5G. Do you have uses for it today, or is it just, "Can we put it in for the future?" Secondly, when you talk about fast enough broadband, are you talking about 30, 50, 100 megabits, or 1 gigabit? Could you conceptualise it, because it makes a big difference to government investment to know what fast enough is?

Ben Fletcher: I am nervous to get into technical precision about what is enough. From talking to members, I would say that there are plenty of people around the country struggling to get 3G and 4G, never mind 5G. Andrea alluded to that earlier. There is a real sense of hotspots—one of my sister trade associations describes them as not spots—around the country, where there is very little capacity and capability. The fibre is not in the ground and the mobile signal does not exist either.

To coin a popular phrase, the first challenge is a degree of levelling up. We have to get to the point where every part of the country has much better capability than we have now. Moving to future technologies, there is a sense that other countries are ahead of us. There is a sense that the core infrastructure, the fibre in the ground, will allow us to move the mobile signal, because you need a mast and fibre capability to get to the mast in the first place for that mobile capability to be there. Because we are lagging behind some of our major competitors, it has been a big block on investment.

There are two stages. The first is to catch up and the second is to future-proof. I would be very happy to talk to colleagues with more technical expertise to tell you precisely how fast. What I can say at the moment is that I have not come across any part of the country or any member company that says they have more speed than they need at the moment.

Q111 **Baroness Bowles of Berkhamsted:** This is a question for Paul Davies. I think we have covered most of it already, so I will elaborate slightly. The original question was: how have your plans to accelerate the expansion of low-carbon vehicles been affected by the pandemic, and how many highly skilled jobs have been lost as a result? You have already said that between 25% and 30% of the skilled workforce has been lost. We have already talked about the 4,000 green buses. Does it mean that there has been a bit of a stop-go? Will the 4,000 green buses enable us to return to a net acceleration, or will the overall effect be a standstill?

Paul Davies: It is a good question. In a normal year, the UK market would typically consume between 2,500 and 3,000 new buses. To put it into context, in our full year we initially planned to deliver 2,000 low-carbon buses to the UK market. It will be something like 900, based on the latest forecast, to give you the level of drop-off. That is purely a function of demand.

What is not clear about the 4,000 buses pledge is the timeline over which it is to be implemented. As I said earlier, clearly there are financial mechanisms to be worked through in how that is delivered. Moreover, of the original funds that were set aside for that investment, some have been consumed through CBSSG, as I said, helping operators run essential bus services through Covid. The timeline is a little unclear on when those buses will be ordered, actioned and rolled out and delivered. We are not predicting, frankly speaking, a massive turnaround in the short term. We expect our situation to be tough heading into 2021.

Baroness Bowles of Berkhamsted: Could you end up needing more buses, because the prevalence of Covid just lurking around means that you cannot have crowding? Could there be for you some kind of silver lining of an increase in demand, but in the future?

Paul Davies: Absolutely. In the last few years, the UK has not been consuming the number of buses it typically would, which suggests that pre Covid we already had pent-up demand. That will be exacerbated by the fact that 2020 has been a slow year. Most of the major operators would work on an average fleet age, and that starts to get higher. You are absolutely right; the future could be much brighter with that pent-up demand being realised down the track. We are unsure right now when that would be.

Baroness Bowles of Berkhamsted: Presumably, the operators may have financial problems purchasing them.

Paul Davies: That is correct. This year, as Covid struck, and ridership and therefore revenue stopped, everybody immediately stopped any plans to invest in capex, and of course that stops the purchase and delivery of new buses.

Q112 **Lord Burns:** We touched on this earlier, but we would love to know what impact the pandemic has had on supply chains across manufacturing. Have there been interruptions? Have people had to reconfigure their production processes? Has it particularly hit the just-in-time people? What generalities can you offer us on the subject?

Paul Everitt: Working in a Covid-secure manner means that most manufacturers have had to look very closely at their processes. They are not able to operate at the same level of intensity or productivity as they would have done pre Covid. That has had an impact on throughput.

To date, while everybody is looking very carefully at concerns about fragility in the supply chain, things have worked reasonably well. In aerospace, it has been affected by the fact that demand is incredibly low. In other sectors, such as defence, companies have been able to manage reasonably well. Our bigger concern as we go forward is that a sustained drop in revenue will begin to erode competitiveness and erode companies' ability to invest, and their liquidity will become very strained. The danger is likely to be that, as things improve and demand increases, companies have to invest significantly more, both in raw materials and in activities, and that will be the point at which many companies will be very vulnerable, hence the focus for us is longer-term funding.

Ben Fletcher: To give you a small statistic, Make UK's survey suggested that about 60% of all UK manufacturers have had some form of supply chain interruption during the Covid pandemic, so it is absolutely clear that it has had a substantial impact. I could repeat many of the things that Paul has said about some of the challenges and wider issues.

Anecdotally, we are picking up that it has identified, in particular, that the peak of the disruption came when there were very substantial lockdowns in China and northern Italy. For the UK supply chain, those are very important trading relationships and supply chain partnerships, so it was no great surprise that there was such an impact.

We find that resilience has returned in many areas, but it is by no means back to the situation in February. In some cases, because there are limited places of supply for some specialist components and parts, there is a fear, if we went back to another big wave across the globe, and there were similar restrictions in other countries, that we have not yet built in the resilience to overcome that. There have been some issues about chemicals in particular and some areas of pharmaceuticals where the problems continue and are a bit more entrenched at the moment. The fear of some suppliers and manufacturers is about the extent of the ability to withstand a second spike globally, with some wider challenges in the new year, particularly if we were to leave the European Union transition arrangements without a deal. There is nervousness about supply chain resilience to cope with two problems at once.

Paul Davies: We have not fully tested the resilience of the supply chain, because demand has been so low. From a bus industry perspective, the concern for us would be, once again, the long-standing skilled jobs through the supply chain that perhaps will have been lost because of the pandemic and may not be recovered. That would be our biggest concern, as demand, hopefully, recovers in time.

Andrea Hough: There is a lot of concern within my supply chain, because I deal with quite small UK manufacturers of component parts, that they will not survive Covid; there has been lack of demand for them and they are struggling to keep their people going. As we said before, there has been a loss of skills in some of those industries. Those are high-level skilled machining jobs and they will not get them back. We are very nervously monitoring our supply chain. As yet, we have not had a significant impact, but one company we went to see yesterday is letting half its workforce go and was struggling to see that it would survive through to the end of the year.

In my world of SMEs, it will probably impact a little more quickly than on some of the bigger primes around the UK. It is definitely a concern. As I said earlier, a lot of small SMEs have taken advantage of some of the loan arrangements and additional funding. If demand does not pick up, they will struggle to pay back those loans, and they will not be able to bid for some of the bigger contracts that may come out later in this financial year or in the next financial year. I agree with what the others have said.

Q113 **Viscount Chandos:** I have a question particularly for Ben Fletcher and Paul Everitt. Following the discussion about supply chain, what do your members make of government interventions in this area such as Project Defend, and separately, and rather differently, the strategic investment ideas in Project Birch?

Ben Fletcher: There has been an interesting reaction to both. From a Project Birch perspective, there was always a degree of nervousness about trading equity for cash and selling an equity share to the Government in real terms. Andrea has touched on this already; there was equal concern about the degree of debt that firms were taking on and that lots of the solutions were about loans. When demand is so low in many parts of the sector, there was real nervousness about committing to a substantial debt burden without great confidence that demand would return in time to allow you to service it. From a Birch perspective, there was intrinsic nervousness to start with, but a number of larger firms and people in their supply chain felt that it was a potential solution.

The challenge, which you can also apply to Project Defend, is that, although quite a lot had been said about them, we are not aware of any firm that has yet been able to take advantage of Project Birch. We know of firms, which we cannot name because they shared their data confidentially with us, that have spoken to government about that but have never managed to substantially meet the tests and thresholds set by Treasury and government more generally to access that support.

When Project Defend was announced, we thought it was a positive step forward. We have to be slightly careful because, as I said earlier, and as colleagues have said, in the UK we rely on strong overseas markets and integrated supply chains. We need to be slightly careful about the idea that everything gets retrenched, but a degree of resilience onshoring would be very welcome in the sector. We have not yet seen that translate into clear procurement decisions or any big change in government policy.

I talked earlier about how some of the decisions on big infrastructure projects would be very beneficial if they could be directed to UK-based companies. We have yet to see a marked change in approach that would be consistent with the ambition of Project Defend. Birch and Defend are both good ideas and welcome, but as yet they appear to be not much more than propositions, rather than tangible areas of support or investment.

Paul Everitt: I agree with what Ben said. The only addition I would make is that there is a big opportunity, as some of your previous witnesses highlighted, in the range of public procurement. For us in particular, there are opportunities on future defence and future space projects and programmes that we could both bring forward to create additional demand, and use to build and add to UK industrial resilience.

The question of demand more broadly is important. Certainly in the aerospace sector we would like to be in a position where we were able to help ourselves, and for us the biggest single change would be the ability of airlines to fly unhindered. The biggest challenge there is in the current quarantine arrangements. The evidence that we have seen from public opinion surveys is that the public are happy to fly. They are confident about the secure nature of an airline cabin. Their challenge is the fact that they have to spend 14 days in quarantine or the concern that they would be locked down in someone else's country. The ability to shift the quarantine rules, related to improving the testing regime, would be the single biggest boost to the UK aviation industry in the short term.

Viscount Chandos: Could I follow up Ben Fletcher's remarks on the reticence about taking equity? Is it not rather ironic that in the US, which is seen as the ultimate market economy, the principle of government taking equity as part of restructurings and rescues, whether GM or banks, seems much more accepted and less controversial?

Ben Fletcher: There is definitely an element of that. We have had a slightly different response to some of these initiatives from firms that do a lot of business in the US or that have US parents. There is a very different approach in the UK. Successive Governments have shied away from it, and, culturally, people here are not desperately familiar with it and as a consequence are quite nervous. As I said, when some of the firms that were interested looked at that option against the trade-off of significant debt at reasonably substantial interest rates, it allowed them to think about the potential benefits. The confidence of a stable investment partner had some definite attractions. For some businesses, it is absolutely not their route and they were very clear that they would not have taken it. It is an interesting strategy.

One of the challenges we will face, because it is clear that Covid is not going away overnight, is what the long-term strategy is for helping businesses that will come out of this pandemic with a very substantial debt burden. I am not entirely sure that, once we get through to the other side, that debt burden will be wholly sustainable, if we also want businesses to invest, as Andrea and others have talked about, and to commit to ongoing costs. It will be a big challenge and, I suspect, the subject of further evidence in future.

The Chair: We are out of time, but Lord Fox has a very quick point.

Lord Fox: It is very quick. Are the Birch hurdles that the Treasury is putting up insurmountable, or is it just about getting round to sorting out how to get over them?

Paul Everitt: I echo what Ben said earlier; to be honest, there are relatively few companies, as far as we are concerned, that have even gone down that route.

The Chair: On that note, I thank Mr Everitt, Mr Fletcher, Ms Hough and Mr Davies. It has been a really interesting session and we are very grateful to you. I think everybody acknowledges that this is a really difficult problem that we face as a country, and I hope that our report will shed some light on the way forward. Your evidence has been extremely helpful to us. We would be very grateful if you would follow up on the points that members of the Committee asked for with our clerk, Adrian. That concludes this session.