

Written evidence submitted by Make UK

About Make UK

1. 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.

Summary

2. The impact of the Covid-19 pandemic on UK manufacturers proved to be a costly shock to the industry that will continue to bleed the sector for the next few years. However, UK government policy played a crucial role in protecting industry so that it can be in a stronger position to bounce back once we were passed the pandemic. Though not every policy decision made was necessarily in the most optimal manner they were necessary in times of crisis – from the Job Retention Scheme (JRS) to creating a government-backed credit market facility such as the CBI(L)S loans. However, since the start of the pandemic it is not clear how useful government policy has been to economic growth given the UK still suffered one of the largest proportional declines in GDP across the OECD. The value of today's policies are more likely to be observed in the future as different economies report different levels of rebound in activity, in that regard we are confident about the positive implications of government policy's effects on economic growth.
3. The answer to what seems an age-old question on productivity growth, and the different reasons why the UK may lag behind other developed nations remains a mystery. For manufacturing, Make UK believes when using standard measures of productivity some portion of the difference in productivity between different countries is explained by the composition of manufacturing sectors in that country. This is because productivity rises as industries become more automated, and some subsectors are better at achieving this than others (e.g., Automotive versus Food). Nevertheless, productivity growth has still slowed since the end of the financial crisis even in manufacturing which is puzzling. A slow adoption of productive technologies alongside a lagging of the skills required to operate them are possible explanations for this phenomenon. Make UK would point to projects such as Made Smarter to be accelerated and scaled in order to close this gap for the manufacturing sector.
4. The Government's response to protecting jobs through the use of the JRS, as well as supporting the self-employed, will be pivotal in how strong the UK economy will be post-pandemic. Make UK welcomed the regular level of contact between Government and industry when decisions to extend the scheme were being reviewed. That said, announcements to extend the scheme were often made last minute and there remains a question as to whether more jobs could have been saved if businesses had a greater lead in time when announcements were made. Though the scheme may not be as widely used by manufacturing, in comparison to sectors like Hospitality, we find that the JRS was likely better at protecting more high-skill roles or difficult to replace roles for the industry. The true impact of this will be clearer over time and going forward Make UK

suggests an approach that incentivises job creation (via a Job Creation Scheme) will help reduce the skills gap and lead to a greater number of manufacturing scale-ups in the UK.

5. Despite the JRS's effectiveness in protecting UK jobs redundancies still took place in the manufacturing sector. A prolonged lockdown resulted in approximately half of manufacturers indicating they had made redundancies. Nevertheless, Make UK data suggests the second half of 2021 is looking more positive as many businesses are finally looking to hire. But this presents new challenges in accessing the right skills and there are a number of Government schemes we believe are a strong basis for closing the skills gap.
6. Access to the right skills is a significant barrier for manufacturers. If manufacturers are to truly be able to support the effort to Build Back Better, a coherent cross-policy strategy is required to support people from education, to training, to employment and lifelong learning. A number of Make UK's research findings indicate manufacturers do not feel confident about filling these roles in the next two years.
7. In many cases this sector relies heavily on apprenticeships but since the implementation of the Apprenticeship Levy, starts and completions for apprenticeships have fallen considerably. The pandemic has led to further falls in starts with Make UK research revealing that 30% of companies put their apprenticeship programmes on hold during the first lockdown and plans to recruit apprentices in the next 12 months falling short of where they typically are. Make UK's Retain, Recruit, and Revise strategy, backed by TUC, sector skills bodies and other manufacturing trade associations makes the case for an apprenticeship strategy that puts reforms to the apprenticeship levy in both the immediate term and longer term at the heart of building back better.
8. In the future, skills requirements are likely to be dominated by digital and green. For the latter, the Government has set up the Green Jobs Taskforce. But if we want to kick-start the green skills agenda, Government should introduce a Green Skills Tax Credit to encourage sectors with high emissions to invest in green collar jobs.
9. Skills is not the only issue that plagues manufacturing. Protracted investment levels have been a growing issue in the sector in recent years and more needs to be done in this area. Strategies to promote corporate investment can be tricky as a plethora of incentives schemes cannot control for the risk factor borne by the investor when making a big financial decision. However, Make UK data does indicate that recent Government schemes such as the super-deduction will have a decent take up amongst manufacturing, although it is likely lower than would have been hoped. This is because investment decisions in manufacturing are rigid and based on long term business planning which is unlikely to be suitable for the super-deduction incentive. For our industry, a focus on extending the Annual Investment Allowances as well as increasing R&D tax credits whilst making such schemes easy to access should be a priority for Government.
10. The Industrial Strategy signalled to the manufacturing sector that the UK Government was going to proceed with a long-term plan to provide a business centred environment for manufacturing. That is why cancelling this plan for a "Plan for Growth" caused much concern to the sector – particularly as the signals sent by this strategy makes less obvious how it can serve industry and manufacturing. However, Make UK is aware the Plan for Growth will take on some of the best elements of the Industrial strategy and will closely critique any developments in these areas going forward. At this stage it is not clear whether the Plan for Growth is an adequate replacement for an Industrial Strategy,

hence Make UK will be conducting some research in the coming months to shed further light on the possible issues and solutions.

11. Lastly, in the age of Industry 4.0 the manufacturing sector is at the forefront of innovation and technological advancements. From the adoption of AI to applying 3D printing into production lines. There is an abundance of evidence supporting the adoption and use of new technologies in any industry for any country pursuing better growth, productivity, and quality of life. Make UK's surveys indicate those businesses that have more actively innovated and applied new technologies do perform better but many businesses, particularly SME's fall behind quickly. The UK is well placed to benefit from these technologies, but the Government must address common barriers, such as technical skills and access to finance, in order to maximise the gains and get ahead of other nations.

How much difference can government policy make to economic growth?

12. The causal effect of government policy on economic growth (GDP) is challenging to ascertain given how variable policies can be. Policy itself has the capacity to improve growth when designed appropriately. Equally so, government policy can have no impact or even worsen economic growth if designed and executed improperly.
13. However, the goal of policies should not necessarily be designed to impact economic growth directly, instead it should focus on supporting the various components of an economy (industry, households, trade etc.) by identifying inefficiencies or market failures to reduce the output gap.
14. In an ideal environment where the free market dominates the impact of policy on growth would be minimal as markets would always be operating at capacity, or in other words return to its long-run equilibrium. This could mean technological advancements are integrated into markets seamlessly. When there is a demand for a new skillset then the market would provide the supply of human capital needed to operate the new technology. Markets would be competitive minimising costs and maximising innovations.
15. In reality these do not often manifest as the theories predict leaving an output gap that results in greater inequalities. In that sense, policy can play a powerful role in incentivising the adoption of technologies, enabling the reskilling of a workforce by providing education, and impose regulations that allow competition to prosper. This is a simplistic view of what policy can do but when done well the resulting impact is not only more favourable economic growth, but a more favourable distribution of new wealth. We set out how this can be achieved in response to the questions of this inquiry.
16. When evaluating the impact of policies, it is important to not focus on the intent of that policy and instead analyse its impact ex ante so that we can adjust policies where needed. No government policy ever intends to hinder growth but in some instances a lack of information and improper design can lead to unintended consequences
17. The design of policies can only be done through trial and experimentation. Leading trade association like Make UK can help bridge the informational gap between industry and government. Indeed, there are many examples during 2020 where policy has been instrumental to the success and protection of UK manufacturing, particularly during the pandemic. Some of these are included below:
 - a. The **Job Retention Scheme (JRS)** has been due to expire multiple times since March 2020 due to the uncertain nature of the Covid-19 pandemic. Make UK were aware that a premature closure of the scheme would result in mass

redundancies that will significantly damage the productive capacity of the UK economy and make it more difficult to recover once the crisis is over. Make UK's influence on the decision to extend the JRS has enabled a policy, which was designed properly but had the potential to be executed improperly, to protect manufacturing in its time of need. The impact on economic growth may not be seen for some time but given how important skilled workers are to manufacturing we expect the impact of this policy to be positive.

- b. Access to skills has long been a systemic issue in the manufacturing sector as the industry itself has technologically advanced faster than the skill set of the workforce. Part of the answer lies in investing in the youth and government policies like the **Kickstart** scheme can go a long way to closing this gap. In this case Government set the incentive but organisations in the private sector is what got the ball rolling (for example, Make UK is an acting gateway for many businesses looking to access the scheme).
 - c. The impact of **business rates** on capital investment has long been a topic of discussion. It is a prime example of an important fiscal tool that is critical to funding the local infrastructure and services in which the business property is located, yet its current design may be doing more harm than good in some cases. The pandemic has highlighted that policies can be adapted based on new information in a short space of time to meet needs more accurately. This same principal should be applied to all policies as the economic cycles become more dynamic.
 - d. There are also policies that may not appear to directly improve growth (other than by the direct spending from the Government's balance sheet) such as the investment in protecting the environment and improving our carbon footprint. The benefits of preserving the UK's natural capital does not accrue to traditional methods of calculating economic growth but it is also one of the few areas that are unlikely to be protected under the guise of the free market. In such cases, Government policies can bring significant benefits to economic growth as well preserve the quality of life of its citizens and biodiversity.
18. There are many other examples in which Government policy has made a plethora of incremental differences to the mechanisms the economies are built on and that resulted in economic growth. Though it is not possible to offer a direct figure that describes the causal effect of Government policy, in other words a counterfactual situation where there was no policy. Make UK is confident in the positive material impact Government Policy can make on economic growth, especially for sectors like manufacturing.

What are the causes of the gap in the UK's level of productivity compared to other advanced economies, and why has productivity growth been persistently weak in the aftermath of the 2007-09 financial crisis?

19. According to official statistics standard measures of productivity (output per hour or per job) over time indicates manufacturing has not slowed down as much as the whole economy average. Make UK's 2021 Executive Survey indicated that **manufacturers expected productivity to increase over the next 12 months.**
20. Make UK's Executive survey, which was conducted in Q4 2020, reported 54% of manufacturers expect to see a moderate or significant improvement in productivity. The result is promising, given the difficulties the UK has faced with the productivity puzzle ever since the Global Financial Crisis. Conversely, historical data (measured in output

per hour) reveals that manufacturing productivity has consistently been greater than the average across all industries for many years now. The latest available data indicates that manufacturing workers produce on average £38 of output per hour whereas the average for all industries is approximately £34. In the last 10 years, manufacturing productivity by standard measures has been typically 12% greater than the average across all industries.

21. The results are not surprising, as the high output per hour is a result of the coupling of human and mechanical activity in a sector that is well accustomed to it. However, the fact that manufacturers are expecting further increases in productivity does indicate that more businesses are planning to invest in going digital as well as adapting to the new environment created by Covid-19, for example by providing flexible working environments for their staff. The latter has even been a priority, according to the Executive Survey 2021. Bringing this result to life in 2021 will be key to building a strong industrial base and will be actualised by those that have already developed, or are in the process of developing, agile and responsive business processes. Polling of Make UK members recently suggests that once restrictions are eased 60% of manufacturers will formalise changes to working patterns with 40% returning to pre-Covid arrangements.
22. However, the gap in productivity between the UK manufacturing sector and non-UK manufacturing sector must be addressed by a number of issues. The first is down to the likely composition of manufacturing sectors which can distort the view of productivity. As an example, this can be seen if you compare the manufacturing sector composition of Germany and the UK. In the latter, the top three subsectors in manufacturing are accounted for by Food & Drink and Tobacco (16.9%), Pharmaceutical (8.5%), Metal Products (8.2%). Other than Pharmaceuticals many of the dominant subsectors¹ in the UK by output size also have low capital-labour ratios which can depress monetary based productivity measures. This is particularly true for the food and drink subsectors. In contrast, Germany may exhibit greater levels of manufacturing productivity due to its sectoral composition being dominated by Motor Vehicles (20%) and Machinery & Equipment (16%)² – both highly automated industries that can result in output per hour measures being much greater. When comparing UK productivity to other countries it is important to be mindful of the heterogeneous differences in the country's economic make up.
23. However, the example above does highlight a key ingredient in productivity growth. Automation and technological advances/adoption are key to reducing the productivity gap between the UK and other advanced economies. Make UK's Innovation Monitor 2020 indicated the share of companies at the pre-conception stage of adoption Industrial Digital Technologies (IDT's) (essentially doing nothing) dropped from 30% in 2018 to 11% in 2020. The share of manufacturers seeing a direct improvement in productivity from the adoption of IDTs increased by 9% within this period indicating a successful adoption strategy of new technologies can solve the productivity problem. However, this must in turn be combined with efforts to up-skill the workforce as the skills required to engage with new technologies are developing rapidly. With access to finance also a commonly cited barrier, Government must ensure that the funding schemes available to support the adoption of digital technologies are accessible to businesses of all sizes.
24. Looking forward Make UK calls for the acceleration and scaling of projects that incentivise technological adoption and innovation (such as Made Smarter) and for these to be combined with schemes that improve the quality of skills needed for manufacturing. Combining the two can be difficult in practice as the latter will take effect with a more

¹ Calculated based on subsector Gross Value Added (£m) as a share of total manufacturing Gross Value Added.

² Make UK analysis of Eurostat data (2021)

significant lag as the human capital stock develops more slowly. More on Made Smarter is discussed elsewhere in this submission.

How successful has the Government's pandemic response been in protecting jobs to date, and how can it help reduce and mitigate the economic scarring effects of the pandemic going forward?

25. The Government's response to protecting jobs during the pandemic was highly necessary from the introduction of the Job Retention Scheme (JRS) to the guidelines on health and safety so that the manufacturing sector could continue operating.
26. In particular, the JRS has been a highly valuable tool to support manufacturers that rely on high skilled workers for their business. The manufacturing sector operates differently to other sectors (such as hospitality and retail). Manufacturing is highly specialised and relies heavily on high skills and a unique knowledge base in many cases that make it difficult to reproduce that knowledge, if that business were to close from losing its workers. On the other hand, sectors like hospitality and retail require less skill and find it easier to reopen. In that regard, the JRS has uniquely been useful to manufacturers in protecting their best and brightest talent whilst order books were quiet. In addition, the JRS has supported businesses that have suffered a loss in revenue due to the UK's exit from the EU in early 2021.
27. Make UK's Manufacturing Monitor survey regularly assesses the rate of furlough take up every few months. Near the start of the pandemic our data indicated almost 80% of manufacturers had furloughed some staff (from anywhere between 1% and 100% of their staff), with over 12.5% of these furloughing more than three quarters of their workforce. The share of furlough activity varied over time due to delays in decisions to extend or replace with alternative schemes. However, as vaccinations increased and with the lockdown roadmap bringing confidence the latest data from Make UK indicates over 80% of manufacturers now have less than 10% of their workforce on furlough. Almost half of these have zero workers furloughed. When this is supplemented with HMRC statistics, the data indicates of those that are still furloughed many are accessing flexible furlough to manage short-term costs more effectively. Although it is not easily quantifiable, the benefit of the JRS likely has increased overtime as business learn to maximise the policy to protect their business and ensure staff return.
28. However, this does not mean the Government's JRS was 100% effective in protecting all jobs. The reduction in JRS take up is down to a combination of workers returning and others being made redundant over the course of 2020. At the beginning of 2021, Make UK's members were asked in a Manufacturing Monitor survey whether they had made redundancies as a result of Covid-19. 53% of manufactures had responded "Yes". When asked what proportion of staff were made redundant, 33% indicated they made 1-10% of their staff redundant. Similarly, 16% made redundant 11-25% of their staff, only 4.4% of manufacturers made more than a quarter of their staff redundant. Official statistics shows unemployment increased by 51,000 between the first and last quarter of 2020 in manufacturing, with the latest unemployment rate for manufacturing at 4.6%. Although, relatively speaking, the sector is faring better employment wise than say accommodation and food services which has an unemployment rate of 10.9% (ONS).
29. It can be certain that to some extent the success of the Governments support scheme is better than no support scheme. However, Make UK are aware the scheme is itself is fiscally unsustainable and should not continue unless unavoidable. Going forward the Government should consider incentives that promote (re) hiring, particularly in industries that are geared more towards innovation and being green. This could take the form of a

Job Creation Scheme (JCS) that utilises the principals set by other job protection schemes by shifts the strategy to be more forward looking.

30. Before the Job Retention Scheme (JRS) was extended, the Government was prepared to utilise a new Job Support Scheme (JSS) to subsidise part-time hours for employers. It became clear that the original system was insufficient to protect high-skill jobs amongst struggling businesses. However, a proposal that supports part-time work as a business slowly generates orders can be a strong recovery tool. The issue with the JSS is that it could only be used by businesses that had workers on PAYE before a certain date. However, many businesses that cannot save their workers today, may be looking to hire once economic activity returns. Particularly start-ups that started during the pandemic (as is common during economic downturns) that may not have sufficient funding to afford high-skill workers on 100% of their hours at the initial stages of their growth but could do so at a reduced capacity with subsidised wages (upon a condition that the employee on such a scheme would eventually be converted to a full-time worker). A JCS would be an effective tool used by Government to support the growth of start-ups and SMEs. The impact of supporting businesses grow at its early stages would promise to deliver significant returns for the UK economy by increasing jobs and value-added output. A JCS would simply be redefined from what is already built by the JSS, rewired to focus on new businesses. Whilst the JRS and JSS only provide incentives to reduce redundancies, the JCS provides a solution for the large population of workers who have already been made redundant due to the pandemic.

What policies are effective in helping people to reskill, move between occupations and sectors and take advantage of new opportunities? How could these be best implemented in the aftermath of the pandemic, and as technological developments such as artificial intelligence change the nature of work?

31. Skills and training have always been at the top of the agenda for any policy discussions with manufacturers and the pandemic has accelerated this even more so. As manufacturers faced serious lapses in demand with continued falls to sales and orders, employers faced difficult decisions, including when it came to retaining their employees. At its peak, 85% of manufacturers were using the Job Retention Scheme (JRS). For many businesses and its employees, it was the lifeline that was needed³. However, as months of lockdown continued, the difficult decisions became even more difficult and half of manufacturers made redundancies across their business, cutting up to a quarter of their workforce.
32. This has put a serious threat on manufacturer's ability to recruit the right people with the right skills as demand and therefore recruitment picks up. Various Make UK research indicates that the second half of 2021 will look far more positive, and companies are looking to recruit and invest in their people once more. The challenge will once again be ensuring that those people who have lost their jobs have the skills, knowledge, and competences to work in sectors where there is growing demand and take advantage of new opportunities. The right policy levers must be in placed to ensure that we can reskill and retrain people into new job roles.
33. In addition to ensuring we have a labour market that can move into the job roles we have immediately, it is equally important that we ensure they are equipped with the skills

³ Make UK, Covid-19 Manufacturing Monitor, 2020

needed for the future in particular digital and green skills. As the manufacturing industry accelerates digital adoption and transitions to net-zero, job roles and the skills required will evolve and it is important that individuals are not left behind on this journey.

- 34. Kickstart and pre-apprenticeship activity:** The Kickstart scheme has been a welcomed initiative and widely used among the manufacturing sector. Its usefulness has only increase further with the ability of SMEs to use gateways to act on their behalf and do the heavy lifting behind the scenes. Make UK is a gateway for Kickstart, supporting over 400 placements within the sector. We were also pleased to see the DWP amend the scheme to remove the minimum threshold of having to offer 30 placements. While the gateway system was in place, this was a deterrent for many businesses to engage at its inception. The scheme is set to conclude at the end of this year, however, with apprenticeship and other forms of recruitment still lagging, we see a strong case for extending it beyond December 2021. It is our hope that the Kickstart scheme will act as pre-apprenticeship activity for many manufacturers who will look to recruit their Kickstart learners as apprentices upon completion of the scheme.
- 35. Apprenticeships:** Apprenticeships have been ingrained within manufacturing businesses for decades. They have been a means to acquire skills for many years and will continue to do so. That said, apprenticeships have taken a hit during the pandemic. This has been our experience as an Apprentice Training Provider as well as what we are seeing among our membership. Yet, this is not just a cause of the pandemic, this downward trend has been evident since the introduction of the Apprenticeship Levy. If we are to support the creation of new jobs and get people back into work, getting the apprenticeship programme back on track will be crucial. In response to the subsequent question, we set out Make UK's latest apprenticeship strategy which has backing from the wider industry.
- 36. Upskilling and reskilling through data science:** Many of the initiatives that have been put in place by Government have looked to up-skill and re-skill employees. However, to do that effectively requires data and knowledge of the sector as well as individuals. Enginuity, the sector skills council for manufacturing and engineering has developed a data science model that can look at the skills sets an individual has and determine whether those skills and competences would meet the criteria for a job description. This has allowed us to retain people within the manufacturing industry who may have lost their jobs in one sector to move into another.
- 37. Skills Bootcamps and modular learning:** Another flagship policy from the Government has been the introduction of skills bootcamps, initially focusing on digital skills bootcamps. These are free, flexible courses between 12-16 weeks aimed at those aged 19 and over. Initially targeted in the digital space they are now being rolled out to help individuals build sector-specific skills. This model is a step in the right direction. Manufacturers are increasingly demanding more modular-based learning which gives them the flexibility to have employees out of the business for short periods of time while retaining them in the business for part of the time.
- 38. Programmes to support digital skills:** Make UK's research tells us that manufacturers are pressing ahead on their digital journey. An increasing number of companies are now in the revolution phase of digital adoption, adopting technologies including robotics and cobotics, AI, augmented and virtual reality and additive manufacturing. Access to technical skills is the biggest barrier to adopting digital technology and has been

remained the top barrier in our work on digital adoption. Two-thirds of manufacturers say they had invested in digital skills training within the past 12 months. While positive this means that a third of companies had not done anything at all. Proficiency in digital skills is increasingly being demanded by employers. Make UK's skills survey continue to point towards a rise in demand for such competences – they are becoming a necessity in the manufacturing workplace – yet manufacturers struggle to find them.

39. Although the Government introduced support for digital skills within its new **Help to Grow** scheme more needs to be done. For these purposes digital skills are defined as those to support e-commerce, payroll, and CRM. For manufacturing, they need digital skills to support digital adoption. Make UK has therefore called for a digital skills account for lifelong learning. Employees will need to skill and reskill through their careers and employers will need to support and, in some cases, undertake such training. Government should set up a **digital skills account** for employees that can be accessed to undertaken either company specific or more general digital skills training
40. We also run the risk that our education and training system does not keep pace with industry, and this could impact on getting people back into work or progress into higher skilled roles. Manufacturers need to be able to articulate what skills and competences they need from current and prospective employees. But this message also needs to extend to the training market. A long-standing frustration from employers is that the training market does not deliver what industry needs. Two-thirds of manufacturers responding to our survey on digital skills said the training system was not keeping pace.
41. **Green skills:** Another aspect changing the way in which we work is our transition to net zero. To achieve the net zero target in 2050 as sector this means halving greenhouse gas emissions by 2030. There is therefore an urgency to put in place a set of coherent policies specifically on net zero which cut across all departments including on skills. When we think about green jobs and green skills, we are not always talking about creating new green jobs but instead a “greening of jobs. “There is no doubt this will require retraining and reskilling the existing workforce. But there is also the need to ensure that the next generation are equipped with the skills we need for a green recovery. Government is moving in the right direction with the establishment of the Green Skills Taskforce and the creation of a new Green Advisory Panel that sits within the Institute for Apprenticeships and Technical Education. However, a more widespread approach is needed. In answer to the next question below we set out a case for a **Green Skills Tax Credit**.
42. There are a myriad of schemes and initiatives available to employers and individuals. It is positive that the Government has introduced so many support schemes but there is a risk that we make an already confusing landscape even more complex. For an SME navigating through schemes which can sit in DfE, DWP, BEIS or HMT, can deter a small business from engaging from the outset. Moreover, the timings of schemes are often out of sync with business cycles or need for support. The Kickstart scheme for example was announced in the summer, the first Kickstart jobs were not available until November. During this period, many manufacturers were making redundancies. Being able to signpost these individuals to schemes such as Kickstart as part of their outplacement would have been extremely beneficial.

Does the Government have the right mix of policies and a coherent strategy to promote long-term productivity growth and create new high-quality jobs?

43. Access to the right skills remains a key barrier in the long-term ambitions of manufacturers. If manufacturers are to truly be able to support the effort to Build Back Better, a coherent cross-policy strategy is required to support people from education, to training, to employment and lifelong learning. The Government's recent Skills for Jobs White Paper rightly shone the spotlight on the need to focus on cross-policy issues, however the mechanism for overcoming these skills gap, with a supportive funding framework remains less clear. The Skills for Jobs White Paper does little to bridge the gaping hole between the Government's flagship skills programme, and its Plan for Growth and recovery. Whilst there is a clear link between productivity, employment and skills, each strategy fails to outline progression pathways to move people from education, to training, to employment to lifelong learning.
44. Make UK evidence shows one in three manufacturers said they were not confident in filling the job roles that they would have available in the next two years. In addition, recent research looking at what job roles, qualification levels and skill sets manufacturers will need over the next two years, also highlights this point. One in five manufacturers said that they expect most of their workforce to be in Level 4 and 5 roles in the next two years – versus only 17% saying they expect these roles to be at Level 2⁴.
45. To date, apprenticeships have been a primary route to fill the stubbornly high skills gap manufacturers face. However, since the introduction of the **Apprenticeship Levy**, starts, and completions have fallen considerable. This has been exacerbated further due to the pandemic, with 45% of Make UK members indicating they planned to recruit an apprentice this year – a figure that usually sit at 75-80%⁵. But apprenticeships can be key to unlocking our recovery. Not only can it support in the effort to train the next generation with the skills required by business, but also support those required to retrain or upskill to the new opportunities available.
46. However, as greater digitalisation and our transition to a net-zero economy becomes reality, the skills need for manufacturers will shift from low-level, low productivity roles, to high-level, high productivity roles. Government should explore not just the creation of "new" jobs" but the "greening" of existing job roles that will no doubt make up a large proportion of these 'green jobs. The Government has already taken on this including the introduction of T Levels and setting up the Green Jobs Taskforce. But if we want to kick-start the green skills agenda, Government should introduce a **Green Skills Tax Credit** to encourage sectors with high emissions our manufacturers to invest in green collar jobs. This would work much like the R&D tax credit and help businesses recruit for the skills to help them become green. This will also ensure that productivity growth is concentrated in the industries that we need them to be.
47. Make UK's Retain, Recruit, and Revise strategy, backed by TUC, sector skills bodies and other manufacturing trade associations is a makes the case for an apprenticeship strategy that puts reforms to the apprenticeship levy in both the immediate term and longer term at the heart of building back better. By taking a sectoral approach to the reforms, the levy can be transformed to support business investment and crucially,

⁴ Make UK / RSM, Reviving and Rebalancing Regional Economies through Manufacturing, 2020

⁵ Make UK Covid-19 Manufacturing Monitor, 2020

unlock opportunities for the next generation, and help to build back better. The recommendations include allowing Levy paying employers to spend a proportion of their Levy funds on overheads such as wages and capital investment as well as providing further support for SMEs⁶.

Is the Government doing enough to encourage corporate investment?

48. There are several actions the Government has taken in recently that Make UK supports. Manufacturing is a capital-intensive industry and subdued investment levels has been a problem within the sector for many years. Make UK's Manufacturing Outlook data indicates that investment intentions worsened significantly since the 2016 referendum as uncertainty on the UK's future trading relationship with the EU, combined with the impact of Covid-19 has significantly increased the risk premium of investing in long-term capital. This is backed up by our quarterly metric on "investment intentions (next 12 months)" which shows that in the last 10 years (2010-2020) the % balance of change reported a negative balance only 9 times. 8 of these instances took place from 2016 onwards highlighting the substantial negative impact recent events have had on business investment. It is important that Government recognises these and implements the best policies to incentivise investment.
49. One of the biggest disincentives to corporate investment in the UK is the current design of **Business Rates** which disproportionately impact capital intensive industries like manufacturing. Make UK members consistently rate business rates as a priority for Government policy, even during crises. For example, one of Make UK's recent Manufacturing Monitor survey asked manufacturers what policies Government should prioritise during the pandemic. More than half (59%) indicated they would prefer either waiving business rates or reducing the cost of rates. Regular meetings with Make UK members have consistently reported the negative impact business rates can have on investment plans. However, Make UK is not necessarily advocating for the end of business rates, but rather modifications should be considered to allow for productivity enhancing investment. If those investments increase the adoption of green technologies – e.g., there have been reports of some manufacturers who were unable to install solar panels on their factories as this was expected to increase their business rates.
50. The Government's recently announced 130% super deduction scheme on investment allowances came as a major surprise to the business community and could positively impact capital investment intentions. However, despite the initial positive response from business the overall take up may be less than hoped for. Make UK's recent Manufacturing Monitor survey asked how manufacturers' investment intentions will change as a result of the **super-deduction allowance**. There, 49% said that the scheme would have no impact as their investment plans are too rigid. This is because capital investments by manufacturers are regularly made with long-term returns on investment (ROI) that extend beyond this 2-year scheme. Nevertheless, the tax relief is expected to result in an increase in investment for 23% of manufacturers, whilst the remaining 28% will bring forward future investment⁷. A combination of the latter two groups will result in a boost to GDP in the short run that will support the UK's recovery. With half of companies saying their current plans are too rigid to take advantage of the scheme, there remains a strong case for a longer-term investment strategy. Therefore, Government should also look to increase **Annual Investment Allowances** over a longer-term period i.e., the next five to ten years.

⁶ Make UK Retain, Recruit, and Revise Apprenticeship Strategy, 2021

⁷ Make UK Covid-19 Manufacturing Monitor, 2021

51. Make UK data also shows what manufacturers believe will be the expected impact of the **corporation tax** increase to 25% by 2023 on investment. Interestingly, more than half (57%) believe the tax rise will have no impact on investment. However, for those that have shown concern, the majority (36%) believe the most costly impact of raising taxes is sending negative signals to international investors and deterring inward investment. It suggests the implications of how policy intentions are communicated even before they are enacted can result in unintended consequences. An increase in investment thanks to the super-deduction scheme could just as easily be offset by the decrease in foreign direct investment from overseas.
52. Manufacturing is not only a capital-intensive industry. It is also a research-intensive industry, accounting for approximately two-thirds of the UK's total R&D spend⁸. Manufacturers constantly channel funds to invest in primarily the research, and secondly the development of new products and processes to remain competitive. For many organisations, the line between investments in capital versus investments in new product is increasingly blurry and the Government should find a balance between policies that incentivise investment in plant & machinery and those that incentivise investment in R&D. For some sectors policies that promote the latter is preferred to policies that increase corporate investment – such as the **popular R&D tax credits**. In addition, schemes such as the Future Fund can be hugely supportive to growing innovative small businesses that lack the cash required to absorb the high rate of failure in the Research stage of R&D. Government should focus on aggressively signposting and educating businesses on how to utilise these schemes so that take up is maximised as the cost of failed applications can deter eligible businesses from applying.

Is the “Plan for Growth” an adequate replacement for the “Industrial Strategy”?

53. The **Industrial Strategy** is something that UK manufacturers greatly welcomed and supported back in 2017. It was a clear indication of the importance that Government placed in the success of British manufacturing and our strong industrial base for the prosperity of the national economy. However, the decision to disband the guiding Council and Strategy has caused significant concern and frustration amongst manufacturers of all sizes across the UK.
54. This is at a time when the manufacturing sector is already facing a series of simultaneous and defining challenges:
- recovering from the economic and societal impacts of Covid-19;
 - implementing the new trade agreement with the EU, maximising the opportunity of digitisation, artificial intelligence, and robotics; and
 - supporting the achievement of the Government's levelling up ambition.
55. The sector is also undergoing a digital and green transformation to help solve the climate crisis through the acceleration of electrification, hydrogen power and other net zero activity. More than ever, a clear, coherent plan for achieving this overarching ambition is required. In particular, how this can be achieved through the prism of regions, and local development. That is why **Local Industrial Strategies**, and the emphasis of an industrial base is so crucial to informing our recovery, but also manufacturers' own plans for growth, investment, and diversification.

⁸ Make UK's Manufacturing The Facts, 2020

56. To date, Government has confirmed that Industrial policy remains a priority but through the 'Build Back Better: our plan for growth' and its supporting strategies. Whilst the commitment to take forward elements of the Industrial Strategy within the new framework is welcomed, it does little to resolve the constant chop and change manufacturers have faced in the last five years.
57. Make UK has made clear one measure of success of the new Plan for Growth will be how it continues to deliver ongoing aspects of the 2017 Industrial Strategy including existing the Sector Deals, and Grand Challenges. There are many strands of the Plan for Growth that we will be analysing and holding Government account to in terms of its implementation. To this end we are working on a diagnostic piece which will evaluate if the Plan for Growth is sufficient to support manufactures growth ambitions. We would be happy to share with the Committee at a later date.

Is the UK well placed to take advantage of future technological breakthroughs and translate them into economic opportunities?

58. **Industrial Digital Technologies (IDTs)** are fast becoming a reality for manufacturers with 80% saying IDTs will be a reality in their business by 2025. Manufacturers are moving ahead on their digital journey with the pandemic accelerating the speed of adoption. Make UK's latest Innovation Monitor found that 13% of companies are now in the revolution stage, compared to 4% two years ago. On the other end of the spectrum, the pre-conception phase, which suggests companies are not doing a lot – just 11% are at this stage compared to 30% just 24 months ago.
59. With many businesses struggling to survive, hampered by supply chain disruptions, temporary or part plant lockdown closures as well as falling demand, the adoption of IDTs has never been more important. Manufacturers that invest in and adopt digital technologies are more resilient and productive. This has been further highlighted by the current Covid-19 pandemic. The quick success of the Government's Ventilator Challenge, which saw industry come together to build life-saving new-style ventilators at speed, was only possible because of 3D printing – virtual reality and augmented reality technologies. These technologies proved key in designing and building the ventilators that were so desperately needed.
60. Manufacturers are most likely to be investing in additive manufacturing and robotics and cobotics, however we also see an increasing adoption of AI, virtual and augmented reality and IoTs. Adoption of these technologies can create opportunities for both the business itself and the wider economy. For manufacturers, reduced costs and improved productivity are seen as the overwhelming benefit (cited by 91% of companies) with two-seeing a better quality of products, and over 50% improved flexibility and customer service. Only 6% saw no benefits, or do not plan to make any investment in this area.
61. Nearly three-quarters (71%) of manufacturers plan to increase spending on IDTs in the next two years. If such investment translates into action, then there is potential for the creation of new jobs, which are often at a higher skill level and therefore better paid. This requires those already in the workplace as well as the wider labour market and pipeline of talent to have the skills it needs to take advantage of these opportunities. Unfortunately access to technical skills remains the top barrier to digital adoption. To overcome this, Make UK has called for a **digital skills account** which we cover elsewhere in this submission.

62. Moreover, the value of digitalisation can only be realised if the right innovation and research support is put in place. Innovation and breakthrough thinking requires significant funding and the need for this support is greater now than ever. The achievement of the UK Government's target of 2.4% of GDP being invested in research and development requires both the public and private sectors to significantly increase their R&D investments. However, this form of discretionary spend is often threatened during an economic downturn. Our analysis suggests that only 28% of manufacturers will spend more on R&D in the next two years, due to the impacts of the Covid-19 pandemic, presenting a huge challenge for policymakers.
63. While there are a range of funding streams available, awareness is mixed. The most used form of support is the **R&D tax credit scheme** followed by Knowledge Transfer Partnerships. Other initiatives such as the Industrial Strategy Challenge Fund and Horizon 2020 have lower awareness and therefore are not accessed to the same extent. While the R&D tax credit system may be used widely by the sector there is still room for improvement. We were pleased to see HM Treasury announce a consultation at the Budget. Make UK will be submitting a response to the consultation calling on the scheme to make simpler, more accessible to SMEs and for qualifying expenditure to include capital equipment.
64. There also benefits to be had if the Government continues its roll out of **Made Smarter**. One in five companies in the North West are in the revolution phase of digital adoption, second only to the South East at 33% - this demonstrates that the Made Smarter scheme is working. The pilot saw small businesses not only financially helped to purchase IDT investments, but they had access to a complete advisory service taking them through the technologies which would best benefit their companies, mentoring in how to optimally utilise them sitting alongside support for change management skill building. The scheme has now been rolled out to four further regions. Continuing this roll out would ensure opportunities are not based on a postcode lottery.
65. One of the main drivers for digitalisation is the need to retain the international competitiveness of the UK manufacturing sector. Other countries – such as Germany and Japan – have extensive support systems in place to help their manufacturing SMEs modernise, and it is important that their UK counterparts are not left behind. Only 9% of manufacturers agree that the UK is in a leadership position compared to other countries when it comes to the adoption of IDTs. Perhaps reflecting this, only 15% of manufacturers agreed that it would be possible to realise the full potential of IDTs without government support.
66. The UK manufacturing sector is well placed to take advantage of technological breakthroughs that translate into economic opportunities, but only if the right support mechanisms are put in place. For manufacturers, the main barriers that remain for the adoption of digital technologies are technical skills and finance, therefore government policy should be focused in these areas.

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