Written evidence submitted by Make UK

1. **Make UK is backing manufacturing – Helping our sector to engineer a digital, global, and green future.** Supporting our members and our sector through this challenge time is of paramount importance. We are working tirelessly to ensure we can manage any potential disruption, including contingencies for our people, technology and support services, and most importantly, our sector.

2. While we are continuing to work closely with the Government on this fast moving situation, we have, and will continue to call on Government for decisive, bold action to support our sector in the days, weeks and months ahead. We have recently published a new policy paper that sets out our plan for recovery – *Manufacturing our road to recovery: a 3 point plan*.[1]

Overview of the impact Covid-19 is having on UK manufacturing

3. Following the start of the coronavirus outbreak in the UK a plethora of measures have been enacted and continuously adapted by the government to limit its impact on life and the economy. Restrictions on our social behaviours included everything from social distancing to complete isolation for the most vulnerable, reshaping the status quo of our daily lives. However, it is the effectiveness of these measures on businesses that has generated tremendous debate in recent weeks as the impact of Covid-19 on producer activity is yet to be fully understood. From the standpoint of the manufacturing industry – with raw materials and goods filtering through complex supply-chains – making the things consumers use on a daily basis, it is imperative to raise the curtain on how the sector is faring during the crisis.

4. It is clear that the reactions to Covid-19 have disrupted activities in such a seismic manner that few parts of the economy had been spared. This was confirmed with the latest GDP result for Q1 2020 which reported an average 2% decline in national earnings since the previous quarter. The national accounts indicate steep declines in services, construction and parts of the manufacturing sector, such as motor vehicle sales. On the other hand, the pharmaceutical and cleaning products industry witnessed a boom in demand demonstrating the manufacturing sectors importance to the UK in times of crisis. What is worrying, however, is that the decline in GDP for Q1 was thanks to a huge drop in activity in March alone. This raises great concern for what we can expect from Q2.

5. Despite the majority (90%) of manufacturers continuing to trade during incredibly arduous times, most have experienced significant declines in sales and orders. This was reported to worrying levels in the first instalment of Make UK's Covid-19 Manufacturing Monitor and raised significant concerns for cash-flow as orders evaporated. Our second, and most recent Manufacturing Monitor results report a similar set of outcomes as manufacturers say within the last two weeks they have seen sales (78.3%) and orders (82.5%) decrease. A large number of these manufactures (30.1%) have seen orders in particular fall between 26% and 50% in the period covered. A slightly smaller, but still significant (26.9%) number of manufacturers have astonishingly claimed orders have fallen between 51% and 75%.[2]

[1] Make UK, Manufacturing our road to recovery: a 3 point plan (May 2020) https://www.makeuk.org/insights/publications/manufacturing-our-road-to-recovery
[2] Make UK, Manufacturing Monitor (April-May 2020) Available at: https://www.makeuk.org/insights/publications/manufacturing-monitor

6. This will consequentially further exacerbate cash-flow problems and delay a return to normal business conditions for some time. Even if manufacturers make plans to return to full capacity, many of Make UK's members have expressed concerns that unless the entire supply-chain is reactivated together (particularly in the case where component suppliers are based abroad) it will be extremely challenging to return to pre-Covid times regardless of whether workers return to work. In fact, a caveat that remains in the latest report is that a third of manufacturers will not "un-furlough" staff until orders increase.

7. The views of manufacturers in our Manufacturing Monitor signal that the steps taken to solve the cash-flow crisis, keep unemployment low and catapult the manufacturing industry into the 4th industrial are mutually inclusive events.

Job Retention Scheme (JRS)

How effective have these schemes been in maintaining employment and reducing job losses?

8. Make UK's first Manufacturing Monitor reported that one in five firms had furloughed no staff since the scheme opened, whilst a similar proportion of firms furloughed anywhere from 1% of staff to 99% of staff. The data generally suggested a lower adoption rate of the CJRS (Coronavirus Job Retention Scheme) at the time due to the various barriers preventing work from home and the industry being spared from compulsory shutdowns.

9. As an important note, a significant proportion of the data for this survey was collected prior to the prime minister's announcement encouraging able workers to return to work. Additionally, manufacturers were yet to be aware of Chancellor Rishi Sunak's announcement to extend the CJRS through to October which will undoubtedly impact a business's furlough decisions going forward. In fact, a key barrier to the furlough scheme was a need for flexibility, which the government has taken notice of since the last Manufacturing Monitor, as such the latest announcements appear to offer greater manoeuvrability for manufacturers who desire to use the scheme to restart productions.

10. The latest edition of the Monitor reported a slight drop in firms furloughing zero staff as only 15.9% of manufacturers have not accessed the scheme. In contrast, the number of manufacturers furloughing between a quarter and half of their staff has increased slightly to 21.7%. Interestingly the number of manufacturers furloughing up to 99% of staff has also increased marginally (from 12.5% to 14.8%). A key question remains on whether manufacturers yet to furlough their remaining staff will do so over the coming weeks – our data reports a greater 57% of firms are looking to furlough more staff in the next two weeks. Moreover, the latest announcement from the Chancellor stating that the CJRS will be closed to new applicants from June may drive a sudden surge in the numbers being furloughed, we may see this reflection in our next Monitor.

11. Reviewing the data from a subsector perspective reports little change in the furlough choices made by some, such as motor vehicles which continues to report significant levels of furloughed staff. There has overall been a marginal increase in firms furloughing between 3/4 and all their staff for a number of subsectors (see chart below).

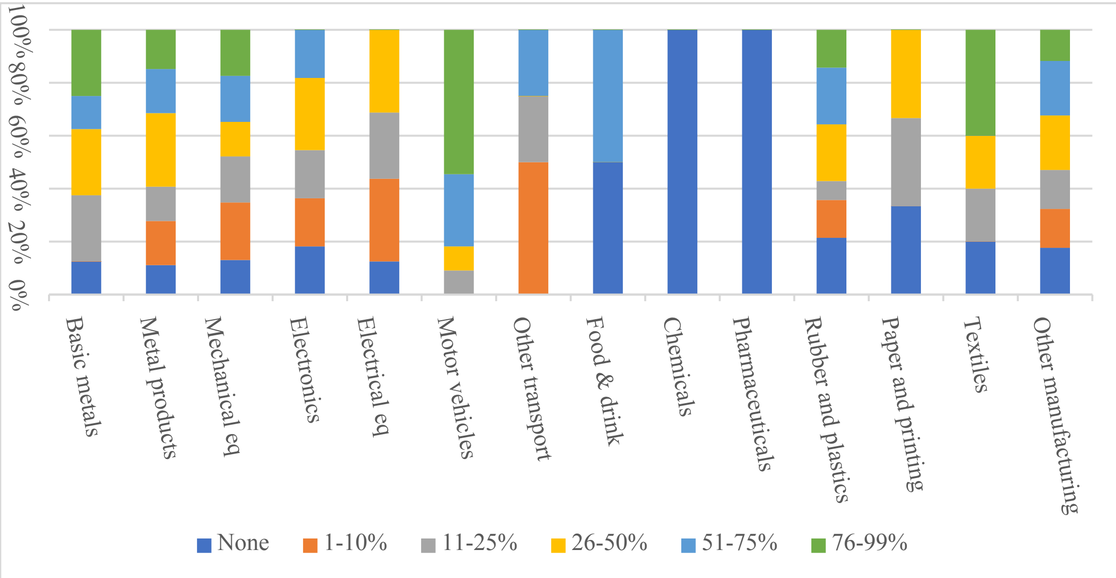


Chart 1 – What proportion, if any, of your company's employees has been furloughed? Broken down by subsectors.

12. Up until now, the JRS has then successfully prevented redundancies that would otherwise have happened if it were not for the Government grants. Employers were using furlough payments for their employees and some may have simply been postponing redundancies, or decisions regarding redundancies, when the Scheme ends. By extending the Scheme until October, this should now prevent any further significant numbers of redundancies. However, the importance of the scheme cannot be underestimated at a time where many manufacturers are struggling with the reduced orders and meeting their payroll costs. [3]

13. The additional element of flexibility, allowing employers to mix periods of furlough and work will benefit employers further as they seek to gradually bring their workforce back to work in line with government guidance. Allowing furloughed employees to undertake part-time work whilst employers retain some grant support will facilitate a smoother transition to a state of production that reflects both the anticipated slow pick-up of the labour market and the economy.

14. Make UK has provided its members with extensive help and support following the announcement of the furlough scheme, in the form of guides, helplines and webinars. Make UK has received 4600 direct enquires regarding the scheme with our furlough template letter downloaded over 140,000 times.

How viable is it for the Job Retention Scheme and the Self-employment Income Support Scheme to be open for longer?

15. Both Schemes will come at a huge cost to the government and the taxpayer which manufacturers recognise. ONS figures released on 13 May showing the first impact of coronavirus on the British economy, shows the UK is currently in a deep recession. The Daily Telegraph recently reported that a Treasury paper estimated the total cost of both Schemes and overall borrowing to support the economy will be £300 billion by the end of the year.

16. The viability of the scheme must be seen in the context of the impact should the scheme be wound up before employers are able to meet their employment costs. Should the CJRS be

[3] Make UK's latest Manufacturing Monitor is surveying manufacturers on potential redundancy plans which we would be happy to share with the Committee as soon as possible.

withdrawn before manufacturers see their orders pick up, the scheme may simply have delayed reductions in headcount. From the volume of inquiries received by Make UK, it is clear that the grant scheme has had a major impact of retaining skills in the manufacturing sector. A mere 1% of manufacturers have already made redundancies. The manufacturing sector contributes 66% of UK R&D investment and its global exports contribute £273 billion to the UK economy.

17. Whilst the scheme is costly, the alternative would be far greater numbers of redundancies than Make UK has seen amongst its members so far; after the announcement of the proposed changes to the CJRS, 24% reported that they were more likely to lay-off workers. Therefore, this would see a loss of skills, and a reduction to the contribution of the sector to the UK economy.

18. The Treasury forecasts a ‘base-case scenario’ that sees the budget deficit at £337 billion. This is in comparison to the initial £55billion forecast in March’s budget. The Treasury has modelled three possible scenarios for the UK economy showing a different GDP graph in each. The ‘base-case scenario’ models a U-shaped curve that shows the economy plummeting along the x-axis for an elongated period before a recovery. The second model is L-shaped and shows how the deficit would increase to £516billion within the current financial year, rising to a cumulative £1.19trillion over the next 5 years. The third model was the V-shaped curve and shows in this scenario, the deficit would be less at £209 billion by the end of the year. All three models showcase that any outcome will have significant impact on business for the foreseeable future.

19. Clearly, government will need to consider challenging options given the scale of the cost of public finances due to Covid-19, which may include increases to business taxes. However, such options must acknowledge that businesses, particularly SMEs, have struggled since March, to meet their existing financial commitments and will suffer significantly if these are increased. Make UK recalls Government’s 2019 manifesto commitment, that they will continue with the triple tax lock on VAT, income tax and national insurance. This is critical to allow businesses to recover at a greater rate once the Government has implemented its three phases, set out in their recovery strategy on 12 May.

How and when should the Government’s support packages be wound up?

20. As the Chancellor announced on 12 May that the CJRS will be extended to October; this is a realistic timetable, alongside the flexible element of part-time working that will both support businesses maintaining their workforce and simultaneously allow businesses to start returning to ‘normal’ levels in a gradual fashion.

21. At present time, it is unclear whether there will be any need for the CJRS to be extended beyond October, based on current employer behaviour. When asked, 24% of Make UK members said that the proposed changes to the CJRS would make it less likely that they would lay-off workers. Businesses want to ultimately have as much of their workforce back before the autumn and as soon as it is safe to do so, whether they are in part-time or full-time roles. There is little appetite amongst manufacturers for Government support to continue where an unintended outcome may be to delay employees returning at all. The bigger concern that will become apparent over the next few months will be meeting the cost of VAT deferments, tax holidays, deferred pensions contributions and any future tax rises. Government needs to work closely with business to ensure manufacturers are not overwhelmed by increased business costs that may disproportionately affect larger companies which are vital in supporting UK SME supply chains.

22. In terms of how the CJRS should be wound up, this will need to be achieved in a way that avoids a cliff edge and provides tapered support towards the end of the grant scheme. A gradual reduction in the level of wage replacement is supported by members provided they have sufficient notice of the changes and that must take place after their operations have re-opened and they have had the ability to increase their income.

How should the Government prioritise which continuing sectors and groups to support as time goes on and ongoing support is needed?

23. Make UK is of the view that restructuring any support schemes sectorally would be implausible and cause confusion amongst businesses. Many roles, companies and supply chains overlap between different sectors and manufacturers may provide more services than goods. This would inevitably cause complexity and difficulty when deciding which employees in which industrial sectors would remain eligible for Government support. There may for example be businesses that straddle sectors and who have workers who provide services to the whole economy, making any delineation impossible. If Government wished to categorise different groups for support, such guidance must include explicit detail on how this would be implemented, which workers the grants would apply to and the criteria for eligibility. It also needs to be made clear why government is prioritising one sector, or one group of workers over any other.

24. Make UK would then be very cautious of any blueprint that favours certain sectors over others, as businesses nationally have struggled in equal measure with the Covi-19 restrictions. The new measures announced on 12 May have promising potential and Make UK welcomes the new proposal that furlough payments will only cover 60% of employees' gross wages from August onwards with the opportunity of greater flexibility.

Financial support to businesses

25. The decline in sales and orders coupled with many firms who have not furloughed staff creates enormous challenges for manufacturers trying to manage their cash-flows. Indeed, liquidity has been a major talking point for firms as manufacturing is a highly capital intensive industry with cash generally lost in sunk costs and returns tied to the future alongside the delay of payments within supply-chains a common feature of the industry. The government has adequately responded to these problems by creating a number of financing facilities, the most prominent being the Coronavirus (Large) Business Interruption Loan scheme (or C(L)BILS). The scheme is designed to offer SMEs and larger firms with short-term financing up to £5m (for SMEs) and £25m (for large firms). A part of this also includes an 80% government guarantee for lenders who offer these loans to businesses impacted by the pandemic. Many manufacturers in the UK (mainly SMEs) do not see debt as a cure for their cash-flow problems. Undeniably, further gearing on SMEs balance sheet would only serve to delay, possibly even worsen the financial problems they would experience postCovid-19 without genuine confidence that orders will return. This is also seen in the approach a third of manufacturers have taken to bring furloughed employees back to work.

26. Moreover, almost half (47.8%) of manufacturers are not deferring tax payments. The deferral of tax payments is a low impact solution that firms can take advantage of without incurring debt. However, during this crisis the majority of manufacturers do not view deferrals as a solution – likely because many firms had already made multiple deferrals prior to the crisis. Nonetheless, the results are not consistent when inspecting the industry by subsector. 60% of firms in the motor vehicle sector have deferred both VAT and PAYE payments. As a recurring feature of this publication motor vehicle firms have consistently reported negative results and understandably taken necessary precautions to remain liquid. Interestingly, approximately a

third of firms in Rubber & Plastics (38.9%), Textiles (37.5%), Other Transport (33.3%) and Mechanical equipment (32.5%) have also deferred both VAT and PAYE taxes during the crisis. Generally deferring VAT has proved to be more popular amongst manufacturers than deferring PAYE. The results are more mixed when considering a regional perspective.

How effective is the Coronavirus Corporate Finance Facility, Coronavirus Business Interruption Loan Scheme, and the Coronavirus Larger Business Interruption Loan Scheme? In particular, are these measures succeeding in preventing viable businesses from potentially going under during the Coronavirus lockdown?

27. After a shaky start, these schemes are now starting to operate relatively well. However significant numbers of companies are either waiting for loan applications to be processed, or have yet to apply. The amount disbursed is still relatively low when compared to elsewhere in Europe and the US. And there is only a certain amount of additional debt that businesses are willing to take on, particularly if it is used to finance unproductive activity. That's why the Job Retention Scheme has been so critical, in addition to the loan schemes mentioned above.

How effective has the Government support been so far in terms of coverage and speed?

28. Coverage has progressively improved from the initial, very limited offer for SMEs only. Speed is still an issue, principally because of delivery issues with accredited lenders. Our members report that banks are prioritising their existing customers and those with the most urgent need. However an issue remains with subsidiaries of larger groups, where the group turnover is taken into account when assessing eligibility, particularly for CBILS.

What gaps are there for businesses within the schemes?

29. The schemes primarily offer loan financing. We are seeing issues with invoice financing, late payment and credit insurance which are compounding the cash flow issues manufacturers are facing. These might best be tackled by complementary schemes (as the Government has announced for credit insurance) but they need to be seen as part of the wider picture.

I**s the financial sector supporting businesses enough? Are businesses getting the right advice on which grants/loans to access**?

30. The majority of Make UK members report constructive conversations with their banks. But it is clear that there is not a market in the provision of support – businesses are effectively tied to their existing lender. After a difficult start in which many felt they were being encouraged to take up banks' commercial products – at significantly higher cost – people are now getting better advice, but the initial delivery issues did affect business confidence in the schemes. The real challenge now is delivering the significant amounts of additional capital that will be needed to restart the economy. Given existing debt burdens, traditional lending models may not be viable – and business is counting on the financial sector to come up with innovative new ways of supporting them through the challenging months ahead.

Economy

Economy, public finances and monetary policy

- **What economic challenges may arise as the public health and social distancing policies are lifted and the economy begins to recover? What preparations can be made to manage these challenges? For example, could there be difficulty in**

restarting sectors of the economy quickly, a risk of a spike in inflation, or pressure on the UK balance of payments?

31. While the hit to the UK economy has been unprecedented, not all sectors will be hit equally. The OBR predicts that manufacturing, construction, retail, travel, food industries and education will see the biggest losses but sanitary and social distancing restrictions have also disrupted the services sector in a manner that is likely to last for some time meaning the UK is now more reliant on manufacturers to lead the recovery. Factories around the world have been forced to close or run on reduced hours, causing mass disruption to global supply chains. Make UK Manufacturing Outlook survey data shows that manufacturing output in the UK has fallen to an all-time low. Some having had to reduce production while more have shifted to producing much needed medicines, sanitizers, ventilators, Personal Protective Equipment (PPE) and other equipment for the health service to combat the spread of the disease. All the indications at the moment are that, even if a gradual easing of lockdown begins soon, the impact of this shock will continue to hit companies and livelihoods for some time to come.

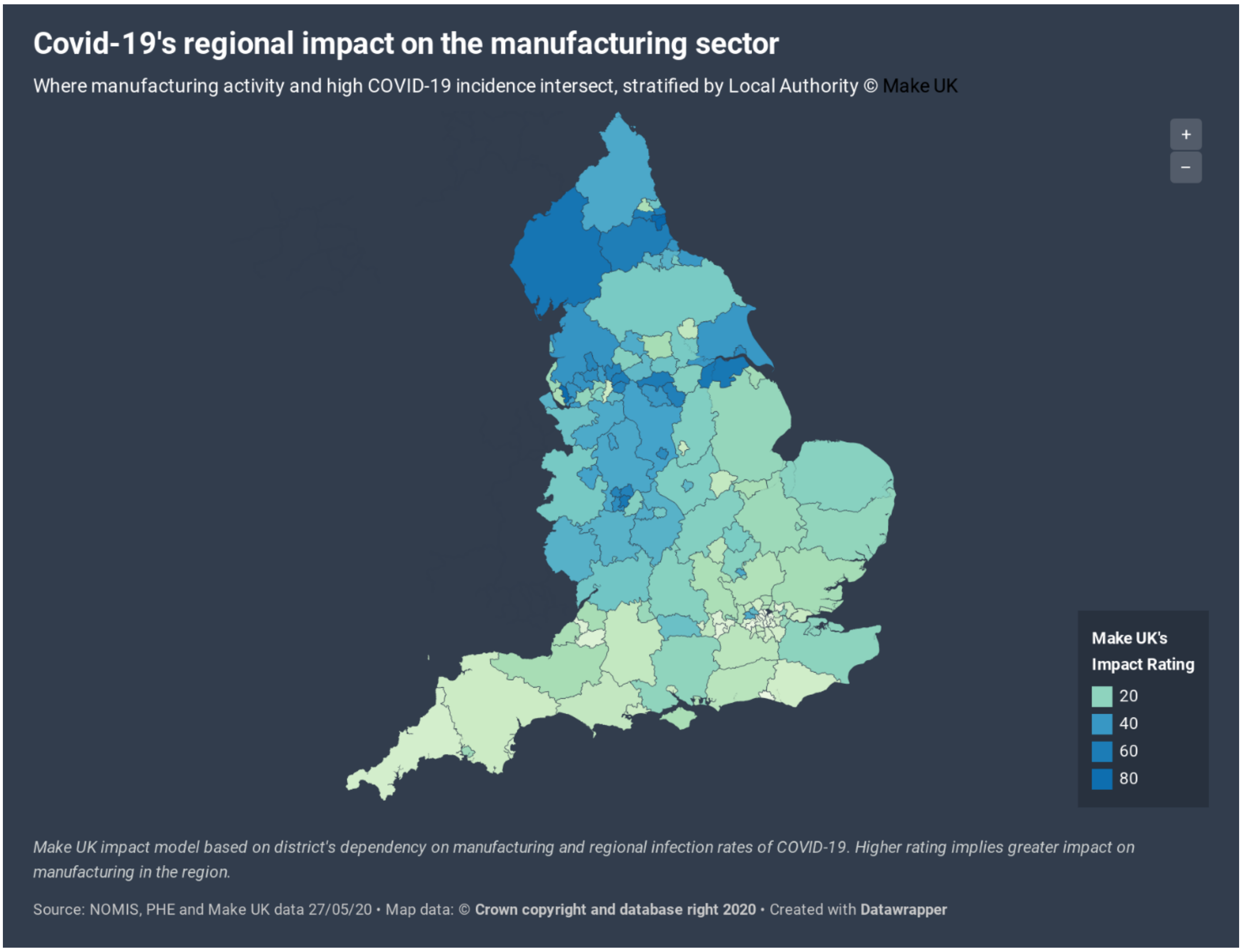
32. Furthermore, while the help manufacturers have given to the national effort to produce much needed medical equipment has been heroic, it will also impact the speed at which firms are able to return to normal because doing so will require restoring their previous supply chains and factory settings, and undoing the changes that have been made to adapt to manufacturing PPE, Ventilators and other goods needed to fight the spread of Covid19. Different parts of our economy will recover at different speeds, with export demands, consumer tastes and business models changing. This unprecedented economic challenge is forcing CEOs to contemplate difficult choices. Some are pulling in, making cuts, and focusing on surviving the storm. Others, however, are taking decisive action to put in place reforms so that when the crisis ends, they can come back stronger. While Central Banks, supra-national institutions, and domestic policymakers all have key roles to play in supporting our economy, the recovery should be business led. The right response is to focus on supporting the business sector with measures designed to stimulate demand and ensure manufacturers can get back to supplying the goods consumers want and our country needs.

- **Is the economy's recovery likely to be shallow or sharp?**
  - **How long is the shock likely to last?**
  - **Which sectors are likely to be impacted by economic scarring?**
  - **Which sectors are doing best?**

33. At the time of writing more than a third of manufacturing companies surveyed by Make UK believe it will take more than 12 months to return to normal trading, a figure which has doubled from the previous survey two weeks ago. More than four fifths of companies have seen orders fall while over a fifth of companies have seen their orders fall by more than a half. While an opportunity to recover is impatiently awaited, firms are making clear that we must wait until global supply chains and customer demand starts to open up again. One in five manufacturing companies have furloughed up to half their staff and a third of these say they will wait to see an increase in orders before taking staff off furlough. This is necessary because coming back too soon, when supplies cannot be delivered because foreign suppliers are still in lockdown themselves, or when export demand has not yet build back up, would undermine a firm's financial position and expose them to severe liquidity risks and perhaps liquidation. The UK manufacturing sector sits uniquely, in the middle of global supply chains. On average, roughly 40% of what we export is first imported as component parts. That makes us exceptionally exposed on both the demand and supply side. Consequently, any opening up of our economy will need to be done in coordination with our key international trade partners if it is to succeed.

- **What will be the economic impacts of the coronavirus outbreak and the social distancing measures in terms of sectors and regions and how temporary/permanent will they be?**

34. Initial estimates suggest that social distancing requirements in factories could reduce output by up to 40% due to reductions in capacity. While many of our members have devised creative ways to reduce this consequence, and Make UK is working hard to share best practice and new innovations to mitigate this impact across the sector, Government and state and non-state bodies such as LEPs, Catapult centres, local councils and others will have a role to play in helping to share this information as widely as possible.



What has and will be the impact on global growth and what shape is the international recovery likely to take?

35. Global economies have been significantly impacted by the Covid-19 pandemic. Nations have reacted to the health crisis by adopting measures to protect the health of their citizens and providing immediate fiscal support packages for business and staff.

36. Action has been taken at national and international level that both restrict and open-up trade, but certainly will little evidence of effective and early attempts of co-ordination. In the case of PPE, the scale of the global need for healthcare equipment and protective equipment has identified the challenge between countries who have an import dependency and those that are self-sufficient. There have been a number of interventions, nations have applied a combination of export controls, pre-emptive purchasing, and mandated production to deal with immediate

short supply and scale-up capacity. Nations have also introduced immediate and stringent requirements and thresholds for foreign investment.

37. Equally, there are nations that have taken initiatives to implement bi-lateral and multi-lateral trade facilitating measures, in the form of suspension of tariffs and internal taxes on imports, easing standards and standards conformity requirements.

38. Trade Forecast analysis by the World Trade Organisation (WTO) on the impact of the pandemic on trade shows a decline likely this year of between 13% to 32% and a recovery in 2021 depending on circumstances. The analysis would suggest an impact on world trade more severe than that experienced in the 2007-08 financial crisis. This is because the current economic downturn is global affecting demand and supply. Global value chains have been disrupted, as factories have shut down to protect workers. A suspension of passenger commercial air transport has substantially impacted the capacity for the air freight of goods. The shutdown of economies has crushed demand so that ships are avoiding scheduled deliveries. The absence of migrant labour due to closed borders threatens the planting and harvesting of some crops

Are there international examples of economic policymaking that we can use?

39. As no single national government or multilateral institution can alone combat the global pandemic, the recognised international institutions such as the WTO, World Health Organisation (WHO), and World Customs Organisation (WCO) are providing co-ordination to start to lay the foundation for effective economic recovery. The following have been issued in collaboration with the WTO as measures to improve trade activity;

    - Calls on governments to minimize the impact of COVID-19 related border restrictions on trade in food;
    - Calls to engage with business to maximise the effectiveness of public policies to mitigate the economic damage from the pandemic;
    - International collaboration to facilitate trade in essential goods such as medical supplies, food and energy;
    - underlining support for efforts to ensure the normal cross-border to vital medical supplies and other goods and services

How is the UK Government co-ordinating with other governments to boost global growth?

40. The UK Government has responded with political declaration support and coordinated response through the G20 on the current conduct of international trade. The commitments support using measures that would be “targeted, proportionate, transparent, and temporary”. The declarations also emphasise “the importance of transparency in the current environment and [committed] to notify the WTO of any trade related measures taken”. The UK Government has also made political commitments that agree to “that emergency measures . . . do not create unnecessary barriers to trade or disruption to global supply chains and are consistent with WTO rules.”

41. It is a little early to suggest how the commitments are being applied but certainly a more accurate picture is being formed by global institutions such as the WTO, IMF and EU as to how they are being actioned to either liberalise or restrict trade.

42. Further Ministerial support has been taken by the UK at the WTO, on declarations that support the principles of open and predictable trade in food and agricultural products and the principals of the multilateral trading system.

How are countries coordinating their efforts to assist the global recovery?

43. There are emerging steps being taken at a multi-lateral level to improve international co-ordination, initiatives being taken through the WTO. These consist of a declaration of principles by Singapore and New Zealand to keep their markets open which has been joined in by five other WTO Members. A further initiative led by Canadian including the EU (and thereby temporarily by the UK), pledging openness and good practices with respect to world agricultural trade. A Swiss-led initiative, supported by 42 countries, pledging to lift export restrictions imposed in response to the crisis as soon as possible, encouraging the WTO to work on concrete actions to foster the cross-border flows of medical supplies, services and equipment, and to preserve agriculture supply chains and enhance food security.

44. Each of these initiatives is currently being circulated within the WTO for wider proponents. It is noteworthy that it is mid-sized countries that have to date taken collective initiatives.

What will be the impact of the outbreak on the Government's economic, customs and financial sector priorities in its negotiations with the European Union?

45. The main impact of the current crisis has been to divert all management time and resource in manufacturing to ensuring immediate economic survival. While businesses had to some extent put in place plans for a 'no deal' Brexit, as urged to do by the Government during 2019, very little has been done to update these and amend them in the light of the current FTA negotiations.

46. In the current circumstances therefore it is very hard to see most businesses being able to spend time or money preparing for new trading arrangements. It is also important to remember that, in order to do so, they are partly dependent on the parallel Government arrangements – for things such as immigration policy, customs, and new national regulatory bodies – being clarified and implemented. Much of this work has, understandably, slowed down because Government resource has been diverted elsewhere.

About Make UK

Make UK, the manufacturers' organisation (formerly known as EEF), is the representative voice of UK manufacturing, with offices in London, Brussels, every English region and Wales. Collectively we represent 20,000 companies of all sizes, from start-ups to multinationals, across engineering, manufacturing, technology and the wider industrial sector, who altogether employ approximately 1.2 million people. Everything we do – from providing essential business support and training to championing manufacturing in the UK and the EU – is designed to help British manufacturers compete, innovate and grow.

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