

Manufacturing in the UK

Priorities for the new Government



eef

The manufacturers' organisation

BPF



CHEMICAL INDUSTRIES
ASSOCIATION

construction products association

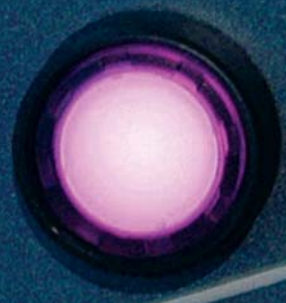
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Introduction

A strong and competitive manufacturing sector is vital to the prosperity and wellbeing of the UK. Manufacturing in this country remains a success story. It employs 3.5 million highly skilled people; accounts for the majority of the UK's research and development spending and just under 60 per cent of UK exports; and is a world leader in many sectors, such as aerospace and pharmaceuticals.

The challenge ahead

Manufacturing is subject to massive change on a global scale. New technology, growing environmental and legislative demands and competition from increasingly skilled, low-cost competitors are major forces of change. To be successful, manufacturers will have to remain constantly innovative and pursue excellence in their chosen field. To stay in business, they will have to invest continually in new technology and in their people and be prepared to challenge conventional thinking in everything from their working practices to how and where they manufacture.

Meeting the challenge

The prime responsibility for improving performance will always lie with companies themselves. But there is a vital role for wider government in making sure that the environment in which manufacturers operate is competitive and remains flexible and dynamic. Moreover, a strong and effective Department of Trade and Industry is essential to champion the interests of business across government and overseas.

In this document we highlight the key priorities that we believe the next Government must address to ensure manufacturing companies are in the best possible position to exploit the opportunities available for the benefit of UK plc. We urge all parties to make explicit their support for manufacturing and the role it has to play in the future prosperity of the UK.

On behalf of:

EEF, the manufacturers' organisation
British Plastics Federation
Chemical Industries Association
Construction Products Association
Manufacturing Technologies Association
Society of British Aerospace Companies

With support from:

Agricultural Engineers Association
British Chemical Engineering Contractors Association
British Electrotechnical and Allied Manufacturers' Association
Construction Equipment Association
Finance and Leasing Association
GAMBICA
International Marine Contractors Association
METCOM
National Association of Steel Stockholders
Railway Industry Association
Shipbuilders and Shiprepairers Association
Society of Maritime Industries

Summary

The next Government must:

- 1 Maintain a stable economic environment, promoting manufacturing competitiveness
- 2 Support manufacturing investment by ensuring a competitive UK tax regime and by introducing a capital investment tax credit
- 3 Improve the UK's innovation performance by promoting greater investment in research and development, building business-academic links and instigating more intelligent government procurement
- 4 Drive forward a coherent energy strategy which balances the need to address climate change with the need to maintain UK business competitiveness
- 5 Provide strong and effective business support at regional, national and international levels
- 6 Reduce the regulatory burden on business and put better regulation at the heart of policy development in the UK and in Europe
- 7 Increase the supply of science, technology, engineering and maths (STEM) skills and ensure young people have quality access to all career options
- 8 Deliver a sustainable solution on pensions, avoiding measures that add burdens to occupational pension schemes
- 9 Develop an occupational health and safety strategy that is focused on rehabilitation, based on sound science, and that rewards performance
- 10 Take forward a pro-business agenda in Europe



Maintain a stable economic environment, promoting manufacturing competitiveness

Manufacturing prospers best in a stable macroeconomic environment with low inflation, low interest rates and stable exchange rates. Government has a crucial role in maintaining sound public finances through sensible fiscal policies, restraining growth in its spending and improving the value for money it delivers.

Government must:

- Pursue an agenda of enterprise, trade and fair competition in both the UK and Europe
- Maintain sound control of government expenditure and deliver an equitable fiscal policy that is balanced between business and other sectors of the economy
- Ensure that public spending delivers much-needed improvements in the transport infrastructure, takes a more strategic approach in considering the implications of purchasing decisions for our industrial base and delivers greater value for money.

Poor transport infrastructure remains a major problem for UK business. Whilst there has been progress in recent years, there are still major areas where renewed political impetus is required.

Government must:

- Review the current transport strategy and set in place a new programme for the medium term to 2015, setting a new congestion target and updated targets for the delivery of new and improved road and railway projects
- Examine the role that could be played by road pricing schemes, ensuring that any revenue raised would be used to invest in the transport infrastructure
- Ensure that any charges for road use are balanced with other measures so that the overall cost for business of transporting goods by road does not increase.



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Support manufacturing investment by ensuring a competitive UK tax regime and by introducing a capital investment tax credit

Manufacturers are concerned that the UK is losing its competitive position on taxation with increases in the tax burden at a time when many of our competitors are reducing theirs. In addition, many of the recent increases, such as in National Insurance Contributions and environmental taxation, have come at a time when other industrial costs are also rising.

Government must:

- Reduce the business tax burden over the course of the next Parliament
- Ensure that the tax system is used to encourage business investment in skills and research and development, areas fundamental to our national competitiveness, infrastructure, skills and research and development
- Reduce the burden on companies of administration associated with regulation and complying with the tax system.

The UK's longstanding structural underinvestment remains a problem. In the UK, manufacturers are generally compelled to fund investment from internal finance, meaning that squeezes on margins tend to generate cutbacks in investment. This has consistently hindered efforts to improve UK productivity.

Government must:

- Introduce a capital investment tax credit that helps to address the cashflow constraints on investment. Extending this to leasing activities would particularly favour smaller businesses
- Ensure that reforms of the Corporation Tax regime will play an active part in encouraging business investment and leasing.

Improve the UK's innovation performance by promoting greater investment in research and development, building business–academic links and instigating more intelligent government procurement

In an increasingly competitive world, our science and innovation performance will be key as competition from low-cost countries becomes more intense. The UK still needs significantly to raise its level of expenditure on research and development, especially in medium-sized companies and in less R&D-intensive industries. We remain behind our European competitors in exploiting business and academic links and networking.

Government must:

- Extend the definition of the R&D Tax Credit to cover more design and development activities and look for ways to encourage greater R&D activity by medium-sized firms, including improving the rate of credit available to them
- Increase the numbers of people studying science and engineering at every level from schools to post-doctorates, and take steps to encourage a greater proportion of them to work in industry
- Buy from companies in ways that stimulate innovation
- Intensify efforts to encourage greater links between business and academia and improve the opportunities for business networking
- Pursue a policy which achieves the right balance between developing a strategy for science, innovation and knowledge transfer at the national level and delivery at the regional level.

A defence industry is essential for strategic reasons and for the health of the manufacturing sector, contributing significantly to employment and exports. Investment in defence technology has proven commercial spin-offs.

Government must:

- Develop and implement an active defence industrial strategy that identifies clearly the aspects of defence industrial capability that the Government wishes to nurture in the UK for both strategic and economic reasons
- Develop better capability planning by working more closely with industry, particularly primes, at an earlier stage to enable industry to invest more effectively in research and technology
- Deliver greater market access by opening up trading opportunities in the US through negotiating terms to ease technology transfer
- Implement the recommendations of the Kelly and Wood Reviews.

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Drive forward a coherent environmental strategy which balances the need to address climate change with the need to maintain UK business competitiveness

Manufacturing has long recognised the importance of addressing climate change, managing environmental pollution and operating in a cleaner, more energy-efficient manner. It has, for example, already substantially reduced its emissions over the last twenty years. At the same time, emissions from the domestic and transport sectors have continued to rise.

However, it is vital that the UK's environmental strategy delivers the right balance between achieving our environmental objectives and maintaining our competitiveness. For instance, UK manufacturing is currently facing significantly steeper increases in energy bills than European competitors, due to a combination of the EU Emissions Trading Scheme and rising gas and electricity prices.

At the same time, government must ensure that environmental legislation, both domestic and European, is introduced only when it is environmentally imperative and only after time has been taken to review existing measures.

Government must:

- Investigate the rise in gas prices and act to correct the current market failure
- Encourage European partners to accelerate the liberalisation of their energy markets
- Focus on the consolidation and harmonisation of Phase II of EU ETS rather than its expansion
- Examine the role that nuclear power and carbon sequestration could play in the UK's future energy strategy
- Review the mechanisms tasked with helping business improve its energy efficiency, to ensure that this support is being delivered in the most effective way, and by the optimum combination of 'sticks and carrots'
- Ensure that all sectors of society are making a proportionate contribution to reducing emissions and to tackling environmental problems
- Ensure that UK companies operate on a level playing field and are not forced to implement measures ahead of those faced by our competitors
- Introduce tax incentives and other measures to encourage the development of energy-efficient technologies
- Make progress on the renewable transport fuels obligation
- Support the development of alternative renewable energy sources
- Set up a high-level forum of industry and government representatives to review and make recommendations for a coherent UK waste management infrastructure
- Use revenue raised from the increased Landfill Tax to create the infrastructure required to enable the safe and efficient disposal of waste
- Pursue a new EU definition for waste that will encourage recycling and re-use.

Provide strong and effective business support at regional, national and international levels

UK companies need a level playing field with access to the same level of support as their competitors. Manufacturers are concerned at the reduction in support for UK Trade and Investment, and the over-emphasis on inward investment at the expense of export support. This could reduce our ability to identify new opportunities and markets for exports, especially given the growth in trade in developing economies.

Government must:

- Not further reduce the budget for UK Trade and Investment
- Develop an export strategy that supports companies in identifying new opportunities and markets and clarifies how this support is to be delivered. Government must recognise the added value of Approved Trade Organisations (ATOs) in this important area.

The performance of the Regional Development Agencies (RDAs) has been patchy and companies remain frustrated by the inability to identify which regional agency/body is able to give which type of support. In contrast the Manufacturing Advisory Service (MAS) represents a good example of targeted, practical, outcome-driven business support for manufacturing.

Government must:

- Consolidate regional agencies under the auspices of the RDAs to present business with a clear structure of the framework and services they provide
- Protect RDA funding in real terms and ensure that any new responsibilities are fully funded
- Simplify the RDAs' target framework and align it more closely to the regional economic strategies
- Transfer responsibility of RDAs solely to the Department of Trade and Industry
- Increase the number of business people on RDA Boards to 85 per cent plus chairman
- Protect MAS funding in future years and retain its brand name.

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Reduce the regulatory burden on business and put better regulation at the heart of policy development in the UK and in Europe

Despite the efforts of successive Governments, companies remain concerned about the growing burden and poor quality of legislation. Legislation is often badly drafted and introduced with little guidance or with insufficient time for companies to prepare. Small and medium-sized businesses in particular believe this is damaging their competitiveness and distracting management time from efforts to improve performance.

Government must:

- Ensure that regulation encourages rather than constrains innovation
- Ensure that companies are given sufficient notice of the introduction of new legislation and are provided with accurate and practical guidance
- Improve the assessment of the impact of regulation and its cumulative burden
- Introduce, where possible, sunset clauses into legislation
- Drive forward the better regulation agenda at EU level
- Ensure that the planning system helps rather than hinders industry's attempts to improve productivity, and address important environmental considerations
- Implement the recommendations of the Hampton Review in full.

The flexibility of the UK's labour market is vital in enabling companies to remain competitive and adapt to the rapidly changing markets in which they operate. Global pressures mean manufacturers continually have to adapt their working arrangements to meet customer demands and the growing requirement of employees for improved work-life balance.

Government must:

- Ensure that changes to the Working Time Directive retain the individual opt-out and enable working time to be averaged over 52 weeks without conditions that impose costs or administrative burdens on employers
- Resist future EU legislation that could damage the flexibility of the UK labour market, particularly legislation on temporary agency workers and 'corporate restructuring'
- Simplify the statutory maternity pay/leave regime before implementing any changes to family-friendly employment policies
- Increase the National Minimum Wage in line with a formula based on movements in basic rates of pay across the economy
- Introduce age discrimination legislation in a way that provides employers with maximum certainty on which employment policies and practices will be permitted. In particular companies need to be able to close their defined benefit pension scheme to new employees and offer them an alternative pension arrangement without facing the possibility of litigation

Increase the supply of science, technology, engineering and maths (STEM) skills and ensure young people have quality access to all career options

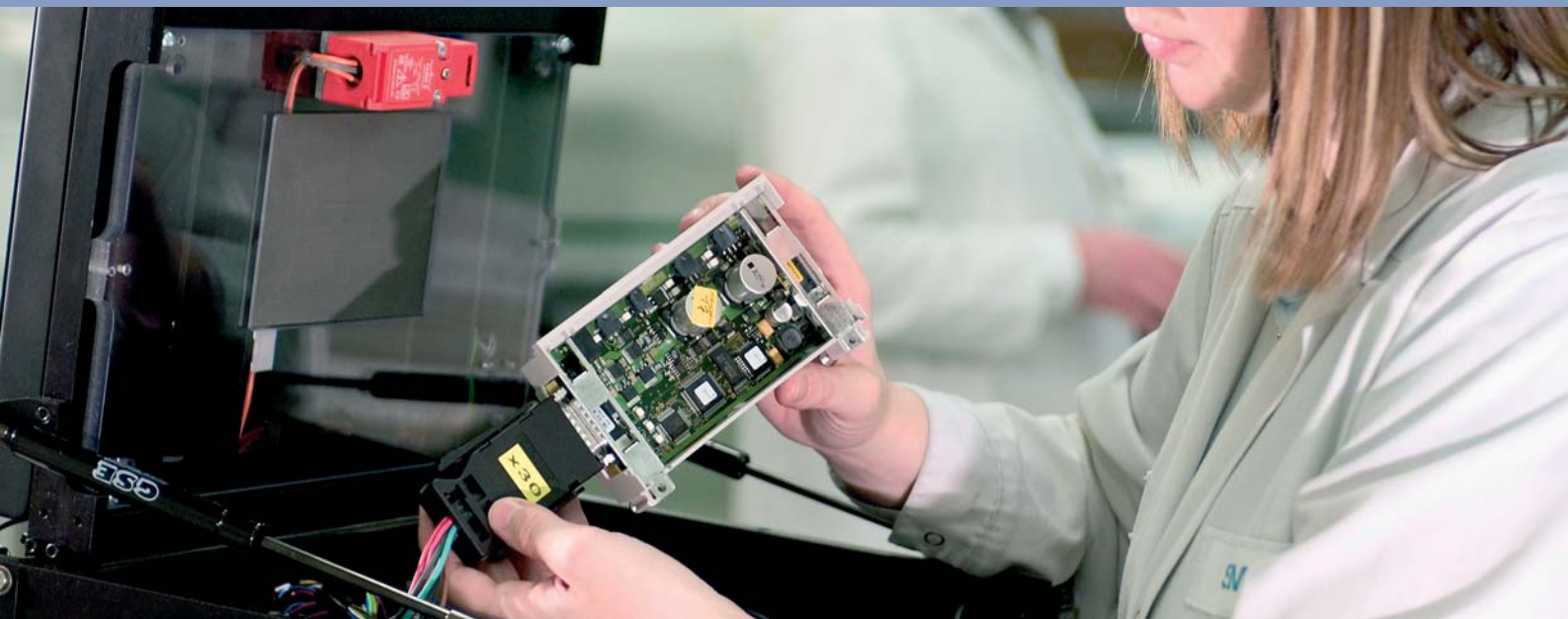
Keeping pace with rapid changes in technology and increased competition from overseas requires substantial investment in education and skills at all levels. This will ensure a world-class, highly skilled and highly flexible workforce.

In particular, the UK remains deficient in skills at craft and technician level, which continues to hamper efforts to improve our productivity. The education system continues to favour academic study at the expense of the vocational route, and high-quality careers advice for all remains inadequate.

At a higher level, the sheer numbers of scientists and engineers being produced by countries such as China and India means it is essential that the UK gives special preference to those studying science and engineering degrees.

Government must:

- Continue to involve employers in reforms to the education system and the design of qualifications and training
- Ensure that the education system gives fully comparable value between vocational and academic education
- Ensure that apprenticeships are adequately funded regardless of age
- Put measures in place to ensure that changes to funding for higher education do not reduce the number of places for students taking science and engineering degrees
- Review the effectiveness of careers advice and ensure that all young people have access to high-quality information, impartial advice and guidance based on their aspirations and abilities
- Develop more effective links between science and schools that provide young people with better information on the opportunities open to them by studying STEM subjects
- Increase the supply of STEM skills available to business.



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Deliver a sustainable solution on pensions, avoiding measures that add burdens to occupational pension schemes

Pension provision is seen as an important recruitment and retention tool by manufacturers. However, they are facing increasing cost pressures that are causing them to review their pension arrangements, and the Government must avoid imposing further costs or administrative burdens. It is also clear that the Government, employers and employees face tough choices if we are to address successfully the UK pensions 'crisis' and develop a private and state pensions policy that is sustainable in the long term.

Government must:

- Follow up the initial report of the Pensions Commission by consulting widely with employers before taking any decisions on the future of private and state pensions
- Ensure that the method of determining the risk-based element of the Pension Protection Fund levy avoids employers with well-funded occupational pension schemes subsidising less well-funded schemes or schemes with high-risk investment strategies
- Introduce the legislation requiring companies to consult employees before making significant changes to their occupational pension scheme in a way that is consistent with the Information and Consultation of Employees Regulations and that enables companies to retain well-established consultation arrangements
- Avoid measures which will impose further costs or administrative burdens on occupational pension schemes.

Develop an occupational health and safety strategy that is focused on rehabilitation and based on sound science, and that rewards performance

Improving health and safety is good business sense. As well as reducing accidents, ill-health and absenteeism, it can improve productivity and result in lower insurance costs. Government must ensure that legislation in this area is scientifically proven, justified and well targeted. Failure to do so will damage competitiveness but, more importantly, distract from genuine efforts to tackle employee health and safety.

Despite improvements in health and safety by manufacturers, they continue to face Employers Liability Insurance (ELI) costs which are not based on risk. Efforts to bring forward voluntary programmes to reduce spiralling claims are not bearing fruit and long-tail occupational health claims remain a significant inflammatory pressure on ELI.

Government must:

- Ensure that any new legislation is based on sound scientific principles
- Develop a coherent rehabilitation strategy which will put downward pressure on ELI and offer the injured person a better deal
- Create a long-tail pool funded by employers that would sit outside the insurance market and operate on a mutual footing. This would replace the long-tail element of the ELI.



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Take forward a pro-business agenda in Europe

As the European Union is our largest market and the source of around half of UK legislation, developments in the EU are critical for business.

Government must:

- Work with our European partners to establish achievable outcomes from the Lisbon process
- Work towards the completion of a genuine single market and ensure a level playing field through consistent implementation and enforcement of EU law
- Explain the implications of both a 'Yes' and a 'No' vote in the proposed referendum on the EU Constitution
- Make clear its intentions regarding British membership of the single currency so as to avoid future uncertainty for business.

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