

BACK AT THE CROSSROADS

MANIFESTO FOR MANUFACTURING



Summary

The UK faces a daunting task in rebuilding our economy. Manufacturers, for their part, will continue to invest in growth. To ensure that that investment and growths occur in the UK, the next government must:

...think and act differently:

- ***Focused, consistent strategy.*** Greater consistency in strategy and delivery is needed at all levels of government.
- ***More effective government.*** Reduce the cost of government by addressing public sector pay and pensions and working better with the private sector.
- ***Framework for growth.*** Rebalancing the economy means using government's influence to send signals to investors; overcome obstacles to growth; become a better customer; and prioritise investment.

...ensure the UK has an internationally-competitive business environment:

- ***Enhance our labour market flexibility.*** Priorities include maintaining a default retirement age and retaining the individual opt-out from the Working Time Directive.
- ***Provide a competitive, predictable tax system.*** Reform Capital Allowances to reflect the true cost of modern machinery and ensure productive sectors of the economy do not bear the brunt of fiscal consolidation.
- ***Tackle long-standing weaknesses in our skills system.*** Resources for STEM subjects should be prioritised and the complex skills landscape must be simplified to deliver a demand-led approach.
- ***Address urgent energy and waste infrastructure needs.*** Government must keep planning independent and take a balanced approach to energy supply and storage.
- ***Invest in innovation.*** Create one source of finance to support ambitious, growing companies and enable businesses to collaborate with universities.
- ***Deliver valuable business support schemes.*** Prioritise funding for programmes that deliver the greatest benefits.

...proactively foster a diverse and dynamic economy:

- ***Give businesses the confidence to invest.*** Government must recognise and support sectors and technologies that will help us meet our future challenges.
- ***Set out strategies to help grow key markets.*** In particular low-carbon vehicles, aerospace and defence, healthcare technologies and construction and building products.

Introduction

Whoever forms the next government faces a daunting task. As we emerge from a period of significant economic and financial turbulence, the next government must decide where we go as an economy.

The decisions made in the first 100 days will have long-term implications: they will determine our ability to generate growth and prosperity, to fund much-needed infrastructure improvements and to create job opportunities across our society.

The next government must, therefore, put in place a strategy that ensures that we can pay our way in the world.

And a diverse and dynamic manufacturing base *must* be a part of that strategy.

Over the coming decade, Britain faces major challenges such as addressing climate change, meeting our strategic security needs and adapting to an ageing population.

Manufacturing alone does not have all the answers, but it can make significant contributions. And a stronger manufacturing base will leave us much better placed to provide the solutions ourselves and enjoy the benefits of higher living standards and higher quality jobs.

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The next government must develop a credible plan for reducing the large fiscal

deficit it inherits. But how it goes about this will be critical. Its plan must be centred on reductions in public spending, driven by significant improvements in the effectiveness of the public sector, strict control over costs and a fundamental rethink of what government does.

The alternative approach – of saddling Britain with significant tax rises, particularly on business – would be highly damaging. It would weaken our competitiveness, undermine businesses' ability to invest in growth and jobs, and send out the wrong signal to international companies looking at where to invest next.

This Manifesto for Manufacturing is a strategy for building a more prosperous Britain.

But the choice for the next government cannot be just a negative one – we will only overcome our problems if we know where we want to go.

This *Manifesto for Manufacturing* is our strategy to rebalance our economy by strengthening manufacturing. Here, we set out how the next government should refresh itself to become more focused and effective. We suggest reforms that will create an internationally competitive business environment that sends the right signals to would-be investors. And we set out a proactive agenda for growth.

In doing so, this is not just a strategy for manufacturing, but a strategy for building a more prosperous Britain.

A fresh approach from government

Within the first 100 days, the next government must make bold statements about its longer-term priorities for economic growth.

This will require a clear, comprehensive and credible strategy to tackle our public finances and diversify the economy by strengthening our manufacturing base. But the magnitude of this task can not be underestimated - the shift to a better, more balanced economy will require the next government to think and act differently.

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A strategic government...

A strategy to diversify our economy must be embedded across government, but this will require a cultural and organisational across government. All levels of government must be focused on the future and pulling in the same direction.

The constant chopping and changing of government ministers and Whitehall departments is incompatible with consistent policy-making. It also creates uncertainty for business. Equally, some policy areas have undergone a multitude of changes in recent years. Major policy swings in areas such as skills and taxation have produced complex and unpredictable systems.

The next government should ensure that it minimises ongoing changes to the machinery of government. This would give policies time to bed in, avoiding the churn that accompanies new ministers

with new priorities. This would also give ministers and officials time to develop the expertise and experience needed to understand and collaborate effectively with modern industry.

There is also a need for greater co-ordination across government to ensure consistency of strategy and delivery. Cabinet Committees, for example, should be given a greater role in the delivery of specific, cross-departmental priorities.

Sub-national governance roles and responsibilities should also be refreshed. The performance of Regional Development Agencies would be improved, for example, if they refocused on their original purpose of promoting economic development.

...with a clear focus

Part of the next government's plan to repair the public finances must also address the cost of government. It can take a lead from the private sector by restraining public sector pay and by taking steps to ensure public sector pensions are affordable and sustainable in the longer-term.

But it must also make decisions about how public services can be delivered more productively and effectively. With growing pressure to deliver greater efficiency gains across the public sector, tougher choices are needed on who can provide services most cost effectively.

In the coming years the private sector is likely to be better placed than government to invest in the capacity to take on more of the delivery role of the public sector. This will extend the transfer of functions such as facilities management, training and employment support to the private sector.

...backed by a framework for growth

If we are to create a more diverse and durable economy, a new framework for growth is now needed.

We do not need to return to the days of heavy-handed government intervention, but we do need to recognise that the orthodoxy of intervening only when markets fail has proved costly and has undermined our long-term competitiveness.

In reality, government influences market outcomes on a daily basis, through taxation and regulation and as a customer and investor. The next government must therefore be clear about how it uses this influence to rebuild our economy.

It can do so in the following ways:

Send signals:

The next government must send clear signals about its long-term priorities and the importance attached to specific technologies or markets. It must provide clear spending and procurement plans, ensure consistency across all parts of government and provide adequate scrutiny of delivery.

Overcome obstacles:

The next government must work with business to identify and overcome the obstacles to growth in new and developing markets; for example skills shortages, infrastructure requirements and bottlenecks in the planning system.

Be a collaborative customer:

Government needs to become a more strategic, better customer by engaging earlier with industry to convey its needs. This will require significant culture change to upgrade the skills, expertise and experience of public procurers if the public sector is to focus on long-term value for the economy rather than short-term cost savings.

Target investment:

With public sector spending set to be cut, a new government must be bold and strategic in its investment decisions, prioritising spending in areas that will deliver sustainable economic growth. Government must become better at balancing risk and communicating its decisions against a set of clearly understood criteria.

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Given the breadth of challenges facing our economy, the next government will need to think and act differently to give business the confidence it needs to invest in the UK. This will require a more strategic government using a framework for growth to put in place an internationally-competitive business environment and proactively pursue opportunities for growth.

A world-class business environment

Modern manufacturing is global in its outlook and our business environment plays a key role in global investment decisions. The next government must ensure we have a business environment that encourages balanced growth.

Maintaining flexible labour markets

The UK's flexible labour market gives manufacturers a vital comparative advantage. This flexibility must be enhanced. In particular the next government should:

- Retain a default retirement age linked to the state pension age.
- Maintain the broad consensus on pension reform and reduce the regulatory burden on occupational and private pension arrangements.
- Resist fresh attempts to abolish the individual opt-out from the Working Time Directive.
- Promote flexible working through the provision of good practice guidance rather than further legislation.
- Help companies improve workforce diversity, without resorting to overly-prescriptive remedies, such as mandatory gender pay reporting.

A modern tax system

The lack of strategic direction of UK business taxation fosters uncertainty and erodes competitiveness, hurting manufacturers trying to plan long-term investments.

Our priorities for reform include:

- A credible, more structured policy and consultative process.

- Capital allowances that reflect the true cost of modern machinery.
- Improved international competitiveness by reducing the effective tax burden.
- Ensure productive sectors of the economy – such as manufacturing – do not bear the brunt of fiscal consolidation.

Skills

Manufacturers should be able to access the skills and training they need to remain competitive. This requires:

- Prioritising resources for Science, Technology, Engineering and Mathematics education, including the engineering diploma and apprenticeships.
- Funding that is demand-led and responsive to the needs of individuals and businesses.
- 'De-cluttering' the number of organisations involved in planning and funding training, and focusing on a sector-led approach.
- Ensuring that both the FE and HE sectors have the right incentives to collaborate with businesses on skills development.

Investing in innovation

The UK's finance and skills systems have failed to adapt to the demands of modern manufacturing. A new government should make the most of scarce funding to address these shortcomings:

- Create a single source of finance to support ambitious, growing companies.
- Provide broader support to help business become better at innovation.

- Ensure businesses of all sizes can draw on the research and technical expertise of universities and research bodies.

Energy supply and infrastructure

We urgently need to diversify the UK's energy mix, partly through the development of new nuclear, partly through infrastructure investment. But the UK has a long history of under-investment in, and delays to, crucial projects. Government must work with the private sector to fund long-term investments in energy and waste infrastructure.

- The decision-making powers of the Infrastructure Planning Commission should be maintained to speed up and depoliticise crucial decisions.
- Secure energy supplies will need adequate gas storage facilities to be built and stocked. The options, including an obligation on suppliers, must be urgently reviewed.
- Support for renewables technologies should be targeted only at the most cost-effective technologies. Feed-in tariffs are the clearest, long-term signal for developing renewables and should be used more widely in the UK.
- The planning system and the waste infrastructure must be improved to increase resource efficiency and produce energy from waste.

Business support

Business support not only helps companies get started but also those wanting to grow. As companies continue to respond to the challenges and opportunities of a changing economic environment, business support can add value by:

- Improving value for money and actively prioritising those programmes delivering the greatest benefits.
- Ensuring that business continues to enjoy the benefits of the recent simplification programme.
- Providing guidance and brokerage through Business Link to all SMEs.
- Prioritise funding for export support to aid companies expanding their reach into world markets.
- Helping companies raise productivity with tailored interventions through the Manufacturing Advisory Service.

Regulation

The next government must change the way it regulates. Bad regulation destroys jobs, but good regulation can spur innovation. To ensure regulation supports growth, the next government must:

- Introduce regulatory budgets to cost and limit the amount of new and existing regulations.
- Take a more proportionate and risk-based approach to regulation.
- Strengthen regulatory impact assessments in the UK and particularly at the EU level.
- Be an early and proactive participant in the EU legislative process.

Generating balanced growth

To build a better-balanced economy, the private sector needs the confidence to continue to invest in the UK; in new capacity, modern machinery, workforce development and building collaborative partnerships with the research base.

Companies that invest here will deliver the solutions to our various challenges – from climate change adaptation to our modern infrastructure needs.

Providing an internationally-competitive business environment is essential, but it is only part of the challenge of attracting that investment. A new government must provide certainty about the UK's economic priorities if companies are to choose the UK as the location for their next investment.

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This will require a proactive approach to fostering a diverse and dynamic economy that draws more heavily on productive, high-value sectors with greater export potential. This will, in turn, accelerate progress in addressing the UK's fiscal and trade deficits and help secure long-term growth and competitiveness.

Decarbonisation – challenges, opportunities and consequences

In all the growth areas identified in this section, the next government has the potential to enhance our prosperity by supporting the development of new industries or the expansion of existing

ones. But adopting the wrong approach could significantly damage our economy and our reputation as an attractive place to do business.

This is particularly true of the efforts that the next government will take to set the UK on a road to a low carbon economy. No one disputes the immense challenges that this will place on business, our energy infrastructure, our use of public and personal transport and our residential and commercial buildings. At the same time it can create significant opportunities for Britain in areas such as renewable energy, nuclear power, low carbon vehicles and engines and domestic heating systems.

It is therefore critical that the next government avoids taking steps that would place UK companies at a competitive disadvantage and deter would-be investors.

In particular, it must work with the rest of the EU to ensure that it does not sign up to targets for reducing carbon emissions that are out of step with the rest of the world. And it must resist the temptation to 'provide a lead' to the rest of Europe by going it alone.

Acting alone on climate change would weaken UK manufacturing by undermining competitiveness and pushing investment abroad.

Going down this road would weaken our manufacturing base, in the short-term by undermining our competitiveness and in the longer-term by pushing investment abroad.

Instead it should focus on increasing financial support for research development and demonstration projects to develop crucial breakthrough technologies that will yield substantial reductions in global emissions, which can be adopted worldwide and which will generate new jobs in Britain.

At the same time, it will need to get to grips with the current (overlapping and complex) array of taxation, trading, regulatory measures and incentives currently confronting manufacturers. The focus must be on measures that provide firms with the incentives to improve their energy efficiency and reduce their carbon emissions – and enhance their ability to do both of these things. And we must look again at more cost-effective ways to develop a low carbon energy supply.

Opportunities for growth

There will be global opportunities for growth in those sectors which target long-term challenges, such as demographic change, the environment and security concerns. But capitalising on that potential requires a new government to set out strategies now on how to grow the following key, priority markets:

Low-carbon vehicles

Although the UK auto industry suffered heavily through the recession, the long-term success of the sector will be determined by the shift to low-carbon vehicles.

- To prevent the sector from being hollowed out, a new government should adopt in full the New Automotive Innovation & Growth Team recommendations for government-backed pilots, investment incentives and supply chain support.

Aerospace and defence

Global opportunities will exist in civil aerospace and in emerging technologies such as composite materials and homeland security. But capitalising on export markets depends crucially on the strength and quality of domestic demand.

- The long-term market for the industry should be linked to a broad strategic security review to ensure cost concerns do not drive capability.

Healthcare technologies

Demographic changes and emerging health trends will boost markets in which the UK is already competitive. But a narrow focus on cost-savings would crowd out innovation, making the UK a less attractive market.

- A new government must be a better customer, taking a more strategic approach to engaging with the UK healthcare industry to reap the full benefits of innovation and research already happening here.

Construction and building products

The UK needs significant infrastructure investment, including schools, hospitals, utilities and transport, as well as new home build and urban regeneration.

- Such investment will boost productivity and generate jobs, but only if a new government is bold enough to work with the private sector to finance and deliver these investments.

Conclusion

At the start of the last decade EEF warned that the UK's economy was at a crossroads: either we grew our manufacturing base or the UK economy would suffer the consequences.

Today we are back at that crossroads.

The devastating depth and duration of the recession have exposed the dangers of an economy built on debt. And it has refocused attention on productive, high-value sectors with greater export potential.

Consequently, the next government faces both difficult decisions for the public finances as well as tough choices on how to rebuild our economy by strengthening manufacturing.

A bigger, stronger manufacturing base can help find the solutions to the challenges facing this country and the rest of the world.

However, an uncertain economic and policy environment is actively discouraging long-term investment and constraining growth.

Our *Manifesto for Manufacturing* has set out how the next government can give business the confidence it needs to invest in the UK, to invest in jobs and to invest in growth.

Ensuring the business environment is internationally competitive and fosters a diverse economy is only part of the challenge.

A new government must also be proactive in fostering a diverse and dynamic economy that draws more heavily on

productive, high-value sectors with greater export potential. That means a greater role for an innovative, agile and diverse manufacturing base.

Regardless of parties' priorities...this manifesto sets out a bold, proactive strategy to grow markets and stimulate investment.

But this shift will not happen overnight. This manifesto sets out a bold, proactive strategy to grow markets and stimulate investment in innovation and skills, while also minimising the pain of reigning in public finances and decarbonising our economy.

Regardless of parties' specific priorities, our manifesto provides principles that should guide and underpin the range of challenges facing the next government. Decisions on transport infrastructure including high-speed rail, defence programmes such as Trident, high speed broadband or even local regeneration can all be tackled with our framework for growth.

Manufacturers, for their part, will continue to invest in growth. The challenge facing the next parliament is to ensure that that investment and growth occurs in the UK.

About us

EEF is dedicated to the future of manufacturing. Everything we do is designed to help manufacturing businesses evolve, innovate and compete in a fast-changing world. With our unique combination of business services, government representation and industry intelligence, no other organisation is better placed to provide the skills, knowledge and networks they need to thrive.

Around a quarter of the UK's manufacturing businesses are our members and many more use our services to help them work better, compete harder and innovate faster. Because we understand manufacturers so well, policy makers trust our advice and welcome our involvement in their deliberations. We work with them to create policies that are

in the best interests of manufacturing, that encourage a high growth industry and boost its ability to make a positive contribution to the UK's real economy.

Our policy work delivers real business value for our members, giving us a unique insight into the way changing legislation will affect their business. This insight, complemented by intelligence gathered through our ongoing member research and networking programmes, informs our broad portfolio of services; services that unlock business potential by creating highly productive workplaces in which innovation, creativity and competitiveness can thrive.

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