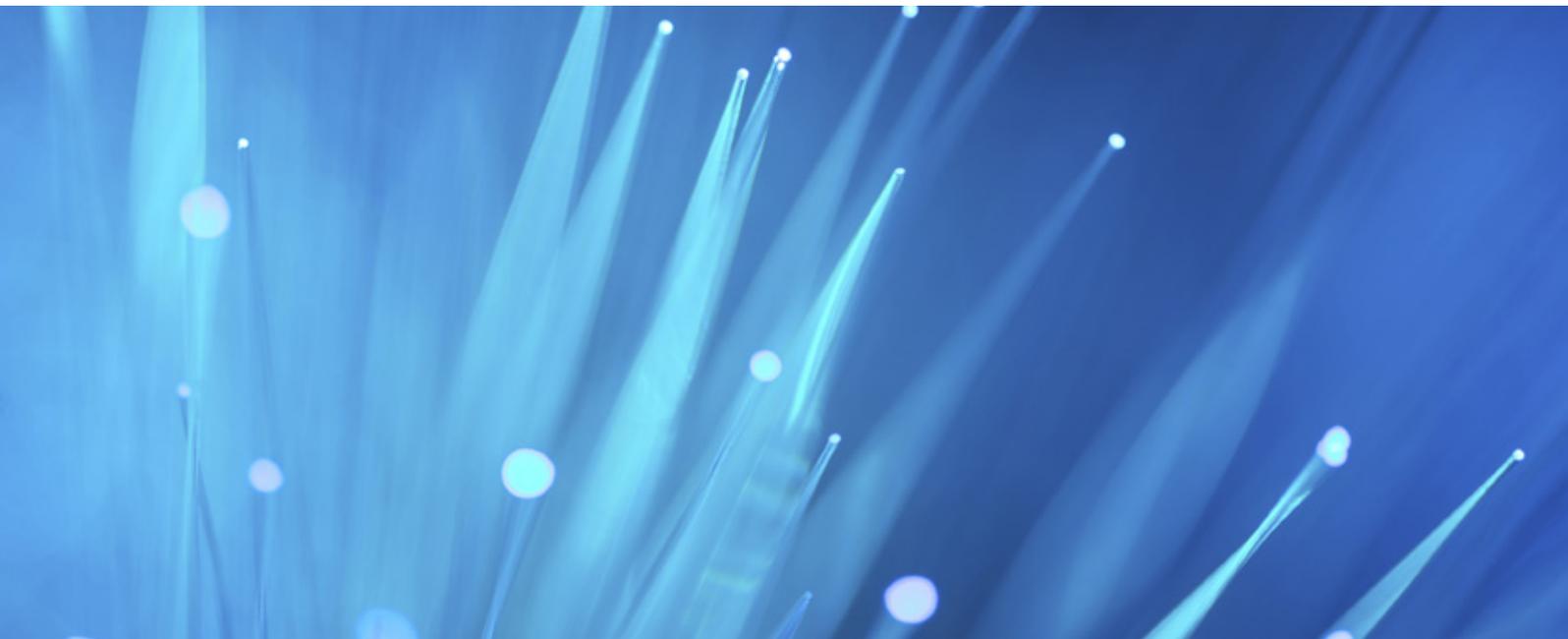


A Manifesto for Manufacturers and Engineering Businesses



Output from the MHA Roundtable with
manufacturers and engineers at the Institution
of Mechanical Engineers

September, 2014



Background to MHA

The Roundtable was convened by MHA, a national association of accountancy firms with members in England, Scotland and Wales.

With a combined turnover exceeding £100 million and a recognised expertise in helping businesses in the technology, energy, manufacturing and engineering sectors, MHA members are active in supporting their clients in accountancy, audit and tax as well as strategic business advice and sector insight.

The Manufacturing Group at MHA also seeks to engage and influence where there are challenges and opportunities facing the sector, working with industry and governmental bodies to promote manufacturing and engineering in the UK.

Participants in this roundtable included manufacturing and engineering businesses, together with advisers and facilitators specialising in the sector from England, Scotland and Wales.

The aim of the roundtable is to influence all of the major political parties as they formulate policy heading into the UK General Election in 2015.

The simple recommendations contained in this paper are based on the outputs of the sessions and reflect the belief of the participants that they are both achievable and necessary to accelerate growth and ensure that manufacturing and engineering in the UK can reach its genuine potential and as a consequence, help to guarantee the long-term prosperity of the UK.

The sessions

The sessions were chosen to look at practical and pragmatic suggestions for dealing with some of the major opportunities and challenges the sector faces. Broadly, there were four sessions although inevitably there was some cross-over between them. Participants divided and contributed to two sessions each.

Two sessions looked at organisational issues facing the sector whilst the other two had a financial bias:

The Organisational Sessions:

1. Encouraging a British Mittelstand
Chair: Philippa Oldham, IMECHE

2. Beating the Skills Gap – what should a new Government Do?
Chair: Dr James Balkwill, Oxford Brookes University

The Financial Sessions:

3. The key to re-shoring is quality and pricing so how can we deliver them both?
Chair: Steve Cartwright, MHA member, Henderson Loggie

4. Simplifying taxes to encourage investment and reward innovation – where would you start?
Chair: Alastair Wilson, MHA member, Tait Walker

Conclusions from the Encouraging a British Mittelstand session:

Chair: Philippa Oldham, CEng MEng (Hons). IMechE

Direct comparisons with the German Mittelstand model do not stand up, although the UK can still gain a great deal by adopting and adapting some of the features that work well in Germany.

These include recognising the value in local supply chains, strong links between business and the education sector and a more regionalist approach.

The diverse experience amongst the roundtable attendees indicated that there is a good case for looking at a stronger organisational emphasis on the regions. The example of Industry Wales was used to illustrate the advantages of integrating the whole approach under one regional umbrella. There is a ready-made identity (e.g. the North East, Scotland, Wales, the South West, The Midlands etc) and synergy between businesses, education provision, transport and infrastructure is already largely based on the regional model.

So to benefit the sector what should this organisational change based on a regional model encompass?

- **Support:** UKTI, MAS and other agencies supporting the manufacturing sector should be organised around regional hubs and their service provision should be co-ordinated on that basis. BIS should have and police transparent service level

agreements in relation to the provision of support to the sector. At the moment, businesses in different areas of the UK report varying levels of support and delivery of support.

- **Regional Manufacturing Forums:** Whilst the French model of requiring businesses to be a member of a Chamber of Commerce was discussed, funded regional forums were thought a better solution. These manufacturing forums would co-ordinate training and mentoring, facilitate networking and look to build more local supply chains, thus helping to accelerate the piecemeal re-shoring process taking place across the UK and assisting in knowledge transfer between businesses and the education sector.
- **Business Engagement:** At the moment businesses in the sector, particularly those in the SME zone, are not particularly good at engagement and thus miss what signposting there is to the help available. Building stronger regional forums with a mandate to find businesses in the sector and signposting them to the help that is available is part of the answer, but businesses themselves also need to learn to understand the advantages of better engagement.



Conclusions from the Encouraging a British Mittelstand session:

Chair: Philippa Oldham, CEng MEng (Hons). IMechE

- **Grants:** Grant provision to the sector should be ring-fenced and flat (in other words available to all rather than being biased towards certain regions). We should be investing in success on the basis of success, not on postcode. Any necessary regional bias should be delivered through a separate Regional Development Fund stretching across sectors.
- **Funding:** Many of the banks are already organised on a regional basis albeit that their alignment may differ to each other. One feature of the German model is that they have strong regional banks who of course lend regionally. Encouraging our banks to develop strong regional branding and market their business products regionally – i.e. – ‘we have £100million to lend in the North West’ would help cement the regional model.

In conclusion, there needs to be a balance of centralised and de-centralised organisation with a flexible approach to regional needs but driven on service levels set, monitored and guaranteed nationally.

SUPPORT BODIES:

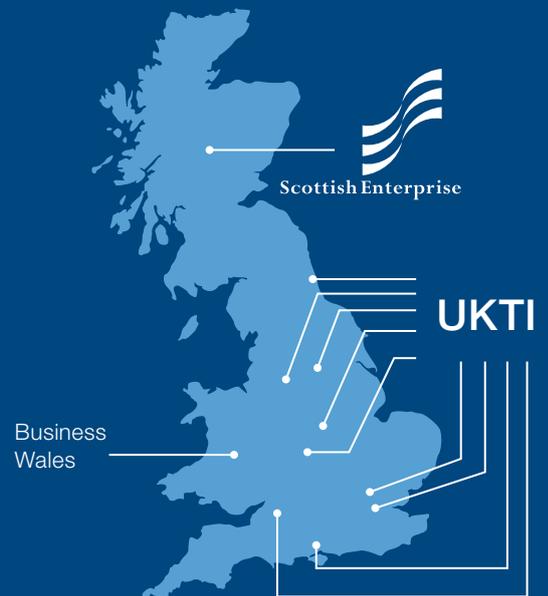
MAS HAS AN
 **80**
 STRONG TEAM
 OF EXPERT
 MANUFACTURING
 ADVISORS

- INSTITUTES
-  The Institution of Chemical Engineers
 -  The Institution of Civil Engineers
 -  The Institution of Engineering and Technology
 -  The Institution of Mechanical Engineers
 -  The Institution of Nuclear Engineers
 -  The Institution of Structural Engineers
 -  Royal Aeronautical Society

EDUCATION BODIES



BIS



Conclusions from the Beating the Skills Gap session:

Chair: Dr James Balkwill, Oxford Brookes University

'What should a new Government Do?'

Arguably, the skills issue is the biggest single challenge now facing UK manufacturing and engineering. At whichever level one looks, there are serious issues.

According to a recent report by the Government office for Science there will be 800,000 jobs to fill in the years up to 2020 as people retire or leave manufacturing. With a shortage already building, the ability of the sector to grow, produce, sell and export manufactured goods or engineering solutions is under real threat. Whilst there is good work being done around improving apprenticeships and establishing the University Technical College concept much more needs to be done. The roundtable discussion on this issue was lively and contentious. The headline recommendations were:

- **Demand-led education:** Government should set education strategy to produce young people with skills appropriate to the UK's employment needs. Demand-led education would therefore look at the estimated needs of the manufacturing, engineering and other key strategic industries and tune secondary education to produce young people with the appropriate skill sets. Some of our young people would go straight into vocational training via apprenticeship schemes, whilst others would look to undertake a university education to provide the next

generation of engineering graduates (see below). Whilst some academic subjects are commonly needed, vocational and STEM subjects (Science, Technology, Engineering and Mathematics) need to be given more emphasis and their value reflected within the system. It is too early to see the effect that the University Technical College will have, but the initiative is seen as a positive one albeit, the jury is out.

- **Funding for learning:** To pump prime an interest in engineering as a career and to underline the importance of it to prospective engineers, tuition fees for prospective graduates in qualifying courses should be reduced or abolished. There was a suggestion that some degree courses should attract a premium tuition fee where there is no discernable career path but this suggestion is perhaps beyond the remit of the roundtable!
- **Persuasive profiling – brand building for UK Manufacturing Plc:** Much of what needs to be done is wrapped up with projecting the manufacturing and engineering sector in as positive a way as possible. Business, government, the education sector and especially the media all have their parts to play but again, this is something that needs to be co-ordinated from the centre. We can certainly learn from places such as Germany, as it is perceived that engineering as a career is held in significantly higher esteem than it is here.



Conclusions from the Beating the Skills Gap session:

Chair: Dr James Balkwill, Oxford Brookes University

Meeting the Challenge: Demand and Supply of engineers in the UK (IMECHE):

Forecasts suggest that the UK needs to more than double the number of engineering graduates if it is to meet likely demand in the period to 2017.

As reported in The Engineer Britain faces a shortfall of:

 **36,800**
QUALIFIED ENGINEERS

by 2050 due to skills shortages, an ageing workforce and restrictive migration policy, according to Randstad CPE.

- **Sector engagement with schools:**

Business engagement with schools, colleges and universities needs to be stepped up to win hearts and minds and to dispel the 'dark satanic mills' picture, so often still associated with manufacturing and engineering in the UK. This might be easier to achieve if co-ordinated by a regional manufacturing forum facilitating structured contact between schools, colleges and members, but there has to be a framework and funding to help.

- **University and Higher education:**

Demand-led education needs to be supplemented by a programme of investment in our universities. Creating more demand in our university system for engineering and allied vocational degrees has to be matched with developing and expanding the courses that will produce world-class graduates and post graduates. The cost of training an engineer is proportionately more than say teaching a history undergraduate. If the job is to be done properly, then workshops and labs have to be outfitted with the most up-to-date equipment and links with local employers need to be forged.

- **EITB and skills co-ordination:**

The resurrection of the Engineering Industry Training Board (EITB) is a strong recommendation. The abolition of the EITB was a disaster for the sector. Whilst there are various organisations with notional responsibilities for some of the tasks that the EITB used to undertake, what is needed is a centrally run organisation seeding and overseeing the application of national standards in skills training, especially at apprentice level.

- **Training levy:** The reintroduction of a training levy would help to fund the resurrection of the EITB and the national programmes it would need to put in place. Funding would also need to be found for training facilities in the FE sector to allow apprentices to be given the basic engineering grounding independently of their workplace. Such training might also be provided by larger businesses that would be able to benefit from reduction in, or even payments from, the levy.

Conclusions from the re-shoring session:

Chair: Steve Cartwright, MHA member, Henderson Loggie

'The key to re-shoring is quality and pricing so how can we deliver them both?'

On the 11th April, Business Secretary Vince Cable announced

£100m

to help companies strengthen their domestic supply chains and create or safeguard thousands of jobs. The new funding will provide support for the increasing trend of 're-shoring', as companies bring manufacturing back to the UK from abroad. Companies looking to strengthen their supply chains through capital investments, research and development, and skills training will be able to start bidding for funding.

- **Re-shoring:** With increasing costs for shipping and logistics and with quality issues on some goods manufactured abroad that are difficult to resolve, re-shoring production to the UK is becoming more attractive, but whilst there are agencies such as UKTI to help with exporting, there is little support to help develop re-shoring. A Department for Business Innovation and Skills led initiative with incentives to encourage production back to the UK could turn the trickle into a flood.
- **Displacing Imports:** The balance of trade is of course tipped by the amount of goods we import as well as by the goods and services we export. Currently there is no funding available for import displacement, which is necessary at supply chain level in order for re-shoring to be sustainable e.g. parts/machines that manufacturers require for their own products. Currently, UK manufacturers have to order parts such as motors, from as far afield as China, resulting in long delivery times which means they either have to hold parts for stock or they cannot make products to order at short notice, meaning they may miss out on sales.

Conclusions from the tax regime session:

Chair: Alastair Wilson, MHA member, Tait Walker

'The UK's tax regime and incentives need to encourage re-shoring'

Whilst the increase of the Annual Investment Allowance to £500k announced in this year's Budget is positive, cash-flow is king for SMEs.

- **Background:** This session considered the range and effectiveness of the tax incentives which exist in the UK for businesses who manufacture in UK sited operations and what additional incentives could be added which would increase the rate of re-shoring.

The session considered the incentives which were offered in other countries as a benchmark of what could be offered by the UK in addition to those currently offered. The session also considered how the tax incentive system compared to the use of grant funding.

- **Tax incentives to encourage re-shoring:** The general consensus of the roundtable is that the UK has a very competitive tax system for companies (though it was noted that the UK's tax system was considerably less effective if the activities were not carried out by companies, as many UK tax reliefs are specific to corporate tax and so cannot be claimed by businesses which are not subject to corporate tax).

The main areas of "additionality" which were viewed desirable to encourage re-shoring included re-introduction of a

tax relief for the cost of new manufacturing premises (as Industrial Buildings Allowances had been phased out several years ago) and also introduction of "enhanced" incentives to provide training (e.g. there are incentives being introduced to hire staff who are under the age of 21, but there is no additional incentive to provide training which would accelerate development of skills/knowledge).

- **Annual Investment Allowance:** Whilst the increase of the Annual Investment Allowance to £500k announced in this year's Budget is positive, improving cash-flow remains the key priority for SMEs. Many SMEs continue to struggle to secure funding for vital new equipment and once they have the funding, the added burden of paying VAT on those new assets (currently at a rate of 20%) can present significant cash-flow problems. VAT becomes payable upon delivery, therefore SMEs may try to arrange delivery towards the end of the quarter, so that they can file their quarterly VAT returns soon after to reclaim the cash.

The roundtable group raised the suggestion that SME manufacturers could be provided with a temporary exemption from VAT on the acquisition of plant & machinery, or at least allow them to make VAT claims on a monthly basis to improve the rate of cash-flow arising from plant & machinery purchases.



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Conclusions from the tax regime session:

Chair: Alastair Wilson, MHA member, Tait Walker

- **Incentives to invest:** The roundtable group considered whether or not the UK’s tax incentives encourage investment in practice (either “inward” investment or from the UK)?

The UK was regarded as a highly competitive country in respect of global tax rates and incentives for innovation, and so there is evidence of companies headquartering or investing in the UK as a result. However, a key issue now arising is that the UK’s tax system did little to direct inward investment to economically disadvantaged regions and away from large economic centres such as London. It was noted however that if powers to vary taxes were given to Scotland, Ireland and Wales, we could create unwanted internal competition for investment so the answer may be in finessing a regional funding model with very focussed objectives.

- **Tax Incentives for skills:** The consensus of this session was that additional tax incentives to provide further training and training facilities for engineering and manufacturing businesses would encourage investment in training. An example was given of an engineering company which had established an engineering academy, but had received no direct financial support to do so.

In addition, establishment of in-house training facilities by employers should be given additional tax reliefs for the cost of provision of the buildings (again no specific tax reliefs exist for the creation of training facilities by manufacturers following the removal of Industrial Buildings Allowances).

Such provision could be identified and championed by a resurrected Engineering Industry Training Board (see above).

- **Job creation:** It was acknowledged that manufacturers are wholly underwhelmed by the new Employment Allowance, which gives employers £2k to set against employer’s Class 1 NIC.

The session considered that a bolder approach was needed, for example manufacturers would like to see government do away with employer’s NIC for new employees for a set period (for example a period of two years after employment) and that this could be easily administrated through the new Real Time Information system.



Conclusions from the tax regime session:

Chair: Alastair Wilson, MHA member, Tait Walker

- **Game Changers:** The main “game changers” which were proposed would be reliefs which encouraged displacement of imports by making UK production more cost effective and so which could be passed on to the consumer directly. It was acknowledged that there were difficulties balancing an aim to displace imports with the requirements of global competition regulations such as free trade rules applied by either the EU or the World Trade Organisation.
- **The Efficacy of Grants Compared to Tax Incentives:** Both grants and tax credits were valued by participants. Grants were seen as having benefits of being promoted as providing funding “up front” rather than in a manner which is retrospective (unlike tax rebates) and so a commitment of a grant could make it easier to obtain bank borrowing (e.g. if the grant was formally offered with an agreement in place, then it became easier to borrow the remainder).

However, tax credits were acknowledged as having the benefit of not being “competitive” in their nature and companies benefitted from knowing that they were entitled to credits rather than having to bid for them in a competitive process against other applicants.

The session considered whether or not grant experience actually matched the Government’s intentions (for instance, it was noted the National Audit Office were concerned that the Regional Growth Fund has had a budget of £2.6bn across the

first 4 rounds but only £917m has actually been allocated to users – whereas the R&D Tax Credit supplies cash rebates of more than £1bn annually via the corporate tax system).

The group contained a mix of organisations who had used grant funding provided directly and indirectly by the Regional Growth Fund. One company had received a large capital grant towards a new large scale production facility and it was noted that significant work was needed for the application process and the application failed first time but was then resubmitted without alteration and succeeded on the second submission. Other companies had benefitted from cheaper asset finance costs which had been provided through grant funded contributions to the finance for plant and machinery.



Conclusions from the tax regime session:***Chair: Alastair Wilson, MHA member, Tait Walker***

However, many manufacturers remain cynical about funding, grants and tax credits. They feel the awards available are promoted by the Government in a haphazard fashion, often creating a ‘postcode lottery’ for funding and the awards are often not commensurate with the administrative burden and for this reason many eligible companies are still not claiming R&D tax credits or grant funding towards their investment projects.

The attendees were unanimous in expressing that they would like better, clearer, central sign-posting on grants and funding in general. Furthermore, they would like help to better distinguish what is government-backed help designed to promote innovation (i.e. R&D tax credits) and what is considered tax avoidance (and this also is exacerbated by the Public Accounts Committee who openly criticise companies for using tax reliefs in the manner the rules intend).

The conclusion

Further reading:

Engineering the Future:
The action forum for
engineering.

www.engineeringthefuture.co.uk/vision

Foresight (2013): The
Future of Manufacturing:

A new era of opportunity
and challenge for the UK
Project Report

The Government Office for
Science, London

For further information
about the Project please
visit:

www.bis.gov.uk/foresight

IMECHE (2011): Meeting
the Challenge: Demand
and Supply of engineers in
the UK

www.imeche.org/docs/default-source/position-statements-education/Skills_Report_-_September_2011_1.pdf?sfvrsn=0

A plea to future governments:

The ideas and suggestions contained in this paper are the consequence of a Roundtable involving small and medium sized manufacturing and engineering businesses from many regions of the UK.

We commend their passion for the sector in the UK and for the time they give to promoting the sector (of which their involvement with the roundtable is but one example). As we go forward toward the 2015 election, we want their views to help to influence manufacturing policy in the UK going forward.

They would like to see a well thought through industrial policy, set for the long term and stripped as far as possible of the vagaries of our 5 year political cycle. The long term ability of the UK to compete in a fast moving global market depends on the firm foundations of a stable funding model, a tax system that rewards investment, innovation and skills promotion, and a ready source of dependable, motivated and well educated engineers, technicians at every level.

1. Organisation

There needs to be a balance of centralised and de-centralised organisation with a flexible approach to regional needs.

2. Demand-led education

Government should set education strategy to produce young people with skills appropriate to the UK's employment needs.

3. Re-shoring

The UK needs an incentivised initiative to encourage production back to the UK.

4. Investment

Incentives to invest in innovation, growth and jobs

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About MHA

MHA is a UK wide association of progressive and respected accountancy and business advisory firms. MHA is not a membership organisation, accountancy firms are invited to join MHA only when they meet the standards and culture of the organisation, which includes a commitment to helping our clients to succeed by supporting them above and beyond what might normally be expected from an adviser.

Each MHA firm offers a broad range of services including accountancy, tax and corporate finance as well as sector specialisms. They work collaboratively under the MHA banner when clients have multiple locations or specific national needs. MHA firms are characterised by their strong regional reputation for providing outstanding accountancy and business advice to entrepreneurial businesses.

With 46 nationwide offices MHA is able to balance national access and capability with the local insight and perspective that individual member firms offer their clients. As well as our national presence MHA is a member of Morison International, giving access to a global network of trusted advisers.

Thank you



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