MANUFACTURING PROSPECTS REPORT

Institution of MECHANICAL ENGINEERS

IMechE Services Ltd

BDO

> Engineers excel when you give them a problem to solve. We know that the majority of them were in the 'remain' camp but now you can see them starting to turn their minds to seizing the opportunities this new situation brings. As the survey shows they are already thinking 'beyond Europe' and welcoming the chance to do that as part of a long term industrial strategy.
>
> It is crucial that the Government looks to reach out to this 'early adopter' segment and provides the investment needed for their ideas to take hold more widely.

DR COLIN BROWN,
DIRECTOR OF ENGINEERING,
INSTITUTION OF MECHANICAL ENGINEERS

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INTRODUCTION

The United Kingdom's decision to leave the European Union ("Brexit") will have a profound effect on manufacturing. There are early signs that all is not doom and gloom and sector data since Brexit has been mostly positive (UK manufacturing PMI in October was at 54.3 with upturns in output, employment and new orders and GDP grew by 0.5% in the third quarter).

There is also no doubt that Nissan's decision on 27 October to build two new models in Sunderland was a highly significant and positive announcement for the future of the UK automotive industry and UK manufacturing in general.

However, the major issue for all sectors at this stage is uncertainty as to whether this will be a hard or soft Brexit and the implications that this will have on the way we are able to sell our goods into the EU – which is still by a long way our largest customer block. Markets and indeed businesses do not like uncertainty, so volatility might well become part of the new norm over the next two years.

We have already seen an immediate impact with the massive devaluation of the pound in the period since Brexit. This has both benefits (exporting UK manufactured goods should in theory be easier as the relative price for overseas buyers drops) but also disadvantages (importing goods from overseas as finished products and components becomes more expensive, particularly when the protection of currency hedges is removed with the passage of time). It is almost certain that if the pound stays at a low relative value, firms will struggle to absorb the higher costs of imports and this will work its way through to consumer prices - and inflation will increase.

The availability of the right skills has been a long term issue for the UK manufacturing sector. A hard Brexit may have further implications on the ability of UK manufacturers to recruit both the high level engineering skills to maintain our edge in research, development, design of products particularly in the era of Industry 4.0 and the lower level (and cheaper) skills that drive large parts of the sector. This is likely to require changes in how we manage the immigration process and over the medium and long term how we develop the right skills that we need to maintain a successful manufacturing centred economy.

> **"Markets and indeed businesses do not like uncertainty, so volatility might well become part of the new norm over the next 2 years"**

It is these key factors which should drive the Government's thinking when developing its industrial strategy and establishing the long term framework that industry needs to be successful. We expect to see the detail in the Autumn Statement. But there is no doubt is that a sensible and supportive industrial strategy will be vital to helping manufacturing deal with the implications of Brexit in the short and long term.

This survey with the Institution of Mechanical Engineers questioned manufacturing companies to ask their opinions on the likely effects of Brexit on their businesses. We are thankful to all those who shared their thoughts – we hope you find the survey findings interesting and helpful.

If you would like to discuss issues raised in this report, please don't hesitate to contact me or your usual BDO Manufacturing partner.

T. Lawton

TOM LAWTON

Partner, Head, BDO Manufacturing

EXECUTIVE SUMMARY

WHAT HAVE ENGINEERS AND MANUFACTURERS TOLD US ABOUT THE IMPACT OF BREXIT?

OVER HALF THINK BREXIT WILL HAVE A NEGATIVE IMPACT

Over half (51%) of UK manufacturers believe the UK's decision to leave the European Union would have a negative impact on the manufacturing sector and their business. However only one in five (18%) said Brexit would actually be 'positive' for manufacturing.

SIZE MATTERS

Among bigger companies with an annual turnover of over £350m, more than half (54%) said Brexit would negatively affect business and just 12% said the effect will be positive. Brexit would have no effect on revenues for a hefty one third, possibly indicating that for many big, global companies with UK operations, the UK's EU status is less important than major fundamentals like the global vitality of their sector, inflation and geopolitical stability.

This was born out by the responses to a question about how important the EU is to manufacturing businesses: while 30% said the EU was extremely important, one half said EU membership is less important than business fundamentals and 18% said EU membership was of very little relevance to its company's strategy.

20% of small companies with <£10m turnover (SMEs) said EU membership was of little relevance to the company but among bigger companies over £100m turnover, only 9% said this – indicating that the bigger the company, the more important Brexit becomes. 40% of SMEs said it was less important than operational factors (like labour costs and operational competitiveness), while a third of bigger companies agreed with this.

RISK FACTORS AND REGULATION

The survey results specify currency volatility (67%) and a changing political landscape (42%) as the two biggest Brexit-induced risk factors to manufacturing. Other important risks identified are increased costs (39%), regulation changes (37%), weaker demand (35%) and the affect on recruitment and skilled labour (35%).

Regulation was a double-edged sword in the referendum debate. The Leave campaign maintained that the UK would be freed from the burden of onerous EU bureaucracy by leaving. Conversely, in sectors like electronics, by working with a (then) 28-member bloc the UK has drastically simplified the number of individual product and health & safety regulations electronics manufacturers needed to comply with by thousands, according to Siemens' UK chief executive.

FOCUS ON NEW MARKETS

44% of businesses are focusing on internationalisation as their business strategy and nearly 40% of the survey said that they would pursue target markets outside the EU in light of the referendum. An equally significant 35% said they would not – but 40% shows that Brexit was a real spur to companies to focus harder on emerging or non-core overseas markets. Of this group, nearly 50% said Asia was a target market, 45% China and 43% North America. A telling result was that more than 20% of the survey would focus on nearly every geographic region offered, including India and South America. Even Africa procured nearly 20% of the survey who said new markets would be pursued. This points some way to the globalisation of the markets for manufactured goods that companies in Britain belong to the supply chains of.

THE GOVERNMENT'S ABILITY TO HANDLE BREXIT

Brexit changed the political fabric of the UK and led to a new prime minister, cabinet and business department with industrial strategy in its new name.

But a very large 45% of the survey are not at all confident that the Government will negotiate a good deal to leave the EU, while about a quarter are somewhat confident. This represents a precarious lack of confidence in our Government to enter the UK's most important business negotiation for over 40-years.

BREXIT NEGOTIATIONS – IMPORTANCE OF OUTCOMES

The most important outcomes of the UK's Brexit negotiations with the EU for this survey were a stable UK regulatory framework to ensure a smooth transition (74%), followed by tariff free access to EU markets (70%), full access to the EU's free-trade single market (63%) and access to 53 world markets through current EU trade deals (56%). Interestingly, the regulatory framework was marginally more important that tariff free trade, demonstrating the importance of consistent, cross-border regulation in manufactured products.

A LONG TERM INDUSTRIAL STRATEGY

The single most important component of an industrial strategy for manufacturers is to have a long term strategy with a 15-20 year horizon – 79% selected this. This was followed by an education system overhaul to deliver people with skills better suited to the sector (69%) – an ongoing issue for the sector. Manufacturing is a long-term game and the Government should match manufacturers' long-term outlook, avoiding the disruptions of the political cycle.

SURVEY RESULT **HIGHLIGHTS**

51% think Brexit will have a **negative impact** on their business

18% of respondents said Brexit would be '**positive**' for manufacturing

67% and **42%** think **exchange rate volatility** and the **political landscape** are the biggest risk factors for manufacturing from Brexit

45% are **not at all confident** that the government will negotiate a good deal to leave the EU; **26%** are somewhat confident it will

37% want to stay in the European Economic Area, with **free movement of people**

79% selected a **long-term strategy over 15-20 years** as the most important element for an **industrial strategy**

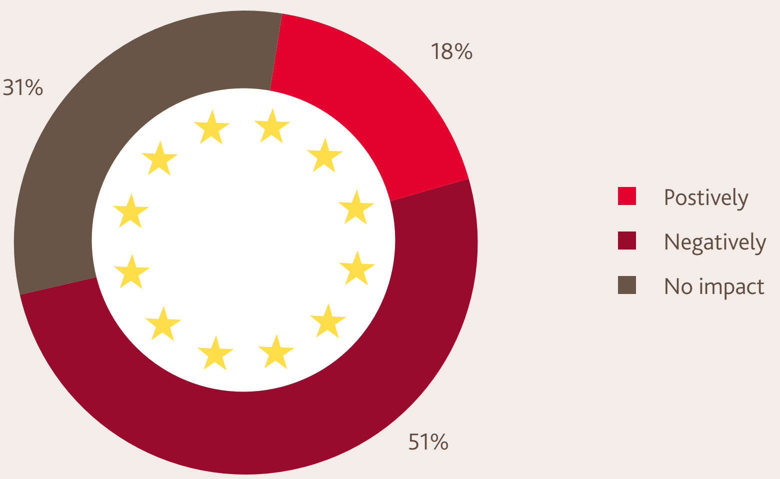
65% of manufacturers said they are making **no changes to their investment plans** post Brexit

44% of businesses are focusing on **internationalisation** as their business strategy in light of the decision to leave the EU

82% believe it is very important for the government to **continue funding engineering R&D** that may have been funded by the EU

SECTOR OUTLOOK

HOW WILL THE UK'S DECISION TO LEAVE THE EUROPEAN UNION IMPACT THE UK MANUFACTURING SECTOR AND YOUR REVENUE GROWTH OVER THE NEXT 24 MONTHS?



COMMENT FROM SURVEY RESPONDENT:

We need flexible migration policies with ALL countries to allow access to skilled labour plus allow foreign graduates with specific skills to work in UK in their field for up to 5 years after graduating

DIRECTOR AT A SME CONSTRUCTION COMPANY IN THE SOUTH EAST, WHO FELT BREXIT WAS POSITIVE FOR THE MANUFACTURING SECTOR

LABOUR AND SKILLS

We have seen that over half the survey (51%) believes that Brexit will negatively affect their business and the manufacturing sector, and that currency volatility, political stability, increased costs and recruitment/skills are perceived to be the biggest negative impacts. Companies that manufacture need foreign labour and there are several reasons. For some, foreign engineers are a necessary part of the talent pool because the UK's education system is not producing enough qualified engineers to meet demand. Some companies need specialist, multi-disciplinary engineers – especially in growing technical areas like additive manufacturing, chemical engineering and vehicle automation. The location of such specialist people is globally dispersed – they are not all based in the UK. Also many manufacturing companies admittedly need cheap labour from the European Union and beyond to run competitive manufacturing assembly operations, such as the vegetable picking and packing industries.

A so-called "hard Brexit" – to achieve full border control, the UK would be excluded from full access to the single market – might damage companies that need this foreign talent to operate as well as restricting access to our most important export market.

AUTOMOTIVE INDUSTRY

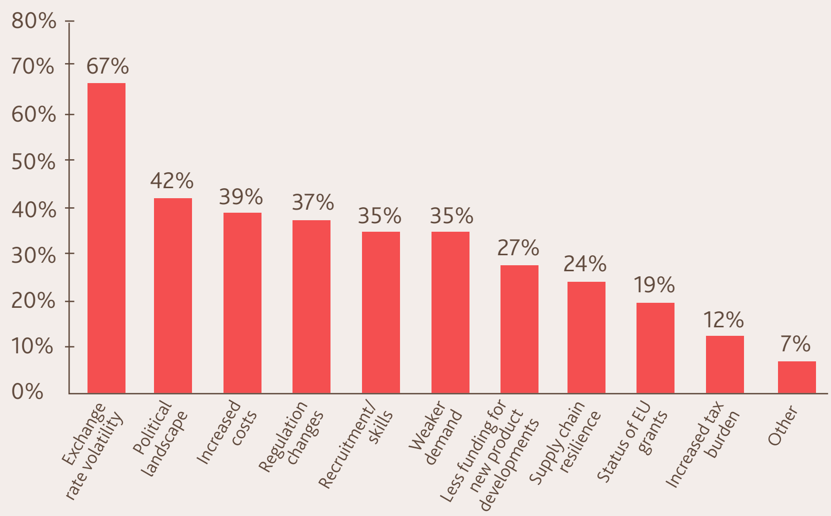
As the Brexit decision sunk in and economic data after the July dip improved, noises emerged from the UK's buoyant car industry – that accounts for 10% of all the UK's trade in goods and employs about 800,000 people – that unsettled business confidence. The Japanese car industry wrote to the UK government in early September stating that future investment in Britain would be jeopardized if it left the single market. In fact, two thirds of the automotive sample in this survey said Brexit would negatively affect their business and UK manufacturing. Just 5.5% said Brexit would have a positive impact and the same number no impact.

81% of the automotive group – including those of No or Positive impact leaning – said the key risk to their business from Brexit in the next two years is exchange rate volatility. While the car industry should benefit from a historically low pound, this is a clear demonstration that UK automotive is largely an assembly industry for components made abroad – largely in Europe and purchased in euros. The super low pound could punish UK car factories.

The automotive sector had a fillip in October when Nissan confirmed it would build two new models at its Sunderland plant, quashing fears of a Brexit-inspired investment in another European Nissan plant. The deal the Government made with Nissan has raised questions about special treatment for other auto makers in the UK.

Over the past five years more than £10bn has been invested within the UK automotive sector which has supported both growth in production, innovation and helped grow a domestic supply chain. In 2015 British car makers made around 1.6 million vehicles of which 80% were exported to more than 100 countries which meant more cars went to global markets than ever before and we are on course to do even better in 2016. However, the UK's biggest trading partner is Europe accounting for just under 60% of the industry's exports. Not only that but we are integrated into a global supply chain with 60% of the components we need sourced internationally – with a majority from the EU. For this sector alone we must make sure that the trade negotiations are right to sustain future growth.

WHAT ARE THE KEY RISKS FOR YOU AND YOUR BUSINESS OVER THE NEXT 12-24 MONTHS? (RESPONDENTS WERE ASKED TO SELECT ALL THAT APPLY)



COMMENTS FROM SURVEY RESPONDENTS ON KEY RISKS:

> **Major clients retreating from UK or restricting UK investment**
>
> OWNER/MANAGER OF £1M-£10M TURNOVER AUTOMOTIVE SUPPLIER IN THE NORTH WEST

> **Brexit will generate a negative attitude from our European customers towards UK exporters**
>
> OWNER/MANAGER OF BUILDING PRODUCTS COMPANY IN THE SOUTH EAST

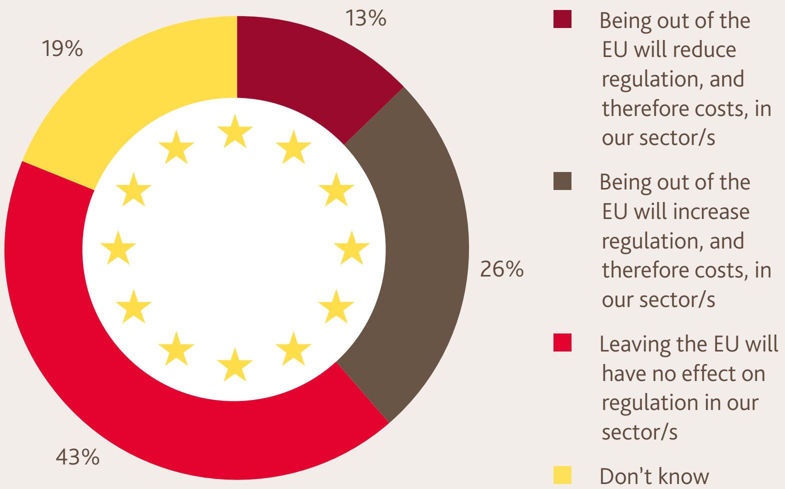
SECTOR OUTLOOK
CONTINUED

REGULATION

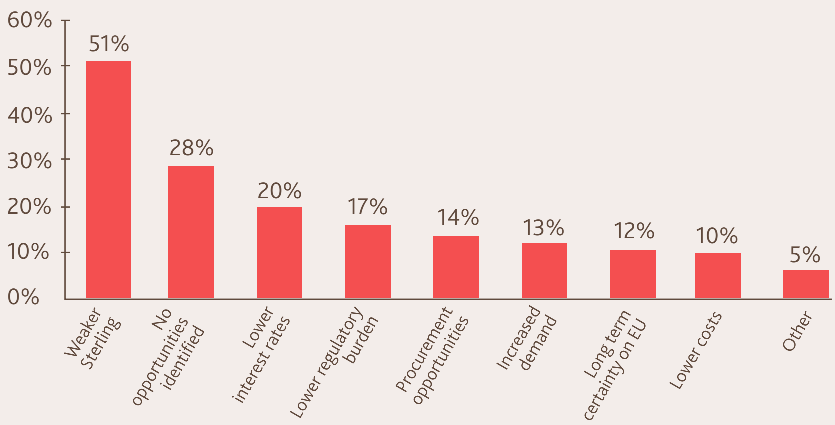
In some sectors, like electronics, the EU has simplified the number of regulations and standards manufacturers had to comply with across Europe from thousands to hundreds. Elsewhere firms will welcome the chance to set their own standards outside the EU. However, 43% of the survey said leaving the EU will have no effect on product regulation in their sector, showing that for many industries product regulations transcend the EU. For example in aerospace, accreditation on parts is largely directed by international standards not set by the EU but devised jointly by US and European professional engineering associations.

To illustrate the global nature of standards, 26% of the survey said leaving the EU will increase regulation and therefore costs and just 13% believed Brexit would reduce regulation and costs. This response may have resulted from the fact that the survey focused on product standards and the EU has made regulation in other areas such as employment arguably more bureaucratic for companies. But other EU laws that critics claim were burdensome – such as the working time and agency workers directives – have benefited British workers and are not as costly to the UK as critics claim, according to the Centre for European Reform.

REGULATION: HOW WILL LEAVING THE EU AFFECT PRODUCT REGULATION?



WHAT ARE THE KEY OPPORTUNITIES FOR YOU AND YOUR BUSINESS OVER THE NEXT 12-24 MONTHS? (RESPONDENTS WERE ASKED TO SELECT ALL THAT APPLY)



NEW OPPORTUNITIES

The weaker sterling was cited by 51% of respondents as a Brexit opportunity, by far the biggest category of opportunity. There is much evidence of the Brexit bounce from a lower currency as UK companies' orders from Europe and beyond have risen as the pound has fallen. Less than 10% of the survey believed that Brexit will mean lower costs.

Lower interest rates (20%), a lower regulatory burden (17%) and more procurement opportunities (14%) were all cited as business opportunities from Brexit, although nearly 28% of the survey said that Brexit has presented no new opportunities.

EXPECTED CHANGE IN INCOME FROM EUROPE

Most (60%) of the companies surveyed receive either less than 20% of their sales income from the EU, or from 20% to 39% of income – each group was 30% of the total number surveyed. Notably, both these small-EU income groups expected EU income to rise in the next five-years. The group with the biggest expected fall in income from the EU was those with a large share, from 60% to 79% of sales, who expected income to halve in five-years. Companies with the highest exposure to the EU, from 80% -100% of sales, expect no significant decline in sales in 5-years.

COMMENTS FROM SURVEY RESPONDENTS ON KEY OPPORTUNITIES:

Weaker sterling is encouraging procurement from UK sources, and improving export opportunities

ENGINEERING DIRECTOR OF £1M-£10M BUILDING PRODUCTS COMPANY IN SCOTLAND

Increased sales focus on Middle East & Russian markets which have higher potential for growth

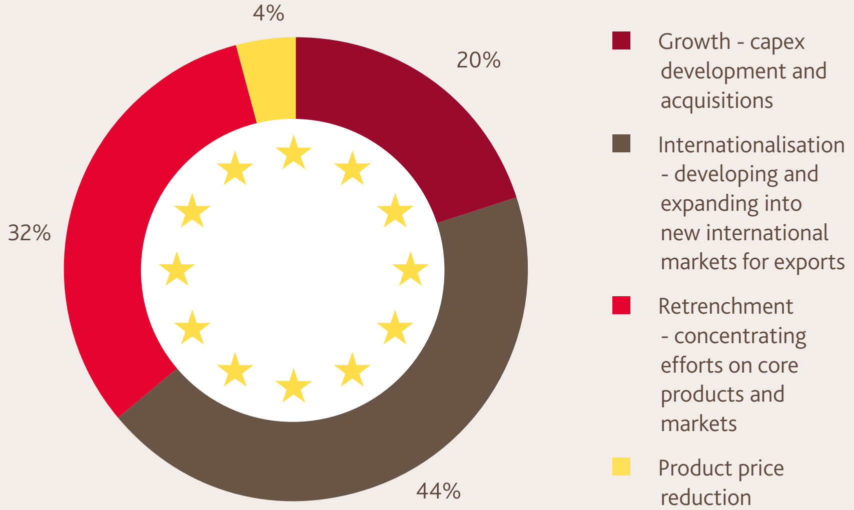
OWNER/MANAGER OF £11M-£100M CHEMICALS/ PHARMACEUTICALS COMPANY IN THE NORTH WEST

INITIAL BUSINESS RESPONSE TO BREXIT

STRATEGY

Business strategy change was offered to the survey as four choices: growth through capex and M&A, more internationalisation, retrenchment, i.e. focusing on core markets and product price reduction. Other than product price reduction, the answers were fairly evenly spread, although the highest proportion, 44%, chose internationalisation. This might indicate that Brexit has spurred companies to look further, believing that some European market expansion is now limited. Or that Brexit has forced their hand to explore exotic markets they hitherto avoided; the desire to trade in the EU is there but they cannot now afford to be complacent. A high 32% selected retrenchment. However one might expect many conservative manufacturing businesses to focus on core products and markets in any business cycle, Brexit or no-Brexit.

WHICH STRATEGY IS YOUR BUSINESS GOING TO OR MOST LIKELY TO PURSUE IN LIGHT OF THE DECISION TO LEAVE THE EUROPEAN UNION?



INVESTMENT

The effect of Brexit on company investment is not that bad, with a rating average of 2.97 to 3.6 out of 4 on a range of investment categories. Generally, in the investment areas listed in the survey – ranging from capex, R&D, and recruitment to outsourcing – the proportion of companies planning to reduce investment was low, with the highest being reduced spend on outsourcing (14%) and R&D (12%), suggesting that Brexit was not a showstopper for normal business spending plans at most manufacturing firms. In fact Brexit could well galvanise firms to maintain or increase their investment plans, as with the internationalisation point above, they cannot rely on European trade to 'carry' the business so new investment is required to both retain existing customers and crack new markets.

While one fifth of those who responded said capex investments were now on hold, and 8% said they were decreasing, 73% said there was no change or were increasing capex investment. It was a similar story with R&D and recruitment investment; the intention to increase investment for R&D (16%) and recruitment (15%) was higher than that to decrease it (12% and 11%), and 65% of the survey said there would be no change in their investment plans.

COMMENT FROM SURVEY RESPONDENT:

Machine tools all come from the EU and Japan, weaker pound will wipe out competitive advantage

OWNER/ MD OF SMALL AEROSPACE ENGINEERING BUSINESS (<£1M) IN SCOTLAND

TARGETING NEW MARKETS

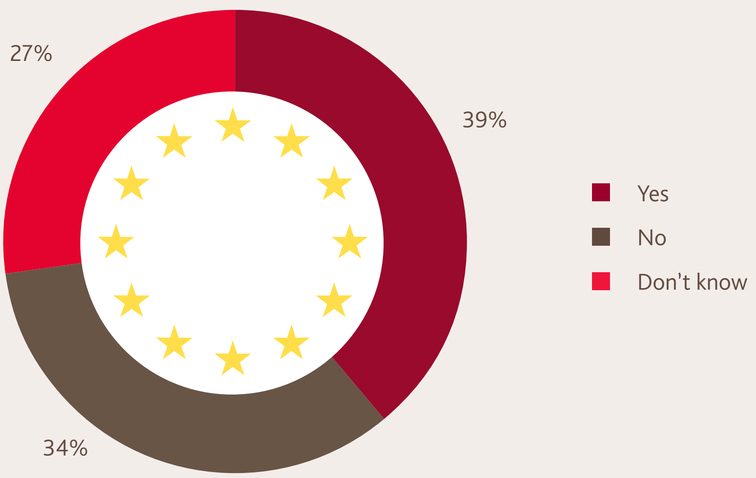
Over one third (39%) of the survey said they will target markets outside of the UK as a result of the Brexit vote. While not a landslide, this is a very high number given the costs and workload involved for any business in establishing foreign markets.

Pointedly, almost as many in the survey, 34%, said they would not target markets outside the EU following Brexit. This would dismay Leave advocates such as Dr Liam Fox, who has maintained that UK companies would be unfettered to pursue new trade deals across the world by leaving the union. But here the high percentage could be explained by the respondent's company being under foreign ownership, or too small to begin an international strategy straight away.

By company size, about one fifth of both small companies below £10m turnover (17%) and big companies of >£100m turnover, voted to retrench and focus on core products and markets in the wake of Brexit, bigger companies showing marginally more interest in this.

Neither statistic looks worrying, for UK growth prospects, in isolation. A much higher proportion for both groups elected to focus on internationalisation to cope with Brexit, targeting new export markets - 30% of bigger companies and 23% of SMEs. But it appears now is not the time to invest in capital expenditure, equipment and new product development: 15% of large companies and just 7% of SMEs elected for this as a business strategy.

IN LIGHT OF BREXIT, ARE YOU CONSIDERING TARGETING (MORE) MARKETS OUTSIDE OF THE EU?



INITIAL BUSINESS RESPONSE TO BREXIT

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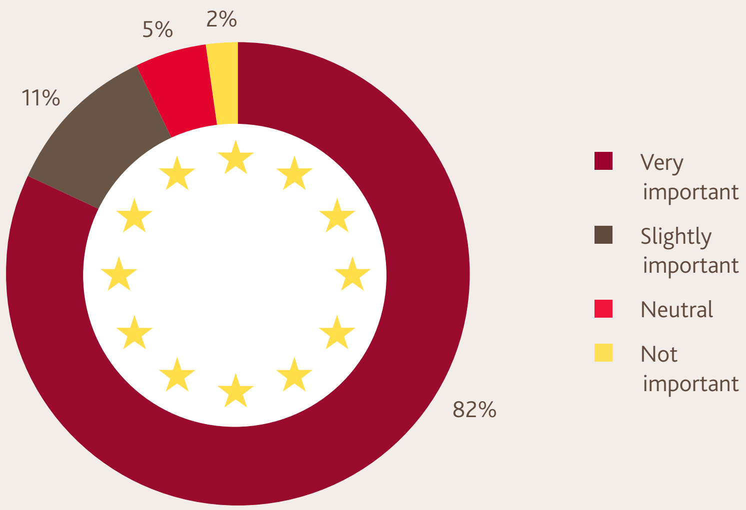
R&D FUNDING

Eighty-two per cent of the survey said it is very important for the Government to continue research & development and innovation funding in engineering, to backfill the lost EU funding. Millions of euros of engineering R&D is directed to Britain from the EU from programmes such as the European Commission's c. EU80bn Horizon 2020 programme, the biggest EU research and innovation programme ever. Only 7% of respondents were neutral or thought continued Government funding in R&D was not important.

However, the perception that the UK will lose out millions in R&D funding from the EU exit may be misplaced. According to New Scientist, recent Royal Society figures show that EU research funding supports just three per cent of UK R&D. The publication says this was UK taxpayers money in the first place, part of the nation's £13bn annual contribution. On the whole, Britain's scientific and academic base gains no more than a marginal benefit from political membership of the EU.

For the UK to remain competitive however, it is important to review how much public money is invested into businesses where there would be an economic return (i.e. Technology Readiness Level (TRL) 4 to 8). Fraunhofer, the German research organisation, has an annual budget of £1.9bn compared to UK Catapults which have less than £400m funded by the Government over five years (which is supplemented by private sector and competitive funding).

POST BREXIT HOW IMPORTANT IS IT FOR THE UK GOVERNMENT TO CONTINUE TO FUND R&D/INNOVATION?



Many UK manufacturers rely on government funding to allow them to carry out R&D, and recognise that innovation is essential to remain competitive in this new European landscape.

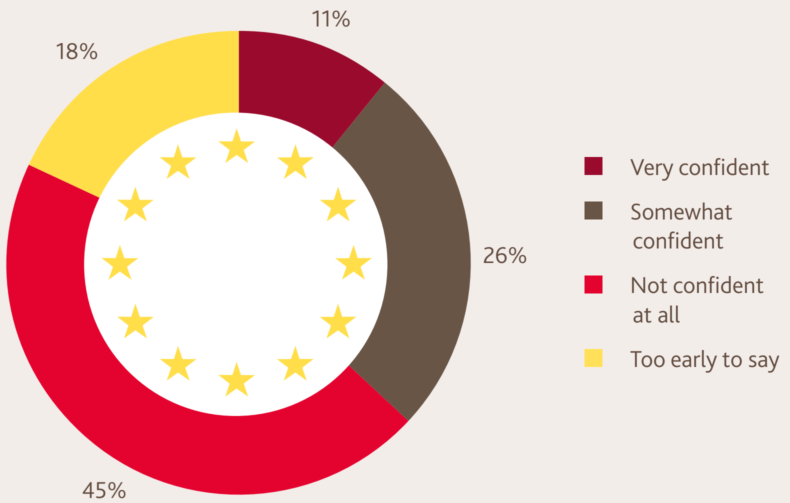
The grants and R&D tax credits claimed by many of my clients over the last few years have enabled the creation of innovative new manufacturing processes and techniques that are so important for the future of manufacturing in the UK.

Once Brexit is completed, the UK government will no longer be bound by EU regulations on the provision of this funding (state aid etc). They will need to put a funding framework in place and consider making the R&D tax credits more generous in order to support our UK manufacturers.

JOANNA MCDOWELL, TAX DIRECTOR, BDO LLP

EU TRADE AGREEMENT

HOW CONFIDENT ARE YOU THAT THE CURRENT GOVERNMENT CAN NEGOTIATE A FAVOURABLE TRADE DEAL WITH THE EUROPEAN UNION BY THE END OF THE TWO YEAR PERIOD SPECIFIED BY ARTICLE 50?



> **From a business perspective all forms of barriers and tariffs will impede trade and reduce the attractiveness of the UK as a location for business**
>
> ANDREW CHURCHILL,
> MANAGING DIRECTOR,
> JJ CHURCHILL ENGINEERING AND MEMBER OF THE BEIS MANUFACTURING ADVISORY BOARD

CONFIDENCE

In perhaps the most telling question on Brexit, 45% of manufacturers have little or no confidence that the current Government can negotiate a favourable trade deal with the EU by the end of the two year period post Article 50. If such a percentage is a yardstick for the wider business community, that is a severe knockback for Prime Minister Theresa May, foreign secretary Boris Johnson and the trade negotiation team now that the PM says Britain will trigger Article 50 to begin the formal process of leaving the EU before the end of March 2017.

Now that we know the formal process will be initiated in 2017, which relationship between Britain and the EU is most favoured by manufacturers? Full single market access, a Swiss or Norwegian hybrid model, full accession as a World Trade Organisation member, or another model?

Most respondents (37%) favoured to remain a member of European Economic Area (EEA), where the consequences include access to the single market, free movement of people, financial contribution to the EU and accepting some EU regulation.

This is the most "Brexit-lite" option and it reinforces engineering and manufacturing as one of the most pro-EU sectors of the economy. It also shows that free movement of labour, with all the perceived risk this involves to jobs for British workers, demands on public services and overpopulation, is a price worth paying for manufacturing firms to secure the talent they need to be globally competitive. Thousands of middle and senior level engineering jobs at many companies in the UK are held by employees of foreign

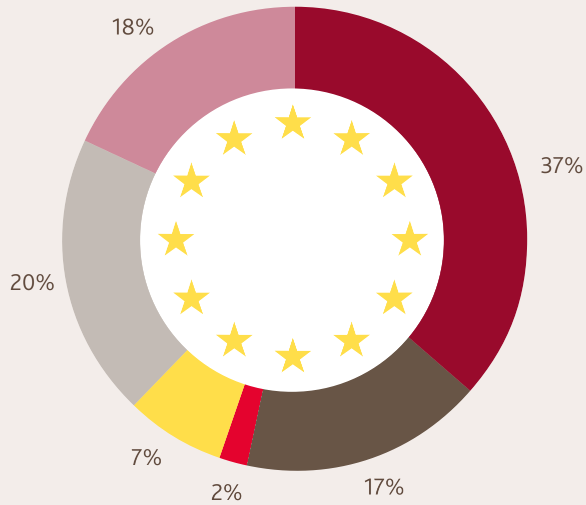
nationality. Preferred EEA membership also shows that engineers are willing for the UK to contribute financially to a supranational bloc in exchange for this access to talent.

A substantial one fifth of the survey selected the World Trade Organisation model, with trade tariffs agreed under World Trade Organisation rules, and involving no financial contribution to or free movement of people with Europe. The least popular models were the Canada model (7%), which has a comprehensive but not total economic agreement, and the Turkey model (2%), with a partial customs union for goods that excludes services.

Interestingly, when asked what the most important outcomes of the UK's Brexit negotiations are for UK manufacturers: most important was a stable UK regulatory framework to ensure a smooth transition (74%), followed by tariff free access to EU markets (70%) and full access to the EU's free-trade single market (63%).

This survey shows clearly that UK-based manufacturing companies favour the Brexit model that is closest to full EU membership, the EEA, but one fifth would like the freedom of WTO membership.

THERE ARE A NUMBER OF POTENTIAL BREXIT OPTIONS FOR THE UK, WHICH ONE OF THE FOLLOWING OPTIONS IS MOST SUITABLE TO YOUR BUSINESS:



- **Member of European Economic Area (EEA):** access to the single market, free movement of people, financial contribution to EU and accept EU regulation
- **Swiss model:** series of bilateral tariff agreements with the EU, will require free movement of people, some financial contribution to EU and accept some EU regulations to allow trade
- **Turkish model:** partial Customs Union for goods but will exclude services
- **Canada model:** comprehensive Economic and Trade Agreement - not 100% coverage but excludes financial services and other goods and services
- **World Trade Organisation model:** tariffs agreed under WTO rules, no financial contribution or free movement of people
- Don't know

UK INDUSTRIAL STRATEGY

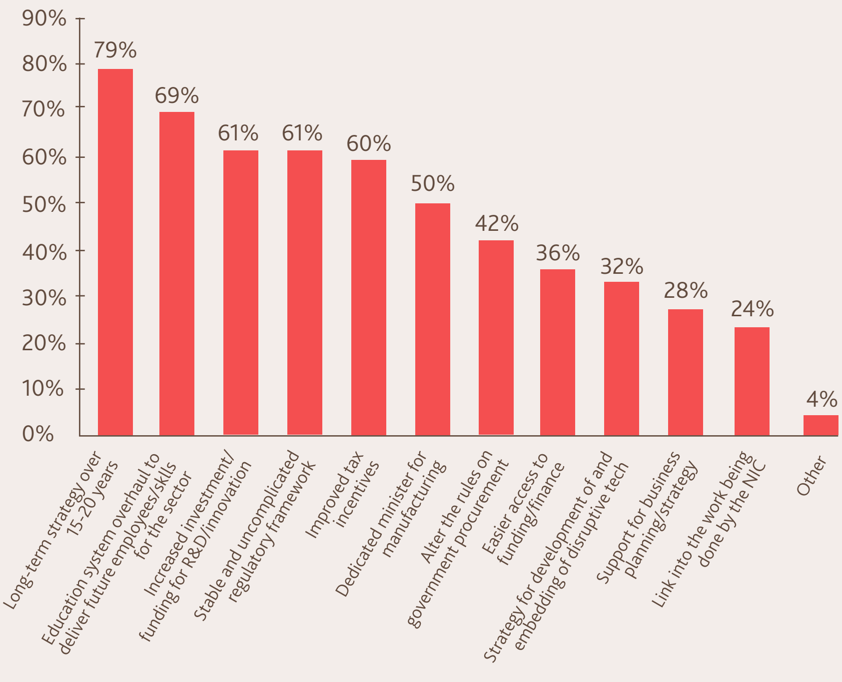
When Theresa May became Prime Minister, she immediately changed the business department's name to the Department for Business, Energy and Industrial Strategy (BEIS), a promising sign to industrialists who have sought formal recognition of a long term UK strategy for industry for decades.

The single most important component of an industrial strategy for manufacturers is to have a long term strategy with a 15-20 year horizon – 79% selected this.

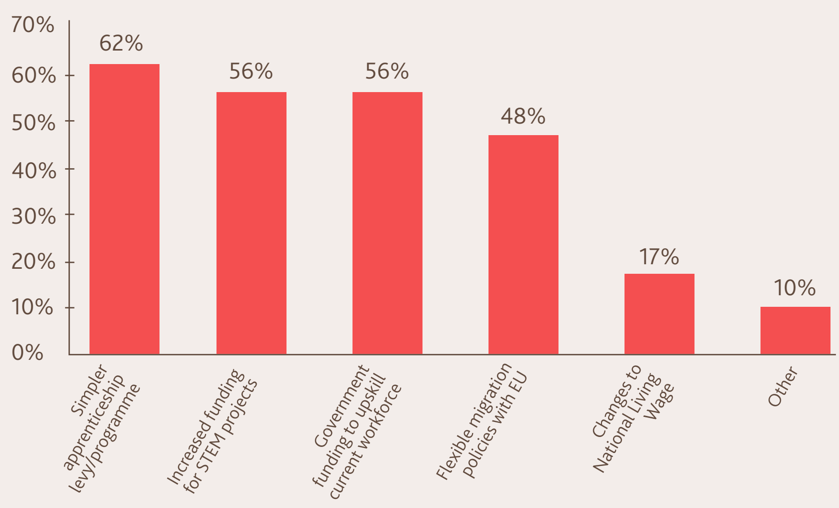
Implicit in this is that consecutive governments should neither terminate nor substantially tinker with the pillars of such a strategy for this period, giving time and consistency for the work to embed and make a real difference. After the 20-year horizon, an education system overhaul to deliver people with skills better suited to manufacturing was very popular (69%), as well as increased funding for R&D (61%), and a stable, uncomplicated regulatory business framework (61%). Half of respondents opted for a dedicated minister for manufacturing, a notion that has been proposed before but rejected by the previous Conservative and coalition Governments. The new look BEIS with renewed conviction for an industrial strategy – partly spurred by the fear of an economic slowdown in 2017 from Brexit – may actually appoint a manufacturing minister, a first for the UK.

A formal link-up to the work of the National Infrastructure Commission and regional growth projects like Northern Powerhouse and the Midlands Engine were least popular, but 24% still thought this was an important aspect of the industrial strategy.

WHICH ELEMENTS DO YOU THINK ARE MOST IMPORTANT FOR AN INDUSTRIAL STRATEGY TO HELP THE MANUFACTURING SECTOR TO GROW? (RESPONDENTS WERE ASKED TO SELECT ALL THAT APPLY)



HOW CAN THE GOVERNMENT SUPPORT THE SECTOR IN ITS SEARCH FOR SKILLS? (RESPONDENTS WERE ASKED TO SELECT ALL THAT APPLY).



CREATING A SKILLED WORKFORCE

The question of how to train more, better skilled people for the manufacturing sector often divides opinion. Nearly two thirds (62%) of the survey thought that a simpler Apprenticeship Levy was key to the industrial strategy. 56% of the survey wanted both government funding to upskill the current workforce and increased funding for STEM projects. The Apprenticeship Levy to make employers pay towards mandatory apprenticeship training in an effort to increase skills levels, has faced criticism by manufacturing and other sectors like construction over both the lack of consultation on the levy and the cost to employers (especially coupled with the introduction of the National Minimum Wage).

> These are crucial days for our sectors – and our country. Skills provision in the UK was delicately balanced even before the Brexit vote. Brexit, whether it be hard or soft, will bring further challenges and no doubt some opportunities.
>
> There remains uncertainty – which coupled with the forthcoming fundamental change in funding, in the form of the levy, is somewhat destabilising – but at least Brexit has refocused attention on the nation's skills needs.
>
> It is imperative that we overcome the obstacles and keep the skills pipeline flowing.
>
> ANN WATSON, CEO, SEMTA

UK INDUSTRIAL STRATEGY
CONTINUED

> To demonstrate that Government are supporting industry the creation of the industrial strategy will shed some light on their future prosperity. Businesses are leading the way by showing commitment to R&D funding so the newly formed Department for Business, Energy and Industrial Strategy must support these businesses by delivering with a long term plan that has listened to the requests from the sectors.
>
> PHILIPPA OLDHAM CENG MIMECHE, HEAD OF TRANSPORT AND MANUFACTURING, INSTITUTION OF MECHANICAL ENGINEERS

THE NEED FOR LONG-TERM INDUSTRIAL STRATEGY

Long term, not stop-start, industrial strategy is particularly important after Brexit with arguably more uncertainty than at any time since the 2008/09 recession. Of particular ire to manufacturers is changes to the annual investment allowance and tax rules that change how they plan for costly capex investment. Currently the Patent Box regime, which enables UK companies to elect for a lower tax rate for profits earned from patented inventions and certain other intellectual property rights, is open to new entrants but the tax rate will fall to 10% by April 2017 and other changes such as the "nexus fraction" calculation have diluted the relief. Many companies that create engineering designs want this popular tax relief to be sustained at previous levels.

THE NEW BEIS AND AN INDUSTRIAL STRATEGY

BEIS has formed an Industrial Strategy Project Board, with BEIS Permanent Secretary Alex Chisholm as chair and Gavin Lambert and Tim Lord supporting advanced manufacturing within that. In September, head of manufacturing at BEIS Clare Marett outlined some of the pillars of the manufacturing component of the industrial strategy. These components reflected what the World Economic Forum has said have the biggest impact on the 4th Industrial Revolution. They include additive manufacturing, advanced robotics, digital and Internet of Things, analytics, artificial intelligence, wearables and augmented and virtual reality.

Within the industrial strategy it is known there will be several component strategies linked to engineering. They include: The Manufacturing and Materials Strategy, the Additive Manufacturing Strategy and a National Strategy for Through-life Engineering Services. More detail of the manufacturing component of the Strategy is expected to be announced in November. What is not known is whether Brexit and the "new normal" has guided the strategy substantially, or whether post-Brexit action such as assistance with accessing new foreign markets, forms a pillar of the strategy.

“The manufacturing sector remains critical to the future success of the UK economy and Brexit and other changes (such as Industry 4.0) mean a period of significant challenge and vulnerability for the sector. Therefore, it's important that the Government delivers a practical and robust industrial strategy that is focused on the needs of the manufacturing sector.”

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