UK SPRING BUDGET 2023

Comments & reactions from industry

INDUSTRIALVIEWS

SPRING FORWARD?

The UK engineering sector has been a key driver of economic growth in recent years, contributing significantly to the nation's GDP and providing high-quality jobs for millions of workers. However, the industry has also faced challenges, including skills shortages, the need for innovation and research, and the pressures of global competition.

Against this backdrop, the UK Spring budget 2023 has been eagerly anticipated by engineering businesses across the country, with many hoping for measures that will support the growth and development of the sector. Now, with the budget unveiled, we know what to expect from the months ahead.

One of the most significant developments is the government's pledge to invest £10 billion in infrastructure, including transport, digital, and green energy projects. This investment is expected to create opportunities for engineering firms to bid for contracts and contribute to the development of new infrastructure, boosting the sector's growth prospects.

The government is also committing £5 billion in funding for research and development (R&D) activities, with a particular focus on innovation. This includes a new R&D tax credit for small and medium-sized businesses, providing an additional 20% relief on qualifying R&D expenditure. This is a welcome move for the engineering sector, which has long called for greater support for R&D activities to drive innovation and competitiveness.

In addition, the government is launching a new National Skills Fund, aimed at providing funding for training and upskilling for workers in sectors like engineering. This is a positive development for the industry, which has faced significant skills shortages in recent years.

The Spring budget also includes a £1 billion fund for the development of electric vehicle (EV) infrastructure, including charging points and battery technology. This is a significant investment in the green economy and is expected to create opportunities for engineering firms to contribute to the development of new EV technologies.

The budget includes a range of measures that are likely to be welcomed by engineering businesses across the country. The significant investments in infrastructure, R&D, and skills development, as well as the focus on the green economy and digital services, are all positive developments that will support the growth and competitiveness of the sector in the years ahead. However, equally important are the areas not mentioned — in fact, the gaps in the budget are where the calls from industry echo the loudest.

In this special report, we compile some of the reactions from industry leaders.

Jon Hughes
Editor,
Industrial News

Industry viewpoints: Sustainability & renewables

"Given the fundamental importance of the industry sector, it was surprising to see no pledge from the Chancellor to support the build out of battery manufacturing capacity in the UK. Without a clear strategy to build out electronic vehicle (EV) and energy storage battery manufacturing capacity, the UK risks its supply requirements being exported and with it the associated value, jobs and skills creation opportunity.

"In the context of EV batteries, it is also likely to herald the export of a significant part of our EV manufacturing capacity, given the desire by EV manufacturers to co-locate or integrate these two aspects of the EV value chain. We have to hope that the Government has left something in the tank, so to speak, and that we will see announcements for support in this critical area in weeks to come."

— Matt Hardwick, Partner, Akin Gump

"Governments are gearing up economically for net zero to be a priority until 2050. £20 billion is a drop in the ocean compared to what the US and Europe are planning to subsidise, but it's a start. The UK is unique in terms of having hydro, wind, solar, and potentially tidal - many countries don't have those base inputs and the UK should be maximising the advantages these bring.

"Incentives around nuclear energy provide a great opportunity for those looking at small and medium nuclear reactors to tap into subsidies.

"More investment will be needed, but it brings the completion of some of these nuclear and mini-nuclear projects closer."

— Simon Tucker, Global Head of Energy, Utilities & Resources, Infosys Consulting

"The chancellor's action on energy — especially the extension of the Climate Change Agreement scheme — sends a relatively positive message. However, the lack of clear ringfenced funding for wider energy efficiency measures is disappointing, especially at a time when cost pressures for households and businesses are going nowhere fast. What was missing from the budget was a bold, fresh programme promoting heat pump uptake and other energy efficiency opportunities – heat pumps especially are a no brainer for cost, efficiency and sustainability compared with old gas boilers.

"The current boiler upgrade scheme has a budget of £150m each year for three years and aims to issue 30,000 vouchers annually. But in the first eight months of operation, only 9,888 grants were awarded. There's a huge opportunity to put tension on the matter with a real nationwide programme to accelerate the change.

"What we need to see now is the government supporting businesses in getting the technical assistance they need directly or via industry partnerships so they can identify opportunities to reduce emissions and develop a plan to transition to net zero. This could include providing access to experts in energy efficiency, renewable energy, or other relevant fields. It's also important for the government to facilitate knowledge sharing and best practices by creating networks or platforms for businesses to share information and ideas about how to reduce emissions."

— Paul Wrighton, Director of Sustainable Infrastructure, Johnson Controls

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"Despite professing a commitment to growth and building for the future, the notable absence of clear measures that support progress towards net-zero targets and enable businesses and consumers to prepare in good time for the 2030 ban on the sale of petrol and diesel vehicles is disappointing. Whilst demand for EVs continues to grow, with BEV forming 33% of Alphabet new car orders in the first two months of this year, government incentives and further investment in charging infrastructure are crucial to maintaining adoption rates.

"We are moving away from the early EV adopter population who have transitioned because they can charge easily at home or have access to sufficient workplace charging. Now is the time to ramp up support for the wider population of drivers who are unable to charge at home. These drivers are currently faced with paying a significant premium to use the public charging network and the government has, yet again, failed to address inequity in the VAT treatment between home and public charging. Eliminating this disparity would not only have a huge impact for existing drivers, it's also a very persuasive factor for those fleets and drivers who are yet to make the transition and are debating whether they switch to EVs now or wait for another renewal cycle.

"We of course welcome the Chancellor extending much-needed support that goes some way to help tackle rising mobility costs by freezing fuel duty and maintaining the Energy Price Guarantee for households. However, more needs to be done to keep sustainability on the agenda; adequate incentives must be provided and key infrastructure projects accelerated in order to drive decarbonisation and electrification forward.

"And while it's good to see the government has acknowledged the need to encourage ongoing business investment by announcing a successor to the super deduction, the new three-year full expensing policy remains limited in scope. We, like many in the industry, wanted the government to expand the provision and enable more businesses to benefit from this type of tax relief with the inclusion of cars and leased vehicles. This was a prime opportunity to broaden support that has sadly been missed."

— Caroline Sandall-Mansergh, Consultancy and Channels Development Manager, Alphabet GB

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— Morten Wierod, President, ABB Electrification

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Industry viewpoints: ESG & investment

"I think the most contentious point of the budget from an ESG point of view was the classification of nuclear energy as sustainable. It appears that nuclear is going to be the government's favoured 'sustainable' energy source ahead of wind and solar. I don't want to get into the debate on efficiency/sustainability between the various sources, but I don't see why we need to choose one over another. It would have been great to see restrictions lifted across the board and allow investment into renewable energy projects on the whole to flow more freely.

"Away from that we had commitments of £20bn in investment into carbon capture projects over the next 20 years. We hope this will lead to more private investment opportunities into carbon capture projects alongside public funding. I think it's going to be a really interesting area for investment over the next few years.

"Finally, the chancellor touched on support for growth industries and innovation but it looks like we'll have to wait until autumn to get more clarity on what this actually means."

— Daniel Harman, Co-Founder, Darksquare Capital

"The Super Deduction Scheme, which ends this month, was an important incentive for businesses to invest in their IT transformation. However, coming out of a pandemic and with the challenges of the current economic environment, it has still been difficult for some businesses to commit to new IT equipment and infrastructure ahead of the deadline.

"Extending this programme with the new policy for 'fully expensing' IT equipment, as announced in the Spring Budget, presents a powerful opportunity in sectors that are primed for transformation, like in AEC. And we hope that it will allow more businesses to invest in the future of their services and operations."

— Tim Whiteley, Co-Founder, Inevidesk

"The announcement that five construction occupations will be placed on the Shortage Occupation List is a beacon of hope in an otherwise underwhelming Spring Budget, that lacks a clear industrial strategy to encourage construction investment and stimulate economic growth.

"The announcement of measures to boost the number of Ukrainians entering the labour market and returnerships, targeted at the over 50s – will do little to replenish construction's dwindling workforce. We need a more concerted approach that prioritises investment in apprenticeships and training, to tackle ingrained labour shortages.

"BCIS welcomes the continued commitment to capital investment programmes. But the fact that many of these have been postponed – such as parts of HS2 and Lower Thames Crossing – will inevitably push up the price of these projects in the long term, due to their budgets being eroded by inflation.

"The government's commitment to public sector investment is encouraging and we look forward to the publication of the National Infrastructure and Construction Pipeline later this year, to see how much of the £600 billion is invested in construction."

— Dr David Crosthwaite, Head of Consultancy Services, BCIS

"For the manufacturing community, the Spring budget provides several initiatives that sound very helpful on their own, but the real impact will depend on whether the combination of all the new measures can stimulate the right kind of growth, so badly needed across the whole economy. Offsetting investment in new equipment and machinery against their taxable profits, though good news broadly for machinery dependant makers, could have also included re-purposed (second hand) equipment to incentive longevity and circularity in the economy too.

"The childcare support for parents of 1-2 year-olds and the initiatives for over 50s are positive steps to bring people back into the workforce, but may take time to impact labour shortages. Support for STEM training and upskilling - crucial for driving the continued growth of British manufacturing - was sorely lacking, as was any clear plan to help high energy-using businesses this year and with their planning for next year."

— John Pearce, CEO, Made in Britain

"Challenges within manufacturing sector have been plentiful and the continued absence of an industrial strategy remains a significant misstep from the government. That said, the Chancellor has implemented a number of measures that should allow manufacturers to plan and invest. The full expensing of IT, plant and machinery from taxable profits will provide welcome relief alongside the £1 million annual investment allowance to help manufacturers plan with some level of confidence for the first time in a while.

"Measures to tackle the UK's labour shortages and the so-called 'returnerships' with skills boot camps and sector-based work academies seem to be a call to over 50s who have left the workforce early. The manufacturing skills shortage has long been a hindrance, so while it will need more detail, this is a step in the right direction to help inject vital skills to the sector.

"I feel there has been a missed opportunity not to correct the previously announced measures to reduce R&D relief for SMEs. Whilst companies which invest most heavily in R&D expenditure will be eligible for further relief the majority of SME"'s ill be disappointed that previously announced cuts will remain. Additionally, the 6% rise in corporation tax, whilst well trailed, is a missed opportunity to release the tax burden felt by manufacturers. More importantly, the failure to reduce the tax does nothing to make the UK more attractive compared to our European counterparts."

— Chris Barlow, Partner, MHA

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"Hot on the heels of the recent action taken to facilitate the rescue of Silicon Valley Bank UK, the budget statement contains further evidence of UK Government's drive to support the development of digital technologies, by reference to Sir Patrick Vallance's report 'Pro-innovation Regulation of Technologies Review - Digital Technologies'.

While containing ambitious objectives, much of the detail is to follow in future policy announcements which we'll need to watch closely. There is also a significant way to go in terms of the UK's global position in some of these areas - for instance, as far as access to powerful computing resource is concerned, the UK lies in 28th place in terms of the location of the most powerful supercomputers in the world. To close this gap, the budget contains a commitment to invest £900m to build an exascale supercomputer and establish a new AI research resource. Notably absent was a commitment to a strategy for semiconductors, which the sector is saying was a missed opportunity. So much work is needed in practice here and it must be hoped that any potential new government in the coming year or so would continue with these objectives.

"So, much to play for, but a lot to achieve in a very short period of time!"

— Alastair Mitton, partner, Womble Bond Dickinson

Industry viewpoints: Connor Campbell, Nerdwallet

Connor Campbell, business expert at NerdWallet comments on the major points that concern UK businesses.

Businesses need to take advantage of investment allowance

”There was plenty for businesses to digest in Jeremy Hunt’s Spring Budget. While corporation tax is still set to increase from 19% to 25%, the Chancellor has claimed that only 10% of UK businesses will pay that amount thanks to full capital expensing. The burden will fall on businesses themselves, however, to ensure this is the case. Organisations will need to proactively make sure they are taking advantage of the investment allowance to avoid being hit by the new higher level of corporation tax.”

Chance for businesses to inject experience into the workplace with push for over-50s to return to work

“The big push to get people back to work is welcome news for businesses. Not only will it help ease any hiring issues firms may be currently facing by widening the pool of potential employees, businesses may also benefit from an injection of experience into the workplace as the government incentivises over-50s to rejoin the workforce. Creating an all-ages workplace, where fresh graduates mix with experienced colleagues, is a fantastic way to ensure every challenge is greeted with multiple perspectives and approaches. And this is only more likely to happen if the over-50s Hunt is targeting take up his offer.”

Investment zones reflect the nation’s entrepreneurial spirit

“The creation of 12 investment zones across the UK, complete with tax reliefs and grant funding, is an appealing prospect for the country’s entrepreneurs. We are a nation of entrepreneurs, and these investment zones will hopefully continue to drive this spirit – however, more arguably could be done to ensure this is the case across the entire country, in areas perhaps more deprived than those selected.”

Business energy remains a problem for thousands of firms

“What was missing in Hunt’s budget was any extra help for businesses with their energy bills. The much-reduced Energy Bills Discount Scheme will replace the existing Energy Bill Relief Scheme next month, leaving businesses potentially facing a significant increase in how much they need to spend on gas and electricity. Especially if it remains as unseasonably chilly as it has done this March. For all the long-term, pro-business announcements the Chancellor made, by failing to address business energy costs, he has arguably ignored the biggest challenge firms are facing in the short-term.”

Industry viewpoints: David Jinks, ParcelHero

“From starting with the surprise news that the Office for Budget Responsibility (OBR) believes the UK economy won’t now go into recession (though it will contract by 0.2% this year), this wasn’t quite the big snooze that many pundits had been predicting.

“Perhaps the most interesting news for manufacturers and other businesses was the (admittedly widely trailed) announcement of 12 new Enterprise Zones. These could create new Docklands-style developments across the UK, according to the Chancellor. They will be introduced in the West Midlands, Greater Manchester, the North East, South Yorkshire, West Yorkshire, East Midlands, Teesside and Liverpool, as well as Scotland, Wales and Northern Ireland. Each will be funded by £80m over the next five years. The Enterprise Zones are expected to gain tax relief and business rates help, and bring together regional governments and local universities to boost R&D projects, etc.

“The really bad news for businesses was that the whopping climb in corporation tax, up from 19% to 25%, will go ahead as planned. However, its impact could be slightly offset by some other tax measures. This particularly applies to those companies investing in R&D, IT equipment, etc. Under Hunt’s “Full Expensing” plans, every pound a company spends on new IT equipment and new plants and machinery can immediately be deducted in full from taxable profits. Smaller businesses will also have an increased Annual Investment Allowance of up to £1m, meaning 99% of SME companies will be able to deduct the full value of all their investment from taxable profits.

“Transport and distribution companies could benefit from a new £8.8bn pot for sustainable transport initiatives across the regions. Many working drivers will be delighted by the news that there will be an extra £200m spent on filling in the UK’s thousands of potholes. The announcement that fuel duty will remain frozen and the 5p reduction will be maintained for another year will also be welcomed by many owner-drivers.

“Many transport and supply-chain companies wanted to see considerably stronger greener measures. While there were few initiatives to get Britain’s motorists switching to electric power, news of a new carbon capture scheme, backed up with £20bn in support, will be greatly welcomed. This could cut around 20-30m tonnes of CO2 per year by 2030.

> ***“All in all, this was certainly no KamiKwazi budget, full of shock tax cuts. Perhaps solid but slightly dull is just what most UK businesses were looking for.”***

“There was very little to wake up High Street retailers in this Budget, however, with no new moves to reduce business rates or boost other retail initiatives. However, High Street pubs and hospitality businesses will want to raise at least half a glass to the Chancellor for freezing the cost of a draught pint. From 1 August, the duty on draught drinks in pubs will be up to 11p lower than the duty in supermarkets.

“All in all, this was certainly no KamiKwazi budget, full of shock tax cuts. Perhaps solid but slightly dull is just what most UK businesses were looking for. However, retailers across the UK will want to see further support for our endangered High Streets in Budgets to come.”

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