



Briefing

The Institution of
Engineering and Technology

The 2011 Budget & UK Manufacturing

A summary by the IET Manufacturing Policy Panel

A Briefing provided by the Institution of **Engineering and Technology**



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“A Budget for making things, not making things up”

“We want the words ‘Made in Britain,’ ‘Created in Britain,’ ‘Designed in Britain,’ ‘Invented in Britain’ to drive our nation forward. A Britain carried aloft by the march of the makers. That is how we will create jobs and support families.”

George Osborne, Budget speech, 2011

Key measures relating to manufacturing

- A. Main rate of corporation tax reduced to 26% (down 2% since Emergency Budget 2010)
- B. A moratorium exempting micro-businesses and start-ups from new domestic regulation for three years from April 2011
- C. Increase the SME rate of R&D tax credit to 200% from April 2011
- D. Launch the first Technology Innovation Centre in high value manufacturing
- E. Extend the limit for capital allowances short life assets election from four to eight years
- F. Green Investment Bank confirmed, with operations starting in 2012-13 with initial capitalisation of £3 billion
- G. Expand the roll-out of University Technical Colleges to establish 24 new colleges by 2014 (the previously announced figure was 12)
- H. An accelerated launch of an enhanced Manufacturing Advisory Service with an additional £7 million funding

A. Corporation Tax

The Government aims to reduce the main rate of corporation tax to be the lowest in the G7 and among the lowest in the G20. The rate which will apply from April 2011 is 26% with the aim of getting down to 23% by 2014.

G7 Corporation tax rates

Country	Corporation tax rate (September 2010) ¹
United States	40%
Japan	40.69%
Germany	29.41%
France	33.3%
UK	28%
Italy	31.4%
Canada	31%
Ireland (not G7)	12.5%
European average (not just EU)	21.52%
World average	24.99%

Working out corporation tax as a stand alone entity is difficult as there are various different deductions and allowances which can apply and other business taxes to take into consideration, including federal vs. regional rates in some countries, which may vary. Using the headline figures, the UK already had the lowest corporation tax rate in the G7; a reduction to 23% by 2014 will go some way in making the UK corporate tax system competitive, when compared internationally.

The level of taxation does have an impact on businesses choosing to invest in the UK, comparing 2010 to 2000, in a survey of UK attractiveness, UK business taxation saw a -51% net change in attractiveness.²

B. Micro-business and start up exemption from UK regulation

The Plan for Growth, which accompanied Budget 2011, stated that:

*“In the past six years, the UK’s ranking by the World Economic Forum has fallen from 39th to 89th out of 139 countries in terms of business **perception** of the burden of regulation.”*
(emphasis added).

Given that EU regulation is binding, the only route left open for the government to control the costs of regulation was domestic. There is no widely accepted cost of regulation on businesses from domestic sources, with various estimates derived from amalgamating government impact assessment figures.

The coalition government introduced the ‘one in one out’ rule for domestic regulation; however figures have shown that this has not been adhered to by most departments. There was however a misunderstanding of what was proposed; the Business Minister had to explain further that:

*“One-in, one-out is measured on the net cost to business flowing from regulations, not on the number of regulations. The identification of ins and outs happens in parallel across Government.”*³

This clarification means that EU regulation may be included in the one-in one-out system, with domestic regulation reduced where necessary to accommodate subsequent new costs from any EU regulation.

The Budget grants a three year exemption to micro-businesses (less than ten employees) and start-ups from new UK domestic regulation, no assessment of the net benefit is made.

Perhaps more importantly, on 22nd March BIS published their Guidance on sunseting regulations, which requires Ministers to review all domestic regulation after five years, to see if it still meets the purpose it was intended for.⁴

C. Increase the SME rate of R&D tax credit to 200% from April 2011

This is a welcome move; however the IET Manufacturing Policy Panel views the need for the D in R&D to be given a greater emphasis. SMEs often have great ideas but do not have the funds or access to the market to exploit these, the definition of what constitutes research and development, needs to be widened to include actual development costs.

At the UK Manufacturing Summit 2011, it was suggested that the cost of researching an idea, creating a prototype and patenting it was £50,000, whereas the cost of developing the market and making sure it works was ~£1m.⁵

D. Launch the first TIC in high value manufacturing

Technology Innovation Centres aim to bridge the gap between research and technology commercialisation. The IET Manufacturing Policy Panel contributed to the response submitted by the IET Innovation and Emerging Technologies Policy Panel to the Technology Strategy Board outlining the broad principles we wished to be included. The response was submitted along with partners from [Engineering the Future](#).

The High Value Manufacturing TIC will integrate activities of a number of existing centres which help companies develop and commercialise their technology. Given that manufacturing is one of the only growth sectors in the UK, this advanced rollout is a signal from the government of the importance they place on high value manufacturing.

E. Extend capital allowances short life assets regime from four to eight years

By introducing this measure the government aims to align the tax regime with economic depreciation. The change will allow businesses to write off the cost of assets for tax purposes more quickly, where those assets are disposed of within eight years. This was recommended by some manufacturing groups in their Budget submissions.

The IET's Manufacturing Policy Panel will be developing a full policy position on capital allowances later this year.

F. Green Investment Bank initial capitalisation of £3 billion

The Coalition Agreement commits the Government to establishing a Green Investment Bank, the implementation of this policy is being led by the Department for Business, Innovation and Skills with involvement from other relevant Government departments.

Budget 2011 announced that initial capitalisation for the Bank would be £3bn from the government, financed through asset sales and have a commencement date for operations of 2012. The Bank would be free to begin borrowing to invest from 2015.

The IETs Manufacturing Policy Panel will shortly be bringing forward a policy statement on the Green Investment Bank highlighting the need for a focus on green energy efficient processes and guaranteed access from SMEs.

G. 24 (instead of 12) University Technical Colleges to be funded

The Government previously announced the setting up of 12 UTCs, with the JCB Academy in Staffordshire already being launched, the Black Country UTC set to be launched in September and the Aston UTC set to go live in September 2012.

The IET Education and Skills Policy Panel helped to devise UTCs with Lord Baker and looks forward to assisting in their continued roll-out. A separate briefing on UTCs is available from that panel.

H. An accelerated launch of the enhanced Manufacturing Advisory Service with an additional £7 million

The Manufacturing Advisory Service provides business support to manufacturing companies on how to access markets, develop products, the range of government support schemes available and other business related advice. The new government decided to make the service national (it was previously administered via the Regional Development Agencies).

Manufacturers find the service very useful, the Budget announced that the new national delivery model will be brought forward by 3 months to January 2012 with an extra £7m on top of the previously announced £50m forming the MAS budget.

While additional funding is welcome (and some questions have to be raised about how far £57m over three years can go, although this is a significant step up from its previous £20m budget), in the interim the emphasis should be placed on proactive contact of manufacturing SMEs as anecdotal evidence suggests most manufacturing SMEs lack the time or the knowledge to seek out business advice.

End Notes

- 1 KPMG's Corporate and Indirect Tax Survey 2010, September 2010
- 2 CBI Annual Conference Survey, UK as a place to invest, CBI, October 2010
- 3 Business Regulation, House of Commons Written Answer, 30th March 2011 <http://services.parliament.uk/hansard/Commons/bydate/20110330/writtenanswers/part002.html>
- 4 <http://www.bis.gov.uk/policies/better-regulation/better-regulation-executive/reducing-regulation-made-simple/reviewing-existing-regulations/pirs-and-sunset-reviews>
- 5 Conclusions, <http://tv.theiet.org/technology/manu/10624.cfm>



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