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MHA Manufacturing report 2025

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Contents

Welcome to the latest iteration of MHA's UK manufacturing report

The international economic turbulence over the last few years, from Brexit to the Covid 19 pandemic and more recently the ongoing uncertainty of tariffs, has no doubt left deep and permanent scars on the industry.

Recent domestic events, including the increases in taxation and the ongoing skills shortages, as well as the inflationary and supply chain pressures caused by the war in Ukraine, have not helped either.

We surveyed 1,000 manufacturing business owners and C-suite across the country in May to understand both the challenges and opportunities they currently face and what lies ahead for the industry over the next 12 months.

In the short term at least, the outlook remains difficult. The majority of respondents said that the biggest current challenges facing their businesses are the tax increases announced by the UK government in October 2024 which has significantly increased their wage bill as well as creating uncertainty around investment.

Our survey also highlights that while businesses can see that technological and innovation will have a positive impact on their industry going forward and allow for more automation, the investment that is required still remains a challenge for manufacturing businesses.

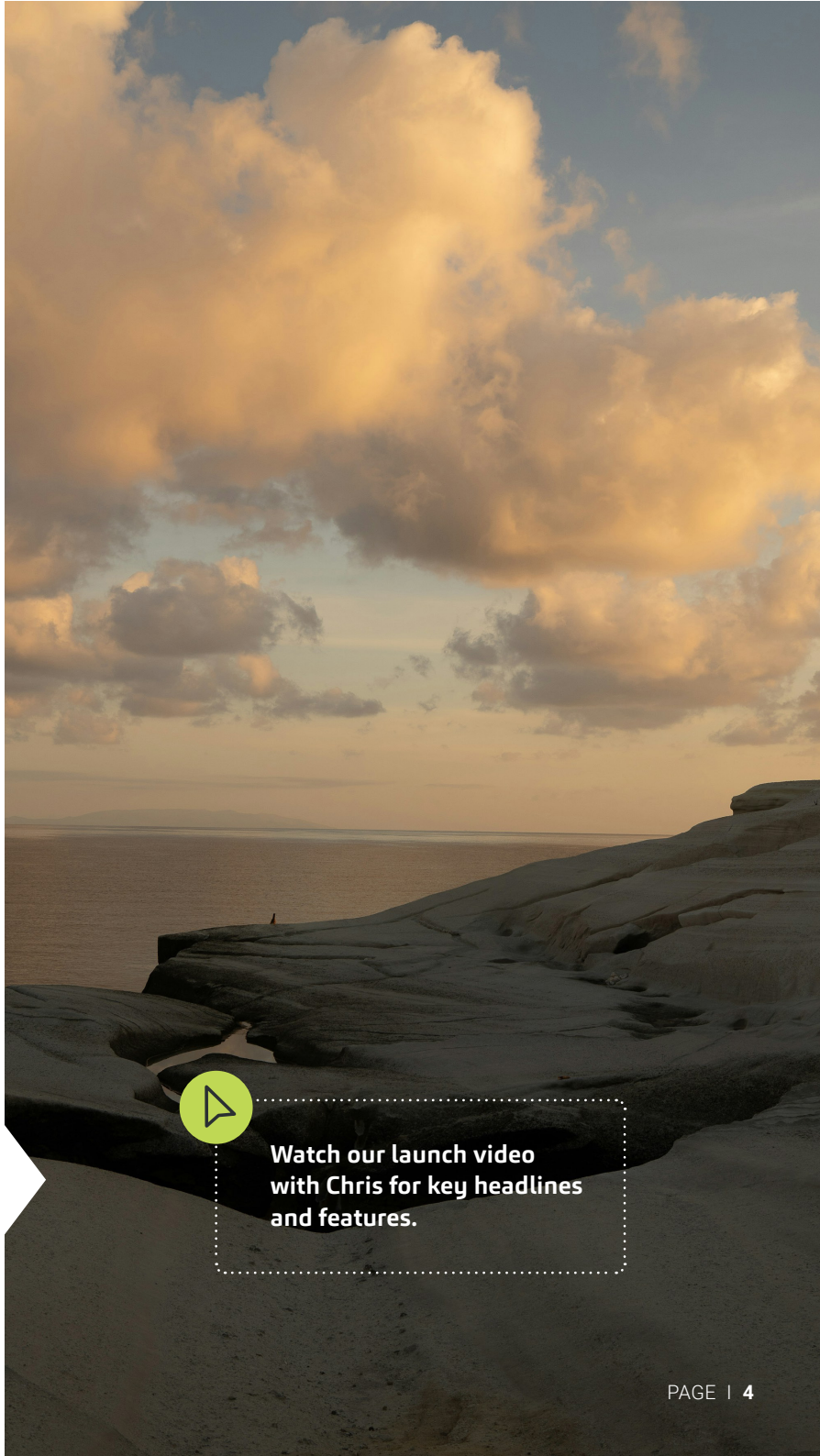
Alongside this, they are continually having to be vigilant around the cyber threats to their businesses which, as we have recently witnessed in the retail sector, can cause not only a huge amount of disruption but also a fall in production and ultimately loss of revenue.

On a positive note, the research did highlight that the UK government has the opportunity to shift the dial for the manufacturing industry with the announcement of its Industrial Strategy. There was a consensus from our survey respondents that the government's key priorities should be technology, skills and infrastructure.

And finally, the manufacturing industry and the people who work within it are above all resilient and innovative, so it comes as no surprise that despite all the challenges they face, they remain relatively positive about the future with a majority of respondents suggesting that they expect growth over the next 12 months.

We hope that the report proves to be a valuable resource and we look forward to discussing its findings and conclusions. Many thanks to our clients who gave their time to be interviewed, the authors and researchers who pulled the report together and to Professor Joe Nellis of Cranfield University, David Bailey of University of Birmingham, Richard Hobbs of Black Country Chamber of Commerce and my fellow MHA partners for their thoughtful contributions.

Chris Barlow
Partner and Head of Manufacturing and Engineering



Manufacturing at the cross roads

Joe Nellis, Chief Economic Adviser to MHA

UK economic activity dipped by 0.3% in April, marking the steepest monthly decline since late 2023. A record fall in exports — particularly to the United States due to new tariffs — was a major factor behind this downturn.

However, the broader picture is more encouraging: the economy expanded by 0.7% in the first quarter, leading to a projected annual growth rate of around 1% this year, with a modest increase expected in 2026, which will provide the manufacturing industry with more certainty.

Inflation in May at 3.4% was well above the Bank of England's target and is likely to edge close to 4% by the end of 2025 before falling back again. But signs of stabilisation in wage growth, a persistent worry for the Bank of England, could lead to interest rate reductions later in the year. Government investment spending announced in the recent Spending Review — particularly in transport, energy, housing, defence, and digital technology — will provide much-needed and welcome support to economic recovery, although global uncertainties and rising business costs continue to pose challenges.

While no longer in the top 10 countries for manufacturing output, the industry remains a cornerstone of the UK economy, employing 2.6 million workers across the UK and generating an estimated £184 billion in GDP according to the most recent estimates in 2022. Figures released this month by the Government highlight that from October to December 2024, the manufacturing industry accounted for 8.6% of total UK economic output and 8.0% of employment. The industry is also a significant contributor to international trade and investment.

As an important serious plank of our domestic economy, the Government should actively and positively invest in the UK manufacturing industry, and the details of its long-awaited Industrial Strategy will be key to this.

With firms embracing automation, domestic production, and new trade links, the industry has the potential to grow steadily over the next decade — helping to underpin long-term, sustainable economic resilience.

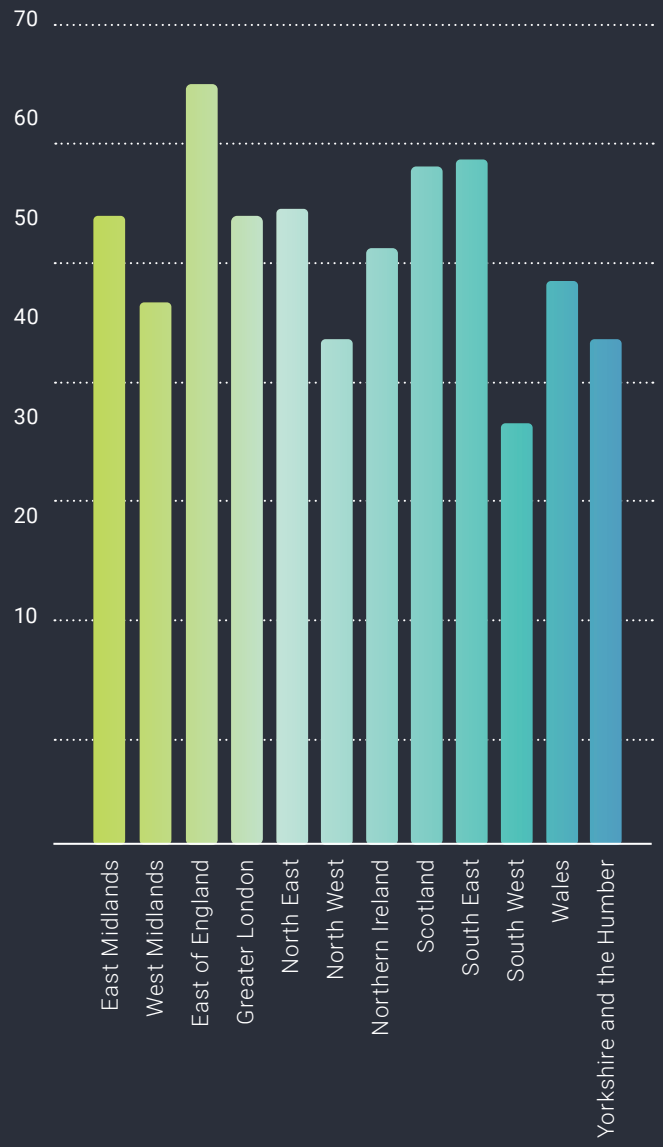
Growth expected but challenges are ongoing

UK plc's have suffered from a series of economic woes since 2019 with the departure of the UK from the EU, the impact of the Covid 19 pandemic and its prolonged aftermath, economic volatility leading to stubbornly high interest rates and inflation and most recently macro uncertainty around the tariff regime with the United States.

Despite this negative backdrop, the UK manufacturing industry is positive about the future with virtually all of our survey respondents anticipating some growth in the next 12 months. While 55% percent anticipate modest growth of between 3-5%, a significant minority - 22% - believe that their businesses will grow by more than 6% in the next year. Given the challenging last decade or more, this is a positive sign that, having fallen so far, the only way is indeed up and the industry is by now well-adjusted to the new economic reality.

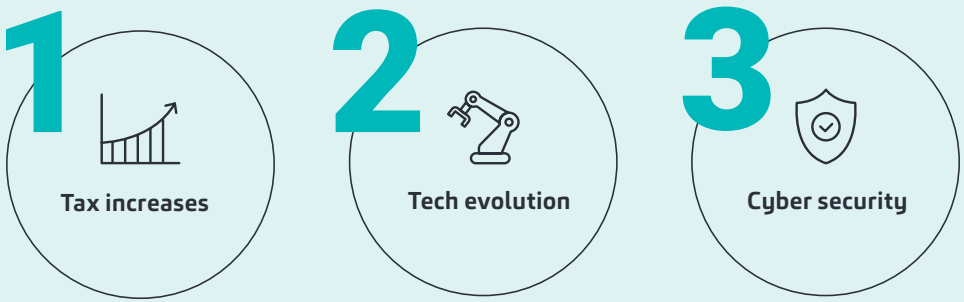
The picture is not a uniform one across the country with a number of regions with a modest percentage of respondents suggesting that they do not anticipate any growth in the next 12 months but by contrast there is a more positive outlook in the West Midlands with 6% of businesses expecting to grow by over 10%.

% of companies expecting to grow by 3-5%



Challenges

Top three challenges:



While there is some positivity around growth from manufacturers, significant challenges remain across a varied spectrum of issues. 35% of respondents (the highest amount) said that the recent employment tax increases were their biggest challenge, 34% said that the technological evolution was a concern and 33% stated that it was cyber security.

Skills shortages and regulation were also named by seven out of twelve regions as one of their top three concerns, while five said supply chains are a challenge. Perhaps surprisingly, given the current focus on the issue, only two regions, Scotland and the North West flagged energy costs as a challenge and only manufacturing businesses in Yorkshire felt tariffs were one of their top three concerns.

Surprisingly, tariffs did not feature more prominently as a concern for more businesses. However, this may be due to the survey taking place after the UK and US agreed to remove some levies, but was completed before 4 June, when the US raised import taxes for steel and aluminium to 50%, with the levy temporarily remaining at 25% for the UK.

Similarly surprising was how few businesses mentioned energy costs as one of their key challenges which may have been down to when their contracts are expiring.

Regulation and the associated costs are deeply concerning for manufacturers, particularly post-Brexit. Many survey respondents commented that additional administration due to Brexit and ensuring that there is compliance across the UK and EU results in duplication, which comes at a huge cost and without visible benefit.

The trading relationship with the EU was another area where survey respondents commented that they would like to see the government focus on. As the UK's largest trading partner and closest neighbour, respondents commented that better tariffs and easing the administrative burden of trading with Europe would markedly improve the growth opportunities for UK manufacturers.

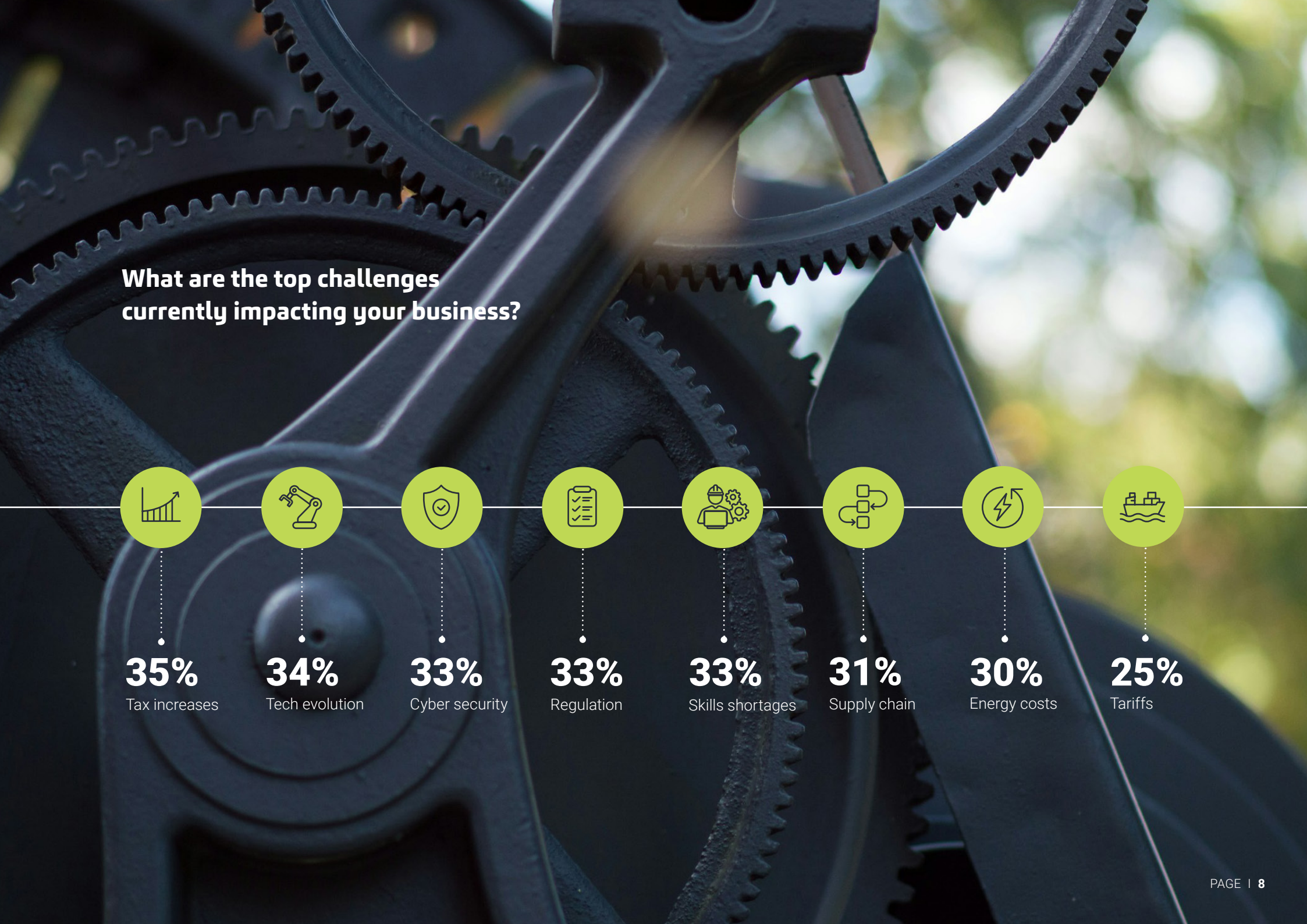
For businesses with a turnover of less than £100m, the top three challenges were tax increases (35%), energy costs (32%) and supply chain challenges (32%).

Businesses with a turnover of between £100 - £250m flagged the technological evolution (40%), tax increases (35%) and skills shortages (33%). Larger businesses with a turnover of more than £250m, listed cyber security (36%) as a key challenge, followed by tax increases (36%) and then regulation (35%).

It is unsurprising that for larger businesses that the impact of tax, while important, is eclipsed by technology and cyber security. However, it is interesting that skills shortages, frequently touted as an ongoing concern for the manufacturing industry, have not featured higher on the list of challenges.

However, 45% of respondents with a turnover of under £100m said that they have a training partnership with a university or college, suggesting that the skills shortage is less of a concern for them. While 48% with a turnover of over £250m have been investing in AI with a view to closing the skills gap in a different way.

What are the top challenges currently impacting your business?



35% Tax increases

34% Tech evolution

33% Cyber security

33% Regulation

33% Skills shortages

31% Supply chain

30% Energy costs

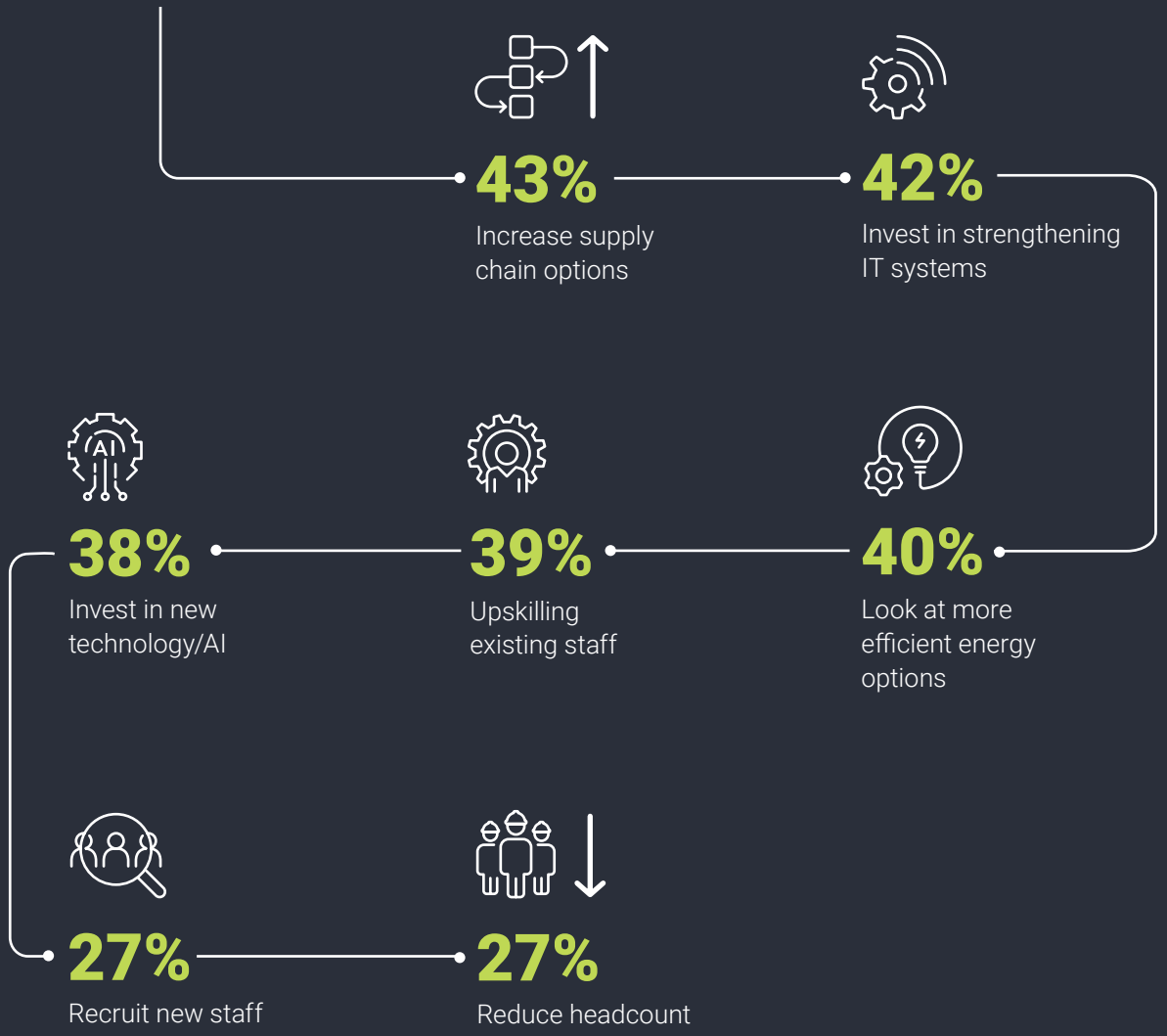
25% Tariffs

Addressing the challenges

When asked about what actions they would be taking to address these challenges and achieve the growth they are looking for over the next 12 months, our respondents (who could select multiple responses) had a variety of practical and innovative options: 43% said that they would be increasing their supply chain options, 42% said that they would be investing in strengthening their IT systems, 40% said that they would look at more efficient energy options, 39% said that they would be upskilling existing staff and 38% said that they would invest in new technology or AI.

Only 27% said that they would respond by recruiting new staff, while at the same time, an equal proportion said they would actively reduce headcount.

What actions need to be taken to address these challenges?



Julie Dyer
Commercial Manager, HELLER Machine Tools Ltd

Our business, like many others in the manufacturing industry, has been hit by a series of challenges over the last few years. While we have successfully navigated and grown through the difficulties brought by Brexit and the Covid 19 pandemic, more support is required from the government to ensure that the UK remains an attractive place for business and investment for manufacturing businesses.

The continual increases in tax, regulation and uncertainty around supply chains remain costly and burdensome for small businesses, such as ours.

The red tape and administrative requirements, particularly when you are bringing goods across the border, are costly and time-consuming, often with no visible benefit to the business. We are being hit by regulations on multiple fronts, including sustainability requirements for packaging, understanding the provenance of materials, and dealing with cross-border taxes. The significant amount of administration required to comply with these regulations often necessitates additional headcount, which is not sustainable for smaller businesses.

Currently, there is a considerable duplication of effort when transporting goods across borders, particularly to Europe. With all the data that is being collected, it would be immensely helpful if the data could be synchronised and there could be some integration between systems that would help to streamline processes and reduce the time and effort that is required on our side. At present, mistakes by freight forwarders in declaring information can lead to onerous checks and associated duties and taxes.

The manufacturing supply chain is particularly fragile, with many suppliers unable to deliver on time due to staffing shortages. Simplifying processes for manufacturing companies that bring goods across borders would be a huge benefit.

In addition, improving the UK's trading relationship with our European neighbours would be welcomed by us. They are and will likely continue to be our largest trading partner, so negotiating better trade deals and easing the regulatory burden when importing and exporting will help to support UK manufacturers.

If the UK is to retain its competitive edge in terms of our skill set and our capacity to harness the power of new technologies, investment in R&D is required. While the immediate benefit of this is not always felt, it is necessary to ensure the financial viability of our business.

We are also investing in training our staff and apprenticeships are being utilised more strategically, with a focus on retaining apprentices as part of the team on a full time basis. We continue to see this as an important part of our growth journey.

In conclusion, smaller businesses, like ours need a seat at the table so the government can listen more closely to our needs and challenges. Manufacturers supporting the automotive industry, in particular, have been affected by government statements about the future of electric vehicles, leading to uncertainty and reduced investment in combustion engines. More foresight and preparation from the government could help businesses better plan for the future and hopefully lead to more growth and investment.

HELLER Machine Tools Ltd is a leading provider of innovative machining solutions, known for delivering high-precision CNC machine tools and flexible manufacturing systems to global automotive, aerospace, power engineering, and general engineering sectors. With a strong heritage rooted in German engineering excellence and a UK base supporting customers across the nation, HELLER combines advanced technology with robust aftersales service to drive productivity, reliability, and innovation on the factory floor.

Tax increases

Since April 2023, businesses across the UK have faced a series of tax increases that have impacted their growth and their ability to invest. The previous Conservative government increased corporation tax to 25% in April 2023, and in the Autumn Budget in 2024 the new Labour government announced an increase in employers' national insurance contributions. The change in thresholds and minimum wage came as a surprising and potentially damaging blow to the industry which hardly instilled the confidence to grow. Several survey respondents commented that these increases had driven them to reduce their headcount and put a hold on future recruitment.

When asked about how the Autumn 2024 Budget had affected any future potential manufacturing investments, 68% of respondents said the increased costs because of the Budget would negatively impact their plans. The top three areas where investments were most likely to be scaled back were technology, AI and R&D all mentioned by 70% of companies. These are all areas where, ideally, companies should be investing in order to develop their businesses in view of the threats previously identified.

Welcome investment in R&D

Despite the Autumn Budget, 55% of all survey respondents said that they would be investing between 3-5% more in R&D in the next 12 months compared to the previous 12 months and even encouragingly 27% said that they would be investing more than 6% above their previous budget. These are positive signs for the long term future of the industry.

With regards to R&D, what are you planning on investing in, in the next 12 months?

44%
Process improvement

43%
New product development

43%
Material development and testing

42%
Technology adoption

42%
Equipment and machinery development

In the South West, 36% of businesses said that they would invest more than 6% in R&D, while in Wales it was 40% and over half - 52% - in the West Midlands.

Typically, it was larger companies who were willing to invest more, with 30% of businesses with a turnover of over £250m planning to invest between 6-10% compared to only 19% of businesses with a turnover of less than £100m in R&D. This may well reflect the fact that the changes made to the rules relating to R&D claims in recent years have affected small companies more significantly.

When asked where they would be spending their R&D budget, out of five choices, 44% of all respondents said that they would be investing in process improvement, 43% in new product development and 43% in material development and testing.

For businesses with a turnover under £100m, 42% said that their biggest investment would be in equipment and machinery development which was less of a priority for bigger companies. However, for businesses with a turnover of more than £250m, 46% of respondents said that material development and testing and technology adoption is where they would be investing.

Restrictions are coming in within the UK R&D tax credit regimes through the introduction of the merged scheme, which came in for the accounting period beginning 1 April 2024. Under these restrictions, a large majority of companies claiming R&D credits in the UK will no longer be able to claim on overseas costs.

However, there is a potential exemption that might apply to some manufacturing companies. If there is a reasonable basis to say that the conditions that exist in an overseas jurisdiction cannot be replicated within the UK in a specified time frame and at a specified level of skill, then it could be possible to include some of these as overseas costs. Manufacturing businesses still have a window of opportunity to reinvestigate their R&D position.

Kanika Mishra Pathak
R&D Tax Director, MHA

Recent discussions within the UK manufacturing industry paint a nuanced, and at times concerning, picture of investment in innovation. While the government has signalled its intent to bolster R&D, a closer look reveals that manufacturers are facing a complex landscape of shifting policies and economic pressures that could hinder progress.

One of the most significant changes impacting manufacturers is the introduction of the merged R&D tax credit scheme, which came into effect from April 1, 2024. This new regime places restrictions on claiming R&D credits for overseas costs. This is a crucial point for many UK manufacturers, who often rely on international supply chains and facilities.

However, there is a potential exemption: if a company can reasonably demonstrate that the conditions required for R&D are not present or cannot be replicated in the UK (i.e. it is 'wholly unreasonable' to do so), then some overseas costs might still be eligible. This presents a vital opportunity for manufacturers to re-evaluate their R&D position and ensure they are optimising their claims under the new rules.

Despite the government's push to incentivise R&D for larger companies through an increased benefit rate (from 13% to 20%), the reality on the ground is more complex. Many survey respondents indicated that technology, AI, and R&D are the top three areas where investments are most likely to be scaled back. This is a significant concern, especially when considering the historical reliance of many UK manufacturing firms on R&D tax credits. While the increased benefit rate is positive, it appears to be offset by other rising costs, such as National Insurance contributions, leading to a net reduction in the appetite for investment.

The reluctance to invest in these crucial areas is particularly worrying given the broader economic and environmental context. Investment in technology and process innovation is vital for developing circular economies, achieving carbon neutrality, and generally bolstering the UK's manufacturing capabilities to reduce reliance on imports. Without this investment, the UK risks falling behind in a competitive global landscape.

Furthermore, it's worth noting the unfavourable stance taken by HMRC towards innovation credit claims in recent years. The frustrating and often protracted inquiry processes for companies caught in compliance reviews have created a deterrent for some. This, coupled with a sometimes restrictive interpretation of R&D guidelines (such as rules around subsidised or subcontracted R&D), means that many companies may be understating their eligible activities. This reinforces the need for manufacturers to seek expert advice to fully understand and optimise their R&D claims.

In an era demanding greater innovation and sustainability, the signals from UK manufacturers about scaling back investment in R&D, technology, and AI are a cause for concern. While government incentives exist, the confluence of rising costs and a challenging tax credit environment means that the path to a robust, innovative manufacturing industry in the UK remains fraught with challenges. It's clear that ongoing dialogue and a proactive approach to understanding the evolving landscape will be crucial for manufacturers looking to navigate these complexities and continue to drive progress.

Industrial Strategy

According to official figures, manufacturing now accounts for only 8.6% of GDP of the UK economy compared to 17% in 1990 as the services sector has taken over as the largest contributor to GDP. And, in July 2024, analysis from Make UK showed that the UK had fallen out of the top 10 manufacturing nations in the world for the first time since the Industrial Revolution as other major economies such as China, the US and EU continue to invest heavily.

Over the last few decades, there has been a lack of a well-defined plan to support manufacturers, which has led to a gentle and seemingly inevitable decline. For the UK to regain its position within the top 10 manufacturers, a comprehensive Industrial Strategy is urgently needed to put the manufacturing industry on the path to growth once again and to encourage foreign investment.
A formal industrial strategy was drawn up by the Conservative government under Theresa May but was then dropped by her successors.

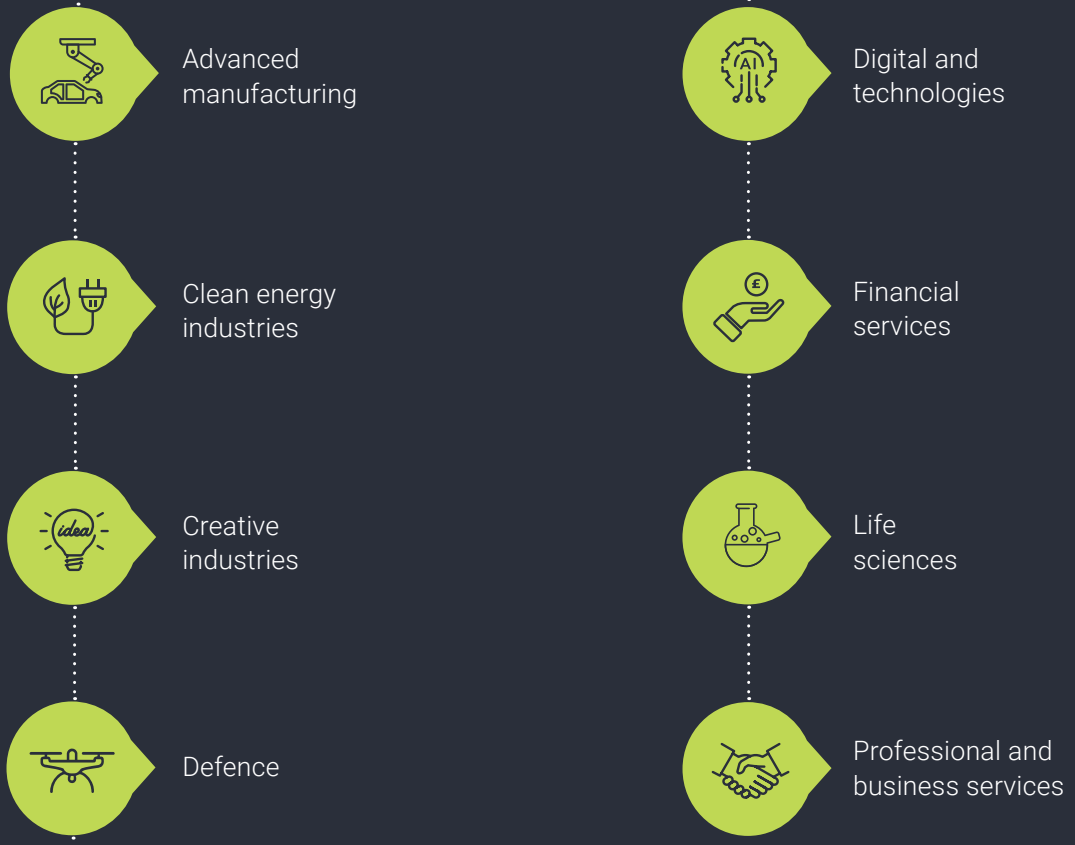
The launch of the long-awaited Industrial Strategy in March this year came as welcome news to manufacturers who understandably want some certainty around the Government's plans for investment. As we await the announcement on the final Industrial Strategy, it is understood that it will focus on key areas including aerospace, pharmaceuticals, luxury car making and frontier technologies such as artificial intelligence, nuclear small modular reactors (SMRs), quantum computing, floating offshore wind turbines and more traditional sectors such as steel and defence.

While the announcement of the Industrial Strategy was by and large warmly received by the manufacturing industry as it highlighted the need to increase skills and attract foreign investment, the million dollar question for this and indeed several planks of the Government's long term strategy is whether it will lead to permanent economic growth.

While the Prime Minister had already set out key investment in infrastructure such as ports and gigafactories through the £7bn National Wealth Fund there were limited announcements from the Chancellor's recent Spending Review.

The government's 'Invest 2035':

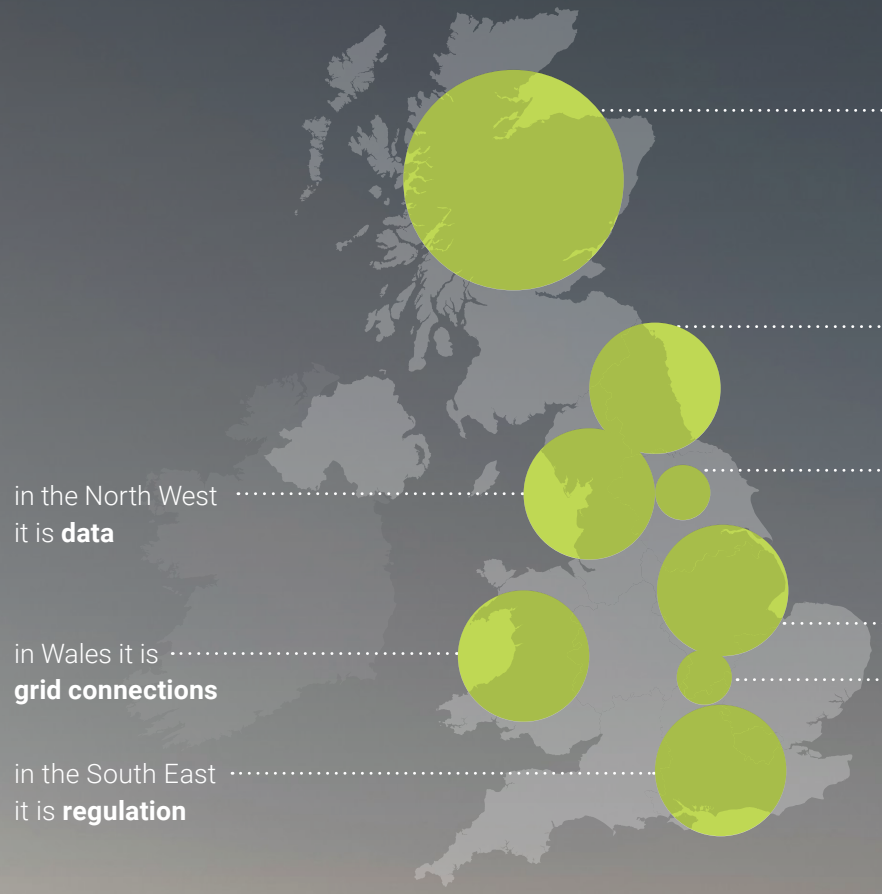
the UK's modern industrial strategy' has identified eight Growth Driving sectors:



Within this, it focuses on 12 key areas:

1. Skills
2. Recruitment of international talent
3. Data
4. R&D
5. Technology
6. Access to finance
7. Competition
8. Regulation
9. Energy prices
10. Grid connections
11. Infrastructure
12. Planning

However, there were some regional variations as to the most pressing issues:



in Scotland it is access to **finance and competition**

in the North East it is **energy prices**

in Yorkshire it is **competition and infrastructure**

in the East Midlands it is **regulation**

in Greater London it is **energy prices**

in the North West it is **data**

in Wales it is **grid connections**

in the South East it is **regulation**

Not all is rosy in the garden. Our survey respondents and the manufacturing industry as a whole felt the Government, in trialling these 12 priorities, had done little to address the specific issues impacting SMEs, international trading relationships, particularly with Europe, and unsurprisingly the competitiveness of the UK's taxation environment by contrast to our key trading partners. In addition, there were concerns from SMEs that the board of the Industrial Strategy was focused more on larger businesses.

Closing the skills gap

As the survey shows, the shortage of skills has been a perennial concern for manufacturers for years. For manufacturers, while the Apprenticeship Levy was a good idea in theory when it was introduced in 2017, it is widely accepted that it has not had the desired impact. The problem has been exacerbated by the post-Brexit restrictions on the freedom of movement of workers.

Again, our respondents are unwilling to wait for Central Government action. They are acting now to close the skills gap by creating an apprenticeship programme, training partnership with college or university or alternatively, investing in AI with a view to closing the skills gap in a different way all listed as equally valuable.

For companies of different sizes there were divergent options. Forty-five percent of businesses with a turnover of under £100m are planning to use a training partnership with a college or university whereas 48% of businesses with a turnover of over £250m are planning to invest in AI with a view to closing the skills gap in an alternative manner.

The Growing Role of Technology in Manufacturing

Modern manufacturing is no longer solely about machinery. It's increasingly driven by software, data, and digital systems.

New tools such as AI, automation, and advanced data analytics are becoming just as essential as the physical machines on the shop floor.

For instance, software now controls machines to allow for quicker product adjustments and fewer costly errors. From an accounting and operations perspective, this translates to better asset utilisation, higher efficiency, and improved margins.

AI, in particular, is playing a transformative role Manufacturers are using AI to:

1. Predict machine breakdowns and reduce unplanned downtime
2. Plan production more effectively in response to real-time demand
3. Perform automated quality control to reduce waste and energy use

Interestingly, manufacturers tend to alternate between building in-house AI capabilities and outsourcing to consultants such as Cloud Factory, depending on their specific needs and internal capabilities.

Automation is also helping address ongoing labour shortages by taking over repetitive or hazardous tasks like packing or welding. This not only helps maintain output levels but also reduces labour costs and improves workplace safety.

Beyond the shop floor, technologies like Enterprise Resource Planning (ERP) systems and stock management modules are providing better oversight of inventory and workflows. These digital tools enable manufacturers to track costs, manage inputs more precisely, and improve cash flow and forecasting.

Emerging innovations such as digital twins (virtual models of physical systems) and 5G-enabled remote control are transforming how factories operate, allowing changes to be tested virtually before implementation and enabling remote troubleshooting that reduces downtime.

Capital Allowances and Incentives

Despite the technological momentum, many businesses may not be fully aware of the financial incentives available to support investment.

1. Full expensing (from 1 April 2023) provides 100% first-year relief on qualifying plant and machinery.
2. This replaced the super-deduction, which offered 130% relief on main-rate assets and 50% on special-rate assets purchased between 1 April 2021 and 31 March 2023.
3. The Annual Investment Allowance (AIA) continues to provide 100% relief on qualifying expenditure up to £1 million.

There are, of course, considerations around how companies should use these allowances and specific rules attached to each, but overall the capital allowance regime is considered to be advantageous (and underused) in assisting businesses to claim relief for investment.

The future of manufacturing lies in deeper collaboration between tech firms and manufacturers. Examples include custom software to track parts through assembly lines, or advances in CNC machines that replace traditional engineering techniques. There is also growing interest in technologies such as 3D printing, quantum computing, and data management, which hold significant potential but may still be in early stages of adoption for many manufacturers.

Ultimately, those manufacturers who leverage emerging technologies (not just in equipment but also in data, systems, and strategy) are likely to outperform, both in terms of operational efficiency and long-term competitiveness.

Energy costs

One of the key focus areas for the government's upcoming Industrial Strategy is energy costs. While the government is keen to grow the industry, the energy demands required to fulfil this growth is significant. The development of new technologies, such as data centres, as well as more traditional areas, such as steel production, require huge amounts of energy. However, currently, the UK's energy costs are the highest among major economies and this is a key concern for all manufacturers as highlighted in our survey.

Manufacturing companies and Make UK have been lobbying the government to provide support to reduce energy costs to ensure that the UK remains competitive and attractive to investors. While the biggest energy-intensive companies already receive a subsidy through the British Industry Supercharger scheme, which was set up by the Conservatives in 2024 this does not support all manufacturers. According to recent reports, the Chancellor is looking at proposals to provide a £1bn annual subsidy to manufacturers to lower energy costs.

David Bailey
Professor of Business Economics, University of Birmingham

The UK's manufacturing sector has been beset by shocks over the last decade, from Brexit, Covid, supply chain shortages, the war in Ukraine, high energy prices, through to Trump's tariffs. Add in recent government own-goals like National Insurance rises, and many firms have felt hammered by a 'perfect storm'.

Simultaneously, manufacturers are grappling with a 'triple transition' embracing Net Zero, Industry 4.0 and the accompanying skills revolution, all requiring substantial investment.

What's fascinating about the latest MHA survey is not only the nature of challenges that firms face – whether skills or supply chain issues or cyber-security - but also how resilient the industry remains given everything that has hit it.

Many manufacturers still expect to grow, and some quite quickly. Let's face it, to have survived as a UK manufacturer given all that has happened, firms do really have to be fundamentally world-class at what they do.

The eagerly-awaited industrial strategy should help. Delayed over concerns that it did not do enough to address big cross-cutting issues like energy costs, innovation and training, the new strategy at least points in the right direction.

Actually having a strategy for a start is welcome. Outside the UK, industrial strategy is back, and in a big way. The UK has had numerous strategies before but the last effort was ditched by Boris Johnson who wasn't a fan.

And having an Industrial Strategy Council to oversee the strategy is a welcome move. The Council can potentially hardwire the idea of strategy as a partnership between the state and business. This isn't meant to be a top-down, 'picking winners' approach of old but rather a collaborative effort to discover new opportunities and challenges and to develop new policies accordingly.

The strategy also hasn't shied away from some of the big issues.

A big strength this time round is that a focus on place and tackling regional inequality is a main objective. For too long, the economic growth in Britain has been disproportionately concentrated in London and the Southeast, leaving other regions as 'left behind places'. A focus on empowering local leaders to shape industrial policies tailored to their specific needs is welcome.

The emphasis on energy and infrastructure is also much needed. The UK's infrastructure is in dire need of modernisation. Improved connectivity could boost productivity spillovers across space, reduce economic disparities between different regions, and attract investment in those left-behind places.

The strategy places a big emphasis on innovation and research and development, particularly in emerging industries such as artificial intelligence, robotics, and clean energy technologies. If successfully implemented, this could help the UK build an industrial base that is not just competitive but also resilient to the kind of technological disruption envisaged in Industry 4.0.

The strategy's focus on clean growth is also timely. As the world is forced to face the realities of climate change, the UK's industrial future must be sustainable. This is reflected in proposals for reducing carbon emissions and developing green technologies. By prioritising clean energy and promoting investment in sectors like electric vehicles and renewable energy, the strategy aligns with goals for achieving net-zero emissions by 2050.

And yet.

While the strategy has much to offer, there are concerns about whether it really addresses some of the deeper systemic issues facing the UK manufacturing industry.

The 'Elephant in the room' is of course Brexit. Post-Brexit non-tariff barriers have disrupted UK trade with the EU and continue to act as a drag on UK growth.

The strategy offers little clarity on how industries that have been deeply integrated in EU supply chains and markets, such as advanced manufacturing and automotive, can actually thrive outside of the European Union.

While the recent 'reset' with the EU was welcome, the UK government's red lines over not joining the Customs Union and Single Market left manufacturers still facing significant non-tariff barriers to trade. Much more needs to be done to help boost British manufacturing exports.

Richard Hobbs
Manufacturing Business Relationship Manager, Black Country Chamber of Commerce

It is evident that manufacturing and engineering is still a lynchpin of the Black Country and UK economy, with over 10% of the West Midlands employed in the manufacturing industry and 8% nationally.

It is an industry that is crying out for wider support to help propel the industry forward, to be more competitive, and increase productivity. The economic climate and policy changes have arguably impacted on the manufacturing industry more than any other industry in the past five years.

The drop off in manufacturing contribution to GDP in the past 35 years from 17% to nearer to 9% along with the UK no longer being one of the Top 10 manufacturing nations globally, the need for a lasting industrial strategy needs to be implemented and followed through with regardless of the presiding government. Policy directives on areas such as encouragement of foreign investment, skills and talent, connectivity and infrastructure, access to finance and R&D are vital to support the industry moving forward.

Despite the challenges from Covid to tariff uncertainty, manufacturing is an industry confident in its ability to grow over the next 12 months with over 20% of manufacturers expecting more than 6% in the next year. It's pleasing to see so many West Midlands businesses confident in their growth.

The impact of national insurance increases, alongside the increase of minimum wage, have eaten into many businesses margins. The ripple effect is seeing businesses holding off on further investments while they assess the effect of the tax increases and how much they might pass on to customers. More companies are actively looking for grant and funding opportunities as a result to continue their growth ambitions.

Skills and talent retention and recruitment are a constant cause of concern for employers in the industry. More work can be done at an earlier age to promote manufacturing as a desirable industry to work in with a wider variety of career opportunities. Greater cohesion from the education industry is required to ensure relevant skills are being taught and keep up with an evolving industry.

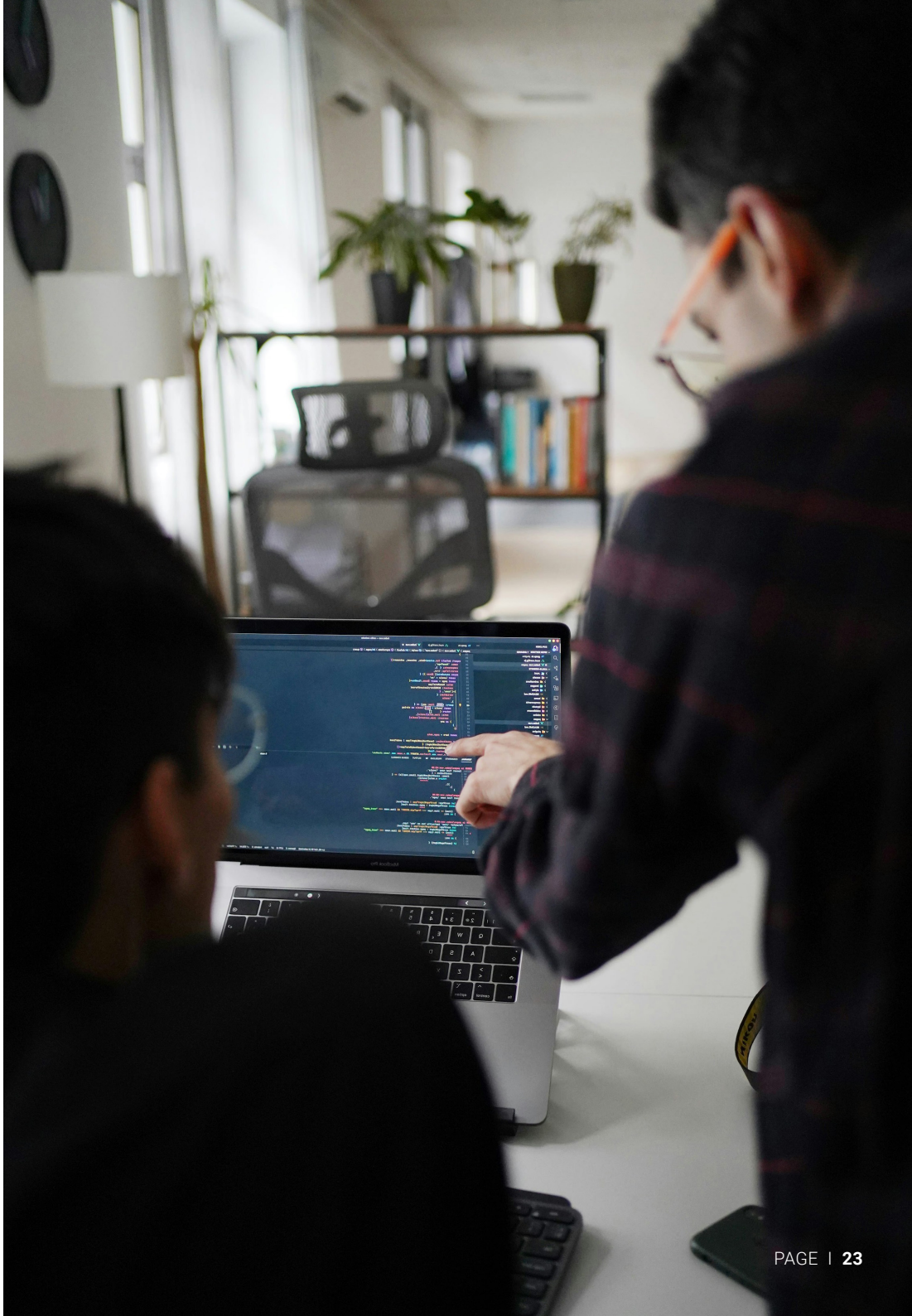
Given the data in the report, it is pleasing to see how manufacturers are investing more in R&D to grow. Despite SMEs being more significantly affected by R&D rule changes, investments on process improvement and new product development lay clear groundwork for this size of business to meet their growth aspirations.

As digitalisation becomes more prevalent in manufacturing, it is clear why technology and cyber security are two of the main challenges in the industry. There are practical and innovative ways for businesses to improve these areas such as implementing new IT systems that are bespoke to the needs of the business, investments in AI, and upskilling and recruiting staff to apply new technology.

As the Carbon Border Adjustment Mechanism (CBAM) takes effect along with cultural demands to be carbon neutral and Net Zero, pressure is clearly on the manufacturing industry to be more sustainable. Now more than ever there is a need to further implement lean manufacturing principles, adopt renewable energy solutions and monitor energy consumption further.

There is also a clear crossover between challenges facing manufacturing, with the ability to monitor energy and efficiency of factories in real time only being available to businesses with the correct infrastructure in place. When you add in needing the skill to interpret the data to make informed business decisions, it's clear that suitable education is needed in areas that are not as typically found in manufacturing.

Manufacturers ultimately require a rounded approach to overcome barriers for growth with further knowledge and understanding on how actions can have various positive impacts across the business, as to not view them as mutually exclusive challenges to overcome.



Sustainability

Approximately one-fifth of the world's carbon emissions come from the manufacturing industry. The industry is under continued pressure to decarbonise and there are ongoing efforts to help the industry to become more sustainable.

Currently, approximately 50% of manufacturing businesses have some form of sustainability framework within their business. Businesses with a turnover of under £500m do not have to do any material reporting; however, there is now an expectation from their customers, so they are voluntarily reporting on governance, risk, metrics and climate. For larger businesses, it is mandatory for them to report on their sustainability measures.

48% are using recyclable materials where possible

47% are implementing lean manufacturing practices

46% are partnering with sustainable suppliers

45% are reducing energy consumption

44% are adopting renewable energy sources

While all manufacturing businesses are keen to invest in sustainable practices, this often comes at a cost to the business, which in this challenging economic environment means that they cannot do as much as they would like.

Mark Lumsdon-Taylor
ESG and Sustainability Specialist

Over the past five years, the recognition of sustainability's importance within manufacturing has undeniably grown, yet its implementation varies drastically depending on a company's size and position in the supply chain.

Small and medium-sized enterprises (SMEs) – the backbone of the manufacturing industry – face different pressures than their larger counterparts. For SMEs, with turnovers typically under £100 million, the primary drivers are pragmatic: "How much will it cost, who is going to have to deal with it, and what are my regulatory (& legal) obligations?" What we do see is that SME's often integrate sustainability as a compliance measure, fearing loss of business if they don't meet customer requirements, and increasingly as a proactive measure before they are asked to.

Larger corporations, exceeding £500 million in turnover, are more likely to boast dedicated ESG functions and robust strategies, embracing frameworks like Science based targets (SBTI) EcoVadis and the Carbon Disclosure Project (CDP).

They are increasingly engaging in voluntary assurance and compliance on key performance indicators, from carbon reduction to social metrics like lost-time injury rates. This isn't purely out of environmental zeal; it's a direct response to the demands of their main market-listed customers, who are themselves obligated to measure and report on the sustainability performance of their entire supply chain.

Independent validation from accountancy firms on scope emissions, health and safety, and even diversity and inclusion practices, makes a supplier's life easier and more commercially viable. This cascading effect of regulation and commercial pressure is truly what's driving change. The most significant shift in the last five years lies in procurement.

"ESG is no longer a peripheral consideration but a fundamental component."

Manufacturers without a robust sustainability framework are at a significant commercial risk. If you can't demonstrate your environmental and social credentials, you're increasingly likely to be excluded from tenders and supply agreements. Beyond environmental factors, societal aspects like health and safety, equality, diversity, and inclusion are gaining considerable traction, often overshadowing concerns like waste or raw material usage in the eyes of major buyers. This reflects a growing understanding that operational risks often stem from social and governance failings.

For smaller manufacturers, the imperative is to master the basics: establish a fundamental ESG framework and ensure compliance with existing regulations they may be in scope for such as Streamlined Energy and Carbon Reporting (SECR) and the Energy Savings Opportunity Scheme (ESOS). However, a looming challenge is the inevitable lowering of regulatory thresholds. Upcoming standards like IFRS S1 and S2, currently adopted by the Financial Conduct Authority (FCA), are likely to be adopted by the Department for Business and Trade, bringing many more companies into scope for mandatory reporting. This means manufacturers currently exempt will soon find themselves navigating a new landscape of detailed disclosures, demanding a proactive rather than reactive approach.

The current political climate, particularly post-Brexit, adds another layer of complexity, with European legislation focusing heavily on import export, carbon border adjustments, and emissions trading schemes. For manufacturers, depoliticising sustainability and establishing clear, understandable roadmaps are crucial. Confusing terminology like "zero emissions," "net zero," and "carbon positive" are often used interchangeably, leading to widespread misunderstanding and even “greenwashing” or “green-hushing.” Clarity and precise communication are essential to build trust and genuinely move the needle.

Ultimately, sustainability in manufacturing is about tangible actions that demonstrate efficiency, profitability, and compliance across the supply chain. Businesses that proactively embrace sustainable practices, not just for the planet but for their commercial viability, will be the ones that thrive.

It's about integrating these practices into the very fabric of operations, recognising that greater scrutiny means every part of the supply chain must be accountable. As the market unequivocally demonstrates, the true measure of sustainability for a business is its impact on the value chain and, ultimately, its profitability.

John Daniels
Managing Director, West & Senior Limited

As Managing Director of an Employee-Owned Business in the manufacturing industry, I have witnessed firsthand the evolving challenges and opportunities that our industry faces. The past few years have been particularly transformative, marked by significant shifts in regulations, technological advancements, and global trade dynamics.

One of the most pressing issues we encounter is the recruitment of skilled personnel. The manufacturing industry, especially in niche sectors like ours, requires a specialised skill set that is becoming increasingly difficult to find and cannot be automated through the use of AI. While we have taken steps to attract talent, such as offering tax-free bonuses to our employees, the skills shortage remains a critical challenge.

The taxation environment in the UK is also not particularly conducive to supporting SMEs in the manufacturing sector. The increase in employers' National Insurance contributions has heavily impacted our business and the process of R&D taxation is time consuming and often not worth the effort. Although the most significant change that the government could make to support us would be a reduction in Corporation Tax for SMEs from 25% back to 19%.

Cybersecurity is another area of concern. With the rise in cyber threats, particularly those we have recently witnessed at large retailers, we have invested significantly in strengthening our IT systems. Hiring a cybersecurity expert has been a crucial step in safeguarding our operations. However, the constant evolution of cyber threats means that this is an ongoing battle.

Regulations have also had a profound impact on our business. Since 2009, the cost of compliance has skyrocketed, diverting resources that could have been used for research and development. The duplication of regulations post-Brexit has only added to this burden, making it imperative for us to navigate both UK and EU regulatory landscapes. Post Brexit we have had to open an office in Europe so that we could be compliant with EU regulations, but this has come at a huge cost to the business. I would encourage the government to make it easier for the UK to do business with Europe. While we are keen to trade with markets further afield and have seen some uptick in businesses wanting to work with us as they are heavily impacted by US tariffs, our priority would be our European neighbours.

Despite these challenges, we remain committed to innovation and growth. Our focus on research and development, particularly in the area of tinting systems, has opened new avenues for us in the global market. Attending international trade fairs and showcasing our bespoke products has been instrumental in driving our business forward.

Sustainability is another key priority for us. While we are not major energy users, the push towards net zero emissions is something we take seriously. We are exploring renewable energy sources and partnering with sustainable suppliers to reduce our carbon footprint. However, the financial investment required for such initiatives is substantial, and we hope that the government will provide more support to help businesses like ours achieve these targets but we hope that they do not move the goalposts.

The manufacturing sector is at a crossroads. The challenges are significant, but so are the opportunities. With the right support from the government, particularly in simplifying regulations and fostering international trade relationships, we can continue to thrive and contribute to the economy. It is crucial for policymakers to understand the unique needs of SMEs and provide the necessary incentives to drive growth and innovation in our industry.

West and Senior Ltd is a UK-based manufacturing company specializing in the production of high-performance pigment dispersions, dyes, and chemical additives for a wide range of industrial applications. Established in 1920, the company has built a strong reputation for quality, innovation, and technical expertise over more than a century of continuous operation. West and Senior operates with a commitment to serving global markets while maintaining the flexibility and responsiveness of a family-owned business.

Looking ahead

While the survey highlighted that there are considerable challenges for the manufacturing industry, it also showed that there are bright spots ahead in the next 12 months.

The announcement of the long-awaited Industrial Strategy could and should be the impetus that the industry needs to set it on the path to more sustainable growth in the UK, with public and private investment and the ability to withstand any further economic volatility.

Regardless of its impact there is clear evidence from our research that despite the obvious challenges it faces, UK manufacturing is above all resilient and looking to the future. Investments in technology, R&D and bridging the skills gap are all welcome signs of an industry that is charting its own course for success.

The survey of 1,000 UK based manufacturing CEOs and business owners was conducted by Opinion Matters between 26 May and 4 June 2025.

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