

Small Means Essential

Why Britain's manufacturing SMEs
are vital for growth

March 2026



March 2026

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The views in this report are those of the author and Policy Connect. Whilst these were informed by the contributors to our inquiry, they do not necessarily reflect the opinions of either individuals or organisations.

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FOREWORD	4
EXECUTIVE SUMMARY	7
RECOMMENDATIONS	9
1. INTRODUCTION	13
1.1. WHAT IS AN INDUSTRIAL STRATEGY?	13
1.2. RECENT INDUSTRIAL STRATEGY IN THE UK	14
1.3. INDUSTRIAL STRATEGY GREEN PAPER	15
1.4. 2025 INDUSTRIAL STRATEGY	16
1.5. WHAT IS AN SME?	17
1.6. INQUIRY AIMS	18
2. ACCESS TO FINANCE	19
2.1. CHALLENGES	19
2.2. INTERVENTION	23
2.3. THE MANUFACTURING COMMISSION'S VIEW	24
3. ENERGY COSTS	26
3.1. CHALLENGES	26
3.2. INTERVENTION	29
3.3. THE MANUFACTURING COMMISSION'S VIEW	30
4. SOVEREIGN CAPABILITY	31
4.1. CHALLENGES	31
4.2. BENEFITS	35
4.3. INTERVENTION	36
4.4. THE MANUFACTURING COMMISSION'S VIEW	37
5. BUSINESS SUPPORT FOR SMES	39
5.1. CHALLENGES	39
5.2. INTERVENTION	44
5.3. THE MANUFACTURING COMMISSION'S VIEW	45
6. CONCLUSION	49
COMMISSIONERS	51
METHODOLOGY AND CONTRIBUTORS	52
ABOUT THIS REPORT	54
APPENDIX A - TREASURY CORRESPONDENCE	
APPENDIX B - DEPARTMENT FOR BUSINESS AND TRADE CORRESPONDENCE	

The UK's manufacturing sector has faced significant headwinds over the past decade. Economic shocks associated with Brexit, the COVID-19 pandemic, and the European energy crisis have seen the UK drop out of the world's top 10 manufacturing nations. However, throughout each of these challenges, the sector has shown remarkable resilience. As part of the new Industrial Strategy, published last year, the Government is once again turning to the manufacturing sector to deliver on its Mission to kickstart economic growth.

Manufacturing SMEs represent an often-overlooked pillar of our economy. As past founders of small businesses ourselves, we understand firsthand that it is the 250,000 SME manufacturers who quietly invent things, train apprentices, and form the foundation of national supply chains. These businesses rarely have dedicated government affairs teams or seats at policy roundtables. Their directors spend their days solving production challenges, not navigating Whitehall. Yet their insights matter profoundly.

This inquiry began with a simple question: how can manufacturing SMEs participate in and benefit from the Government's new Industrial Strategy? What emerged following a written call for evidence, three evidence sessions, and numerous interviews with business leaders was revealing. Participants described not just technical barriers to growth, but a fundamental disconnect between policy intent and lived experience. They spoke of innovation funding they cannot access because forms are too complex, of energy costs that make them uncompetitive against overseas rivals, of banks that no longer understand manufacturing, and of procurement processes that favour price over quality. These are not abstract policy challenges. They are existential threats to businesses that have served customers for decades, sometimes for generations. When these companies are forced into closure, the country loses jobs, skills, tax revenue and our sovereign capability is weakened.

We welcome the Government's Industrial Strategy, which represents an opportunity to overcome these barriers and ensure that manufacturing SMEs go from simply surviving to actively thriving. The commitment to growth sectors, the expansion of the British Business Bank, and the proposed Business Growth Service all demonstrate ambition. However, the devil will lie in the detail, and for manufacturing SMEs, the detail matters enormously.

This report's seventeen recommendations are deliberately practical. They do not call for vast new spending programmes or revolutionary policy shifts. Instead, they ask for something harder: genuine simplification, faster implementation, and ensuring SMEs have an authentic voice in delivery of the Industrial Strategy. Between us, we have sat in hundreds of hours of Parliamentary debate on Industrial Strategy. Too often, these debates have focussed on grand visions rather than granular delivery. This report does the opposite. It listens to those doing the work, identifies practical barriers, and proposes implementable solutions. If the Government truly intends to kickstart growth, it must ensure the policy environment enables those who create value – our manufacturing SMEs – to succeed.

We commend this report to colleagues across the House, to Ministers, and to all those committed to building a manufacturing sector fit for the future. We would like to thank the members of the Manufacturing Commission for their input and the ERA Foundation for their generous support.

INQUIRY CO-CHAIRS



Lord Bilimoria of Chelsea, CBE, DL

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A handwritten signature in black ink, appearing to read "Bill Esterson".

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Cllr Nadine Peatfield

A handwritten signature of Cllr Nadine Peatfield in black ink.



Catherine Atkinson MP

Small and Medium-sized Enterprises (SMEs) form the backbone of the UK economy, comprising over 99% of all businesses. Within manufacturing, SMEs carry particular importance – although these companies represent just 5% of UK businesses, they account for 9% of all employment and 14% of total turnover. Manufacturing SMEs are therefore vital to the Government’s Mission to kickstart economic growth.

However, the business environment for these companies has become increasingly challenging in recent years, with the number of struggling manufacturing SMEs rising to almost one in five in 2024. Proposed interventions in the Government’s 2025 Industrial Strategy and Plan for Small Business will help address this. Yet several investment barriers remain, threatening the success and sometimes the commercial viability of many manufacturing SMEs. **Chapter 1** of this report explores the recent history of Industrial Strategy in the UK, summarises the aims of the new Strategy, and sets out how an SME is defined.

For the Industrial Strategy to be a success, businesses must be encouraged to start, scale, and remain in the UK. However, constrained access to finance has resulted in the UK having the lowest business investment rate of all G7 economies, at 10% of GDP. **Chapter 2** explores SMEs’ appetite for finance in the current uncertain geopolitical climate and presents key challenges businesses face when seeking loan or equity finance.

UK industrial energy prices rank among the world’s highest. These costs present an existential threat to manufacturing, particularly in energy-intensive industries vital to the success of the Industrial Strategy, such as steel, cement, fertiliser, and ceramics. **Chapter 3** explores why electricity prices remain so high and calls for immediate support for the entire manufacturing sector through the Government’s forthcoming British Industrial Competitiveness Scheme.

Chapter 4 demonstrates how energy costs and UK sovereign capability are intrinsically linked. When rising supply-side costs force manufacturing SMEs out of business, Original Equipment Manufacturers and Tier 1 suppliers must source from overseas, leaving the sector more vulnerable to external shocks. Public procurement can help ensure domestic companies operate on a level playing field and that contracting authorities consider social, economic, and environmental benefits when procuring goods and services.

Chapter 5 explores wider challenges manufacturing SMEs face, including late payments, regulation, digital adoption, and navigation of the tax system. These challenges divert resources from core business activity and stifle productivity. The expanded Made Smarter scheme and forthcoming Business Growth Service, both due for roll-out this year, have the potential to address these challenges. However, these schemes must avoid the mistakes of the past and offer high-quality business support, agreed at a national level, and delivered by people with direct experience in the sector.

Policymakers often overlook the collective voice of SME manufacturers and favour the priorities of larger businesses. The recommendations below aim to complement proposed interventions in the Industrial Strategy while ensuring manufacturing SMEs can fully benefit from them.

ACCESS TO FINANCE

Recommendation 1. Innovate UK should undertake a comprehensive review of its funding streams for SMEs, with new opportunities aligned to the IS-8 growth sectors. It should also introduce simplified application and reporting tiers for SME applicants and include funding for administrative support services in grant budgets.

Recommendation 2. The British Business Bank's Growth Guarantee Scheme should be expanded to:

- a. Offer increased guarantee coverage (more than the existing 70%) for higher-risk or early-stage businesses.
- b. Broaden eligibility criteria by reducing minimum trading history requirements and raising the existing £45 million turnover cap.
- c. Introduce partial debt forgiveness tied to revenue milestones and allow repayment deferral where necessary.
- d. Improve digital application routes and integration into the Business Growth Service.
- e. Increase the maximum loan amount beyond the existing £2 million limit per business group.
- f. Encourage all lenders to provide asset finance for both new and used equipment.

Recommendation 3. To address the scale-up capital gap and crowd in substantial private capital, the British Business Bank should be permitted to make larger direct investments (>£60 million) in 'superstar' manufacturing companies. To avoid a 'London bias', these investments should include ring-fenced regional allocations.

ENERGY COSTS

Recommendation 4. In accordance with proposals put forward by Make UK for implementation of the British Industrial Competitiveness Scheme (BICS), the Government should:

- a. Expand eligibility for the BICS to all manufacturers, or at least the 30,000 frontier manufacturing businesses in the Industrial Strategy and foundational industries, regardless of energy intensity or SIC code.
- b. Bring forward implementation from 2027 to 2026 to mitigate the impact of recent additional non-commodity costs on businesses.
- c. Backdate payments for the most energy-intensive businesses to June 2025.

Recommendation 5. The Government should introduce an SME pathway for the BICS, allowing access to SMEs that do not meet wider eligibility criteria relating to energy intensity or SIC codes. Advice and guidance on how to apply should be made available as part of the Government's Business Growth Service.

SOVEREIGN CAPABILITY

Recommendation 6. The Government should fully implement Cabinet Office proposals on public procurement, to support SMEs, bolster sovereign capability, and prioritise social value, including:

- a. Requiring large contracting authorities with spend exceeding £100m annually to publish their own 3-year target for direct SME spend and report against the target annually.
- b. Requiring contracting authorities to exclude suppliers from bidding on major contracts (+ £5m) if they cannot demonstrate on time invoice payment to their supply chains.
- c. Requiring contracting authorities to conduct standard assessments before procuring major contracts (£5m+) to determine whether service delivery should be in-house or outsourced.
- d. Requiring contracting authorities to use standard social value criteria and metrics selected from a streamlined list (to be co-designed with the public sector and suppliers) in their procurement of public contracts.

Recommendation 7. To ensure 3-year SME procurement spend targets are met, the Government should:

- a. Mandate that targets are specific, measurable, achievable, relevant, and time-bound (SMART).
- b. Support contracting authorities to actively engage with SMEs through outreach programmes, contract bidding training, and simplified, shorter bidding processes.
- c. Hold contracting authorities accountable for meeting targets and provide incentives for those exceeding them.
- d. Encourage contracting authorities to break complex tenders into SME-accessible lots.
- e. Require primes/Original Equipment Manufacturers bidding for UK defence or aerospace contracts to demonstrate a minimum percentage of UK SME spend within their supply chains and develop enforcement mechanisms if this requirement is not met.
- f. Encourage fair payment terms throughout the supply chain and empower contracting authorities to exclude suppliers who have a track record of late payments.

BUSINESS SUPPORT

Recommendation 8. The Government's forthcoming Business Growth Service should provide a single, online 'front door' for businesses and be fully integrated with other basic business requirements, including accounting, PAYE, VAT, and environmental reporting.

Recommendation 9. The Business Growth Service should include a specific support pathway for the manufacturing sector, including advice on access to finance, skills development, basic digitalisation and technology adoption (with signposting to the Made Smarter programme), product design, exports and international trade, leadership training, and sustainability (including energy efficiency, circular economy, and net-zero). This framework should be agreed at the national level.

Recommendation 10. Support for manufacturing within the Business Growth Service should be delivered by human business advisors with experience in the manufacturing sector. This should be supplemented with peer-to-peer networking and AI-generated targeted support.

Recommendation 11. Expansion of the Made Smarter programme should include a dedicated media campaign to ensure maximum SME awareness of the programme and its forthcoming national rollout.

Recommendation 12. The Government should offer a baseline upskilling programme as a prerequisite to participation in Made Smarter. This could be delivered as part of the Business Growth Service and should include training and advice on purpose and leadership, finance, general operations, human resources, change and risk management, supplier management, and the principles of ‘lean manufacturing’.

Recommendation 13. The Industrial Strategy Advisory Council should co-opt at least one small business leader into its membership. The Manufacturing Commission suggests that Andrew Churchill OBE, former Chair of aerospace engineering firm, JJ Churchill, and Chair of the ERA Foundation, would be suitable for this role.

Recommendation 14. The Government should bring forward the Industrial Strategy Bill urgently to allow the Industrial Strategy Advisory Council to operate on a statutory footing.

Recommendation 15. The Government should radically simplify the application process for post-April 2024 ‘merged’ R&D tax relief, including:

- a. A short form route for small claims with standardised cost categories and plain language that does not require the use of third-party consultants.
- b. Support for a ‘pre-approval’ check for first-time SME claimants.
- c. Clearer guidance and examples tailored to manufacturing R&D (especially for process improvements, chemistry formulation, and digital quality assurance).

Recommendation 16. The Government should extend the existing capital allowances regime to:

- a. Reintroduce the 130% ‘superdeduction’ capital allowance for main rate assets.
- b. Include leased assets and special-rate assets (such as those that are essential to the functioning of a building) within the existing full expensing regime.

Recommendation 17. The Government should cancel proposed increases in Business Asset Disposal Relief and maintain the existing rate at 14%.

The UK's manufacturing sector has faced a challenging decade. The 2016 Brexit referendum reduced investor confidence, caused labour shortages, and created trade friction from which many manufacturers have yet to recover. The 2020 COVID-19 pandemic decimated demand in several subsectors and disrupted global supply chains. Russia's 2022 invasion of Ukraine quickly followed, driving unprecedented energy price increases that pushed energy-intensive manufacturers to the brink of closure. In 2024, the UK slipped out of the global top 10 manufacturing nations for the first time in over a decade, with domestic output valued at \$279 billion in 2025.¹

These challenges have disproportionately impacted Small and Medium-sized Enterprises (SMEs), many lacking the cash reserves or staff resources to weather such external shocks. BVA BDRC's 2024 SME Finance Monitor found that one in five SMEs now describe themselves as 'struggling', with smaller and younger firms more vulnerable than medium-sized businesses. Sadly, within manufacturing, the proportion of struggling SMEs has risen 6 percentage points from 17% to 23% between 2023 and 2024.²

The Government's new Industrial Strategy, published in June 2025, addresses these challenges through increased investment, stronger infrastructure, lower business costs, and simplified regulation. This inquiry explores how manufacturing SMEs can best participate in and benefit from the Strategy.

1.1. WHAT IS AN INDUSTRIAL STRATEGY

No universal definition exists for Industrial Strategy. Traditionally, the term described government measures supporting manufacturing and heavy industry. However, more recent UK Industrial Strategies have addressed wider societal and economic goals. The Institute for Public Policy Research distinguishes between **policy** - government actions promoting specific sectors, and **strategy** - economy-wide planning combining policies to achieve broader outcomes.³ The Organisation for Economic Co-operation and Development divides industrial strategies into four types:⁴

Sectoral strategies: target a specific sector or group of interlinked sectors.

Mission-oriented strategies: coordinate policy and regulatory measures to address well-defined objectives related to a societal challenge. For example, the current Government aims to achieve net-zero greenhouse gas emissions by 2050.

¹ UK manufacturing: the facts 2025, Make UK, September 2025

² SME finance monitor Q4 2024, BVA BDRC & UK Finance, March 2025

³ Making markets in practice, Institute for Public Policy Research, November 2023

⁴ An industrial policy framework for OECD countries: old debates, new perspectives, Organisation for Economic Co-operation and Development, May 2022

Technology-focussed strategies: support innovation, Research and Development (R&D), and adoption of specific technologies, such as Artificial Intelligence (AI) for productivity purposes.

Place-based strategies: adjust the regional distribution of economic activity, such as through the Levelling-Up agenda championed by the previous Conservative government.

The UK's current Industrial Strategy, launched in June 2025, incorporates all four aspects.

1.2. RECENT INDUSTRIAL STRATEGY IN THE UK

Over the last twenty years, the UK government's enthusiasm for industrial strategy has varied significantly. The 2010-2015 coalition government adopted a sector-based approach, focussing on eleven sectors of strategic importance, including aerospace, automotive, nuclear, and offshore wind.⁵ Active industrial strategy fell out of favour with the subsequent 2015-17 Conservative government, which adopted a "non-interventionist, but highly engaged" approach under Secretary of State, Sajid Javid MP.⁶ Theresa May's government introduced a new Industrial Strategy in 2017, addressing four 'grand challenges' for the UK in the wake of the Brexit referendum: artificial intelligence and data, an ageing society, clean growth, and the future of mobility.⁷ Her government also convened an Industrial Strategy Council, chaired by then Bank of England Chief Economist Andy Haldane. The Council operated as an independent, non-statutory advisory group, evaluating government's progress against the Strategy's aims. Industrial strategy once again fell out of favour in 2021 when Boris Johnson disbanded the Council and replaced May's plan with his new Plan for Growth.⁸ This Plan dropped the sectoral and mission-based focus of previous administrations and concentrated on regional inequality and the 'levelling-up' agenda. Neither the subsequent Liz Truss (2022) nor Rishi Sunak (2023-2024) administrations reintroduced a formal Industrial Strategy.

Inconsistency and change have dogged this period of industrial policymaking. Between 2010 and 2024, eleven different Secretaries of State have led the Department for Business, which itself changed scope three times: Business, Innovation and Skills (2009-2016), Business, Energy and Industrial Strategy (2016-2023), and Business and Trade (2023-present).

⁵ Industrial strategy, Business and Trade Committee, June 2025

⁶ A new approach to trade and industry (speech), Rt Hon Sajid Javid MP, March 2016

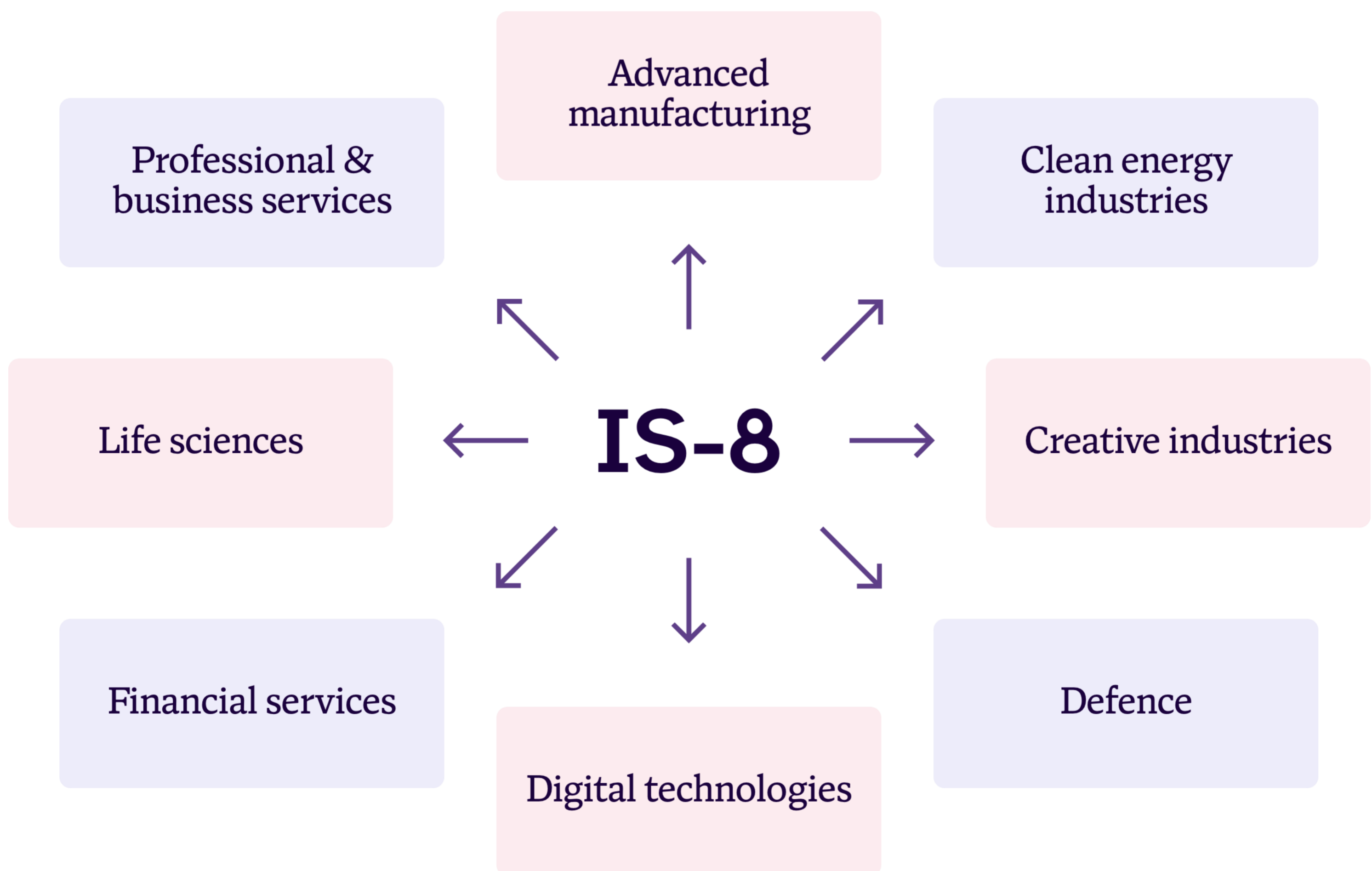
⁷ Industrial strategy: building a Britain fit for the future, HM Government, November 2017

⁸ Build back better: our plan for growth, HM Treasury, March 2021

1.3. INDUSTRIAL STRATEGY GREEN PAPER

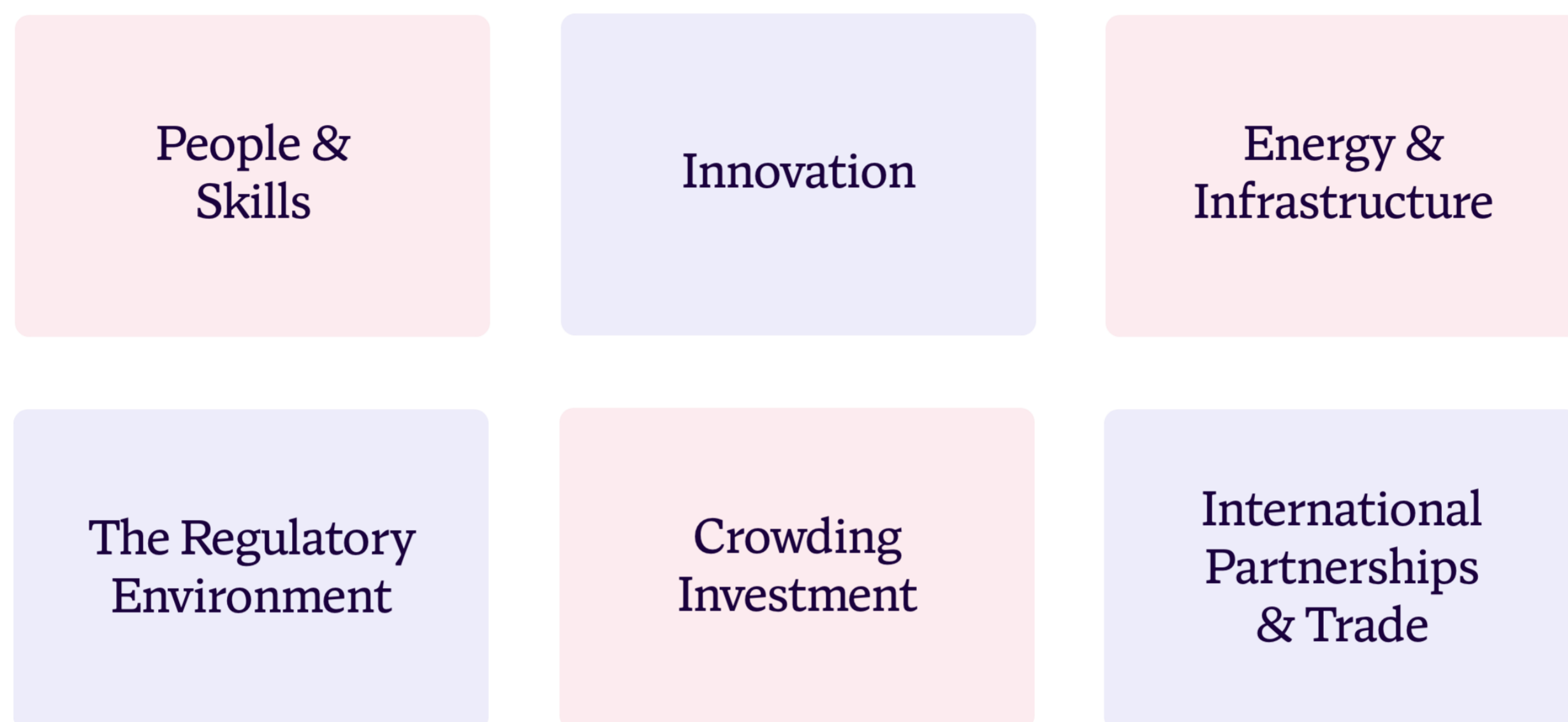
In October 2024, the Government published Invest 2035, a green paper setting out proposals for a new Industrial Strategy.⁹ The Strategy forms a key part of the Government’s mission to ‘kickstart economic growth’, one of six missions within its Plan for Change. Invest 2035 includes objectives to support regional development, improve economic security and resilience, and achieve net-zero greenhouse gas emissions by 2050. The paper identifies eight sectors with the greatest growth opportunity, known as the IS-8:

Figure 1: IS-8 industries



9 Invest 2035: the UK’s modern Industrial Strategy, Department for Business and Trade, October 2024

Figure 2: Policy areas identified within Invest 2035 as requiring the greatest intervention



The Manufacturing Commission’s response to the Green Paper concentrated on People and Skills, drawing on its recent inquiry, *Upskilling Industry*.¹⁰

1.4. 2025 INDUSTRIAL STRATEGY

The Government published the UK’s new Industrial Strategy in June 2025 as a 10-year plan to create economic growth through increased investment and productivity across the IS-8 sectors (described above). Alongside this framework, the Government also presented individual plans for each IS-8 sector, detailing specific interventions for frontier industries within each. Frontier industries within the Advanced Manufacturing Sector Plan include automotive, batteries, aerospace, space, advanced materials, and agri-tech. The Strategy also includes mission-oriented elements and place-based aspects to support regional growth.

Prior to publication, the Government convened an Industrial Strategy Advisory Council (ISAC) to advise on delivery and monitor progress against objectives. Microsoft CEO Dame Clare Barclay DBE chairs the Council, which includes Rt Hon Greg Clark, a former Secretary of State who oversaw the May government’s Industrial Strategy. The Government has proposed to place the Council on a statutory footing when “parliamentary time allows.” This statutory body will be known as the Industrial Strategy Council.¹¹

¹⁰ Upskilling industry: manufacturing productivity and growth in England, Policy Connect, October 2023

¹¹ About us, Industrial Strategy Advisory Council, December 2024 (online: <https://www.gov.uk/government/organisations/industrial-strategy-advisory-council/about>)

1.5. WHAT IS AN SME?

SME classification varies across jurisdictions and contexts. Businesses typically determine size by headcount, turnover, or total balance sheet. Under the UK’s Procurement Act (2023), an SME must have a) fewer than 250 staff and b) an annual turnover of £44m or less, or a balance sheet total of £38m or less.¹² The European Commission further distinguishes between micro, small, and medium-sized businesses as follows.¹³

Table 1. European Commission micro, small, and medium-sized business definitions

Category	Micro	Small	Medium-sized
Staff	<10	<50	<250
Turnover	<€2 million	<€10 million	<€50 million
OR			
Balance sheet	<€2 million	<€10 million	<€43 million

In 2024, SMEs comprised 99.9% of UK businesses, with 99.2% employing fewer than 50 people.¹⁴ Although manufacturing has comparatively more large businesses than other sectors, SMEs still represent over 99% of all manufacturers.¹⁵ UK manufacturing also represents a relatively large share of the UK’s total SME employment and turnover (around 9% and 14% respectively).¹⁶

The Government estimates that accelerating SME growth by 1% annually could deliver £320 billion to the economy by 2030.¹⁷ Research by Make UK and Civitas found that 64% of SME manufacturers aspired to grow into large businesses within a decade. Realising this goal would add £219 billion to the sector’s turnover and £83 billion in Gross Value Added (GVA) to the economy.¹⁸ Supporting growth in UK SME manufacturing will therefore offer a significant opportunity for economic gain.

¹² Supplementary information: small and medium-sized enterprises definition, Government Commercial Function, April 2025

¹³ SME definition, European Commission, (online: https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition_en)

¹⁴ Business population estimates for the UK and regions 2024: statistical release, Department for Business and Trade, October 2024

¹⁵ Ibid

¹⁶ Ibid

¹⁷ Backing your business: our plan for small and medium-sized businesses, Department for Business and Trade, July 2025

¹⁸ The growth mission: a blueprint for scaling up SME manufacturers, Civitas & Make UK, March 2025

1.6. INQUIRY AIMS

Two scoping sessions held in Parliament in May and July 2025 shaped the extent and aims of this inquiry. Participants agreed the inquiry should focus on policy support for manufacturing SMEs and how these businesses can help deliver on the aims of the Industrial Strategy. The sessions identified the following themes as key barriers to investment that targeted policy change could overcome:

1. Access to finance
2. Energy costs
3. Sovereign capability
4. Wider business support for SMEs

These themes form the subject of the following four chapters. Skills shortages emerged as a continued investment barrier for manufacturers of all sizes. However, the Commission decided to exclude skills policy from this inquiry's scope, given the breadth of this policy area and the Commission's recent treatment of the skills agenda in *Upskilling Industry*.¹⁹

“I started the Cobra Beer company from scratch and have been through all the stages of growth. The most difficult thing is getting the right idea and the right product. The second most difficult thing, by far, is raising money.”

Lord Bilimoria of Chelsea CBE, DL (evidence session 1)

TOP LINES

- Access to finance is a significant barrier to growth within the manufacturing sector, and manufacturing SMEs typically prefer debt to equity finance.
- The UK has the lowest business investment rate of all G7 economies at 10% of GDP, with SMEs contributing only 37% of overall UK business investment despite representing over half of national turnover and 60% of employment.
- SME manufacturers face barriers in both appetite for and access to finance. High interest rates, political uncertainty, and economic climate weaken investment confidence, while lender attitudes, targeted debanking, geographical disparities, and discrimination against women and minority ethnic founders restrict access to capital.
- The Manufacturing Commission welcomes increases in the British Business Bank’s (BBB) capacity and capability to invest in manufacturing businesses across their life cycle. The Commission has recommended further expansion of the BBB’s Growth Guarantee Scheme to provide vital additional support to manufacturing SMEs.

2.1. CHALLENGES

The UK offers a highly attractive destination for investment with its world-class talent, ambitious innovation ecosystem, strong rule of law, global connectivity, and commitment to clean growth. A recent Deloitte survey ranked the UK as the joint-top investment location, buoyed by Europe’s largest equity market (£17 billion raised in 2023), a strong Venture Capital (VC) sector, and a mature Private Equity (PE) ecosystem.²⁰

²⁰ Deloitte CFO survey Q2 2025, Deloitte, July 2025; London remains Europe’s largest equity market, with over £17 billion raised last year, City of London Corporation, November 2024 (online: www.news.cityoflondon.gov.uk/london-remains-europes-largest-equity-market-with-over-17bn-raised-last-year); Venture Capital and Private Equity in the UK, The Global City (online: www.theglobalcity.uk/equity-financing)

Despite this, recent Barclays research shows the UK has the lowest business investment rate of all G7 economies, at 10% of GDP, compared to Japan's 18.2% and the G7 average of 12.1%. Barclays also found that despite representing over half of national turnover and 60% of employment, SMEs contribute only 37% of overall UK business investment.²¹ Inquiry participants corroborated these findings, repeatedly citing investment capacity as a significant growth barrier. The Commission has identified two key reasons that explain this under-investment.

2.1.1. APPETITE FOR FINANCE

The business environment has proven particularly uncertain for SMEs in recent years, weakening business owners' confidence to invest. In a 2024 survey by market research agency BVA BDRC about 'major barriers' in the coming year, manufacturing SMEs cited higher costs, political uncertainty, and the economic climate as the top three obstacles.²² Barclays research shows that smaller SMEs have weaker investment intentions, with only 41% of micro-businesses planning to increase investment in 2025-26, compared with 64% of medium-sized businesses.²³

In 2024, the Levelling Up Advisory Council to the last government found that when seeking finance, SMEs typically consider debt first, followed by equity, to retain control and avoid external ownership.²⁴ Furthermore, BVA BDRC found that almost eight in ten manufacturing SMEs would accept slower growth rather than borrow more.²⁵

Recent high interest rates have significantly deterred businesses from accessing loan finance. Make UK and Civitas identified high interest rates as the top barrier for manufacturing SMEs accessing finance in the last 12 months, while BVA BDRC found that around half of manufacturing SMEs avoided applying for finance due to rising rates.²⁶ BBC reporting following the 2025 Jaguar Land Rover cyber-attack found that SMEs in the automotive supply chain received loan offers with interest rates around 16% and requirements for 100% personal guarantees.²⁷ Evidence submitted to this inquiry shows that support for automotive businesses in Germany was starkly different, with suppliers to Mercedes offered loans at just 1% above the base rate.

21 Unlocking small and medium-sized enterprise investment: building a growth mindset in the UK, Barclays, September 2025

22 SME finance monitor Q4 2024, BVA BDRC & UK Finance, March 2025

23 Unlocking small and medium-sized enterprise investment: building a growth mindset in the UK, Barclays, September 2025

24 Accelerating regional growth: a study on spatial disparities in business finance, Levelling-Up Advisory Council, March 2024

25 SME finance monitor Q4 2024, BVA BDRC & UK Finance, March 2025

26 The growth mission: a blueprint for scaling up SME manufacturers, Civitas & Make UK, March 2025; SME finance monitor Q4 2024, BVA BDRC & UK Finance, March 2025

27 Suppliers' uncertainty despite expected JLR restart, BBC News, October 2025 (online: www.bbc.com/news/articles/cr70xp8kny4o)

2.1.2. ACCESS TO FINANCE

Even where SMEs have the confidence to seek loan or equity finance, inquiry contributors reported several barriers, including:

Lender attitudes. Inquiry participants cited difficulty securing loans from high-street banks, even in straightforward cases. Evidence from Make UK indicated that several of its members have been ‘debanked’ – where a bank closes or denies service to a business. Defence companies, in particular, have suffered from targeted debanking, with anecdotal evidence suggesting they were regarded by banks in the same category as the tobacco and adult entertainment industries. The Treasury Select Committee found that major lenders closed over 140,000 SME accounts in 2023, with debanking complaints by businesses rising 81% between 2022/23 and 2023/24.²⁸ Where companies maintain lender relationships, many banks have raised their threshold for providing an in-person manager (some as high as £10 million turnover). Businesses falling below this threshold can only access telephone or internet banking to discuss complex lending requirements. BVA BDRC found that 1 in 5 SMEs wish for a more active bank relationship.²⁹

Perceptions of manufacturing by investors. Manufacturing relies on plant and equipment. Advanced manufacturing equipment, such as robots and precision instruments, can be very expensive with long payback periods, delivering lower returns on investment. The aerospace and defence sectors face particular challenges, as businesses must pay upfront for First Article Inspections and tooling. Manufacturing businesses typically have fewer, higher-value customers – a situation lenders perceive as higher-risk. These factors collectively deter lenders and investors.

Asset financing biases. Current finance products heavily favour new machinery purchases. However, SMEs often economise by acquiring high-quality used or retrofitted machines, or by upgrading existing equipment with new controls and tooling. SMEs find it difficult to secure finance against these investments, despite their direct improvements to productivity and profitability.

Business maturity. Manufacturing companies with growth ambitions often differ from those in other sectors. They may have traded for years but recently developed a new product, or they may be family businesses recently handed down to a new generation. This disadvantages them when seeking investment, as some government schemes, such as the Venture Capital Trust (VCT) or Enterprise Investment Scheme (EIS), only accept businesses trading for less than seven years.

²⁸ SME Finance, Treasury Select Committee, May 2024

²⁹ SME finance monitor Q4 2024, BVA BDRC & UK Finance, March 2025

Geographical distribution. Unlike sectors such as financial services, manufacturing is distributed throughout the UK. Although positive for regional equality, this can disadvantage businesses accessing finance. The Levelling-Up Advisory Council to the last government found that SME access to finance varies substantially by region. For example, the Midlands, Northwest, Yorkshire and the Humber, Scotland, and Wales combined host 50% of the country's SMEs and account for over 45% of GVA, but captured only 15% of equity deal flow between 2019 and 2022.³⁰

Collateral requirements. Inquiry participants reported difficulty accessing loan finance without property as collateral. For example, companies seeking funds for factory improvements in leasehold buildings or for digital technology struggled to secure non-asset-backed finance from traditional lenders.

Trade finance and export restrictions. Manufacturing SMEs seeking trade finance face higher interest rates, demands for personal guarantees, and more onerous terms than businesses seeking finance for domestic contracts. Inquiry participants also faced challenges from trade restrictions. For example, one business could not access funding for a £330,000 precision lathe because the end customer was in a non-approved export region, despite strong order security.

Discrimination against women and founders of ethnic minority backgrounds. Women and people of minority ethnic backgrounds play an important role in UK manufacturing. Women's participation in managerial, director, and senior positions increased in 2024, reaching 24.8%. The proportion of women in these positions from non-white ethnic backgrounds also rose significantly, from 9.6% in 2023 to 13.5% in 2024.³¹ Despite this progress, the Enterprise Research Centre found that businesses led by women and people of minority ethnic backgrounds are less likely to pursue expansion. NESTA analysis shows that women and minority ethnic founders contribute around £130 billion to the UK economy, yet struggle to secure finance compared to their male and white counterparts. Addressing this barrier (alongside access to business support and government contracts) could add at least £250 billion to the economy.³²

³⁰ Accelerating regional growth: a study on spatial disparities in business finance, Levelling-Up Advisory Council, March 2024

³¹ Women in UK manufacturing 2025: leading with inclusion, Cambridge Industrial Innovation Policy, October 2025

³² Longitudinal Exploration of the Role of External Finance in Helping SMEs Achieve Growth, Higher Productivity and Potential in Relation to their Transition to Net Zero, Götschalk, S, et al, Enterprise Research Centre, October 2025

³³ What works to boost diversity in entrepreneurship? NESTA, March 2021 (online: www.nesta.org.uk/blog/what-works-boost-diversity-entrepreneurship)

2.1.3. THE VALLEY OF DEATH

These challenges in appetite for and access to finance contribute to the funding gap, often known as the ‘valley of death’. Innovate UK, the government’s innovation agency, typically provides start-up funding, while later-stage businesses can attract private equity investment. However, this funding gap does not stem from a lack of private finance. Inquiry evidence shows that after a period of slowing deal flow, the private sector has capital to deploy. Furthermore, the Business and Trade Committee’s recent Industrial Strategy report highlighted the £2.6 trillion held by pension funds, alongside significant capital in annuity funds and VC. Mobilising this capital through ‘crowding in’ with public funding will prove vital if the Industrial Strategy is to leverage private finance successfully.

2.2. INTERVENTION

The Government has identified access to finance as a growth barrier. Both the Industrial Strategy and the Plan for Small and Medium-Sized Businesses include interventions to address this, including:

Harnessing public financial institutions through:

Expanding the mandate of the National Wealth Fund (NWF). Launched in October 2024, the NWF seeks to ‘crowd-in’ £27.8 billion of private-public investment at an ambitious 3:1 ratio. The Industrial Strategy directs the NWF to prioritise investment in IS-8 industries, including advanced manufacturing.

Strengthening export credit. The Government proposes to increase UK Export Finance’s (UKEF) financial portfolio and will review whether UKEF should adopt a broader trade and investment finance remit.

Supporting clean energy projects. Great British Energy, the Government’s new renewable energy investment body, will work with the NWF to provide end-to-end development and finance for schemes such as domestic offshore wind and nuclear. UK manufacturing will play a key role supporting these projects.

Increasing the British Business Bank's capacity to £25.6 billion, including:

Committing £4 billion of public finance to support IS-8 industries, aiming to crowd in an additional £12 billion in private capital.

Strengthening the ecosystem for advanced manufacturing investment by backing specialist fund managers and cornerstone funds with novel investment strategies.

Providing greater scale-up capital through larger direct equity investments up to £60 million.

Expanding the existing Start-Up Loans programme to offer 69,000 loans with mentoring over the next four years.

Providing £500m of additional lending capacity to help more small businesses through the **Growth Guarantee Scheme**, which provides a 70% guarantee to banks lending to small businesses (up to £2 million), covering term loans, overdrafts, asset finance, and invoice finance. Introducing a mandatory Code of Conduct for lenders using the Growth Guarantee Scheme to ensure fair and transparent use of Personal Guarantees.

Providing wider access to finance by:

Exploring the role **regional mutual and co-operative banks** could play in boosting SME investment.

Introducing a £400m Investor Pathways scheme to support founders from under-represented backgrounds, along with new Angel Syndicate Support and Embracing Diversity programmes, and further support for the Invest in Women Taskforce.

2.3. THE MANUFACTURING COMMISSION'S VIEW

The Commission broadly supports Innovate UK's role in providing funding for R&D and innovation through its portfolio of grants, loans, and equity investments. However, participants agreed that the application process for all support types is too complex and bureaucratic, especially for small and micro-businesses. Simplifying application forms, streamlining reporting, and offering more direct support could lower entry barriers and eliminate the need for expensive third-party consultants.

Recommendation 1. Innovate UK should undertake a comprehensive review of its funding streams for SMEs, with new opportunities aligned to the IS-8 growth sectors. It should also introduce simplified application and reporting tiers for SME applicants and include funding for administrative support services in grant budgets.

The Commission welcomes the BBB's expanded capacity, particularly the £4 billion uplift in public finance to support IS-8 industries. However, as described in Section 2.1.2, SME manufacturers still struggle to access loan finance from high street banks. Since lenders are unlikely to make loan finance more attractive voluntarily, changes to the Growth Guarantee Scheme likely offer the most practical route to incentivise banks to increase lending to SME manufacturers.

Recommendation 2. The BBB's Growth Guarantee Scheme should be expanded to:

- a. Offer increased guarantee coverage (more than the existing 70%) for higher-risk or early-stage businesses.
- b. Broaden eligibility criteria by reducing minimum trading history requirements and raising the existing £45 million turnover cap.
- c. Introduce partial debt forgiveness tied to revenue milestones and allow repayment deferral where necessary.
- d. Improve digital application routes and integration into the Business Growth Service.
- e. Increase the maximum loan amount beyond the existing £2 million limit per business group.
- f. Encourage all lenders to provide asset finance for both new and used equipment.

The Commission also welcomes the BBB's expanded mandate to back specialist fund managers investing in manufacturing and to make direct equity investments in individual businesses. This will support companies that have outgrown early-stage VC and encourage promising businesses to remain in the UK. However, the current £60 million limit may prove insufficient for capital-intensive advanced manufacturing businesses to scale. Public commitment above £60 million would de-risk investment for larger investors, such as pension and sovereign wealth funds.

Recommendation 3. To address the scale-up capital gap and crowd in substantial private capital, the BBB should be permitted to make larger direct investments (>£60 million) in 'superstar' manufacturing companies. To avoid a 'London bias', these investments should include ring-fenced regional allocations.

“High energy costs are a significant challenge for many businesses in Derby. In 2022, one organisation in my constituency faced an energy bill price rise from £50,000/year to more than £600,000/year, which threatened its entire commercial viability. Lowering energy costs will enable manufacturing businesses to become more resilient to external shocks, such as public health crises, global conflict, and extreme weather”

Catherine Atkinson MP (evidence session 2)

TOP LINES

- The UK’s industrial energy prices are amongst the highest in the world. These costs present an existential threat to the UK’s manufacturing sector, particularly in energy-intensive industries, vital to the success of the Industrial Strategy, such as steel, cement, fertiliser, and ceramics.
- There are several factors which influence commercial energy prices, including the wholesale price of electricity and gas, network costs, and supplier charges. However, non-commodity policy costs make up a significant part of the business energy bill and are an entity over which the Government has direct control.
- The forthcoming British Industrial Competitiveness Scheme will remove existing policy costs for some of the most energy-intensive companies in sectors that support the industrial strategy. However, under current proposals, the scheme will only support a small group of manufacturing businesses. The Commission has recommended that its eligibility criteria be broadened to support the sector as a whole.

2.1. CHALLENGES

Affordable and reliable energy is vital to almost every manufacturing business, and the manufacturing sector’s energy intensity exceeds that of the wider economy. Historically, factories have required energy for heating and lighting, along with power for production lines and machinery. Some parts of the sector are particularly energy-intensive, such as steel, cement, and fertilizer industries, upon which the country relies for essential infrastructure (homes, roads, rail) and national resilience (agriculture). Energy-intensive industries contribute around £29 billion GVA and directly support 210,000 jobs.³⁴

³⁴ Homepage, Energy Intensive Users Group (online: www.eiug.co.uk)

Since 2021, average electricity prices for UK non-domestic users have risen from 14.81 pence per kilowatt hour (kWh) to a peak of 28.39 pence per kWh in 2023 – a rise of over 90%. Although prices have fallen since 2023, they remain 75% higher than in 2021. Average gas prices also remain more than double their 2021 level. These price increases have most severely affected energy-intensive industries, causing marked contraction in output since 2021, both in absolute terms and compared with other sectors. For example, between Q1 2021 and Q4 2024, GVA in chain volume measures for basic metals and castings manufacture declined by 46.5%.³⁵ UK manufacturers have also suffered disproportionately compared with international competitors, with the UK reporting the highest 2023 electricity prices for industrial users out of 24 countries reporting to the International Energy Association (IEA). Notably, 2023 electricity prices for UK industrial users were:

- Almost 50% higher than in France and Germany.
- Four times higher than in the United States and Canada.
- 46% higher than the IEA median.³⁶

Case study: Why are energy prices so high?

In 2024, renewables generated more than half of the UK's electricity, yet industrial energy prices remain among the highest in the world.³⁷ The UK's reliance on gas is a key factor. Under the current 'marginal pricing' system, the most expensive available energy source (gas-fired power plants) effectively sets the electricity price. Other European countries are far less reliant on gas. For example, gas sets France's electricity market price only 7% of the time, compared to 98% in the UK.³⁸ Another factor is the UK's decision to place most energy policy levies (also known as policy costs) directly onto commercial electricity bills, including the Renewable Obligation, Feed-in Tariffs, and Climate Change Levy. Finally, under-investment in infrastructure means the UK lacks adequate transmission capacity and interconnectors to import electricity from mainland Europe.

35 The impact of higher energy costs on UK businesses:2021 to 2024, Office for National Statistics, May 2025

36 Ibid

37 Official stats show renewables generated over half UK's electricity for the first time in 2024, Renewable UK, March 2025 (online: www.renewableuk.com/news-and-resources/press-releases/official-stats-show-renewables-generated-over-half-uk-s-electricity-for-the-first-time-in-2024)

38 The role of natural gas in setting electricity prices in Europe, Zakeri, B, et al, Energy Reports, November 2023

Inquiry evidence included several examples of manufacturers experiencing year-on-year energy cost increases of between 200% and 1000%. To remain solvent, businesses cut staff, remortgaged property, reduced production, and postponed investment – all measures that stifle growth. Some businesses now introduce a specific ‘energy surcharge’ to their invoices, increasing costs and decreasing profitability throughout the supply chain. Many participants expressed disbelief at Europe’s lower energy costs and that the UK Government expects businesses to bear almost all policy costs to fund investment in renewables, nuclear, and infrastructure.

Inquiry participants were also sceptical of recent and forthcoming government initiatives to reduce business energy costs, including the proposed British Industrial Competitiveness Scheme (BICS). In a recent article, Confederation of British Metalforming president Stephen Morley said, *“The Industrial Strategy highlights the potential for further support to 7000 companies, but will require consultation and time to implement. Time isn’t what a lot of our members have got, who will see their electricity prices rise on October 1st 2025 and get even worse when Nuclear RAB (November 1st 2025) and R110-ET3 (April 1st 2026) come into play.”*

³⁹ Inquiry participants unanimously agreed that support is required immediately rather than in late 2026 or 2027. Participants were also highly critical of successive governments’ decisions to add non-commodity policy costs to non-household electricity bills, with the Electrify Industry group estimating that policy costs for electricity, as a proportion of the total bill, now equal ten times those for gas.⁴⁰ During an evidence session, Andrew Churchill, Non-executive Chair of the aerospace engineering firm JJ Churchill, said, *“even if the wholesale electricity price fell to zero next year, our energy bill would remain broadly unchanged, due to the range of policy costs applied”*. Participants also highlighted that the BICS is viewed by investors as a temporary subsidy, rather than a long-term solution to reduce industrial electricity bills and called for a long-term policy solution.

Finally, businesses questioned the appropriateness of using Standard Industrial Classification (SIC) codes to allocate Government support. Inquiry participants stressed that the SIC code system provides an unsuitable basis for determining BICS eligibility and will lead to a ‘SIC code lottery’. For example, Rolls-Royce’s SIC code does not define it as an aerospace company, and many defence manufacturers have no applicable SIC codes. The Confederation of British Metalforming recently highlighted that, despite being significant energy users, most members are ineligible for BICS based on their SIC codes.⁴¹

³⁹ Downstream manufacturers to foot the bill again warns the CBM, as non-commodity electricity prices set to soar, The Manufacturer, September 2025 (online: www.themanufacturer.com/articles/downstream-manufacturers-to-foot-the-bill-again-warns-the-cbm-as-non-commodity-electricity-prices-set-to-soar)

⁴⁰ Response to Energy Security and Net Zero Committee inquiry on the cost of Energy, Electrify Industry, April 2025

⁴¹ Downstream manufacturers to foot the bill again warns the CBM, as non-commodity electricity prices set to soar, The Manufacturer, September 2025 (online: www.themanufacturer.com/articles/downstream-manufacturers-to-foot-the-bill-again-warns-the-cbm-as-non-commodity-electricity-prices-set-to-soar)

3.2. INTERVENTION

The Government has identified high energy costs as an investment barrier and committed to making electricity cheaper for IS-8 and foundation industries, alongside accelerating grid connection timelines for major investment projects. Proposed interventions include:

Introduction of a **British Industrial Competitiveness Scheme from 2027**. This scheme proposes to reduce electricity costs by £35-£40/MWh for energy-intensive IS-8 industries through exemption from the Renewables Obligation, Feed-in Tariffs, and the Capacity Market. The Department for Business and Trade ran a BICS consultation between November 2025 and January 2026.⁴² The consultation confirmed that to qualify for BICS support, businesses must operate in one of the IS-8 manufacturing frontier industries (or in a foundation industry providing inputs to these frontier industries), conduct manufacturing activities, and meet the required electricity-intensity level. The Scheme will use SIC codes alongside supporting Harmonised System (HS) codes to determine eligibility. Support will be available on a pro-rated basis where businesses produce a mixture of eligible and ineligible products.

Changes to the **British Industry Supercharger Package**, which currently subsidises electricity costs for energy-intensive industries. Proposed changes would increase compensation available under the Network Charging Compensation Scheme, from 60% to 90%, from 2026 onwards.

Continued support for the **Energy Intensive Industries Compensation Scheme**, which compensates for bill costs associated with carbon pricing mechanisms and network charges.

Support for developing a **Corporate Power Purchase Agreements (CPPA)** market. CPPAs are long-term supply contracts between businesses and energy generators and can be useful for businesses with significant energy needs.

Reducing waiting times for new grid connections through a new Connections Accelerator Service, new powers proposed within the Planning and Infrastructure Act, and an Ofgem-led review of the connections process.

Introduction of a **Carbon Border Adjustment Mechanism (CBAM)** from 2027. A CBAM will ensure that products imported from overseas using carbon-intensive energy face comparable prices to those produced in the UK.

⁴² British Industrial Competitiveness Scheme: consultation on scheme eligibility and approach, Department for Business and Trade, November 2025

3.3. THE MANUFACTURING COMMISSION'S VIEW

High energy costs represent an existential crisis for businesses across the manufacturing sector and wider economy. The Manufacturing Commission believes urgent action is required to make energy more affordable. This will not only make businesses more competitive but will also strengthen sovereign capability and supply chain resilience, as discussed in Chapter 4.

Reducing wholesale electricity costs presents a long-term challenge, and the Commission welcomes the Government's proposals to transition to a clean energy system by 2030 as part of its 2050 net-zero goal. In the meantime, developing a fairer way of funding non-commodity policy costs offers the best route to affordable industrial energy, ensuring these levies are not borne entirely by businesses. The Commission considers current BICS proposals too narrow, with implementation coming too late to avoid contraction in the manufacturing sector. The Commission supports recent Make UK proposals calling for expanded eligibility, faster implementation, and long-term scheme funding by moving policy costs into the general taxation regime.⁴³

Recommendation 4. In accordance with proposals put forward by Make UK for implementation of the British Industrial Competitiveness Scheme (BICS), the Government should:

- a. Expand eligibility for the BICS to all manufacturers, or at least the 30,000 frontier manufacturing businesses in the Industrial Strategy and foundational industries, regardless of energy intensity or SIC code.
- b. Bring forward implementation from 2027 to 2026 to mitigate the impact of recent additional non-commodity costs on businesses.
- c. Backdate payments for the most energy-intensive businesses to June 2025.

If the Government opts to maintain the scope of the BICS as under the existing proposals, it should, at the very least, be made more accessible to SMEs.

Recommendation 5. The Government should introduce an SME pathway for the BICS, allowing access to SMEs that do not meet wider eligibility criteria relating to energy intensity or SIC codes. Advice and guidance on how to apply should be made available as part of the Government's Business Growth Service.

“Energy costs and sovereign capability are intrinsically linked. Rising energy costs increase prices and reduce investment, which in turn lowers productivity, squeezes profitability, and ultimately risks the commercial viability of our SMEs. Once these businesses close, we lose vital sovereign capability and Original Equipment Manufacturers must source from abroad.”

**Professor Carl Perrin, Associate Pro Vice-Chancellor, Coventry University
(evidence session 2)**

TOP LINES

- Manufacturing SMEs are the backbone of the UK’s economy. These businesses are vital for national resilience and security, as the long-term geopolitical outlook becomes more uncertain.
- Increasing supply-side costs, especially energy costs, threaten the UK’s sovereign capability. When manufacturing SMEs are forced out of business, the sector must source from overseas, leaving it more vulnerable to external shocks.
- Public procurement can play a vital role in bolstering sovereign capability and ensuring supply-chain resilience. The Manufacturing Commission welcomes recent legislation and consultation to improve public procurement and recommends that these proposals be fully implemented.

4.1. CHALLENGES

Inquiry participants were very clear: the UK manufacturing sector’s sovereign capability faces significant threat. Given the cost of energy, labour, and capital, along with the UK’s tax regime, businesses cannot compete with imports on price. Although firms can sometimes secure contracts by producing higher quality products, participants said price has become the most important procurement factor, leaving companies to face closure. This market failure extends to foundation industries, where importing steel made overseas from exported UK scrap is currently cheaper than domestic manufacture.⁴⁴ This particularly affects the defence supply chain, where retaining sovereign capability maintains national security and ensures manufacturing can scale up quickly in times of need. Furthermore, when defence supply chain businesses close, knowledge and skills are often lost and may take years to restore.

44 Circular steel: strengthening the UK’s industrial supply chain, Circular Steel Sub Committee, November 2025

4.1.1. INFRASTRUCTURE & REGULATORY BARRIERS

Despite these challenges, inquiry participants frequently expressed eagerness to relocate overseas operations back to the UK to benefit from higher quality products, shorter lead times, and a skilled workforce. However, infrastructure and regulatory barriers have hampered reshoring attempts. In written evidence, one business stated it had abandoned growth aspirations after failing to obtain necessary environmental permits and discharge consents from the Environment Agency for expansion. In a Make UK briefing, a British Coatings Federation member cited the need for compliance with 152 different pieces of chemicals-related legislation. Businesses also cited lengthy grid connection timescales as barriers to securing reliable and sustainable energy supply, especially for energy-intensive industries such as ceramics.

Case study: Renewable energy at Denby Pottery

Denby Pottery, a renowned UK ceramics manufacturer founded in 1809, installed a 2.1MW solar farm at its Derbyshire site. The solar array has saved Denby over 230 metric tonnes of CO₂ equivalent since generating began in April 2024. Denby also anticipates annual savings of around £100,000, based on exemption from non-commodity costs associated with grid supply, such as the Renewables Obligation.

Denby initially planned a solar farm more than 1MW larger than what was eventually delivered. However, local grid network constraints meant the array could not export all excess energy during quieter production periods. This capacity shortfall resulted in the solar provider, YLEM Energy, building a smaller scheme than optimal for both Denby's business case and carbon reduction potential. It has also compromised Denby's plans to further develop renewable capability through similar on-site schemes.

Denby's case demonstrates how grid capacity stifles SME renewable development and hinders progress towards net zero. It also highlights the need for wider adoption of battery energy storage systems, which can help to store and regulate supply. While the Government's Clean Power 2030 Action Plan pledges grid upgrades, until delivered, manufacturing SMEs will continue to lose potential gains from larger-scale renewable projects that can return electricity to the grid.

4.1.2. SUPPLY CHAIN CAPABILITY

Inquiry evidence shows SMEs generally prefer to source products and components from within the UK. However, in sectors such as robotics and offshore wind (both vital to the Industrial Strategy's success), skills shortages, domestic supply networks, and critical infrastructure all pose significant growth barriers. In a recent Make UK survey, 79% of manufacturing businesses identified supply chain vulnerabilities as a strategic risk over the next two years.⁴⁵

Case study: Why doesn't the UK make more robots?

Recent AI and automation developments give the Robotics and Autonomous Systems (RAS) sector significant growth potential. However, the UK has poor RAS technology adoption compared to other developed nations, ranking 24th in the world in recent robot density data – the only G7 nation outside the top 20.⁴⁶ Even within advanced manufacturing, 74% of UK SMEs operate without robots.⁴⁷ Despite the RAS sector's potential and Industrial Strategy commitments to accelerate robotics uptake, the UK currently has limited robot production capacity. A recent Morgan Stanley report identified just a single UK business (semiconductor design company ARM) within the global value chain of the top 100 humanoid robot typologies.⁴⁸

Research by the University of Leeds explored reasons for limited UK robot production.⁴⁹ Although businesses develop relevant software mainly in-house and often source structural components locally, the UK significantly lacks the capacity to produce necessary robotics hardware. Production costs, expertise availability, and manufacturing capability primarily explain this gap. Despite these constraints, the research found businesses actively trying to 'buy and support local' to build economies of scale and develop supply-chain sovereignty, particularly in defence.

45 No weak links: building supply chain resilience, Make UK, March 2023

46 Global robotics race: Korea, Singapore and Germany in the lead, International Federation of Robotics, January 2024 (online: [ifr.org/press-releases/news/global-robotics-race-korea-singapore-and-germany-in-the-lead](https://www.ifr.org/press-releases/news/global-robotics-race-korea-singapore-and-germany-in-the-lead))

47 Technology Adoption Review, Department for Business and Trade, Department for Science, Innovation and Technology, and HM Treasury, June 2025

48 The humanoid 100: mapping the humanoid robot value chain, Morgan Stanley, February 2025

49 Why doesn't the UK make more robots? Understanding the barriers to manufacturing robots in the UK and how to overcome them, Richardson, R, et. al, University of Leeds, November 2025

Based on their findings, the University of Leeds recommended:

- Establishing a national RAS registry to enhance domestic connectivity, collaboration, and visibility by linking manufacturers with suppliers, integrators, researchers, and service providers.
- Developing a RAS component adoption hub to facilitate collaborative development and address supply chain vulnerabilities. The hub would serve as a central platform that supports SMEs alongside larger corporations, fostering domestic innovation and promoting localised component manufacturing capabilities.
- Investing in targeted skills development initiatives such as apprenticeships, modular certification programs, and professional secondment schemes.

Case study: Offshore wind

Offshore wind is key to the Government's mission to make the UK a clean energy superpower. The UK has the world's second-largest offshore wind market, with plans to scale up capacity to 50GW by 2030.⁵⁰ However, supply-chain constraints threaten this ambitious target. Recent analysis commissioned by the Department for Energy Security and Net Zero identified capacity constraints in several supply chains critical for new offshore wind projects, such as foundations, high voltage cables, and installation vessels. The report also highlighted that the UK lacks necessary port infrastructure to deliver its offshore wind objectives, demonstrated recently when the Kincardine wind farm (10 miles off Aberdeen) had to tow a wind turbine hundreds of miles to Rotterdam for scheduled maintenance. The UK's offshore wind champion, Tim Pick, called the situation a "national disgrace".⁵¹

⁵⁰ Offshore wind, UK Government, (online: www.business.gov.uk/invest-in-uk/investment/sectors/offshore-wind)

⁵¹ Lack of floating wind ports a 'national disgrace' says Offshore Wind Champion, Energy Voice, May 2023, (online:www.energyvoice.com/renewables-energy-transition/wind/uk-wind/501427/lack-of-floating-wind-ports-a-national-disgrace-says-offshore-wind-champion)

4.1.3. PUBLIC PROCUREMENT

Public procurement offers one of government's main levers to ensure investment remains in the UK. However, contracting authorities often overlook SMEs when awarding contracts. A recent British Chambers of Commerce report found that the Government awards just one pound in five spent on public procurement to SMEs, with the overall proportion going to SMEs unchanged over the last five years.⁵² Inquiry participants cited overly complicated and time-consuming government procurement processes. They also said relentless price prioritisation puts UK manufacturers out of contention for contracts, which instead go to overseas competitors with access to cheaper energy, labour, and raw materials. Participants also suggested that government contracts should allocate greater weight to social value, despite the Social Value Act (2013) making it mandatory for contracting authorities to consider social, economic, and environmental benefits when procuring goods and services.⁵³

4.2. BENEFITS

The case for increasing sovereign capability and reshoring manufacturing supply chains to the UK appears stronger than ever. This inquiry identified several benefits, including:

Improved resilience. External shocks, such as financial crises, extreme weather events, and political unrest, cause supply chain disruption. Globally dispersed supply networks face higher risk from such events. A recent survey by manufacturing company Tharsus found that 95% of executives identified supply chain resilience as a top priority for 2025, and 93% in aerospace and defence cited national security and geopolitical uncertainty as leading reshoring motivations.⁵⁴

Domestic jobs and skilled labour. Reshoring allows businesses to leverage the UK's skilled labour market, which has one of the highest tertiary attainment levels in the OECD, exceeding the OECD average by 12 percentage points.⁵⁵ Labour costs in historically low-cost regions are rising, making the UK labour market more attractive.

Lower carbon emissions. Shorter supply chains tend to not only be more reliable but also more sustainable. Sourcing from domestic suppliers reduces carbon emissions from international transportation, and businesses can manufacture products using clean energy, assuming the UK continues grid decarbonisation in accordance with its 2050 net zero target.

⁵² SME procurement tracker 2024, British Chambers of Commerce & Tussell, August 2024

⁵³ Social Value Act: information and resources, Cabinet Office, March 2021

⁵⁴ Reshoring manufacturing to the UK is no longer a question of if, but when, Tharsus, April 2025 (online: <https://tharsus.com/insights/insights-reshoring-manufacturing-uk>)

⁵⁵ Education at a glance: 2025, Organisation for Economic Cooperation and Development, September 2025

4.3. INTERVENTION

The Industrial Strategy aims to strengthen economic and national security and includes several commitments to improve sovereign capability, including:

Supply chain resilience:

Prioritising activities that strengthen supply chain resilience, including:

- Directing the new **National Wealth Fund** to support supply-chain resilience in priority sectors.
- **Mobilising investment into UK ports**, including an initial £55 million for the port of Cromarty Firth.
- **Developing a new Supply Chain Centre** to assess how future trends impact demand.

Domestic resource security:

Continuing **support for UK Export Finance's critical minerals offering**, which provides financial support for overseas projects sourcing critical minerals for major UK industries and protects suppliers from geopolitical risks and supply chain disruption.

Securing domestic steel supply and better utilising existing scrap metal supplies.

Scaling up composites R&D and supporting UK composite centres in St Helens and Bristol.

Promoting resource efficiency and reducing reliance on overseas imports through a **new Circular Economy Strategy for England**, setting out the Government's approach to re-use, repair, and recycling.

Procurement reform:

Implementing new measures within the Procurement Act (2025), including:

- A legal duty on contracting authorities to consider how they can remove obstacles to small businesses bidding for public contracts.
- Greater visibility of upcoming public sector opportunities and early market engagement to explain requirements, helping SMEs prepare bids.
- Allowing contracting authorities to reserve lower value contracts for SMEs and UK suppliers, so that only they can bid.
- Banning Pre-Qualification Questionnaires in lower value procurements to prevent SMEs from being eliminated at the first stage.
- Strengthened requirements to pay contractors within 30 days throughout the public sector supply chain.

4.4. THE MANUFACTURING COMMISSION'S VIEW

The Manufacturing Commission believes the best way to enhance UK manufacturing's sovereign capability is to improve business productivity and profitability, enabling firms to become more resilient and competitive. Reducing production costs offers one route to achieving this. Lowering energy costs will play a significant role, as addressed in Chapter 3's recommendations.

Public procurement also offers a route to improve sovereign capability by supporting SMEs, boosting domestic production, and building supply chain resilience. The Commission welcomes new measures within the 2025 Public Procurement Act to ease SME access to public contracts and to prioritise social value in government procurement. Furthermore, the Commission supports additional Government proposals to reform public procurement that the Cabinet Office has recently set out.⁵⁶

Recommendation 6. The Government should fully implement Cabinet Office proposals on public procurement, to support SMEs, bolster sovereign capability, and prioritise social value, including:

- a. Requiring large contracting authorities with spend exceeding £100m annually to publish their own 3-year target for direct SME spend and report against the target annually.
- b. Requiring contracting authorities to exclude suppliers from bidding on major contracts (+ £5m) if they cannot demonstrate on time invoice payment to their supply chains.
- c. Requiring contracting authorities to conduct standard assessments before procuring major contracts (£5m+) to determine whether service delivery should be in-house or outsourced.
- d. Requiring contracting authorities to use standard social value criteria and metrics selected from a streamlined list (to be co-designed with the public sector and suppliers) in their procurement of public contracts.

⁵⁶ Public procurement: Growing British industry, jobs and skills, Cabinet Office,

Recommendation 7. To ensure 3-year SME procurement spend targets are met, the Government should:

- a. Mandate that targets are specific, measurable, achievable, relevant, and time-bound (SMART).
- b. Support contracting authorities to actively engage with SMEs through outreach programmes, contract bidding training, and simplified, shorter bidding processes.
- c. Hold contracting authorities accountable for meeting targets and provide incentives for those exceeding them.
- d. Encourage contracting authorities to break complex tenders into SME-accessible lots.
- e. Require primes/Original Equipment Manufacturers bidding for UK defence or aerospace contracts to demonstrate a minimum percentage of UK SME spend within their supply chains and develop enforcement mechanisms if this requirement is not met.
- f. Encourage fair payment terms throughout the supply chain and empower contracting authorities to exclude suppliers who have a track record of late payments.

“In the UK, business support is currently fragmented, leaving SMEs to work harder to access assistance relating to energy costs, procurement, taxation, upskilling, and digitalisation. The Business Growth Service should be designed to meet the actual needs of SMEs, rather than what the Government assumes those needs to be.”

Bill Esterson MP (evidence session 3)

TOP LINES

- SMEs face mounting pressures, beyond access to finance and energy costs. Late payments, added regulation, US tariffs, and navigation of the tax system were regularly cited as challenges by participants in this inquiry.
- The Government’s new Business Growth Service can help to provide SMEs with the support they need to succeed, alongside the existing Made Smarter programme, which offers assistance for digital adoption.
- The Manufacturing Commission recommends that the Business Growth Service provides active and targeted business support, including a dedicated pathway for the manufacturing sector. A baseline toolkit of resources should be made available to prepare SMEs for entry to the Made Smarter programme.

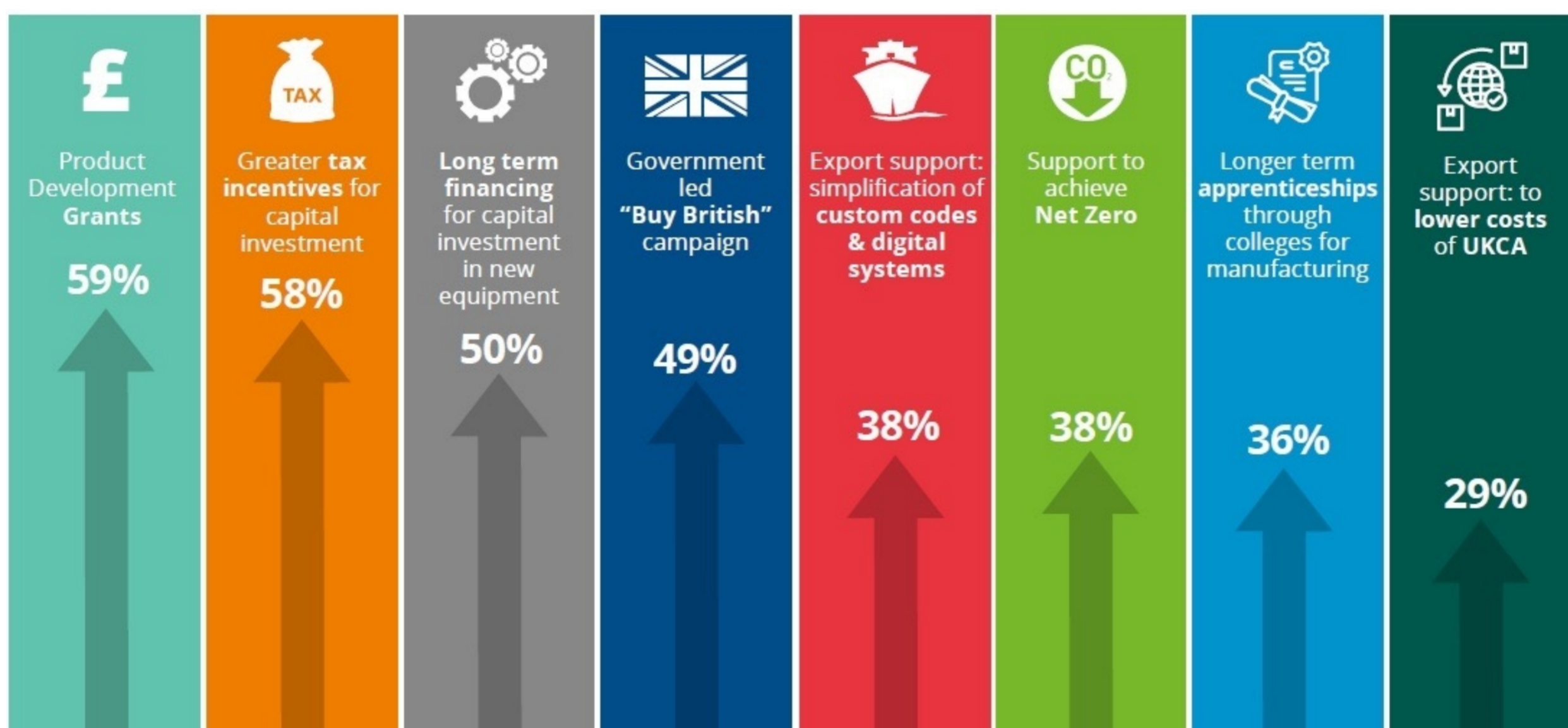
5.1. CHALLENGES

SMEs are the backbone of UK manufacturing. The Manufacturing Commission’s recent report, *Manufacturing Resilience*, highlighted the invaluable contribution manufacturing SMEs made during the Covid-19 pandemic.⁵⁷ As other industries closed their doors and furloughed staff, manufacturing SMEs continued creating the products the country needed, often repurposing production lines to make items in short supply, from simple personal protective equipment to complex medical devices. However, over the last five years, the business environment has become increasingly difficult for SMEs. Inquiry participants cited challenges (not discussed elsewhere in this report) including:

57 Manufacturing resilience: driving recovery towards net-zero, Policy Connect, July 2021

Taxation and Innovation. Following recent increases in employer National Insurance contributions, which raised the main rate to 15% and lowered the payment threshold to £5,000, alongside changes to business tax reliefs such as the Research and Development (R&D) tax credit, many businesses feel squeezed from all sides.⁵⁸ Net tax burden, considering the headline corporation tax rate along with relevant capital allowances, reliefs, and credits, is also something that overseas investors place significant weight on when considering investment. A 2021 South West Manufacturing Advisory Service survey identified tax incentives as the second most beneficial form of government support for SME manufacturers.⁵⁹

Figure 3: Types of government support most beneficial to help address current challenges⁶⁰



Following a scoping session for this inquiry in July 2025, All-Party Parliamentary Manufacturing Group Chair Bill Esterson MP wrote to the Treasury regarding R&D tax credit reform, calling for robust impact assessment and reinvestment of savings made to the Exchequer into the manufacturing sector. A copy of this letter, along with a reply from Exchequer Secretary to the Treasury Dan Tomlinson MP, is included as Appendix A. Participants also raised concerns about the difficulty in securing grants from Innovate UK as an alternative to R&D tax relief, citing the significant resources required, and in many cases a University partner, to complete an application. Reporting by Kene indicated that Innovate UK’s Smart Grants programme for SMEs had an historically low success rate of 2%.⁶¹

⁵⁸ Employer national insurance contributions (NICs) and employment allowance changes: screening equality impact assessment, HM Revenue and Customs, April 2025

⁵⁹ Manufacturing barometer, South West Manufacturing Advisory Service, October 2021

⁶⁰ Ibid

⁶¹ Innovate UK pauses Smart Grants: what this means for SMEs, Kene, January 2025 (online: www.kene.partners/insights/innovate-uk-pauses-smart-grants-what-this-means-for-smes)

On personal taxation, participants criticised changes to Business Asset Disposal Relief, (under which Capital Gains Tax (CGT) rates have recently risen from 10% to 14%, and will rise again to 18% in April 2026) for stifling entrepreneurship and disincentivising individuals from starting new businesses.⁶² A workshop by the Bessemer Society found that the UK's current CGT regime actively encourages entrepreneurs to “sell out early” and disincentivises them to found new businesses.⁶³ The lifetime allowance for Business Asset Disposal Relief has also recently dropped from £10m to £1m, making the sale of a business less tax-efficient for some founders and potentially weakening incentives to build and exit entrepreneurial ventures

US tariffs. Since the change of government in the USA, President Donald Trump has threatened to place tariffs on a variety of UK goods entering the USA, in addition to existing US duties, fees, and taxes. Initial tariffs took effect in March 2025 with a 25% tariff on aluminium and steel, followed by a 25% tariff on passenger vehicles, light trucks, and automobile parts in April 2025, along with a baseline 10% tariff on all goods later that month. In May 2025, the UK and USA announced a trade deal seeking to limit the impact of these tariffs and provide support for specific industries. However, in September 2025, the Trump Administration removed the ‘de minimis’ exemption, which had allowed goods valued below \$800 to enter the country without paying duties or taxes and with expedited clearance. In an open letter dated 15 August 2025, Justin Beardsel, founder and Managing Director of Container Clamps Ltd. and member of the Made in Britain trade association, said, “Individually, these measures are damaging. Together, they pose an existential threat to UK exporters. For many SMEs, this could mean losing access to their primary export market. For companies like ours, it risks the collapse of the business entirely.” Uncertainty around US tariffs continued into 2026 when the US Supreme Court ruled that many of President Trump's tariff policies were unconstitutional. President Trump responded with further tariffs under Section 22 of the US Trade Act (1974). US trade policy is likely to remain volatile and uncertain for the foreseeable future.

Late payments. Late payments disproportionately impact SMEs, as they often have lower reserves to maintain cash flow and lack staff resources to continually chase unpaid invoices. The Department for Business and Trade estimates that late payments cost the UK economy £11 billion annually and force thirty-eight UK businesses to close daily.⁶⁴ Health Service Journal research found that even taxpayer-funded bodies, such as hospital trusts, make late payments, with more than a quarter of hospital trusts routinely delaying supplier payments. Some inquiry participants called for standard 30-day payment terms for all invoices, with a mechanism to legally enforce payment. However, others cautioned against such a rigid approach, especially for aerospace businesses with overseas clients working on 120-day payment terms unlikely to comply with a new domestic mandate.

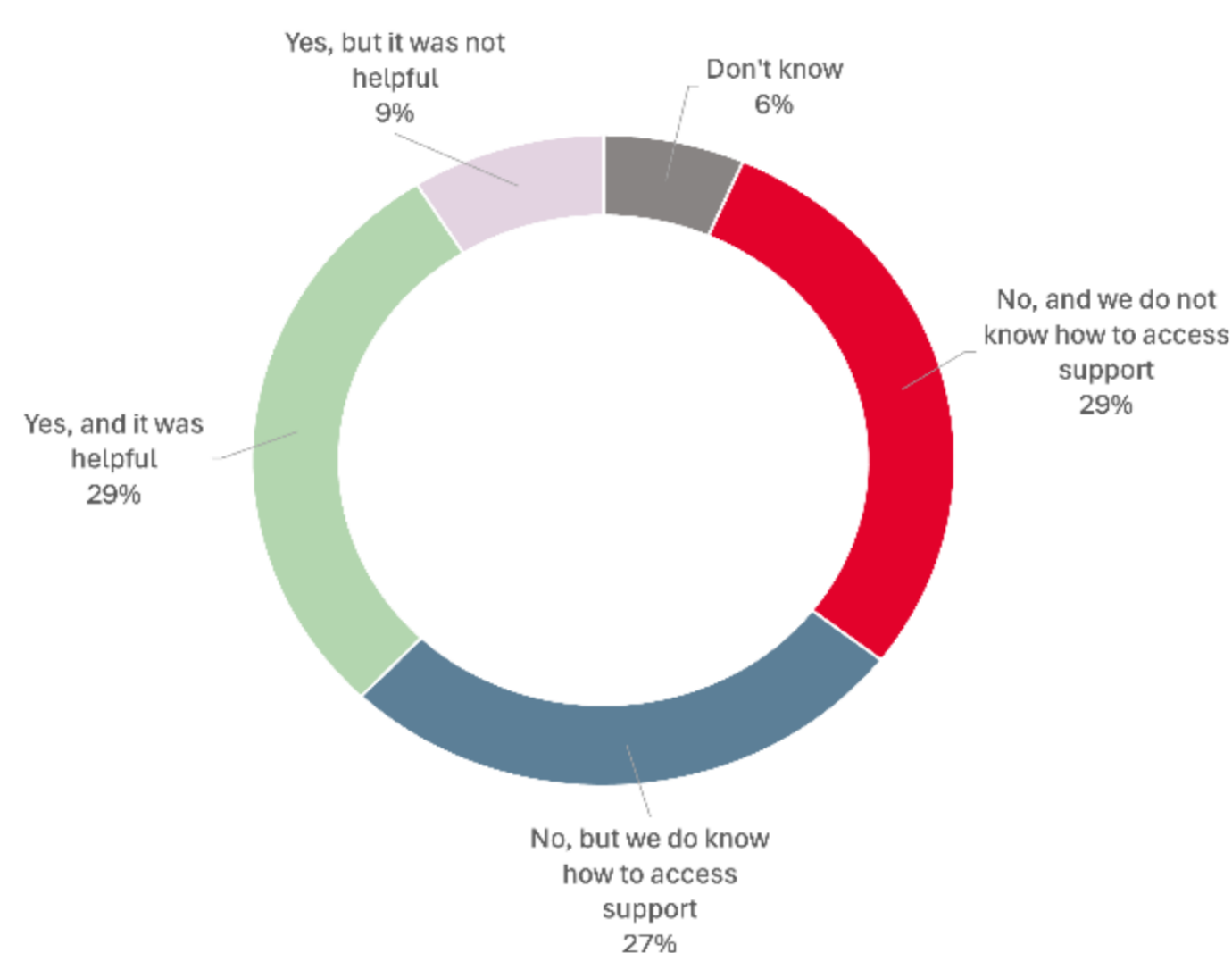
62 Business Asset Disposal Relief, GOV.UK (online: www.gov.uk/business-asset-disposal-relief)

63 Innovators, advanced manufacturing, and the Industrial Strategy, Bessemer Society, February 2025

64. Late payments research: estimating the total economic cost of late payments and their impact on the UK economy, Department for Business and Trade, July 2025

Business support. SME inquiry participants have repeatedly said they spend most of their time working ‘in’ their businesses and have limited capacity to work ‘on’ their business. A recent Made in Britain survey found business support schemes remain underutilised, with 58% of companies not engaging with public business support, and many unaware of how to access it.⁶⁵

Figure 4: Awareness of, and engagement with business support schemes⁶⁶



Inquiry participants said previous business support services, such as Business Link (1992–2012) and the pre-2010 Manufacturing Advisory Service, worked well, but the availability and quality of advice was regionally inconsistent, creating a ‘postcode lottery’. Inquiry evidence generally supported the existing Made Smarter programme, which provides SME manufacturers with access to digital tools, skills, and innovation opportunities. However, one inquiry participant noted that at a recent supply chain forum meeting attended by many prominent SMEs, several businesses had never heard of Made Smarter. Other participants raised concerns that many businesses lack requisite baseline skills, equipment, and infrastructure to successfully engage with Made Smarter and called for introducing a minimum standard to enable digital transformation.

⁶⁵ Made in Britain UK economy barometer 2025, July 2025 (online: www.madeinbritain.org/about/data-and-insights/made-in-britain-uk-economy-barometer-2025)

⁶⁶ Ibid

Case study: Business support for digital adoption

Boosting digital adoption is a key aim of the Government's plan for small businesses. However, some inquiry participants expressed scepticism about the efficacy of national programmes fostering this transformation. Concerns included digital tool affordability, return on investment, and the often-generic nature of advice. In 2021, the Government funded Evolve Digital, a Randomised Control Trial evaluating the effectiveness of business training programmes for digital adoption. The programme targeted family SMEs with low digital technology adoption. A control group of 100 randomly allocated businesses received only access to online learning materials for self-study without expert facilitation or peer-to-peer interaction. During the same period, the treatment group received 42 hours of facilitated cohort-based learning focussed on digital technology adoption, along with access to social media groups encouraging peer-to-peer interactions. Results showed that treatment group businesses had greater confidence in their ability to use new digital technologies, more positive perceptions of technology usefulness, better attitudes towards using technologies, and greater intentions to adopt new technologies within six months.⁶⁷

Inquiry evidence corroborates these findings, suggesting business advice is most effective when facilitated by an expert with business experience and ideally relevant sector knowledge. Participants also highlighted the value of in-person collaboration compared to online hosting. Makerspaces, such as Lewisham's Blue Garage, offer SMEs access to high-end tools and machinery, flexible workspaces, upskilling workshops, and a community of like-minded entrepreneurs.

The regulatory environment. SMEs must abide by many of the same regulatory requirements as larger businesses, but compliance requires disproportionate staff resources. A recent Department for Business and Trade survey found that 45% of businesses viewed regulation as an obstacle to success.⁶⁸ Inquiry participants did not oppose regulation in principle and acknowledged its usefulness in creating a level playing field, ensuring workplace safety, and maintaining high standards. However, they criticised the unnecessary complexity involved in compliance. Respondents pointed to the plethora of intermediaries – such as grant writers, country-of-origin experts, conformity assessment marking consultants, business-rates specialists, and R&D tax credit advisors – as proof that ordinary SMEs cannot navigate the system unaided. Several participants noted that these third parties charge significant fees for simply taking information businesses provide and submitting it to the relevant regulatory authority with little change.

67 Reducing barriers to digital adoption: what works for small businesses? University of Cambridge Bennett School of Public Policy, January 2023 (online: www.bennettschool.cam.ac.uk/blog/reducing-barriers-to-digital-adoption)

68 Business perceptions survey 2022, Department for Business and Trade, July 2023

More specifically, inquiry participants highlighted costs associated with meeting post-Brexit divergence in product and packaging standards. Andrea Wilson, Director at Hone-All Precision, a specialist SME supplier of precision-machined tubular components, said, “Many businesses have stopped exporting, particularly to Europe, due to the regulatory burden – us included. We now insist our customers deal with all export requirements, and if they refuse, we don’t take on the job, and therefore we (and they) lose the business.”

5.2. INTERVENTION

The Government’s Industrial Strategy and Plan for Small and Medium-Sized Businesses include several interventions supporting SMEs (not discussed elsewhere in this report), including:

Introducing a **Business Growth Service**, including a website and platform to help businesses start up, scale up, sustain growth, export, invest, and access recruitment support from the Department of Work and Pensions.

Extending the **.GOV website** and introducing an AI chatbot to offer businesses a more personalised, data-driven interface.

Cutting administrative regulatory costs by 25% through simplified corporate reporting requirements and completion of Small and Micro Business Assessments for regulation.

Improving SME support in England through **41 existing Growth Hubs**, in partnership with Local Authorities and private sector stakeholders.

Tackling late payments through introduction of a new **Fair Payment Code** and excluding suppliers who are guilty of late payments from public sector contracts.

A £99m **expansion of the Made Smarter programme** from 2026 to help a further 5,500 SMEs adopt new manufacturing technology.

5.3. THE MANUFACTURING COMMISSION'S VIEW

5.3.1. BUSINESS GROWTH SERVICE

The Government's long-awaited Business Growth Service (BGS) presents a valuable opportunity to bring together business support for manufacturing SMEs into a holistic package that is easy to find, understand, and access. The Commission welcomes introducing a single online platform where businesses can obtain resources to help start up, scale up, export, invest, and recruit.

It is vital that the BGS avoids shortcomings of previous schemes associated with regional fragmentation and the Commission recommends that a national support framework is developed to ensure consistent standards. The BGS should also draw on open data and Artificial Intelligence (AI) to provide targeted business support. Research by Civitas and Make UK highlighted the benefits realised by the Estonian government's Bürokratt (KrattAI) system.⁶⁹ KrattAI has improved efficiency and enhanced transparency in public services through a centralised database, online services, electronic document management, workflow automation, and data analytics. In particular, the BGS should provide active rather than passive business advice, drawing on lessons from previous schemes, such as the Manufacturing Advisory Service. Business advisors should be complemented by a network of peer-to-peer mentors, using the Evolve Digital trial as a model. The BGS should also use AI to deliver automated but targeted business support. For example, Make UK recently highlighted that HMRC revenue reports and ONS headcount statistics could automatically identify companies experiencing rapid growth and target interventions accordingly.⁷⁰ Such interventions could include alerts relating to investment opportunities, export finance, R&D, or academic collaboration

Recommendation 8. The Government's forthcoming Business Growth Service should provide a single, online 'front door' for businesses and be fully integrated with other basic business requirements, including accounting, PAYE, VAT, and environmental reporting.

Recommendation 9. The Business Growth Service should include a specific support pathway for the manufacturing sector, including advice on access to finance, skills development, basic digitalisation and technology adoption (with signposting to the Made Smarter programme), product design, exports and international trade, leadership training, and sustainability (including energy efficiency, circular economy, and net-zero). This framework should be agreed at the national level.

69 The growth mission: a blueprint for scaling up SME manufacturers, Civitas & Make UK, March 2025

70 Invest 2035: the UK's modern Industrial Strategy, Make UK response, Make UK, November 2024

Recommendation 10. Support for manufacturing within the Business Growth Service should be delivered by human business advisors with experience in the manufacturing sector. This should be supplemented with peer-to-peer networking and AI-generated targeted support.

5.3.2. MADE SMARTER

The Commission welcomes the £99m expansion of the Made Smarter programme in 2026. Made Smarter should roll out across England in 2026 and continue into the devolved nations in 2027. However, the Commission has concerns about SME awareness of Made Smarter and the baseline skills, equipment, and infrastructure businesses require to meaningfully participate.

Recommendation 11. Expansion of the Made Smarter programme should include a dedicated media campaign to ensure maximum SME awareness of the programme and its forthcoming national rollout.

Recommendation 12. The Government should offer a baseline upskilling programme as a prerequisite to participation in Made Smarter. This could be delivered as part of the Business Growth Service and should include training and advice on purpose and leadership, finance, general operations, human resources, change and risk management, supplier management, and the principles of 'lean manufacturing'.

5.3.3. INDUSTRIAL STRATEGY ADVISORY COUNCIL

The Commission is disappointed that the Industrial Strategy Advisory Council (ISAC) does not include any small business representation, and mechanisms for communicating and consulting with the SME business community appear limited. The All-Party Parliamentary Manufacturing Group communicated this to the Minister for Industry in a July 2025 letter from its Chair, Bill Esterson MP. A copy of this letter is included as Appendix B. Although Amelia Gould joined the ISAC in January 2026 from AI defence technology firm, Helsing UK, the Council still lacks any small business representation.

Recommendation 13. The Industrial Strategy Advisory Council should co-opt at least one small business leader into its membership. The Manufacturing Commission suggests that Andrew Churchill OBE, former Chair of aerospace engineering firm, JJ Churchill, and Chair of the ERA Foundation, would be suitable for this role.

Recommendation 14. The Government should bring forward the Industrial Strategy Bill urgently to allow the Industrial Strategy Advisory Council to operate on a statutory footing.

The Manufacturing Commission welcomes the ISAC's commitment to take a data-led approach to evaluating progress against the aims of the Industrial Strategy. The Strategy promises "robust and comprehensive monitoring and evaluation", yet little has been published on how this will take place or what data will be published.

5.3.4. TAXATION

International Monetary Fund research demonstrates that R&D tax credits increase innovative activity by firms.⁷¹ This is important in manufacturing, as businesses must develop cutting-edge technology to remain competitive and deliver the highest-quality products, from silicon chips to jet engines. R&D tax relief is especially important to SMEs, as their funding options are more limited than those of larger businesses. The Commission is concerned that recent R&D tax relief changes will result in significantly smaller net benefit per pound of R&D spend by manufacturing SMEs, causing cash-flow problems, particularly for loss-making but innovative businesses. Although these changes will likely stifle the manufacturing sector's ability to innovate and grow, the Commission acknowledges they are unlikely to be reversed in the current fiscal environment.

Recommendation 15. The Government should radically simplify the application process for post-April 2024 'merged' R&D tax relief, including:

- a. A short form route for small claims with standardised cost categories and plain language that does not require the use of third-party consultants.
- b. Support for a 'pre-approval' check for first-time SME claimants.
- c. Clearer guidance and examples tailored to manufacturing R&D (especially for process improvements, chemistry formulation, and digital quality assurance).

The Commission welcomes changes in the 2023 Autumn Statement to embed full expensing of plant and machinery in the tax regime. The Government should consider extending this scheme to support manufacturing SMEs.

71 Promoting innovation: the differential impact of R&D subsidies, International Monetary Fund, September 2022

Recommendation 16. The Government should extend the existing capital allowances regime to:

- a. Reintroduce the 130% ‘superdeduction’ capital allowance for main rate assets.
- b. Include leased assets and special-rate assets (such as those that are essential to the functioning of a building) within the existing full expensing regime.

The Commission is concerned that changes to personal taxation, in addition to the challenging business environment discussed earlier in this report, are making entrepreneurship in the manufacturing sector less attractive. Although the Commission recognises constraints within the current fiscal environment, it urges the Government not to make further changes that could deter people from founding, growing, and selling businesses.

Recommendation 17. The Government should cancel proposed increases in Business Asset Disposal Relief and maintain the existing rate at 14%.

Every year in the United Kingdom, new manufacturing businesses are registered, which have the potential to become the trillion-dollar companies of the future. As this inquiry found, most manufacturing SMEs aspire to grow into large businesses within the next decade and delivering on this ambition would add over £80 billion to the economy.⁷²

Manufacturing SMEs therefore play a key role in kickstarting economic growth, which the Government describes as its “number one mission”. The Government must urgently remove or improve the growth barriers described in this report – access to finance, high energy costs, regulatory barriers, fragile supply networks, and limited business support.

Industry participants stressed that their priorities lie in developing sustainable businesses that deliver high-quality products for their customers. Most businesses are not calling for more financial support from government but rather routes to access support already available without diverting significant attention from operations. Whether applying for a loan, filing for tax relief, or accessing energy cost support, inquiry participants called for radical simplification of these schemes, so they can return to their day jobs, making the goods the country relies on every day.

The recommendations in this report aim to complement the proposed interventions within the Government’s Industrial Strategy, whilst ensuring that the voices of SME manufacturers are heard and they can capitalise on policy changes without being overwhelmed by red tape. The Manufacturing Commission has set out a timeframe for the implementation of its recommendations below:

⁷² The growth mission: a blueprint for scaling up SME manufacturers, Civitas & Make UK, March 2025

Figure 5: Timescale for implementation of recommendations



Lord Bilimoria of Chelsea, CBE, DL, Cross Bench Peer, founder of the Cobra Beer Partnership and Chair of the International Chamber of Commerce UK (co-Chair)

Bill Esterson, Member of Parliament for Sefton Central (co-Chair)

Andrew Churchill OBE, Chair, ERA Foundation

Andrew Everett, Chief Executive Officer and Executive Secretary, ERA Foundation

Professor Carl Perrin, Associate Pro Vice Chancellor (Research), Coventry University

Professor David Seall, Visiting Professor and Chair of the Leadership Academy, University of Surrey Business School

Mandy Ridyard, Finance Director, Produmax

Professor Tim Minshall, Dr John C Taylor Professor of Innovation and Head of University of Cambridge Institute for Manufacturing

Will Butler-Adams OBE, Chief Executive Officer, Brompton Bicycle

Work on this inquiry began in May 2025, following two scoping sessions in Parliament, which were kindly chaired by Lord Bilimoria of Chelsea and Bill Esterson MP.

This project draws on third-party research from a range of organisations, as well as primary data collected following a call for evidence and through one-to-one interviews with experts across industry, academia, government, and NGOs. In addition, the following evidence sessions were completed, which focussed on the following topics:

Roundtable 1: Access to finance (in Parliament – 30 October 2025), chaired by Lord Bilimoria of Chelsea.

Roundtable 2: Energy costs and sovereign capability (at the University of Derby Business School – 27 November 2025), chaired by Catherine Atkinson MP.

Roundtable 3: Business support for SMEs (online – 7 January 2026), chaired by Jo Platt MP.

Policy Connect would like to thank all the individuals and organisations that participated in this inquiry. Our particular thanks to our Co-Chairs Lord Bilimoria and Bill Esterson MP, and Vice-Chairs (Antonia Bance MP, Baggy Shanker MP, Catherine Atkinson MP, Lord Harrington of Watford, Jo Platt MP, and Councillor Nadine Peatfield) for their leadership and dedication to the Commission's work. A full list of contributors is outlined below. The views in this report are those of Policy Connect and the author. Although these were informed by the listed contributors, they do not necessarily reflect the opinions of these organisations.

Roundtable attendance, oral, and written evidence:

- Aerospace Technology Institute
- Autodesk
- Barclays
- Baxi
- Blue Garage
- British Business Bank
- British Chambers of Commerce
- Brompton
- BVA BDRC (now Ipsos)
- Calor
- CEL Sheet Metal
- Ciqurix
- Composite Braiding
- Coventry University
- Denby Pottery
- Department for Business and Trade
- DNV
- East Midlands Chamber of Commerce
- East Midlands Combined Authority
- East Midlands Manufacturing Network
- EMC Corporate Finance
- EMC Surface Technologies
- EMR Group
- Engineering and Machinery Alliance
- ERA Foundation
- Finance & Leasing Association
- Galliford Try
- G&B Electronics

- Gambica
- Gibbs Gears
- High Value Manufacturing Catapult
- Hone All
- Innovate UK
- Institution of Engineering and Technology
- JJ Churchill
- Learning and Work Institute
- Lean 4 Business
- Levantar
- Made in Britain
- Make UK
- Manchester Metropolitan University
- Manufacturing IQ
- Manufacturing Technologies Association
- Manufacturing Technology Centre
- Nexperia
- Pentaxia
- Produmax
- QPE
- SMC Group
- South West Manufacturing Advisory Service
- Surface Engineering Association
- UK Space Agency
- University College London
- University of Huddersfield
- University of Leeds
- Warwick Manufacturing Group
- West Yorkshire Combined Authority Manufacturing Advisory Board

THE MANUFACTURING COMMISSION

The Manufacturing Commission is run by Policy Connect's Industry, Technology, and Innovation team. The Commission brings together Parliamentarians, leading figures from across the manufacturing sector, and academics to undertake high-level research into UK manufacturing policy making recommendations to government and industry. The Commission is currently chaired by Lord Bilimoria of Chelsea CBE, DL.

THE INDUSTRY, TECHNOLOGY, AND INNOVATION TEAM

The Industry, Technology and Innovation team at Policy Connect provides the secretariat for the All-Party Parliamentary Group for Manufacturing and the All-Party Parliamentary Group for Data and Emerging Technologies. The team focusses its work on building innovative industries and public services that tackle key societal challenges in productivity, clean growth, and information.

POLICY CONNECT

Policy Connect is a cross-party think tank. We specialise in supporting parliamentary groups, forums, and commissions, delivering impactful policy research and event programmes. We bring together parliamentarians and government in collaboration with academia, business, and civil society to help shape public policy in Westminster and Whitehall, so as to improve people's lives.

Our work focusses on five key policy areas which are: Education & Skills; Industry, Technology & Innovation; Sustainability; Health; and Accessibility.

We are a social enterprise and are funded by a combination of regular annual membership subscriptions and time-limited sponsorships. We are proud to be a Disability Confident and London Living Wage employer, and a member of Social Enterprise UK.

ACKNOWLEDGMENTS

The Manufacturing Commission would like to thank our sponsor, the ERA Foundation, without whom this report would not have been possible. We would also like to give special thanks to:

- Claudia Jaksch, Policy Connect
- Victoria Zeybrandt, Policy Connect
- James Taylor, Policy Connect (formerly)
- Inigo Jones, King's College London



HOUSE OF COMMONS

LONDON SW1A 0AA

James Murray MP
Exchequer Secretary
HM Treasury
The Correspondence & Enquiry unit
1 Horse Guards Road
London
SW1A 2HQ

Our Ref: BE16081

21 July 2025

Re: Research and Development (R&D) tax relief

Dear James,

The Government's Industrial Strategy and completion of the Spending Review has been warmly welcomed by businesses who believe it will provide much-needed certainty and stability for businesses across the economy.

Alongside my role as Chair of the Energy Security and Net Zero Select Committee, I also Chair the All-Party Parliamentary Manufacturing Group (APMG). The APMG's research arm, the Manufacturing Commission is chaired by Lord Bilamoria and has recently embarked on an inquiry into how the Industrial Strategy will affect manufacturing SMEs, which are critical to the development of the domestic supply chains which the Industrial Strategy recognises are so important to our economy and national security.

At a recent scoping session, we had a productive discussion about the use of Research and Development (R&D) tax relief by SME manufacturing businesses. I am writing to you to highlight the consensus from these discussions.

R&D tax relief are designed to incentivise investment by reducing the cost of innovation. Research by the IMF has demonstrated that R&D tax credits increase the amount of innovative activity performed by firms. This is important in the manufacturing sector, as businesses must develop cutting-edge technology to remain competitive and deliver the highest-quality products, from silicon chips to jet engines. R&D tax relief is especially important to SMEs, as their funding options can be limited compared to smaller start-ups or larger established businesses.

I understand that, following the 2021 Tax Reliefs Report, a series of reforms to the R&D tax credit system (which had been in operation since its introduction by the last Labour Government, and was well understood by SMEs) were announced to tackle abuse and improve compliance. Those contributing to the work of the APMG agree reform must tackle fraud, whilst continuing to support innovation. However, we noted that changes to the R&D tax credit regime that are now being implemented are likely to limit the scope for claims. During our recent meeting, participants raised concerns that these changes could unintentionally stifle innovation and reduce productivity.

Participants acknowledged that it would not be practical to seek to reverse the planned changes. However, there was a strong view that reform should not be made without completion of a robust assessment of the impact on SMEs, to identify and avoid any unintended consequences. I would be very grateful if you could let me know if this is happening or is planned. Furthermore, as part of the impact assessment suggested above, please could you confirm whether the Treasury considered examination of the definition of R&D activities eligible for relief so that the scheme more explicitly supports innovation-based knowledge exchange activity and applied innovation.

Finally, participants at the APMG also suggested that savings to the exchequer made via a reduction of R&D tax relief available to SMEs should be used to support productivity and innovation in other ways, such as support for digital adoption, energy costs, and access to finance. I would be grateful for your thoughts on how such savings to the Exchequer might be used to deliver on the wider goals of the Industrial Strategy.

Thank you for considering this feedback from the APMG and the Manufacturing Commission. The Commission is running a series of roundtable evidence sessions during the Autumn to inform its inquiry, and you would be very welcome to speak at one of these meetings. I have asked Rob Allen from Policy Connect (which provides the secretariat to the APMG) to follow up with your office to see if this is a possibility.

With best wishes,

A handwritten signature in black ink that reads "Bill Esterson". The signature is written in a cursive, slightly slanted style.

Bill Esterson MP

CC: Lord Bilimoria of Chelsea, Chair, Manufacturing Commission



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Bill Esterson MP
House of Commons
London
SW1A 0AA

Your ref: BE16081

Dear Bill,

Thank you for your letter of 21 July 2025 enclosing feedback from the All-Party Parliamentary Manufacturing Group (APMG) and the Manufacturing Commission regarding Research and Development (R&D) tax reliefs for manufacturing SMEs. I appreciate the constructive engagement from the APMG and the Manufacturing Commission, and I am grateful for the opportunity to respond to the points raised.

I recognise the vital role that manufacturing SMEs play in the UK's innovation ecosystem and domestic supply chains, and I am glad that the Government's Industrial Strategy and the outcome of the Spending Review have been welcomed by businesses. The Government is committed to supporting innovation and productivity growth, and R&D tax reliefs remain a central part of this mission.

I understand the concerns raised about the recent reforms to R&D tax reliefs, particularly the potential impact on SMEs. The Government is committed to ensuring the reliefs continue to support our most innovative businesses, whilst addressing the unacceptable levels of error and fraud in the system. That is why at Autumn Budget 2024, as part of the Corporate Tax Roadmap, we committed to maintaining the generosity of both the merged R&D Expenditure Credit and the Enhanced Support for R&D Intensive SMEs (ERIS). As such, companies undertaking qualifying R&D will continue to receive between £15 and £27 for every £100 that they spend on R&D. The ERIS scheme alone will provide around £1.3 billion per year to around 20,000 R&D-intensive, loss-making SMEs.

On the question of impact assessments, the Government undertakes robust analysis of the effects of R&D tax reliefs. This includes monitoring claim volumes, sectoral impacts, and the effectiveness of the reliefs in incentivising additional R&D investment. We are committed to periodically evaluating the reliefs to ensure they are supported by a credible, up-to-date evidence base. We will also use the forthcoming Expert Advisory Panel to ensure that we continue to consider the views of SMEs, among others. In addition, HMRC recently consulted on options for widening the use of advance clearances in the reliefs, and the responses to this consultation are being carefully considered before any potential changes are implemented.

Regarding the definition of R&D, the Government's view is that the current definition is well understood, consistent with international standards (including the OECD Frascati Manual), and provides certainty for claimants. The definition already encompasses applied innovation and knowledge exchange activity where these seek to achieve an

advance in overall knowledge or capability in science or technology through the resolution of uncertainty. There is a risk that further changes to the definition would introduce uncertainty.

Lastly, I note your suggestion that the Government provides wider support to innovation in the economy. The Government's Industrial Strategy sets out a comprehensive approach to supporting productivity and innovation, including targeted support for digital adoption, energy costs, and access to finance. The Government is increasing public R&D funding to £22.6 billion per year by 2029/30, leveraging in further private investment and supporting growth-driving sectors such as manufacturing, life sciences, and digital technology.

I hope this response is helpful. Whilst I am unable to attend the Autumn roundtables due to diary constraints, please pass on my thanks to your colleagues at the APMG and the Manufacturing Commission for their valuable input.

Best wishes

A handwritten signature in black ink, appearing to read 'D Tomlinson', written in a cursive style.

DAN TOMLINSON MP
EXCHEQUER SECRETARY TO THE TREASURY



HOUSE OF COMMONS

LONDON SW1A 0AA

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Department for Business and Trade
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Our Ref: BE16081

22 July 2025

Re. Industrial Strategy & Advanced Manufacturing Sector Plan

Dear Sarah,

Thank you for your letter, dated 10th July, seeking the views of the All-Party Parliamentary Manufacturing Group (APMG) on the recently published Advanced Manufacturing Sector Plan and your kind offer to meet with the Group's members. Overall, feedback from industry stakeholders on the Industrial Strategy has been very positive, and businesses have welcomed the certainty and stability provided by a 10-year framework for investment.

Within the APMG's recent meetings, stakeholders have identified several barriers to investment in UK manufacturing, which include skills shortages, energy costs, access to finance, and sovereign capability. I am delighted to see that all of these things are acknowledged within the Advanced Manufacturing Sector Plan. In particular, I welcome the £100m investment in support for engineering skills, and the strategic role that Skills England will play in the Further Education sector. I also welcome recognition of the need for upskilling across the economy and the commitment to a new Upskilling and Reskilling programme – something that the APMG's Manufacturing Commission called for in its recent report, [Upskilling Industry](#).

Several Parliamentary members of the APMG have expressed disappointment that food and drink manufacturing was not explicitly recognised as a frontier industry within the Plan. The food and drink industry provides around 500,000 direct jobs and contributes £36 billion GVA to the economy. Although it is often overlooked, the sector is innovating rapidly to harness productivity gains from the use of AI, sensors, and automation. The APMG regularly draws on the expertise of its longstanding Officer, Lord Bilimoria of Chelsea, who founded Cobra Beer in 1989.

The issue of energy prices comes up in almost every meeting that the APMG holds, and I sympathise with UK manufacturers, who face energy costs that are often double those of their US counterparts and 50% more than those in Europe. I am pleased to see that the Plan includes specific interventions to reduce energy costs for IS-8 manufacturing industries and energy-intensive users through the British Industrial Competitiveness Scheme and British Industry Supercharger Package. However, stakeholders have raised

some initial concerns about eligibility and the gap between now and 2027, when this support will become available.

In addition, the APMG's industry stakeholders have provided some additional feedback on the Plan as below:

- The proposed £99 million expansion of the Made Smarter programme to help 5,500 more SMEs with technology adoption is very welcome.
- The UK's semiconductor sector is of significant strategic importance and would ordinarily be considered as advanced manufacturing. Semiconductors appear to have been considered within the Digital & Technologies Sector plan – we urge that support for this industry should not fall between the cracks of these two plans.
- Although the value of using Standard Industrial Classification (SIC) codes is recognised, many activities within the Advanced Manufacturing Sector Plan's frontier industries cannot be easily represented by the SIC system. Supply chains within the sector often cut across different SIC codes, adding to this challenge.

As you are aware, SMEs play a hugely important role in the UK's advanced manufacturing sector. I was disappointed to find that there is no SME representation on the Industrial Strategy Advisory Council. I would suggest that co-opting a leader from the SME community onto the Council would greatly add to its expertise.

Finally, you kindly asked for a meeting with the APMG's members later this year to discuss the implementation of the Advanced Manufacturing Sector Plan. I have asked Rob Allen from Policy Connect (which provides the secretariat to the APMG) to follow up with your office to arrange this following summer recess.

Thanks again for seeking input from the APMG, and I wish the Government the greatest success in delivering on the aims of the Industrial Strategy.

With best wishes,



Bill Esterson MP

CC: Lord Bilimoria of Chelsea, Chair, Manufacturing Commission

