GRAPHICS AND PRINT MEDIA ALLIANCE

RESPONSE TO THE DEPARTMENT FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY GREEN PAPER – 'BUILDING OUR INDUSTRIAL STRATEGY'

APRIL 2017

Overview

The Graphics and Print Media Alliance (GPMA) consists of trade associations representing companies operating in the graphics and print media industry supply chain. Between them, these trade associations represent some 3,471 companies, the majority of which are SMEs and which have a combined annual turnover of £15bn billion. As an alliance of trade associations, we believe we are well placed to support the Government to understand the needs of the industry and to achieve the benefits sought by both Government and by our sector.

The GPMA has previously welcomed the creation of the Department for Business, Energy and Industrial Strategy (BEIS). We also welcome the Prime Minister's chairing of the new cabinet committee on the economy and industrial strategy, and the significance being afforded to industrial strategy that this represents.

The GPMA welcomes the opportunity to respond to this important consultation. We believe we share in common with Government the desire to see an industrial strategy which will focus on UK productivity and competitiveness and which will provide support to the UK's industrial base as it adapts to overcome any challenges and maximise any opportunities from the decision to leave the EU.

In this submission, we have chosen to concentrate on the questions of most relevance to the work of our Alliance. We would be very happy to discuss our response further with BEIS officials in the coming weeks.

Consultation questions

1. *Does this document identify the right areas of focus: extending our strengths; closing the gaps; and making the UK one of the most competitive places to start or grow a business?*

The GPMA agrees that the Department has chosen sensible areas of focus for its consultation. Areas of clarification we would like to see addressed in the forthcoming White Paper are:

- Metrics of measurement for the success of the industrial strategy.
- The involvement of other Government departments in making the industrial strategy a success, particularly HM Treasury, the Department for Education and No. 10 and
- The impact of Brexit.

2. *Are the ten pillars suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing?*

The GPMA believes that the ten pillars identified are broadly the correct ones, however their implementation will require a real effort on behalf of Government to work in a 'joined up' manner, being that some are the responsibility of departments other than BEIS. It further believes that the horizontal policies – those which benefit the business environment for industry as a whole – are the key foundation of any industrial strategy. It notes that the Business, Energy and Industrial Strategy Select Committee has recommended to Government that it should 'reconsider giving sectoral strategies priority and instead focus on horizontal policies and specific ‘missions’ to meet UK-wide and local public policy challenges.'[1] While we have some sympathy with that view, in this case we believe a largely satisfactory balance has been achieved between horizontal and vertical policies. The GPMA recognises that for an industrial strategy to consist of more than economic policy, targeted interventions are required. This approach, of cultivating world-leading sectors and working hand in hand with them to do so, should allow Government to develop a clear understanding of the unique needs of each sector.

7. *What else can the UK do to create an environment that supports the commercialisation of ideas?*

The GPMA agrees with the Government that Research and Development (R&D) is crucial for the long-run growth of economies and welcomes the Government’s commitment in the 2016 Autumn Statement to make the UK an even more competitive place to do R&D, building on the introduction of the ‘above the line’ R&D tax credit (and supported via the establishing of a National Productivity Investment Fund to provide an addition £4.7bn R&D funding by 2010-21).

While for many of the businesses represented by the GPMA, the R&D tax relief scheme is working efficiently, we have outstanding concerns regarding its reach – ensuring it is being used to an extent which sees the industry not only rewarded for its innovation, but which encourages innovation. One member organisation, the British Printing Industries Federation (BPIF), reports that since 2013/14 seven of its member companies have used the scheme through a recommended external consultant, some more than once, saving approximately £275,000 in total. Further businesses will have used similar specialists or their regular accountants to claim, which the BPIF is unable to quantify. Despite this, it’s our view that it is extremely likely that take-up is significantly lower than it could be. This is because, while the printing industry is constantly evolving its products and processes to meet customer demands, it is unaware that the work it is doing constitutes R&D. As such we welcome the announcement in the Spring Budget 2017 that the Government has committed to take action to improve awareness of R&D tax relief to small businesses.

While of course there is a role to play for the GPMA and its member organisations to provide awareness of the R&D tax relief scheme to businesses, we recommend that HMRC too could increase understanding of the scheme and what type of work might be eligible. HMRC’s communications to businesses regarding R&D tax relief, particularly those on the HMRC website, could be enhanced to better engage with key industries, including graphics and print media. Specific guidance, and case studies of graphics and print media businesses which have benefitted, would make clearer to businesses the type of work that constitutes R&D. The GPMA would of course be delighted to assist in providing case studies and shaping guidelines.

The GPMA was also pleased to see in the Spring Budget 2017 that the Government has committed to making 'administrative changes' to the R&D Expenditure Credit. We hope that this means that there is the potential for including capital expenditure in the future, as well as revenue expenditure. Currently, R&D tax relief only applies to revenue expenditure - generally, costs incurred in the day-to-day running of the business, not to money spent on capital assets. The printing industry is capital intensive, often investing profits into plant and machinery assets which generally fall outside of eligibility for R&D tax relief. Allowing R&D tax relief on capital assets would be good news for those investing in plant and machinery for the

[1] Business, Energy and Industrial Strategy Committee, 2nd Report of Session 2016-17, 'Industrial Strategy: First Review'

purposes of advancing knowledge and capability in our industry.

11. *Do you agree with the different elements of the vision for the new technical education system set out here? Are there further lessons from other countries' systems?*

The GPMA very much welcomes the aim of the new technical system – to provide clear, high quality routes for technical education - outlined in the Industrial Strategy and further detailed in the 2017 Spring Budget. More must be done, though, to ensure that the system of technical education - intended to 'sit alongside the academic track' – is supported by efforts to level the playing field and reduce the stigma still associated with technical education. We intend to play a significant role in monitoring whether the Government's steps to get there are the right ones. Of the fifteen core technical routes intended to replace the current 13,000, Business & Administration, Creative & Design, Digital and Engineering & Manufacturing are likely to be most relevant to our sector, however we recommend that the Government ensures that the routeways remain flexible enough to respond to the needs of the economy going forward. For example, they must retain enough flexibility to encompass knowledge, skills and technology - and therefore needs - which have not yet crystallised.

Under current rules, print apprenticeships are not considered either science, technology, engineering or maths – however there is a strong argument that print technology is advancing rapidly, for example 3D printing, and many companies are offering digital solutions as well as print. The £23bn of science and innovation funding announced in November 2016's Autumn Statement, including £300m for 1000 PhD places in Science, Technology, Engineering and Maths (STEM) subjects - should include print technology. The GPMA would have liked to have seen the Green Paper deliver proposals to encourage the uptake of STEM subjects prior to PhD level. It is also disappointing that there was no discussion around how to improve the skills of those already of working age. We hope that these will be comprehensively addressed in the forthcoming White Paper.

12. *How can we make the application process for further education colleges and apprenticeships clearer and simpler, drawing lessons from the higher education sector?*

The GPMA would warn against necessarily assuming that the higher education sector is the one from which to learn. Further education (FE) is, quite rightly, different – reflecting that people learn and engage in diverse ways, with FE better suiting some learners. Further, independent training providers in the FE sector - as well as FE colleges – need to be considered as they provide a significant percentage of training into our sectors.

Apprenticeships are predicated on a job. As such, an employer must be prepared to employ an individual and in making this commitment they would have every right to tailor questions regarding prospective suitability according to their needs. While apprenticeship applications may therefore have a common core of questions (perhaps relating to individual standards), the ultimate reality of an application system is that it will have to be designed to meet each individual employer's needs. This is likely to mean that the result will be a system not dissimilar to the one we already have.

13. *What skills shortages do we have, or expect to have, in particular sectors or local areas, and how can we link the skills needs of industry to skills provision by education institutions in local areas?*

The GPMA was concerned to note the lack of discussion in the Green Paper regarding the impact that Brexit is expected to have on the availability of skills in our members' workforces. Particularly in London and the Midlands, member organisations have expressed concern that the curtailing of freedom of movement is likely to significantly impact the ability to hire both unskilled and skilled labour in the graphics and print media sector.

14. How can we enable and encourage people to retrain and upskill throughout their working lives, particularly in places where industries are changing or declining? Are there particular sectors where this could be appropriate?

In the then Business, Innovation and Skills Committee inquiry into the Productivity Plan, the Committee heard that weaknesses in the leadership and management skills within industry was undermining UK productivity.[2] Government-sponsored graduate management programmes, tailored to meet the needs of particular sectors, should be retained and expanded to ensure that new and aspiring middle managers are supported to develop and consolidate their leadership knowledge, skills and behaviours. This in turn will encourage improved performance from the teams under their management, potentially including higher productivity. Our member organisation, the BPIF, has had excellent results from its Level 5 apprenticeship management programme, equivalent to a foundation degree, which covers management skills such as negotiation and persuasion, delegation, leading innovation and financial understanding. The BPIF is starting the new management trailblazer in May and has some concerns about the potential impact to both learners and outcomes of the new end point assessment. Another member organisation, the European Flexographic Industry Association (EFIA), links with Leeds Beckett for ILM work-based management courses and has an e-learning Academy, suitable for upskilling existing employees and training new recruits.

18. What are the most important causes of lower rates of fixed capital investment in the UK compared to other countries, and how can they be addressed?

The GPMA notes that the Government's Business Tax Road Map is designed to provide the certainty that businesses need to make long term investments, and this intention is very much welcomed by the printing industry and no doubt the wider manufacturing sector. We note that key pillars of the Road Map include reducing the burden of business rates by £6.7 billion over the next 5 years and cutting the rate of Corporation Tax to 17% by 2020. While we welcome the lowering of Corporation Tax as a tool to encourage investment, we do not view these reductions as a simple solution to deliver growth, taking into account the complexity of other key factors impacting our members' ability to do business. We strongly support the BEIS Select Committee's calls for an independent, holistic review of the business tax landscape and how it impacts productivity.[3]

For example, there remains in the business rates system a clear disincentive to invest. For graphics and print media businesses across the UK, equipment requirements will include expensive lithograph, digital, flexographic and large format printers, finishers and folders as well as state-of-the-art pre-press equipment. This machinery needs to be supported through enhancements to business premises, which are specific to the business activity. These enhancements potentially increase the rateable value and taxing them acts as a clear brake on investment and expansion. The GPMA, along with the EEF and others, recommends that plant and machinery should no longer be included in site rateable value assessments, which are calculated for business rates purposes.

Maintaining a tax on plant and machinery as part of the business rates system poses an unnecessary extra barrier to productive investment. Printing, and the manufacturing sector as a whole, is an investment

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[2] BIS Committee, Second Report of Session 2015–16, *The Government's Productivity Plan*

[3] Business, Energy and Industrial Strategy Committee, 2nd Report of Session 2016-17, 'Industrial Strategy: First Review'

intensive sector and bears the burden of tax on plant and machinery. The Chancellor notes that "our businesses…are not investing enough"[4] and it is true that the UK has historically underperformed in terms of investment compared to its main international competitors, with capital expenditure on plant and machinery as no exception. Removing the disincentive to invest posed by the inclusion of plant and machinery in business rate calculations would be a step towards the Government's vision of ensuring that businesses are investing.

22. *What are the barriers faced by those businesses which have the potential to scale up and achieve greater growth, and how can we address those barriers? Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread?*

In the wake of Brexit, it is vital that GPMA members are still able to access the single market. In regulatory terms, this access depends very much on regulatory harmonisation, as member companies have made it clear that the only way to be able to keep trading with the EU and access the single market would be through maintaining EU regulations currently complied with. This is important to members' supply chains, as manufacturers of inks will import raw materials from the EU, as well as importing parts for printers' machines.

Without this access, members might not have access to the latest machinery or other equipment because of the lack of regulatory harmonisation, increasing costs and bureaucracy - ultimately impacting on a company's ability to grow.

25. *What can the Government do to improve our support for firms wanting to start exporting? What can the Government do to improve support for firms in increasing their exports?*

In the current exchange rate environment, the GPMA strongly agrees that the Government must do all it can to support firms to start exporting or to increase their exports. UK export growth has been the slowest in the G7 since 2008. A Brexit impact survey run by our member the British Coatings Federation (BCF) found that 86% of companies confirmed that trade with the EU is important to their businesses. A similar survey from the BPIF showed that 62% of their member companies export to the EU.

The creation of the Department for International Trade (DIT) is welcome, however it must be willing to engage with smaller players and to support businesses which wish to start exporting from a base of low or no knowledge. We hope that targeted support to increase export opportunities might be considered, perhaps by way of facilitating mentoring relationships between larger, experienced exporters and SMEs.

The Green Paper's commitment to strengthen the value from trade shows is welcome, and the DIT should explore the trade shows of the graphics and print media industry to understand how opportunities can be maximised. For example, drupa, the trade fair for the print industry, attracts almost 2,000 exhibitors from 54 countries. Our member FESPA UK Association's parent company FESPA Limited runs trade shows and events in most European countries, with major trade shows in Germany, Mexico, Brazil, Thailand, South Africa and Turkey. These shows attract 2200 exhibitors from over 100 countries along with hundreds of thousands of visitors from virtually every country in the world. These events are invaluable in opening up new lines of business in our industry.

31. *How can the Government and industry help sectors come together to identify the opportunities for a 'sector deal' to address – especially where industries are fragmented or not well defined?*

[4] Rt Hon. Philip Hammond MP – Speech to the Conservative Party Conference, 3rd October 2016

The use of sector deals relies heavily on clarification and agreement by Government and industry as to what constitutes a 'sector', however this has not yet been provided. The identification of five sectors as priorities for sector deals - life sciences, ultra-low emission vehicles, industrial digitalisation, nuclear and creative industries – further adds to the uncertainty, with 'industrial digitalisation' being potentially relevant across a number of manufacturing sectors, and 'creative industries' being a particularly diverse label. Engaging sectors with a high proportion of SMEs is likely to be a challenge, and the Government should consult with established trade associations where possible.

With regard to how the Government might respond to a sector's asks, the possibilities listed on page 101 of the Green Paper is helpful, and would benefit from case study examples of how a sector and Government might reach a deal. We hope that targeted support to increase export opportunities might also be included, for example Government assistance – perhaps by way of facilitating mentoring relationships with larger exporting companies - to upskill SMEs interested in exporting.

With regard to how sectors come to be defined, the GPMA seeks reassurance that the Government will approach sector deals with flexibility. For example, we would be concerned if strong leadership within a sector emerges, excluding organisations with a different view, which would in turn find it difficult to access Government on that basis that Government believes it is already collaborating with the sector as a whole. Where industries are fragmented or not well defined, this is a significant risk. We believe this risk would be best met by taking a flexible 'task/finish' approach to sector deals, whereby a sector works with Government on a specific challenge or project, and may find that the organisations which take a lead vary from project to project, depending on need and expertise. Transparency from Government regarding which organisations have made sector deals, and to what objective, would further support the mitigation of this risk.

Further, while we understand the attraction of the naming of individual people to lead sector deals, we would of course be apprehensive should this lead to a 'figurehead' approach, whereby sectors which can be represented by high profile personalities are favoured. Similarly, the Government should, when engaging with sectors with three or four large companies dominating the field, make an effort to ensure that in reaching a sector alliance, those businesses have sought to engage the input of smaller and medium sized firms operating in their sector.

We would also appreciate further guidance on the process of reaching a deal that includes:

- Timescales for sectors to coalesce
- Timescales for Government sign off and decision-making
- BEIS interaction with other Departments (for example, presumably a sector deal would require HM Treasury and No. 10 approval before it could be actioned) and
- Criteria for future sector deals.

The Graphics and Print Media Alliance (GPMA)

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Member organisations:

Association of Printing and Communications Managers

British Association for Print and Communication
British Coatings Federation
British Printing Industries Federation
Confederation of Paper Industries
European Flexographic Industry Association
FESPA UK Association
Independent Print Industries Association
Printing Industry Confederation
The Rubicon Network
Two Sides