

Enginuity®

SME Snapshot

October 2026



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The Policy Centre for Supply Chain and SMEs: Powered by Enginuity

Enginuity's snapshot survey gathers insights into the business health, outlook and experiences of skills policy among small and medium-sized enterprises (SMEs) in the engineering and manufacturing sector.

The snapshot survey is commissioned by The Policy Centre for Supply Chain and SMEs: powered by Enginuity, which unifies and amplifies the voice of the UK's manufacturing and engineering businesses.

As an independent voice, The Policy Centre brings together industry, Government, policy organisations and representative bodies to:

- Convene businesses to identify shared challenges and opportunities, from skills gaps to productivity.
- Amplify the collective voice of SMEs within the engineering and manufacturing ecosystem.
- Provide evidence and insight to ensure policymakers understand and act on supply chain and SME priorities.
- Advocate for policy change to close skills gaps and enhance productivity.
- Co-design practical solutions and initiatives that address skills shortages and support business growth, as well as regional and UK economies.
- Drive and deliver lasting impact through partnership, influence and innovation.



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Foreword

Skills policy has experienced a prolonged period in the limelight over recent years, intensifying recently under the new Prime Minister, Andy Burnham. The critical test, however, is whether this political attention is translating into tangible improvements for employers engaging with the skills system.

Since our last survey, conducted at the start of 2026, SMEs have been navigating changes to apprenticeship units, increases to the apprentice minimum wage, a shorter apprenticeship levy period, and changes to co-investment. We have also seen the publication of 39 new Local Skills Improvement Plans, an interim Milburn review, proposals to reform qualifications at Level 3 and below, the announcement of new technical pathways for 14-to-16-year-olds, and new procurement rules relating to skills. Against this backdrop, the SME Snapshot Survey provides insight into whether this focus on skills is translating into meaningful change for SMEs.

Concerningly, almost eight in ten SMEs are facing pressure to raise prices due to increases to both labour and material costs and most SMEs will have to offset these costs by passing them on to customers. Despite the scale of policy activity over the past six months, many of the cost pressures facing SMEs remain stubborn or have worsened. For the second year in a row, two-thirds of SMEs have told us that they are not running at full capacity. These cost pressures ultimately reduce the financial headroom SMEs require to invest in skills and training.

When surveyed, SMEs reported that financial constraints were, by some margin, the most significant barrier to investing in skills and training. Despite this, SMEs remain optimistic about the future: half told us they expect their investment in training to stay the same over the next year, while almost a third expect to increase it. However, concerns about the future workforce persist. Fewer than four in ten SMEs are confident they will be able to recruit sufficient workers to meet their skills needs over the next three to five years.

The survey also tested current policy reforms. Concerningly, almost two-thirds of SMEs reported a 'limited understanding' of the Government support available to help them invest in skills. This also serves as a clear barrier to investment into skills and training. Government's focus should not just be on introducing new funding and programmes, but on making the existing skills landscape more accessible for businesses to understand and navigate. This would go a long way to helping SMEs invest in the skills they need to grow.

Likewise, awareness continues to hold back the impact of new technical pathways – an important learning message as the Government seeks to introduce qualification reform at levels 1, 2 and 3. The survey found that one in five SMEs had not heard of apprenticeship units, despite them being a flagship change under the Growth and Skills Levy. Additionally, only one in ten see apprenticeship units as filling current skills gaps.

There remains significant opportunity here, however, with a quarter of SMEs saying they would be likely to use apprenticeship units if they were developed in areas relevant to their business. This suggests that demand could be unlocked if apprenticeship units are designed to reflect the in-demand skills SMEs need.

There is a similar gap between awareness and impact when it comes to the Industrial Strategy. While there was high awareness of the Industrial Strategy in our last survey, almost half of SMEs told us in this most recent survey that it has had no impact. This suggests that national strategy is not yet consistently translating into practical change for SMEs.

Where 21% of SMEs did see a positive impact related to applications for Government support, engagement with industrial bodies or investment in technology.

Making the system simpler, more relevant and easier to navigate is therefore not secondary to new policy; it is central to whether policy has an impact and whether the engineering and manufacturing sector can begin to close its £5.2 billion skills gap.

Looking ahead to the autumn, the skills landscape is set for a further shake-up with landmark devolution settlements, the final Milburn Review, and Prime Minister Burnham's first Budget. Each offer a chance to alleviate the barriers preventing SMEs from investing in skills and supporting more people into the workplace.

For the third survey in a row, SMEs were less confident on recruiting new entrants into the sector than they were on training existing employees. The final Milburn Review should be seen as a valuable opportunity to connect two national priorities: reducing the number of young people not in education, employment or training, and closing the skills gaps that are holding back priority sectors such as advanced manufacturing and engineering. But this will require policy to focus not only on creating pathways for young people, but also ensuring SMEs have the financial headroom and practical support to offer those opportunities.

Getting skills policy right is a prerequisite for sustained economic growth and success on the UK's wider industrial ambitions. Whether it be reviving the steel industry, creating new rail routes, meeting national defence needs, or developing clean energy infrastructure, an effective skills system will be vital.

Delivering on these ambitions will depend on whether skills policy passes three tests:

1. improving the breadth and accessibility of support for priority sectors;
2. ensuring stability within the skills system through long-term policy that is well understood by employers;
3. better aligning vocational education provision with employer demand.

Representing over 90% of the UK engineering and manufacturing sector, SMEs are well positioned to strengthen the labour market. Yet as this research shows, SME firms continue to face significant barriers to investing in skills and recruiting the people they need. Productive engagement between SMEs and policy makers is key to overcoming these challenges, and the Policy Centre for Supply Chain and SMEs will help to drive this.



Recommendations

Based on the insights gathered in this survey, Enginuity makes the following recommendations to Government:

- 01 Introduce targeted financial incentives to increase SME investment in skills and training.** Financial constraints are the greatest barrier preventing SMEs from investing in training. Government should explore forms of tax relief that could directly incentivise greater employer spend on skills.
- 02 Scale proven employer-led skills partnerships and regional training networks.** SMEs report persistent skills gaps, with fewer than four in ten confident they can recruit sufficient workers over the next three to five years. Successful pilot initiatives, such as the Cornwall Manufacturing Group, demonstrate how coordinated action between SMEs and collective engagement with providers can equip more young people with the practical and technical skills local SMEs require, reducing skills shortages.
- 03 Create a national mechanism for collaborative training and shared apprenticeships between SMEs.** Alongside financial constraints, time and operational capacity are reported as a further barrier to SME investment in training. Government should explore introducing collaborative training models, such as training alliances, that reduce the burden on individual employers by enabling shared training across multiple employers.
- 04 Establish a single front door for SME skills support and advice.** Given that most SMEs surveyed reported a limited understanding of the skills system, Government should establish a mechanism to make the existing offer easier for SMEs to understand and engage with. This should be a single destination that includes clear signposting to available vocational provision, the intended purpose of each product, and what funding and support exists.

Key insights



Almost 80% of SMEs are facing pressure to raise prices due to increases in labour costs and raw material costs – the same as January.



A majority of SMEs continue to plan to offset rising costs by passing them on to customers, with 73% saying they will do so.



For the second year in a row, around two-thirds of SMEs are not running at full capacity.



Well under half (37%) of SMEs are confident in their ability to recruit over the next three to five years – up from 35% in January 2026.



SMEs said the most significant barrier preventing them from investing in skills was financial constraints.



59% of SMEs have a limited understanding of the available Government support for skills.



Only 11% of SMEs said the new apprenticeship units will fill current skills gaps.

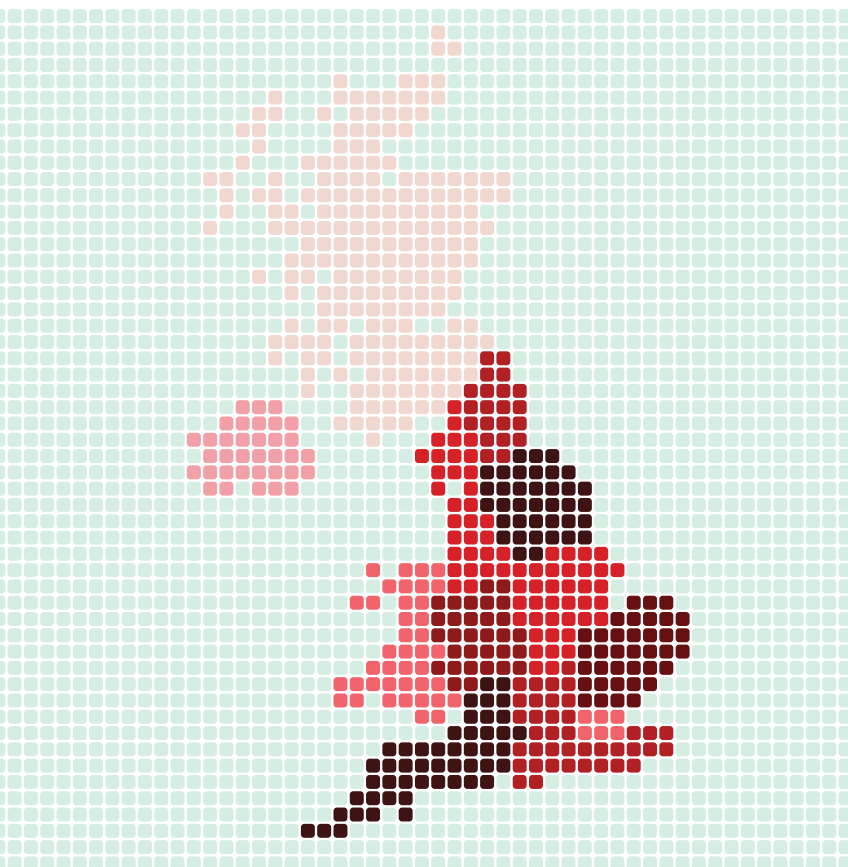
Emerging trends

Our findings show that engineering and manufacturing SMEs continue to demonstrate resilience and a willingness to invest in skills, despite ongoing economic pressures. Business optimism remains relatively strong; most employers expect training investment to remain stable or increase over the next year, and confidence in training existing staff continues to exceed confidence in recruiting new workers. At the same time, rising labour and raw material costs are forcing many firms to pass costs on to customers, while most businesses are still operating below full capacity. Together, these findings suggest SMEs remain committed to workforce development but are doing so in a challenging operating environment.

The survey also highlights a growing disconnect between policy activity and impact. Over the past six months, businesses have seen the introduction of apprenticeship units, changes to apprenticeship funding, new Local Skills Improvement Plans and wider Industrial Strategy interventions. Yet awareness and engagement remain low. Almost two-thirds of SMEs report only a limited understanding of Government skills support, one in five have not heard of apprenticeship units, and almost half say the Industrial Strategy has had no impact on their business. The challenge for policymakers is increasingly not just designing new interventions, but ensuring existing support is visible, accessible and relevant to SMEs.

Perhaps the most significant trend is that confidence in recruitment continues to lag behind confidence in training. For the third survey in a row, employers report that skills gaps are driven primarily by a shortage of candidates with industry-relevant technical qualifications, while fewer than four in ten SMEs are confident they will be able to recruit enough workers to meet their future skills needs. This comes despite a growing range of policies aimed at improving participation and workforce development. The findings suggest that while employers remain prepared to invest in developing talent, attracting people into engineering and manufacturing careers remains a significant challenge. As Government focuses on economic inactivity, workforce participation and opportunities for young people, it is important to note that strengthening pathways into technical careers is just as important as supporting employers to train existing staff.

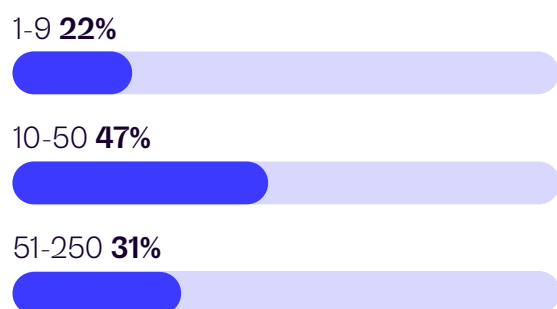
The sample



- South West **23%**
- Yorkshire & Humber **19%**
- East of England **13%**
- West Midlands **11%**
- South East **9%**
- North East **5%**
- East Midlands **5%**
- North West **5%**
- London **3%**
- Wales **3%**
- Northern Ireland **2%**
- Scotland **2%**

This sample represents the views of **202 SMEs**, representing around **11,000** employees with a combined turnover of around **£2 Billion**.

How many employees does your company employ in the UK?



The survey reached a wide range of engineering and manufacturing sub-sectors, with most responses from industrial manufacturing, mechanical engineering and automotive.

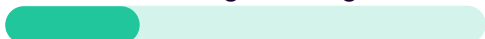
What are the main sectors that the company operates in?*



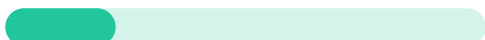
Industrial Manufacturing **53%**



Mechanical Engineering **28%**



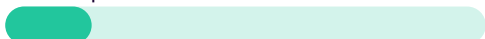
Automotive **23%**



Defence **22%**



Aerospace **18%**



*Respondents were given the option to select up to 3 sectors that they supply into. SME manufacturers and engineering businesses often do not fit neatly into a single sector definition.



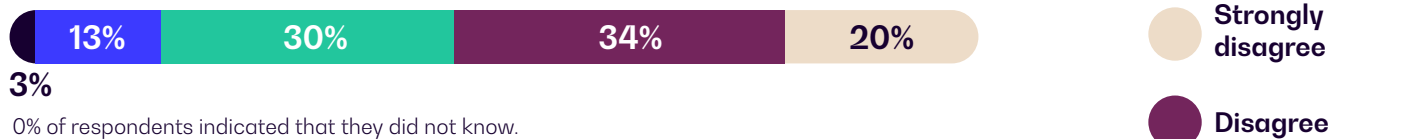
Skills for jobs, productivity and growth

Over half of SMEs continue to see the UK labour market as unattractive.

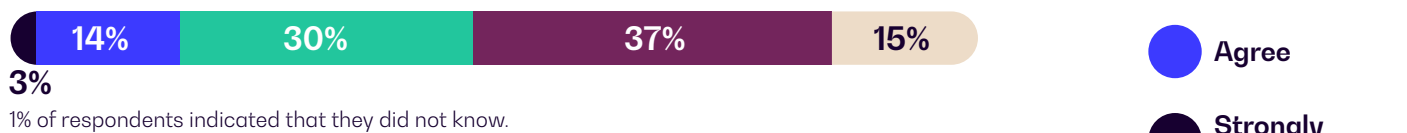
54% of SMEs said they disagreed that the UK labour market is an attractive place to do business – with one in five strongly disagreeing. Only 13% agreed, and just 3% strongly agreed.

The UK labour market is an attractive place to invest or do business?

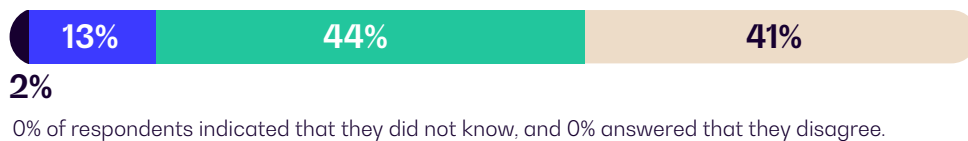
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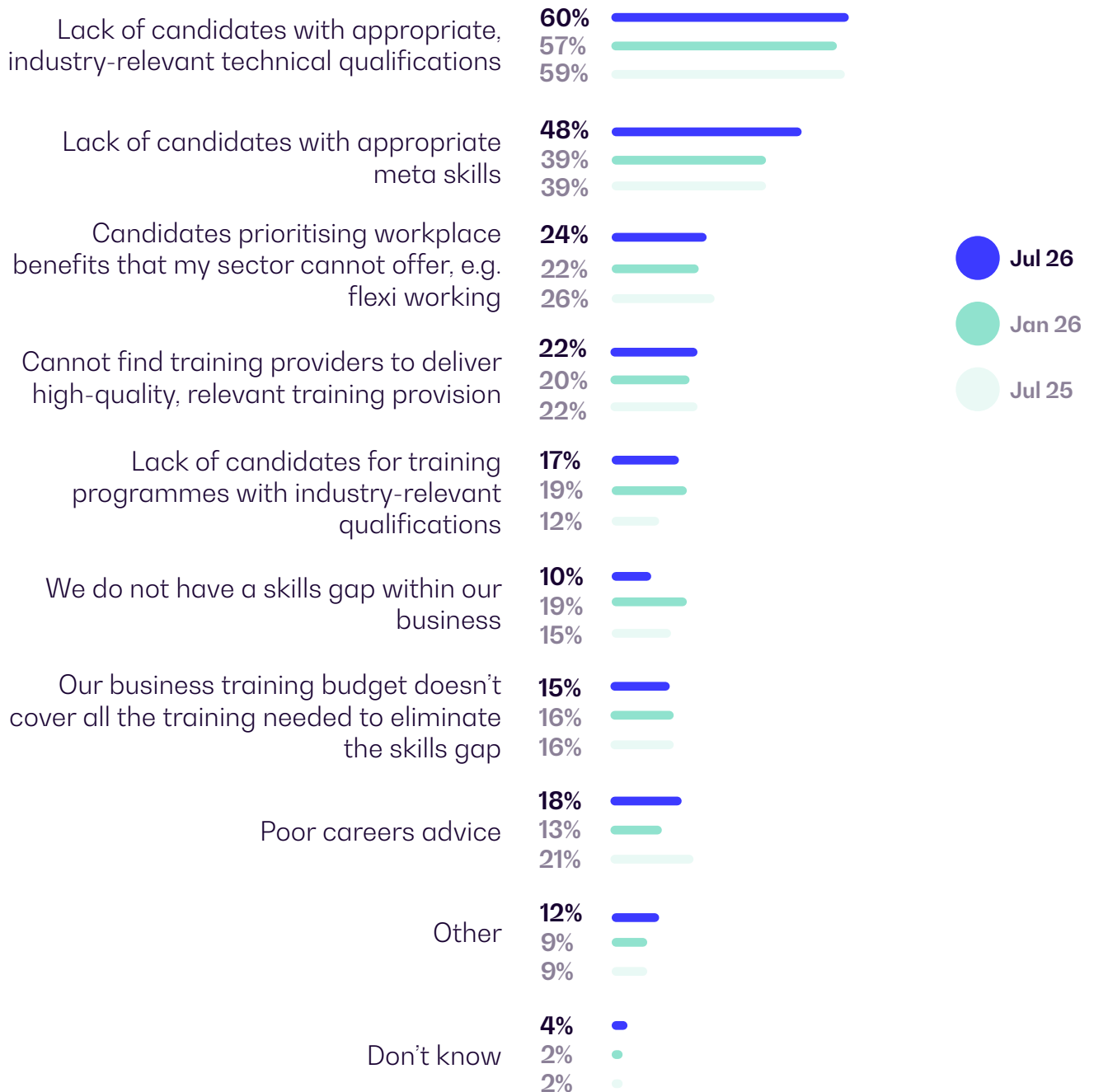


Jul 25



For the third survey in a row, the main driver of skills gaps is a lack of candidates with appropriate, industry-relevant technical qualifications.

*What are the main drivers of skills gaps in your business?**

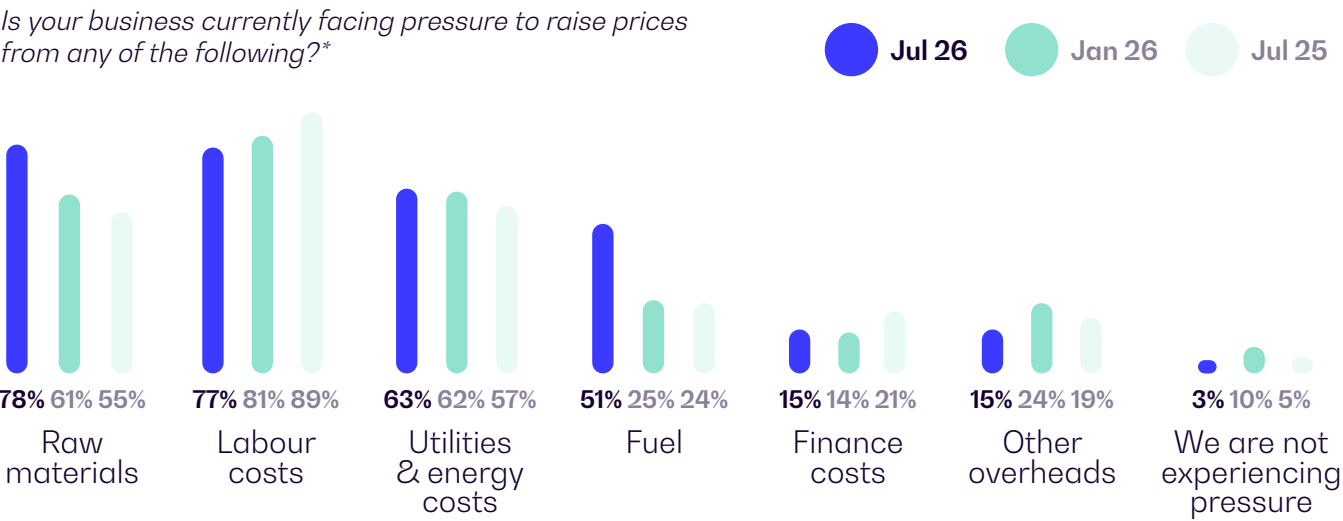


*Respondents were invited to select more than one answer. Percentage totals may therefore exceed 100%.

Employment costs are competing with raw material costs as the top inflationary pressure driving up prices.

Almost 80% of respondents suggested that labour costs and raw material costs are pressuring their businesses to raise prices. Behind these, fuel price pressures have worsened significantly since our last survey, with the proportion of SMEs experiencing this pressure more than doubling.

Is your business currently facing pressure to raise prices from any of the following?*



*Respondents were invited to select more than one answer. Percentage totals may therefore exceed 100%.



The majority of SMEs now say they will have to pass on costs to customers.

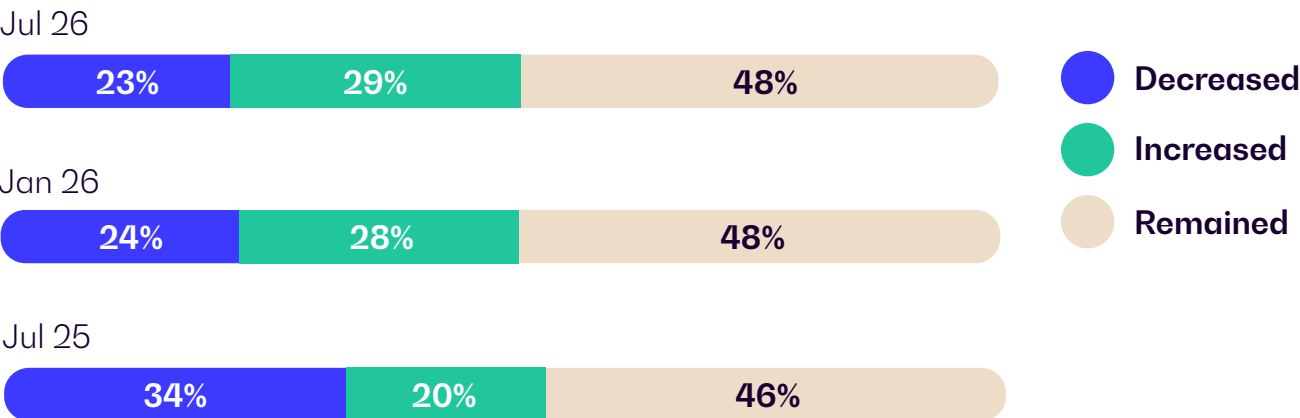
In our last survey, the majority of SMEs were planning to make productivity improvements to offset rising costs. While this continues to be a common strategy, passing on costs to customers has overtaken productivity measures as the most cited response, with 73% of SMEs expecting to increase prices. This shift is economically significant: while price increases may help protect margins in the short term, they can also weaken competitiveness and suppress demand, particularly where customers are facing similar cost pressures. At the same time, 28% are planning to freeze recruitment, 27% will pause capital investment, 15% will reduce the training budget, and 14% will reduce headcount. These defensive measures may help firms manage immediate pressures, but they risk weakening future productive capacity by slowing investment in people, technology and workforce growth.



Headcount remains strong, with half keeping it constant and almost a third increasing.

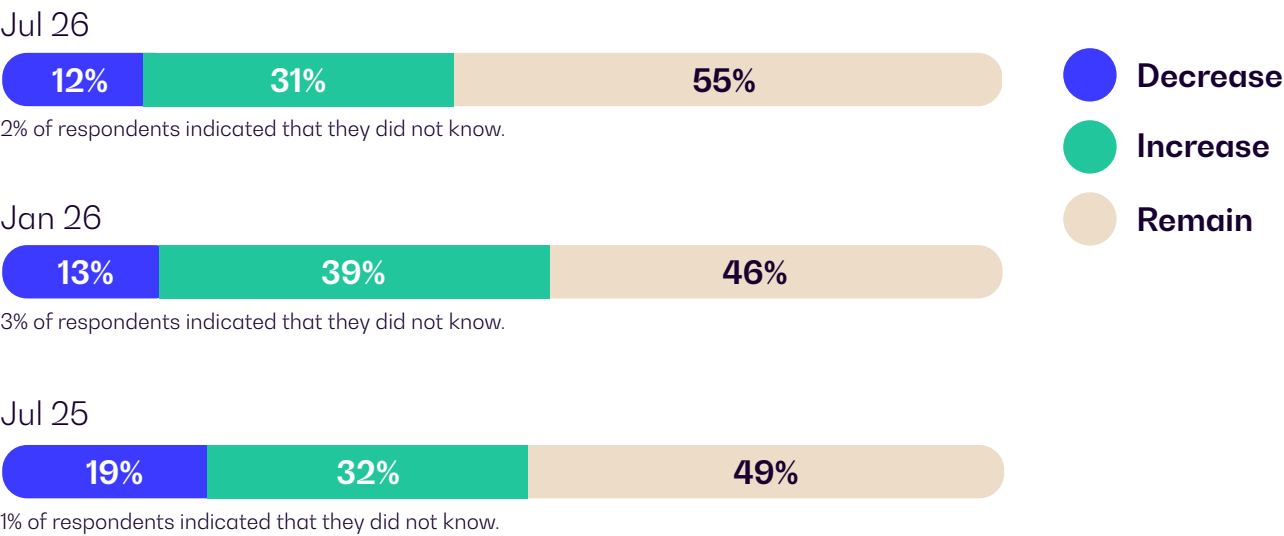
Almost a third of SMEs have been able to increase their headcount over the last six months, half have kept it constant.

Over the **past** six months, has your workforce decreased, increased, or remained the same?



Looking ahead to the next six months, SMEs report a dip in those expecting to increase staff.

Over the **next** six months, do you expect your workforce to decrease, increase or remain the same?



SMEs remain more confident in training existing staff than recruiting new staff.

When it comes to employer confidence in being able to recruit or train enough workers to meet their organisation's skills needs over the next three to five years, SMEs are still reporting greater confidence in their ability to train their existing staff than to recruit new staff.

How confident are you that you will be able to recruit or train enough workers to meet your organisation's skills needs over the next 3-5 years?

Recruit Jul 26



2% of respondents answered N/A and 3% of respondents indicated that they did not know.

Recruit Jan 26



2% of respondents answered N/A.

Recruit Jul 25



1% of respondents indicated that they did not know, and 2% answered N/A.

Train Jul 26



1% of respondents indicated that they did not know, and 3% answered N/A.

Train Jan 26



3% of respondents answered N/A.

Train Jul 25



1% of respondents indicated that they did not know, and 1% answered N/A.



Capacity, cash flow and investment intentions

SMEs remain fairly optimistic about the year ahead.

General business optimism has remained strong, with half of businesses agreeing that their business is optimistic about the year ahead, and just under a quarter disagreeing. The trend of optimism over the last year is a positive one – the last two surveys have shown an increase to around half of SMEs being optimistic, and this level has been maintained in our third survey wave.

This optimism prevails despite only a third of SMEs operating at full capacity. This minority has seen a steady climb over the last year, from a quarter operating at full capacity to a new high of 32% in this survey.

Our business is optimistic about the year ahead...

Jul 26



1% of respondents indicated that they did not know.

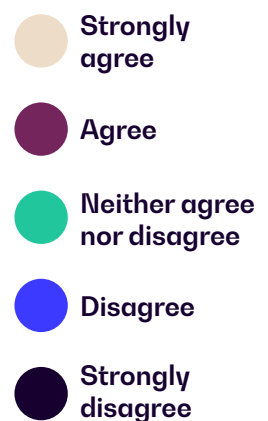
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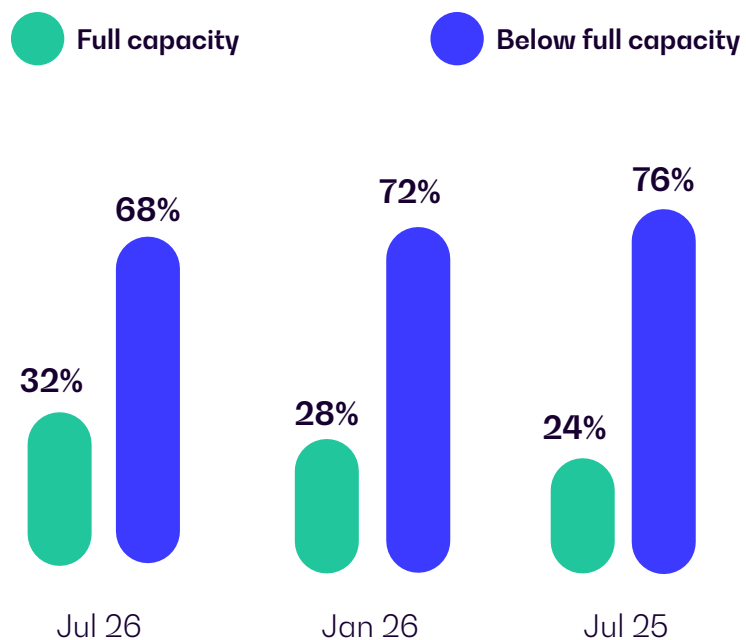
Jul 25



1% of respondents indicated that they did not know, 0% answered disagree.



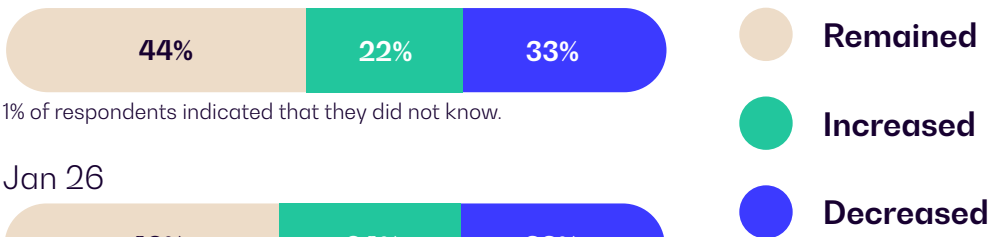
The business is currently operating at...



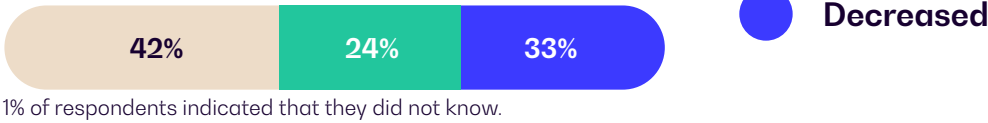
Recent business profitability remains stable – just under half say this has remained constant, matching figures from 2025 and earlier this year. A third said profitability had decreased over the last three months, and under a quarter saw an increase.

Over the **last** 3 months, business profitability has remained, increased or decreased?

Jul 26



Jan 26

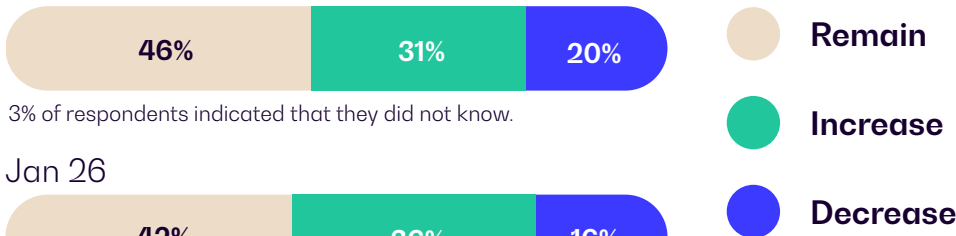


Jul 25



Over the **next** 3 months we expect business profitability to remain, increase or decrease?

Jul 26



Jan 26



Jul 25

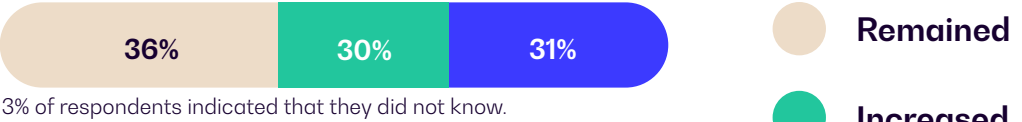


Looking three months ahead, the proportion of SMEs expecting business profitability to increase falls to just under a third, compared with January, while there is a slight increase in the proportion expecting profitability to remain unchanged or decrease.

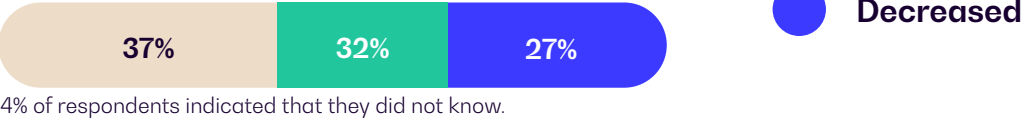
While most SMEs have been able to keep investment in capital equipment over the last year constant (36%) or increase investment (30%), almost a third (31%) have decreased their spend.

*What has been the trend in the **past 12 months** in investing in capital equipment (plant, machinery, tech, equipment...)?*

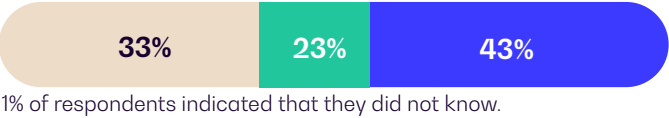
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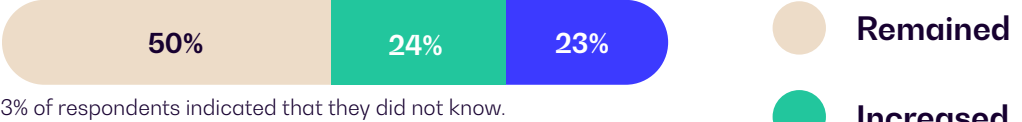


The training spend for most SME’s has either increased or remained constant.

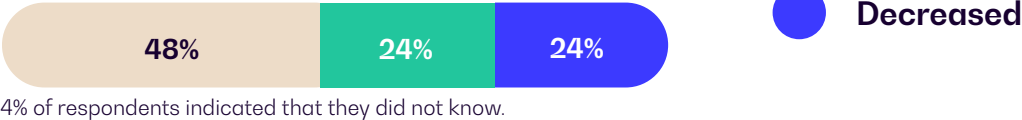
A quarter of SMEs were able to increase their spend on training over the last year, half kept their training spend constant, and a quarter decreased training spend – all proportions matching January 2026.

*What has been the trend in the **past 12 months** investing in plans for training?*

Jul 26



Jan 26



Jul 25

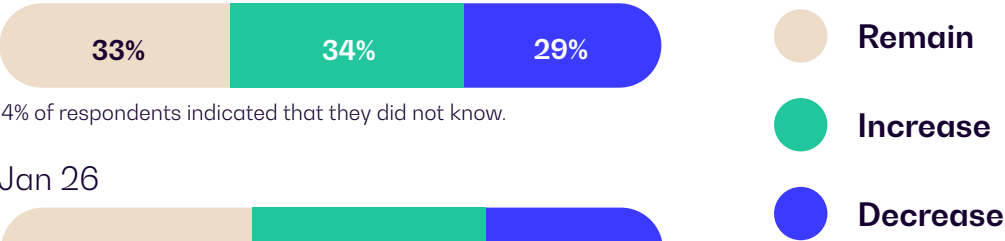


SMEs will mostly maintain or increase spend on capital investment.

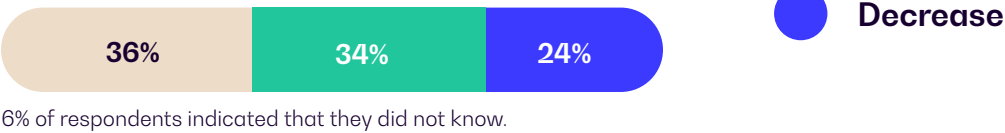
Looking ahead to the next year, a third of firms hope to increase their capital investment, a third expect the same level of investment, and a third expect to decrease. These figures represent an improvement compared to 2025, when almost 40% expected to reduce spend.

Over the **next** 12 months investment plans in capital equipment (plant, machinery, tech, equipment...) will remain, increase or decrease?

Jul 26



Jan 26



Jul 25

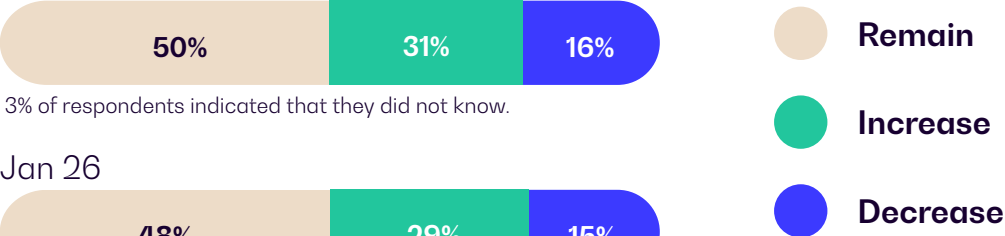


The majority of SMEs expect their training spend to stay the same or increase.

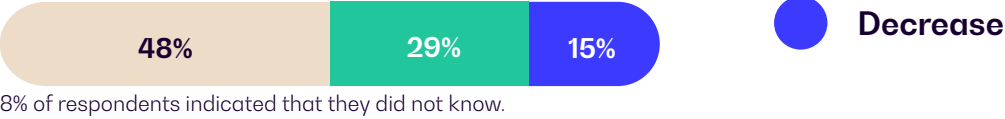
The proportion of SMEs expecting a decline in training spend has remained lower than in 2025 – dropping from 26% to 16%. Half expect it to remain constant, and a third expect it to increase.

Over the **next** 12 months investment plans for training will remain, increase or decrease?

Jul 26



Jan 26



Jul 25

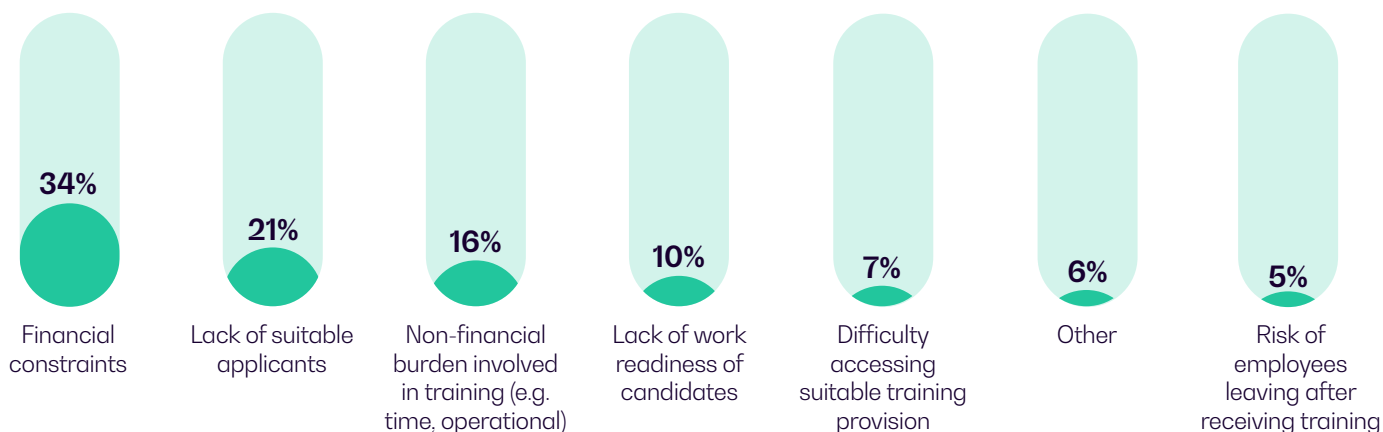


Policy Measures

Financial constraints are the top barrier preventing SMEs investing in skills.

Over a third of SMEs said financial constraints were the most significant constraint holding them back from investing in skills and training. Just under a quarter suggested it was the lack of suitable applicants, and 16% said it was the non-financial burden involved in training (e.g. time and operational capacity).

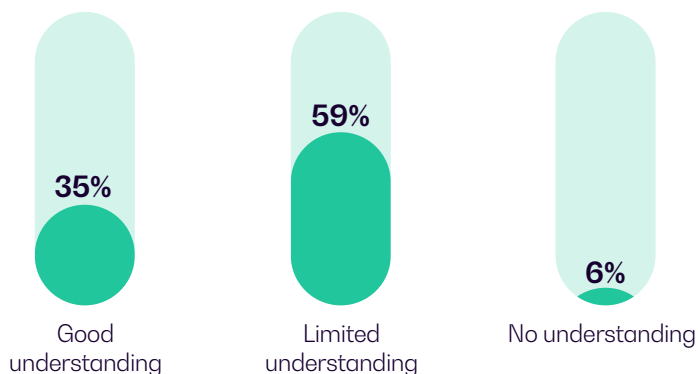
What has been the single most significant barrier preventing your business from investing in skills/training?



Almost two-thirds of SMEs said they have a limited understanding of support available for skills.

The majority of SMEs said they have a limited understanding of how to find and access Government support for skills and training (59%), with 6% having no understanding and just over a third having a good understanding (35%).

How confident are you in understanding, finding and accessing Government support for skills and training?

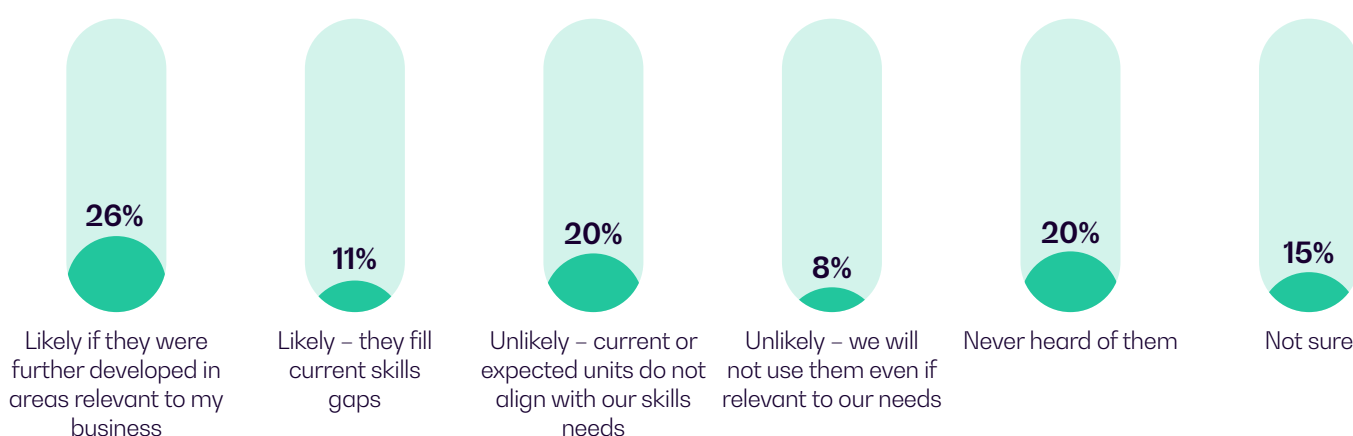


Only one in ten SMEs said new apprenticeship units fill current skills gaps.

The new Growth and Skills Levy was launched in April 2026 and included the option to upskill current staff through apprenticeship units. Although over a third of SMEs said they were likely to use apprenticeship units, most said they would use them only if units were developed in areas relevant to their business. Only one in ten SMEs said apprenticeship units would fill current skills gaps, while almost a third said they were unlikely to use them and a fifth had never heard of them. This suggests apprenticeship units have potential, but their impact will depend on whether they are visible, easy to understand and designed around the skills SMEs actually need. For Government and providers, the priority should be to work with employers to identify the technical areas where modular training would add most value and to communicate the offer more clearly to smaller businesses.

Apprenticeship units are new, short, flexible training courses focused on specific skills (rather than a full apprenticeship).

How likely are you to use apprenticeship units in the next 12 months?



Almost half of SMEs think the Industrial Strategy has had no impact.

Less than a quarter of SMEs see a positive impact of the Industrial Strategy and Advanced Manufacturing Plan. This is driven mostly by applications for Government support, engagement with industry bodies or clusters, and investment in machinery or technology. Almost a third of SMEs think it is too early to tell, while almost half report that these activities have had no impact at all.

How would you rate the overall impact of the Industrial Strategy and Advanced Manufacturing Plan on your business?



Make your voice heard

Growing in reach and impact, the Enginuity SME Snapshot is amplifying the voices of engineering and manufacturing SME businesses to Government and policymakers.

Register now for updates on the SME snapshot survey and to be notified first when a new survey round opens for your input.

If you are a business decision-maker, sign up here to make sure your voice is heard and helps to shape the policies, strategies, and support that your business needs now and in the future.



Scan to sign up

policy@enginuity.org



About Enginuity

Enginuity is dedicated to helping employers in the manufacturing and engineering sectors to close the skills gap.

Enginuity is an independent charity that invests £2 million annually in initiatives and programmes that improve access to skills for businesses and people.

Combining a wealth of up-to-date sector data with long experience and seasoned understanding of skills challenges, we help ensure that the sector's safe, skilled, and sustainable workforce is effective, competitive, and future-facing. Our Policy Centre for Supply Chain and SMEs tests policy proposals, leverages employer perspectives, and develops solutions through our key employer-led groups – the SME Advisory Council, with wider collaboration via engagement with the National Manufacturing Skills Taskforce, which we co-founded.

Our charitable investment funds a wide range of practical skills solutions – from supporting Alternative Provision and removing the obstacles for inclusion for neurodiverse young people, to improving employee retention through enabling career-break return, engaging schools, and developing leadership skills programmes for SMEs.

We remove barriers, reduce disadvantage, and drive greater representation in the engineering and manufacturing sectors.

Report methodology

This report captures insights from the responses of 202 engineering and manufacturing micro, small, and medium-sized enterprises (SMEs) to the third wave of the SME Snapshot questionnaire that was open between 24 June and 22 July 2026. Together, these companies represent around 11,000 employees and have a combined turnover of around £2 billion.

The Enginuity Snapshot survey has been developed to gather real-time data on how SMEs in engineering and manufacturing are experiencing economic and policy developments. The SME Snapshot report offers insights for policymakers, stakeholders, and the SME community. Percentages shown in charts may not always total 100% due to the rounding of individual values.

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