Engineering and Machinery Alliance

Agricultural Engineers Association
British Automation and Robot Association
British Fluid Power Association
British Paper Machinery Suppliers Association
British Plastics Federation
British Turned Part Manufacturers Association
Gauge and Toolmakers Association
Manufacturing Technologies Association
Printing Industry Confederation
Processing and Packaging Machinery Association
UK Industrial Vision Association

14 March 2014

The Rt Hon George Osborne Esq MP
Chancellor of the Exchequer
HM Treasury
1 Horseguards Road
London SW1A 2HQ

Dear Chancellor,

Engineering and Machinery Alliance Budget Letter
It is only three months since I wrote to you ahead of your Autumn Statement, setting out some of the Alliance's concerns particularly with regard to investment, R&D participation, exports and improving access to finance. (I attach our submission for ease of reference.)

Since November, member firms have mostly had a positive start to 2014. The Engineering and Machinery Alliance has recently increased its membership so that we now represent some 1,600 companies, still mostly mechanical engineering SMEs but now selling £8 billion into UK and overseas supply chains.

Update round Access to Finance Survey
Despite this good news, our members' main concerns are still captured in the attached November 2013 submission. In addition, as is so often the case round issues where confidence plays such an important role, there are reasons to be cautious according to the Access to Finance Survey we are currently running across our member associations. Three associations have reported so far. Based on that sample (102 companies, 94% of them SMEs) we see:

- Two in five companies (39%) believing that the recent broadly reported economic pick-up isn't matched by their own performance (this coincides with anecdotal feedback we've had from some sub-sectors that January started more slowly than had been expected)
- Very few companies (6-7%) have noted any improvement at all in the cost or availability of credit while 28% haven't seen any change
- Half the sample 52% aren't seeking credit, which suggests some constraint on investment
- The good news on investment is that 35% say they expect to invest more in 2014 than 2013
- However, 58% think investment this year will continue at the same level as last year, 7% that it will decline.

From our perspective therefore manufacturing investment, particularly in productive capacity and access to finance remain vital for our sector and for UK competitiveness.

Investment
You may recall the UK is ranked 16th on the *EU Member States Competitiveness Industrial Performance Scoreboard.* This is far too low for a country aiming to increase its exports and attract inward investors to use it as a competitive manufacturing base.

Last year, we welcomed your decision to increase the Annual Investment Allowance ten-fold. Unfortunately at the same time as this encouragement was offered, a mixed message was sent to capital intensive, long term investors as the write down rate on the general pool was reduced to 18%, a much less generous rate than that offered by competitor manufacturing countries elsewhere in the EU (e.g. France and Germany).

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Many major companies have been holding off on their investments. Some may be waiting to see the outcome of the European Elections and the vote on Scottish Independence before deciding whether they'll get a better return here than elsewhere.

We've received plenty of anecdotal evidence that the combination of AIA, R&D tax credits and patent box has made the UK competitive with other EU alternatives in the perception of many UK 'Board Rooms'. Our contention is that to be more than just competitive, the UK has to sell itself as the long term answer for major assets that will be designed to be operational for 15-30 years and where the investment environment will continue to encourage upgrading and investments over that period.

To meet that competitive challenge we urge you to consider:

- a long term commitment to the AIA at least at its current £250,000 rate, backed by
- a much more detailed analysis of the benefits the economy will derive from a substantive increase both in the AIA and in the write down rate in the form of long term investments creating long term jobs.

Research and development

R&D is vital to the manufacturing base and the UK needs to improve its ability to test and commercialise innovation, not only for the larger companies but also for SMEs with their vital roles in supporting UK supply chains for successful sectors such as automotive, aerospace and oil and gas.

- Make it easier (less expensive) for SMEs to take part in leading innovation-focused organisations such as the Technology Strategy Board (TSB) and the Catapult Centres.
- Extend TSB funded projects to cover the pre-production phase so that a proportion of the customers' costs associated with testing and evaluating prototypes or demonstrators supplied by SMEs can be covered (e.g. agricultural machinery for a low carbon future).
- The total budget for this would be limited (say to £30 million). Projects would be approved in a twice yearly competition

Exporting

If the UK is to double its exports by 2020 to £1 trillion and 100,000 extra SMEs are to help in that by becoming exporters, the incentives to export have to help the SME owner manager overcome some strong reasons not to risk it.

Basically the three main imponderables for an SME exporting for the first time are:

1. the cost of sales in export markets is usually much higher than in the home market (e.g. cost of delivery, translation and maybe some local adaptation)
2. the sales price is often reduced by the local competition in the export market
3. exchange rates.

Having learnt how to deal with them successfully in one market, the premise is that it will be somewhat easier for the company to tackle the next foreign market.

For that reason we suggest the following as a way to help break the 'first move' inertia:

- HM Treasury to 'test' the concept of offering a tax credit on certain export sales (e.g. SMEs, one contract, new to export, in excess of £25,000)
- consider setting a three-year rolling cycle of activity focused specifically on raising exports in markets agreed with business so that export partners can plan activities in line with local capital equipment procurement practice, rather than according to HMG's budgeting cycle.

Two other concerns that haunt some firms exporting for the first time are:

- a lack of sector specific market intelligence and the costs associated with obtaining it - even through UKTI and the OMIS scheme which for many is too broad based
- the generic nature of the outward missions to target markets – what SMEs need is a tailored approach that get's them in front of potential customers.

Both of these issues could be resolved through better use of trade associations (TAs) and their specialised knowledge of their sectors' supply chain strengths. As 'multipliers, TAs could be paid to undertake sector specific market studies and outward missions for their sector. All funded data and market intelligence should of course also be shared with BIS and UKTI in return for their support.

This would tie in well with the development of a three-year cycle focused on the foreign markets' local equipment procurement practices.

The Business Bank and start-ups
One of the conundrums for many SME owner managers about the Business Bank, is what do we need a Business Bank for if it isn't to help grow and develop new businesses that the banks have failed to serve satisfactorily, e.g. start-ups and new SME innovation-based firms and exporters.

There are several ways it might help in this.

- Direct intervention with the Business Bank lending to SMEs, up to a reasonable limit on a 2:1 funding basis (e.g. £100,000 from those setting the business up and £50,000 from the Business Bank).
- The Business Bank could help to underwrite an insurance scheme where start-up entrepreneurs could guarantee to buy back equity in the business at a specific price before a defined date.
- Encourage *Start-Ups Loans* to consider more loans to the higher end of their 'bracket' and promote this availability to putative manufacturers for use as a deposit and a way to get access to professional mentors who understand the business sector.

Access to finance
For the SME searching for a financial solution there are many, many schemes available through the banks, UKEF and other sources -- perhaps even too many to be easily understood. Everyone would agree that the whole landscape needs to be better sign-posted for the uninitiated.

However, from the SME owner-manager with a capital intensive factory it would also be helpful when looking at the different banks and their offer to understand what products they have been providing to which types of company by size and by sector.

Such an approach might be extended to increase overall transparency across the banking sector to include data on the number of loans made on a quarterly basis to SMEs in different sectors, the number of foreclosures, accounts where changed terms were enforced etc.

Increasing transparency would help the banks re-build confidence, and ultimately hopefully trust, in sectors where scepticism about the banks and their behaviour is rife.

Slow growth affects investment in skills
We welcome many of the government's skills initiatives in principle (e.g. Employer Ownership Pilots) but find the deadlines for competitive bids too short to string groups of SMEs together, given all the pressure on them at this time.

Slow overall growth masks erratic performance in the real economy. When healthy order levels fall away before building again, one of the key challenges for the company concerned is how to maintain the skilled workforce. It would help many SMEs committed to developing the skills of their people if you could revisit short-time working allied to skills training. As you know this is a feature of the employment scene elsewhere (e.g. Wales and Germany) and enables firms both to nurture and to sustain the skills in their workforce so that they can respond that much more quickly as the economic uplift comes though.

Importantly it would also mean that those companies are less likely to lose their investment in skills so readily when the next down-turn comes. In summary it helps take out some of the risk.

Prompt payment as the enemy of supply chain investment
Delayed payment and extended terms unilaterally imposed by big company customers are a particular source of frustration and ire for many of our members, because such commercial sharp practice forces SME suppliers to take on extra finance and its associated costs to cover the resulting gap in cash flow. In effect, they become a source of 'free' money for their customers, simply because the customer has the muscle and the gall to impose such terms.

But it does absolutely nothing to help SMEs to strengthen their supply chain capabilities and invest. In fact in many cases the contrary.

As the economy picks up, suppliers need to ensure they don't 'over trade', that they have the cash flow to meet their obligations to their material suppliers etc.

We therefore welcome the government's and the Institute of Credit Management's efforts to help restrain some of the wilder practices and bring more order to the payment cycle.

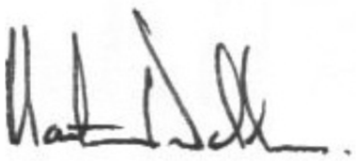
As you know, the issue is not easy to resolve; it's hedged about with innumerable opportunities for customer and supplier to credibly disagree terms.

Nonetheless, we suggest government can take a lead in setting a change of tone to nudge companies into better practice that will strengthen SMEs and the supply chains they serve:

- government to use its powers in procurement to pay promptly and to insist that in those circumstances companies further down the supply chain should be paid to the same timetable
- government to encourage supply chains to develop supply chain payment standards that serve the whole interests of all the companies in the chain to meet their particular needs. Companies then report in their annual reviews under corporate responsibility how they perform against those standards.

With best wishes

Yours sincerely



(signed electronically 14 February 2014)

Martin Walder
Chairman

cc Rt Hon Michael Fallon MP – Minister of State, BIS
Lord Livingston – Minister of State, BIS
Matthew Ahmed, Matthew Gill, Claire Wren, HMT
Brian Greenwood, Ivan Youd – BIS
Janet Tingle, UKTI
Member associations

Attachment: EAMA Autumn Statement Submission (for reference)

Engineering and Machinery Alliance

Engineering and Machinery Alliance -- Autumn Statement Submission

1 Background – EAMA and the sector

Typically, our companies supply 'enabling technologies' to other sectors (e.g. automotive, aerospace, medical, power, printing and food industries) in the form of machinery or packages combining services and products. Much but by no means all of this is carried out by small and medium sized niche or specialist firms (SMEs) -- innovative, entrepreneurial companies pushing the boundaries of factory performance, extending the envelope of the physically feasible to new levels in terms of speed, precision and migration into novel technologies and materials.

They account for about a fifth of the UK's mechanical engineering output, and according to HM Customs' data, sector exports account for about 70% of sector sales.

We therefore share your commitment to grow the country's exports and investment, in plant, skills and innovation, as key priorities.

We welcomed many of the initiatives introduced over the last year, including the big increase in the Annual Investment Allowance, the reduction in Corporation Tax, the new products launched by UK Export Finance to support exporters' business overseas, the changes in the skills regime putting employers at the centre and the enhancements to the R&D Tax Credit for larger companies.

2 Current business environment

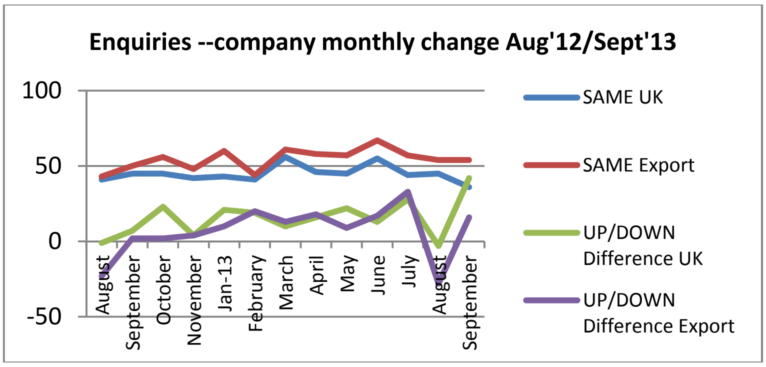
EAMA's view is informed by two main sources. First, the associations carry out a survey to monitor monthly changes in enquiries, orders, jobs, investment activity and access to finance and report the number of firms in terms of their performance this month compared with last month (i.e. up, down, same). These individual reports are then consolidated into a monthly report for the alliance as a whole.

Second, EAMA commissions a quarterly check covering UK mechanical engineering export performance over 451 different product categories as recorded by HMRC's export database.

In general terms, these data show a disappointing start to the year, with a relatively weak first quarter followed by a stronger Q2 and a promising Q3. The areas of concern remain access to finance and capital investment.

Enquiries

The monitor clearly shows similar patterns with the September rebound this year and last starting at near identical levels following summer weakness round the month of August. There's a strengthening trend visible through the year. We anticipate it will continue through Q4 and into next year.



Averaging the running three-month returns shows how the Q3 numbers continue the encouraging and positive trend seen in earlier quarters:

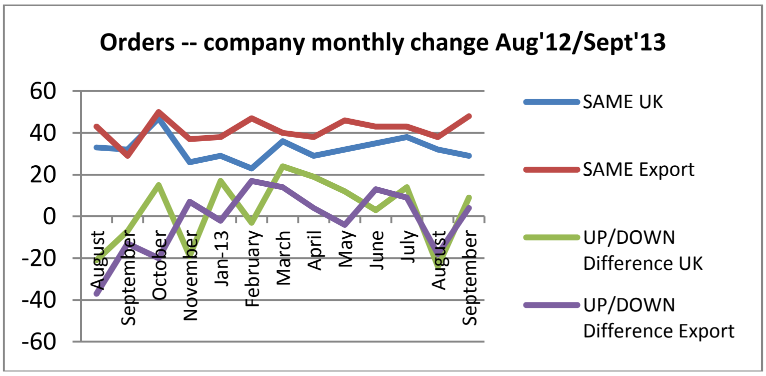
- Q1 average monthly balances UK +17 Export +14
- Q2 average monthly balances UK +17 Export +15
- Q3 average monthly balances UK +22 Export +7

Orders
In September, companies reported significant improvements in orders with month on month gains in the number of companies reporting orders up and significantly fewer companies reporting orders down. This produced small but important positive balances for UK orders (+9) and exports (+4).

However, these weren't sufficient to produce positive balances for the third quarter. But those numbers should be taken in context -- they are substantially better than Q3 2012 returns (-10 and -17 for UK and export business respectively).

- Q1 order balances UK +13 Export +10
- Q2 order balances UK +11 Export +4
- Q3 order balances UK 0 Export -2

Although not as strong as for enquiries, the Monitor shows an improving trend for UK and export orders over the last 14 months.



Mechanical engineering growing exports
After growing 18% in 2011 to £27.8 billion (out of total sales according to ONS of £38.6 billion), exports advanced just under 4% in 2012 and started disappointingly in 2013. Nonetheless, by the end of June total mechanical engineering exports for the first half of the year were up 1% on the first six months 2012 after a 4% improvement in the second quarter.

In 2012, UK's top ten mechanical engineering export markets accounted for 55% of total sector exports but only included two EU member states (plus Norway). Overall the EU member states took a third of all sector exports and the six markets, BRICs plus Singapore and Hong Kong, took a further 18% and were all in the sector's top 25 out of a total of 212 different markets.

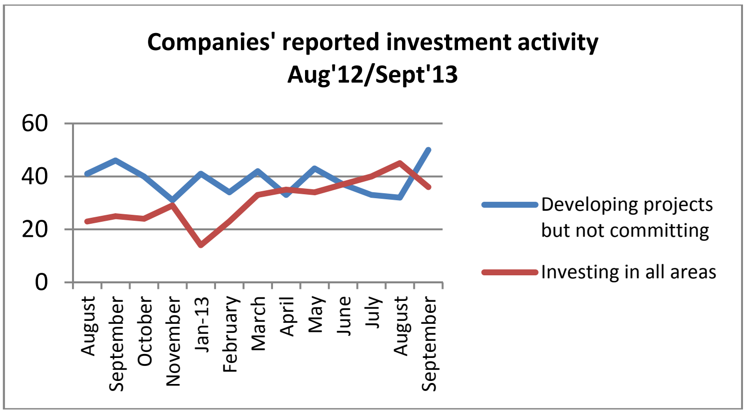
Jobs
Companies continue to take people on, but the positive balance between recruiters and job shedders has narrowed a little in the last 14 months from a +20 monthly average in Q3 last year to +15 in Q3 in 2013.

Investment
According to the EAMA Monitor investment activity weakened in September with 57% saying they were holding off for the moment (50% developing projects but not committing and 7% plans deferred).

Nonetheless the running three-month Q3 average of 40% saying they or their customers are investing in all areas of the business confirms a strengthening trend over the year, starting it seems coincidently with the increase in the Annual Investment Allowance (January 2013) and also compares favourably with third quarter monthly averages in earlier years:

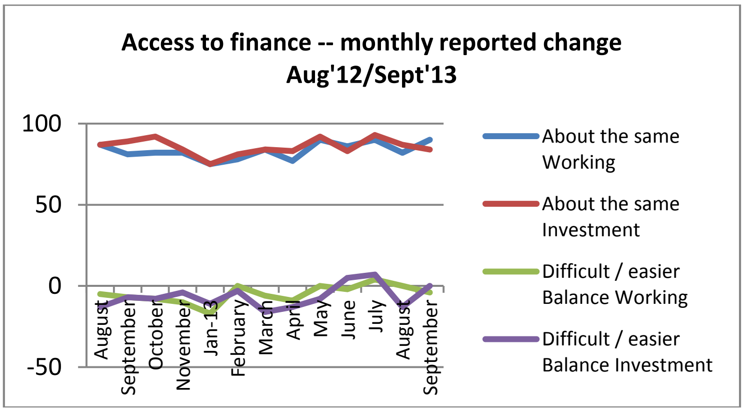
- Q1 % investing in all areas: 23
- Q2 % investing in all areas: 35
- Q3 % investing in all areas: 40

- Q3 2012 % investing in all areas: 29
- Q3 2011 % investing in all areas: 38
- Q3 2010 % investing in all areas: 37



Access to finance
There's been little change from an SME perspective when it comes to access to finance, although there are some statistical improvements, which tend to be recorded by the high precision/high tech sectors. Comparison on a running three-month average shows this modest improvement pretty clearly.

- Q1 working capital -8 investment capital -10
- Q2 working capital -4 investment capital -5
- Q3 working capital 0 investment capital -2



Confidence
The latest confidence numbers show a balance of +34 raising the three-month average to +26. That's the highest third quarter confidence reading we've seen for a very long time. A year ago the economic situation was more uncertain and the average balance was -8.

Companies however, are still reluctant to invest. The banks point out that overall, SMEs have only used about half their agreed overdraft facilities, leaving £15 billion untouched. Our view is that our member firms don't want to expose their firms to any unnecessary risks. They've gone through five tough years, in many cases adapting their business plans under extreme time and financial pressure. They want to see stable, concerted economic growth on which they can depend and build further before they invest more broadly.

3 UK competitiveness in an EU context

Six pointers from the EU's 2013 *Member States Competitiveness Industrial Performance Scoreboard*:

1. In the decade to 2010 UK labour productivity gains in industry ranked 16th in the EU (but 7th in services).
2. UK scores well on many research and innovation indicators and this is despite the fact that it suffers from the disadvantage of a lower than EU average R&D spend as a % GDP.
3. While the UK performs much better than the EU average in terms of tertiary education (as in the number of 30-34 year olds with a degree, 46% vs 35% for the average) it underperforms in early school leaving and has a relatively high number of adults with low basic skills so there's a shortage of workers with good vocational/technical skills.

4. The drop in the value of Sterling hasn't led to an increase in exports.
5. SMEs still report problems accessing credit and the conditions for credit are worse than in other EU countries. In particular the interest rate differential between larger and smaller loans is high.
6. It would seem that the credit flow is improving but so far the beneficiaries have been large companies and the real estate sector. Industrial SMEs continue to report difficulties.

The problems in the UK's industrial competitiveness are reflected in the persistent trade deficits. To tackle these we also have to tackle the infrastructure bottlenecks, the lack of skills and difficulties round SME financing.

Government can't control all of this, but it would have a greater chance of strengthening manufacturers' particularly SME owner-managers' confidence, if it promotes the longer term economic direction more consistently across all aspects of government policy with regard to infrastructure, energy, transport and manufacturing.

4 Current perspectives -- SME owner managers and others

From our perspective, the apparent good economic news masks some issues that are currently 'snagging' what would otherwise be expected to be a free flowing pick-up in economic development in terms of capital investment and growing exports.

- Access to finance hasn't become significantly easier/cheaper over the last 12 months -- do the banks look as though they are really going to take a different approach with our business?
- How to manage cash flow, when the increase in business can so easily lead to over-trading or missed business opportunities?
- How do I deal with our bank after the 'near death' experience in 2008?
- Big companies are sitting on a corporate cash pile of £160 - £500 billion – why aren't they investing?
- What does the two year delay in business rate revaluation mean for our business?
- How best to deal with the significantly shorter manufacturing machinery life cycles and the additional training that's required to ensure success? Important improvements are introduced every few years so that 'replacement' is now up for consideration every five to seven years.

5 Policy recommendations

Taxation, capital allowances and investment

The UK's capital allowance regime has chopped and changed over the last 14 years making investment planning more complex and in essence encouraging a short-term approach, rather than the strategic, rolling investment programme that enables manufacturers to knit together changing technology and workforce skills requirements in a coherent plan.

- The UK has invested less in high technology manufacturing machinery with knock-on, lower demand for school leavers and graduates with STEM skills to design, maintain and operate such machines.
- As a result, UK factories are underinvested compared with the high value adding automated producers in Europe, USA and Japan.
- Increasingly they face a threat from newly automating countries such as India and China.

Your decision last year to increase the Annual Investment Allowance to £250,000 was very welcome. Our Business Monitor returns show a coincidental improvement in investment activity, but that change has not been universal.

Nonetheless, member firms big enough to consider placing their R&D activities in competing tax jurisdictions offering significant incentives say the UK's combination of lower Corporation Tax, Annual Investment Allowance, R&D Tax Credits and Patent Box makes the country the equal of any other in Europe.

If Britain is to remain competitive in attracting long term investment it logically should structure its regime accordingly so that companies can rely on a stable, investment friendly regime. That way manufacturers will be able to plan their next replacement cycle as part of a longer term commitment to the UK and to other companies in their supply chain, encouraging them to invest alongside them.

Investment allowances
The Annual Investment Allowance currently at £250,000 is due to be withdrawn at the end of December 2014. But manufacturing investment has to be continuous to improve performance and efficiency. Withdrawal will make it look as though the UK isn't committed to SME capital investment in manufacturing. It would be another example of why the UK lags in this area compared to our European competitors.

The single largest barrier to investment in new technology is the failure of the tax system to adequately recognise its importance. Many say an Annual Investment Allowance of £250,000 is simply not adequate for any company in advanced manufacturing.

In addition, the present rate of write down (18% general pool on a reducing balance) on expenditure above £250,000 is lower than that available in competitor economies – and does not reflect the relatively short life cycle of much modern high tech equipment. This is therefore a negative for larger firms considering investing here or in another EU member state. If they are able to write off their investment quicker elsewhere that's a good reason to go there.

Recommendations
- The AIA should become an enduring feature of the UK's business friendly environment.
- If government is unable to raise AIA limits at the moment due to budgetary pressures, the Chancellor could still indicate his intention to maintain the strong and positive regime currently in place rather than withdrawing the AIA.

Research and Development
The R&D Tax Credit is an absolutely invaluable support for high tech or research-based start-ups, not only helping them through the early years when they are loss making with payments that can be used on company operations but then in later years continuing to encourage innovation.

It is a very important lever and without it, it is difficult to see how such companies would be able to make their way in the UK.

Recommendations
- To grow its manufacturing base, the UK needs to improve its ability to test and commercialise innovation, not only from the larger companies but also for SMEs.
    - Make it easier (less expensive) for SMEs to take part in leading innovation-focused organisations such as the Technology Strategy Board (TSB) and the Catapult Centres.
    - Extend TSB funded projects to cover the pre-production phase so that a proportion of the customers' costs associated with testing and evaluating prototypes or demonstrators supplied by SMEs can be covered (e.g. agricultural machinery for a low carbon future).
    - The total budget for this would be limited (say to £30 million). Projects would be approved in a twice yearly competition.

Tax policy
Improvements in logistics mean that firms use just-in-time (JiT) techniques to reduce stock levels to the minimum necessary. Indeed it's one of the reasons some supply manufacturing is coming back to the UK. Using a UK supplier cuts the time needed to adapt to any changes in specification or quantity.

Recommendations
But there's a tax wrinkle that cuts across this when the contracts are added to 'forward' sales for Corporation Tax purposes before they have been paid for.
- A technical amendment to accounting standard FRS 5 could help firms servicing JiT contracts by excluding work in progress and stocks from 'forward' sales and Corporation Tax liability until after the goods have been paid for.

Exporting
The increase in UKTI's budget to support further work on the trade side is welcome, as are the new financial products from UK Export Finance (UKEF), albeit the thresholds are often too high for SME exporters (e.g. contract minimum of £5 million for the latest direct funding support).

However, UKEF has sought to lower some of these hurdles for SMEs, softening the boundary edges, so that for the moment we would prefer to focus on an equal or even greater need, if the UK is to succeed in getting an extra 100,000 firms exporting and double the country's exports to £1 trillion a year by 2020 in the process -- how to break through SMEs' diffidence about exporting.

The three main imponderables for an SME exporting for the first time are:

4. The cost of sales in export markets is usually much higher than in the home market (e.g. cost of delivery, translation and maybe some local adaptation)
5. The sales price is often reduced by the local competition in the export market.
6. Exchange rates.

Having learnt how to deal with them successfully in one market, it's somewhat easier to tackle the next.

Recommendations

- HM Treasury to 'test' the concept of offering a tax credit on certain export sales (e.g. SMEs, one contract, new to export, in excess of £25,000)
- Consider setting a three-year rolling cycle of activity focused specifically on raising exports in markets agreed with business so that export partners can plan activities in line with local capital equipment procurement practice, rather than according to HMG's budgeting cycle.

Trade shows

Prestige events with the great and the good promoting UK capability are important, but when an exporter is looking to develop and sustain a relationship of trust with the production director or factory manager, that exporter needs a different type of support to foster that relationship.

The crucial step to facilitating this type of diversity is to set up an export agency exclusively focused on exporting with a policy framework that's flexible enough to: encourage different sectors (e.g. consumer, investment and industrial goods producers) to tackle what they see as their most prospective markets, provide sensible exhibition and seminar support, advice and guidance (i.e. no open cheque book), so that firms taking advantage of government support are vetted to ensure that they are able to make the most of the opportunities (e.g. at a trade show).

Recommendations

- The UK needs a national agency that champions UK exports and exporters.
- To match the best in the world this agency should be totally separate from inward investment activities and staff so that it can champion services such as finance packages for overseas customers purchasing UK goods.
- The regime should be far simpler, run with a national focus, and sectoral expertise.
- Companies should be supported when they show commitment and proper preparation.

Access to finance

Access to finance and the Business Bank

The banking industry generally regards SMEs as presenting a higher credit risk than their bigger corporate counterparts. As a result banks are required to hold approximately twice the amount of risk weighted assets against an SME loan compared with one for a big company. This appears to be without regard to the sector the SME is in or the type and credit worthiness of the clients it services. Basel applies equally to asset finance and to loans. And as we understand it HMG's requirements go even further in terms of the demands placed on UK banks.

The banks offer important ready-made distribution channels. But there's been little innovation in their product offering for SMEs. They continue to prefer to resort to traditional methods – e.g. taking liens on a house or other asset as a guarantee in case of failure. And on closer inspection even the challenger banks turn out to be new branding on former operations using systems and offering products little changed from previous operators (e.g. Aldermore out of ING Lease).

What do we need the Business Bank for if it isn't to help grow and develop new businesses where the established banks haven't been successful enough so far.

Recommendation

- Direct intervention by the Business Bank with lending to SMEs, up to a reasonable limit on a 2:1 funding basis (e.g. £100,000 from those setting the business up and £50,000 from the Business Bank).

Start-ups

Government policy objectives include the creation of new high tech manufacturing companies capable of exporting to new and developing markets.

Our experience in this area is limited, but where we have had feedback it has been negative in contrast to other areas (e.g. R&D Tax Credits and the latest Skills policies).

The current offerings for start-ups we believe will help service firms but not companies that are going to invest in machinery and skills to make things and export them. Here are some sample issues:

Current environment	What a start-up manufacturer needs
• Banks' bias is to offer equity financing as the route for manufacturers to get off the ground, or to take the principals' 'houses' as a guarantee	• Having put their own money into the start-up for its longer term development, owner-managers don't want to lose ownership through the sale of equity to a third party
• Various government schemes offer about £13.000 all told	• That's about 10% of what's needed to set up even a micro manufacturing operation
• VAT payments can no longer be delayed	• Buying a machine (£100-400,000) lands the firm with a VAT bill months before it's able to invoice clients let alone receive payment

Start-up finance as currently offered by 'Start-up Loans' (www.startuploans.co.uk) are personal loans (typically £6,000 but up to a theoretical maximum of £25,000 plus a mentor). We can imagine these facilities being helpful to early stage micro manufacturers in a pre-seed finance stage where they need help in pulling together a serious business plan, or with £25,000 made available helping with the deposit on the first machine.

Recommendations

- It would be helpful if HMRC could be flexible about start-ups' VAT payments
- The Business Bank could help to underwrite an insurance scheme where start-up entrepreneurs could guarantee to buy back equity in the business at a specific price before a defined date.
- Encourage Start-Ups Loans to consider more loans to the higher end of their 'bracket' and promote this availability to putative manufacturers for use as a deposit and a way to get access to professional mentors who understand the business sector.

Business rates

As you know business rates revaluation scheduled for this year has been delayed to 2015, so that the new regime won't come into force until 2017, meaning that firms are continuing to pay their taxes based on values that are completely unrelated to current rents.

Indeed firms report wanting to expand to new premises are being put off because the rates attached to the properties in question are equal to the annual rent (rather than 42p in the £) which hobbles the growth plans.

Some others report eye-watering increases over two years (e.g. from £90,000 to £140,000) effectively slicing 40% out of the firm's £120,000 profit for the year.) In the case cited the firm's options are between recording a lower profit for the year (and reduced scope for the years ahead) and reducing staff numbers to leave funds for possible investment in the year ahead.

Recommendation

- Rate reviews for firms moving to larger premises.

Energy
Our members aren't energy intensive users.

Nonetheless the recent price increases are cause for concern on two counts. They affect members' bottom line directly as well as the costs of raw materials in the UK and therefore the international competitiveness of companies who are their customers.

Five years' ago, energy on average was 4% of production costs. Today it's 5-6%. That change eats into their bottom line and is another cause of uncertainty – keep in mind many SMEs' margins are around 5-8% and some of those increases are unique to the UK, e.g. the Carbon Price Floor.

Recommendation

- Ensure that UK industrial energy prices and the framework that governs them are at least competitive with our European competitors.

Late payment
We welcome the government's action on fair and prompt payment. We intend to see how closely the code is followed.