8 March 2013

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

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

The Engineering and Machinery Alliance (EAMA), representing 1,400 companies, mostly mechanical engineering SMEs selling £6.5 billion into UK and overseas supply chains, welcomed your Autumn Statement.

Two measures were of particular interest: the increase in the Annual Investment Allowance to £250,000 and UK Export Finance's proposed offering to overseas' purchasers of UK manufactured goods.

The current situation

It's too early to say with any certainty whether AIA's new terms are hitting the mark. Our January Business Monitor produced very mixed results:

- UK and overseas enquiries were up (with balances of +21 and +10 respectively compared to the previous running three-month averages of +11 and +3)
- But reported investment activity was down with only 28% of firms undertaking some form of investment, including training, (compared with the three-month running average of 41%)
- The jobs balance was also very disappointing with more firms reporting reductions than increases for the first time since November 2009.

Future outlook

Confidence remains positive for many firms (a balance of +12% according to one of our member associations between companies reporting growing and falling confidence levels. But clearly uncertainties abound, exacerbated as far as supply chain SMEs are concerned by OEMs/large companies' decisions to maintain/build their financial reserves rather than invest in growing their UK capacity or activities, which of itself would 'pull through' investment by our members.

At the moment, and despite government's laudable best intentions, some OEMs persist in demanding excessive credit terms (120-170 days) and then offer earlier payment against discounts. However unpalatable we may find such behaviour it's a very brave (some would say foolish) supplier who will 'shop' his customer. This has a cancerous impact down the supply chain and ultimately may infect other worthwhile initiatives aimed at improving UK supply chain performance. That's why we continue to recommend the need for a cultural shift where payment terms are either backed by the law (viz Germany' two weeks) or default impacts the company's credit rating (viz the USA).

For our members the key to unlock activity and growth is to get the big companies investing in energy, infrastructure, construction and manufacturing capacity. Our supply chain firms will follow suit with renewed vigour and confidence.

As a result I can keep this Budget letter short with reference to other items.

Exporting

In the autumn, you also announced some other very welcome changes, e.g. increases in UKTI's export support budget, but the details of the new UKEF's new products are still awaited.

It's important because it could put UK companies on a par at least with EU competitors from countries like Germany, France and Italy. The longer the delays the less impact these important measures can have at this crucial time.

We understand there are state aid clearances to be sought which may be more difficult for the UK to achieve as a 'late comer'. We hope however, that the limitations round contract size may if possible be flexed so that a similar proportion of UK firms' contracts will be eligible compared to the business written by French or German firms where there's a larger number of bigger firms signing larger contracts compared to the UK (i.e. thus reducing the currently mooted £2 million minimum threshold to £1 million for example).

The Business Bank and start-ups
We hear a great deal from government about supporting start-ups and entrepreneurship. And there are some schemes providing important support for service type firms (e.g. with sums between £3,000 and £7,000). But they don't 'hack it' for entrepreneurs setting up asset-heavy manufacturing companies.

As you know, banks are no longer competing so hard in the business loan business unless there's ample security (e.g. a house).

The Business Growth Fund is excellent, but its focus is on helping existing companies to grow, not to fertilise the start-up.

Venture capitalists dynamic contributions are better suited to relatively fast moving high technology companies, not companies in mainstream sectors where the bulk of manufacturing growth and money is to be made and there is plenty of scope for more efficient, innovative new entrants.

It is therefore disappointing to learn the Business Bank's immediate focus is going to be on existing businesses. While of course we welcome all initiatives that increase competition in the supply of finance, we believe UK isn't competitive when it comes to finance for manufacturing start-ups. We urge you to compare what's available here with other EU member states and countries growing their manufacturing base such as South Korea.

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.

With best wishes

Yours sincerely

(signed electronically 8 March 2013)

Martin Walder
Chairman

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