



Business, Innovation and Skills Committee

Oral evidence: Government support for Business

HC 770–iv

Tuesday 9 December 2014

Ordered by the House of Commons to be published on 9 December 2014.

Witnesses including written evidence where submitted:

At 9.30am:

- Dr Adam Marshall, Executive Director of Policy and External Affairs, British Chambers of Commerce
- Lesley Batchelor OBE, Director General, The Institute of Export
- Simon Moore, International Director, Confederation of British Industry
- Matthew McDonnell, Managing Director, Resimac

At 10:15am

- Dr Julie Madigan MBE, Chief Executive, The Manufacturing Institute
- John Baragwanath OBE, Projects Director, Advanced Manufacturing Research Centre (AMRC)
- Peter Templeton, Director and Chief Executive Officer, Institute for Manufacturing
- Malcolm Evans, Chief Executive Officer, UK Manufacturing Accelerator

At 11:00am

- Nicola Bolton, Acting Managing Director, UK Trade and Industry (UKTI)
- David Godfrey, Chief Executive Officer, UK Export Finance (UKEF)
- Janice Munday, Director of Advanced Manufacturing and Services, Manufacturing Advisory Service
- Steven Barr, National Director, Manufacturing Advisory Service

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Members present: Mr Adrian Bailey (Chair), Mr William Bain, Mr Brian Binley, Paul Blomfield, Mike Crockart, Caroline Dinenage, Rebecca Harris, Ann McKechin, Mr Robin Walker

Questions 257-342

Witnesses: **Dr Adam Marshall**, Executive Director of Policy and External Affairs, British Chambers of Commerce, **Lesley Batchelor OBE**, Director General, The Institute of Export,

Simon Moore, International Director, Confederation of British Industry, and **Matthew McDonnell**, Managing Director, Resimac, gave evidence.

Q257 Chair: Good morning and thank you for agreeing to help us with our inquiry. Can I first of all just ask you to introduce yourselves for voice-transcription purposes, starting with you, Simon?

Simon Moore: I am Simon Moore, CBI International Director.

Dr Marshall: Adam Marshall, Executive Director at the British Chambers of Commerce.

Lesley Batchelor: Lesley Batchelor, Director General of the Institute of Export.

Matthew McDonnell: Matthew McDonnell, Director of Resimac Limited.

Chair: Thanks very much. We are tight on time. Whereas some questions will be person-specific, others will be to all of you, but please do not feel that you have to say something if the points that you would have said have been covered by the previous speaker. We will not think ill of you; in fact, we may even be profoundly grateful on certain occasions. I am going to start with a question to all. The Government has got a target of £1 trillion of exports by 2020. What have been the most effective schemes that it has introduced in the past five years to achieve that?

Lesley Batchelor: I would have to start off by saying the reinvigoration of UK Export Finance is probably the best thing they have done as far as constructive help for exports is concerned.

Chair: Other members, would you wish to either concur or demur?

Matthew McDonnell: Yes, I would like to. As a small manufacturer, the URICA scheme is an excellent scheme for small businesses looking to export worldwide. It helps the cash flow scenario within small businesses.

Chair: That is interesting. I believe that was reflected in the evidence we had from somebody on a previous occasion. Do you wish to add anything, Adam?

Dr Marshall: I would add the Overseas Business Networks initiative. This is where we are working in partnership with the FCO and UKTI to open chambers of commerce or business groups in 41 markets overseas. Quite a lot of companies want to have a business-to-business support network when they land in a country. We are the first European country to open a chamber of commerce, for example, in Myanmar following the political opening there.

Chair: Sorry, in where?

Dr Marshall: In Burma, in old money. We have got the largest business network in the Philippines as well. Being able to land in-country and have support on the ground is hugely important.

Chair: Simon, anything to add?

Simon Moore: Just two points, very briefly. I would like to concur with the last comment and draw attention particularly to the success in China and India. The initiatives in those two countries have been particularly successful. I would also draw the attention of the Committee to the GREAT campaign, which our members give us some very positive feedback on. I am particularly pleased to see the commitment to financing the GREAT campaign through the rest of this financial year and then increasing it for next year. My members have welcomed that initiative.

Q258 Ann McKechin: We have received evidence from some business groups suggesting that trade associations should be better utilised by UKTI, for example in the process of organising trade delegations in specialist sectors. What role do you see for industry to support itself as well as the Government in promoting industry abroad?

Dr Marshall: There is certainly a role for increased partnership between UKTI and various trade associations and business organisations. We have had a very fruitful partnership with them on the Overseas Business Networks work, and I know others have done the same. You have quite a lot of exporters who want the security of being able to access help either through a Government front door or through a business or trade association front door. Working in partnership allows you to do that, and it allows you, for example, if you are a member of a particular sectoral trade association, to use that trade association to get onto a trade fair or a delegation. Similarly, it allows you to use a chamber of commerce or any other business group. The no-wrong-front-door approach and more partnership between the Government agency and the private sector is always a good route forward.

Lesley Batchelor: I agree, but I do also think that UKTI should take a much firmer role as far as signposting is concerned rather than always trying to do the work themselves. They have now introduced a due diligence when they work with the trade associations and they have made it very complicated for the trade associations to work with them; they have to register. They are making it very onerous on each trade association to engage, which is unnecessary, to be quite honest.

Simon Moore: The UKTI initiative to focus on segments rather than focusing on geographies lends itself to this working quite well. It lends itself to trade associations having a more effective role. Linked to that, a very useful point to make is about the commercialisation of trade missions. Trade missions have tended to be quite ceremonial, and one of the pieces of feedback my members have given me is that much better commercial planning for those trade missions would make them more effective in delivery. There are a number of ways to do that, but one could well be to engage the trade associations more effectively.

Ann McKechin: At an earlier stage in terms of preparing.

Simon Moore: In the preparing stage. For me that is the critical point. If you prepare well, you get a better group of people going, you get better delivery and you get better commercial output on the mission itself. If you rely upon the mission itself to brief, I do not think it is as successful and you do not get such a good quality of people going. The trade associations are only part of that, but they are an important part of that.

Chair: Could I just intervene? That is a very interesting point you are making. Would you be able to amplify that in written evidence and perhaps quote one or two examples?

Simon Moore: I would be delighted to, Mr Chairman.

Q259 Paul Blomfield: I wonder, Matthew, if I could draw on your specific experience as somebody who has turned to Government support for exporting. I just wonder if you could talk us through your experience of that in terms of how easy it was to access, what the delivery was like and how useful it was to your company.

Matthew McDonnell: As a small business—we are only four years old—up until April of this year, cash flow was king. What dominates your life as a businessman is getting the cash in to buy more product to then sell to the world. About 75% of what we do is export. The problem with export is you have got extended credit terms to your customers. Fortunately, in March or April this year, we came across URICA, which is an online early-payment platform for export invoices. That has really transformed our business in that now, as a businessman, I am not sat there worrying about getting cash through the door to then fund more orders; it is already done for me through the URICA payment platform.

Q260 Paul Blomfield: You said that you “came across” it. We are interested in the process by which people in your position are made aware of or discover what is available out there. How did you come across it?

Matthew McDonnell: I came across it just on a Google search. As a business, we have been growing quite considerably. We started out with £150,000 turnover in 2010; by 2013 we were turning over £750,000 and this year we will do close to £1 million. The issue was how we got more cash in or released cash to fund more orders. I had had many banks and that type of thing through the door who could not help us, and so therefore, as a last throw of the dice, I looked through Google and came across the URICA payment platform on one of the searches, and then engaged with Ian Fitz-Harris and the team there. They have taken on board our eight largest export customers—we have 32 in all—and we get early payment on those invoices. As regards other Government schemes, as a small business survival is the number-one priority, and there seem to be too many people out there at the moment with Government assistance or backing from the Government. As a small business it would be a lot easier if there was maybe just one port of call.

Paul Blomfield: That is probably an area that we are going to come back to in some later questioning. I wonder if I could just bring Simon in, because that point that you were making about the randomness of stumbling across it on a Google search stimulated something he wanted to say.

Simon Moore: This question, Paul, touches on a really important area, which is the fact that UKTI and UKEF are often described as the best-kept secret of British Government for small and mid-sized businesses. The Minister at the CBI conference the other day talked about UKTI being like your mum; it will do anything for you and ask for nothing back. The difference is most people know who your mum is. It is quite a fun way of looking at the issue we are talking about here. One of the progress points that we want to draw to the attention of this Committee is better representation on the ground and the

fact there are more people representing those two organisations but it could go a lot further; it could be a lot more effective. Linked to that is the fact that UKTI and UKEF are not necessarily as joined up as they should be. Some of our members have said they have worked with UKTI for years but never heard of UKEF. You then get situations where companies have to search on Google to find solutions that UKEF can provide. I just wanted to answer that question in that broader context.

Q261 Paul Blomfield: I very much appreciate that. It takes me into another area that I would like to explore with you all. Awareness is apparently growing—the customer awareness survey that UKTI do suggests it has gone up from 51% to 65% over the last five years—but in the evidence we got from both small businesses, who often raise the issue, and from Lloyds, for example, there was exactly the point you are making, Simon, that awareness needs to grow further. What concrete actions do you think could be taken to encourage that to happen? Perhaps starting with you, Simon, but opening it up to others.

Simon Moore: The measure announced in the Autumn Statement to increase the budget for UKTI—I think £20 million is the number. What I am not certain is how much of that is going to be allocated to regional representation, but boots on the ground is probably one of the key parts of that. It is quite difficult for businesses, particularly outside London, to access UKTI if they do not have access to people.

Dr Marshall: Physical proximity often helps. In the West Midlands, for example, UKTI international trade advisers are embedded very closely with chambers of commerce. That co-location of experts helps a huge amount, because it means in your locality you have immediate access to some of the support schemes that are available. We would like to see increasing co-location. We are working very closely with UKEF, and I have to say I laud them for getting back into the SME market and for persisting. Stephen Green, when he was Trade Minister, was fond of saying international trade is a marathon, not a sprint. The same goes for export finance. It is going to take UKEF a long time to build itself back up, but awareness is growing, and in part it is growing because you have got UKEF advisers making appearances at regional chambers of commerce and other business organisations so that more and more businesses can get exposed to the sorts of products they provide. One other thing that is a technical thing that could help is the ability sometimes to dual-brand or white-label specific schemes. Branding is an issue and a concern for some, and in some places we hear that business organisations would like the ability to say, “Look, we are doing this together with a Government organisation and we would like to brand it together with a Government organisation”. Again, that can increase business attention as well.

Q262 Mr Binley: I am particularly interested in what Mr McDonnell said about aged debt, which destroys more businesses than almost anything else. What was your average aged debt length before you went to URICA and how has that changed?

Matthew McDonnell: To export, you have to give extended credit terms. On average we were giving 60 days date-of-invoice and in some cases 60 days end-of-month.

Mr Binley: That is a lot of drag, is it not?

Matthew McDonnell: It is. We are buying in the UK; our unique selling point is it is all British-manufactured products. Your UK suppliers will not give you more than 30

or 45 days date-of-invoice, so there was a big gap between paying your suppliers and getting the money in. That issue has gone now. We buy the materials in the UK, we supply them to our export customers and then we upload the invoice onto the URICA payment platform and get payment within seven days. The URICA payment platform then offers 90 days' credit to our export customer.

Mr Binley: I am grateful to you.

Q263 Paul Blomfield: I just wonder if Lesley and Matthew might have further thoughts.

Lesley Batchelor: I do have some points I would like to make. UKTI are doing a great job and UK Export Finance do. UKTI's delivery is through various delivery partners, and that sometimes mixes the messages that they have as far as their representation in the marketplace is concerned. You will find that there are at least nine different partners that they work with for employing their international trade advisers, and it causes confusion in the marketplace. They do have people in UK Export Finance who are in situ with these organisations, but it is a mixed message all the time so it is not a central point. I also think that the money that they spend on the advertising and the work that they do—forgive me, because I am from a marketing background—is very poor indeed. I would have to say the message is not clear as to what I am supposed to do.

Paul Blomfield: Poor in the sense that it is inadequate or poorly spent?

Lesley Batchelor: Poorly spent. The messaging that comes through from, say, for instance, the GREAT British campaign, which is sort of a good idea, not only decimates our national flag, which nobody else seems to quite understand as a country that we do—it is not culturally anything any of the other countries would do—but also does not make it clear what you are supposed to be doing. Those great case studies are there; what am I supposed to be doing with this information? There is no call to action there and it is an important thing that they ought to take on board.

Dr Marshall: If I may, I would distinguish between the GREAT campaign overseas and the GREAT campaign in the UK. The GREAT campaign overseas is a great selling tool for this country. I share Lesley's concern, which is in the UK it effectively becomes quite a lot of billboards and local newspaper advertisements for Government-provided services and you are not clear exactly what the service is, as you say, and the message is not clear.

Lesley Batchelor: Or what to do.

Dr Marshall: There would be some questions about the millions being spent in the UK on that campaign.

Q264 Paul Blomfield: Matthew, you opened up this line of questioning on the basis of your experience of stumbling across something that has been critical to your business. How could that have been made better? What could be done to increase awareness for other small businesses?

Matthew McDonnell: It is fantastic that there is all this support out there for small companies like us. My issue is it is too fragmented. As a small business, you are the chief cook and bottle washer at the same time. Time is an issue. You could have 10 or 15 people come in a month saying, "I have got Government backing. I have got this money," when really as a small business what you want is one port of call. You want one person. Whether that is UKTI or the Manufacturing Advisory Service or whoever it may be, it would be a lot easier as a small business owner if I could go to one person and have a relationship with that person and say, "This is what I want to do. Can you help me?"

Paul Blomfield: Thanks very much. I am sure that is an issue we are coming back to.

Q265 Mr Walker: Lesley, you praised UKEF. We heard last week from Norton Motorcycles, who were very positive about some of their programmes. Where do you think they have been most successful? Which products do you think are the most effective of UKEF's?

Lesley Batchelor: Some of the most effective things have not really been given a chance to get into the market yet. If I may, I will just put that proviso in there, because we are expecting a huge take-up on things that are trying to work with banks, so they very much have their hands tied behind their backs. The working capital scheme they have got is very effective. It endorses what Matthew is saying: that it is very needed out there. When you are dealing in international trade, the export sales cycle is longer and people do not always appreciate what they are getting into when they start on that process. I would say the working capital, but I know because we work with them that they have got a whole programme of new products that are going to be very useful to exporters that are coming through. I am sure they will share them with you, but we know that we are working with them on those for small businesses as well.

Dr Marshall: I would also laud UKEF. Both David Godfrey and his predecessor, Patrick Crawford, in coming back to the SME market took on an enormous task and faced Ministers who want results yesterday when it is a 20-to-30-year build in this area. There are two other schemes that I would add that are of particular use. The contract bonds scheme has not had a huge amount of take-up yet, but where it does it enables a small or medium-sized business very often to unlock Government business overseas, where they require some form of contract or performance bond ahead of time. The second I would highlight is around short-term trade credit insurance. When the big commercial companies pulled cover for markets like Greece and Libya, for example, due to conflicts and for other reasons, and UKEF were able to step in with an offer of their own, we had what the Germans, the French, the Dutch, the Spanish and others have always benefitted from, so our exporters were not immediately disadvantaged by a lack of market cover. Having all of these products on the table is hugely important. Our big call is to resist changing them or taking them off the table again. The Germans have 15 or 20. Some of them are very little used but they are always there. When there is a downturn or a market issue, they are always available. The same thing has to happen with our export credit agency if it is going to continue to be really used and appreciated by our businesses.

Chair: I am not going to ask you to outline exactly each scheme at the moment, but we will research that in our report. It would be helpful perhaps if you could send us some

further written evidence of what elements of those schemes address specific demands from business. Just spell it out in some detail.

Lesley Batchelor: If I may, just to clarify a couple of things, UK Export Finance do work where market failure happens. We have to bear that in mind as well, because you have got to have a bank that says, “I will not do this” and the banks will hold on to it for as long as possible before they will give in, as it were, and say, “Actually, we cannot do this any longer”. There is a very important point there that they are trying to work through those intermediaries.

Q266 Mr Walker: I was going to ask about that. The URICA example that you brought in earlier seems to be an example where there is not market failure; there is now a business in the market from an alternative finance actor that is meeting a demand there. Does that mean if that continues to grow that that will be an area that UKEF could withdraw from?

Lesley Batchelor: I suppose strictly speaking they could do. What Matthew is really talking about is invoice discounting, which is not where UK Export Finance are working. When you get into the field of international trade, you are talking about bonds and guarantees, which very often are relevant to governance, and markets that are very sensitive or where it is very difficult to find finance. It is very difficult to find A-class banks in those countries and it is very difficult to find people who will support those banks. One of the things we do as the Institute of Export is to try to train people and teach people about the differences—about the risks and how you are going to get paid internationally. It is hugely important.

Simon Moore: Robin, this is a slightly out-of-date example but it might help answer that question. Six months ago I was with your Secretary of State in Russia pre the current situation, so in a different context, and we talked about the work that UK Export Finance was doing with a bank called Alfa-Bank in Russia. The reason this matters in the context of your question is that the way they were working together was to allow Alfa-Bank to use its knowledge of Russian counterparties to provide a credit-based solution. It was not a case of UKEF using public money and putting it at risk where there was no commercial reason to do so; it was about drawing on strengths and skills that the indigenous banks could provide that the British banks could not. In a sense it covered the market gap, as Lesley talks about, but in a commercial sense. That is quite a good case study and quite a good example of how UKEF is creating structures that go beyond what the British financial-services sector can deliver.

Q267 Mr Walker: It is interesting you draw that example, because one of the things that has changed in the last five years is that the ambitions of many banks to go global have broken down and therefore we have a more fragmented structure of international banks, which I guess will give UKEF potentially a bigger role to play going on into the future.

Simon Moore: That then touches on the point that we raised earlier on about consistency for businesses looking at overseas markets. They know if they are using UKEF they get a consistent offering, which they will not necessarily get from a commercial bank.

Q268 Mr Walker: One last question, if I may, on this UKEF issue. It has come a long way from when it was just the ECGD and it was tending to work with very large businesses. It has been asked to focus on SMEs and some of these broader issues and challenges in terms of banking. Does it have the capacity to do that, or is it being asked to do too much by Ministers who are expecting results yesterday, to quote your point?

Dr Marshall: It is being asked to deliver by Ministers yesterday, but they have been working very hard at building up capacity. The recent reforms to their statutes and things like that give them an opportunity to try to do even more. I also think that what would be great is for UKEF to be able to flex capacity in, like many other businesses do, when market conditions warrant. You mentioned there the lack of risk appetite amongst some banks and insurers that we have all seen in recent years. That would be a time when you would like to see UKEF perhaps grow its capacity in order to be able to deal with the market gap that has then emerged, and then right-size again thereafter. With its new freedoms it has an opportunity to do that. The thing to do will be to look over the next 10 years as it builds its portfolio of SMEs and see how quickly it is able to work with them. In the bad old days you had frustrated businesses who said it took too long for them to do anything. I do not think that is the case now and I do not think I will see repeats of a member from Bedfordshire who had to get cover for machinery that he wanted to export to India from Standard Chartered Bank in India because he could not get the appropriate solution at home. I do not think that applies anymore.

Q269 Rebecca Harris: I have a very broad question to everyone, really. The Government has announced it is going to bring forward an action plan next year to support manufacturing supply chains in the UK. Do you have any observations on what you would like to see in such an action plan? Does anyone want to come back to me on that? Lesley, you look pretty worried.

Lesley Batchelor: It just sounds like yet another initiative. It does not have any shape as yet. We have got a lot of really good things that are going on. Perhaps it is more a question of tying them all together and integrating them into something useful, or just communicating what is already out there, as opposed to developing a new initiative.

Dr Marshall: Businesses are bombarded with action plans, strategies, etc—not just individual sectors but really across the piece. The point that I wrote at the top of my notes for today was “continuous revolution”. When it comes to business support—when it comes to export support and manufacturing support—Government operates in a state of continuous revolution, and that is to the detriment of businesses, who become aware of something after two years, become interested in it after five and see it as part of the furniture after 10. Unless we have those kinds of timescales in mind, it becomes very hard for them to grasp or really deal with the support that is being pushed at them. Whether or not another action plan on the manufacturing supply chain is welcome I cannot comment about, but I can say that things like the Manufacturing Advisory Service that manufacturers have used they like, but now it is changing its name.

Q270 Mr Binley: I am particularly concerned about MAS with micro businesses—those with one to nine employees. If you look at the breakdown of those seeking help and support, 36% of businesses with 10 to 49 employees seek support, 43% of the medium-sized

SMEs—those with 50 to 249 employees—seek support, and yet of the micro businesses, which is where the acorns turn into oak trees, we hope, only 17% seek support. I want to know whether you think the fault lies with MAS itself in not being able to reach out to those businesses or if it lies with those businesses not understanding they can seek advice.

Matthew McDonnell: Being a micro business myself, with three to nine employees, the issue with MAS is when you are a small business you probably need more funding than you do if you are a larger business. The way they work at the moment is you are allowed three projects a year. For the first project they will give you £3,000; for the second project they will give you £2,000; and for the third project they will give you £1,000. From the point of view of our business, for me to test one of my products to go into the oil-and-gas sector could cost £25,000, and so £3,000, although it is very welcome, is only scratching the surface. Maybe what MAS and the Government need to look at is a scheme where smaller businesses get more funding up front and then as you get bigger that assistance reduces depending on the size of the turnover. That might be a reason why micro businesses have not taken up the MAS scheme: they have not got the finance to do it.

Simon Moore: Brian, from the CBI's perspective—and I will caveat this by saying I am out of territory here because micro businesses do not tend to be members of the CBI—the figures that you mentioned just now illustrate an important point we are making about awareness. It links quite closely into the simplification agenda that I think you want to talk about as well. Simple schemes with high levels of awareness will have greater take-up among smaller companies. Linking back to Rebecca's question about supply chains, micro businesses and small businesses are a very important part of supply chains, and I am not certain that in the UK we are running a really effective supply-chain agenda. Some of our European competitors are doing it better than we are. Whether the particular scheme you talked about, Rebecca, is the right answer for the micro businesses you are talking about, Brian, I am not certain—it is not really my territory—but I would suggest there is a link between the two.

Q271 Mr Walker: You said “some of our European competitors”. Which ones?

Simon Moore: France comes to mind in particular. If there is a large French contract, the French authorities are very effective at gathering together the supply chain of small and medium-sized companies to feed into that. Anecdotally, I understand that we are not as good at that as they are. We all know about the Mittelstand in Germany. That is a well-trodden example. No doubt there are others as well.

Q272 Rebecca Harris: I appreciate your comments about not wanting a new scheme and a new initiative, but it is just an opportunity, really, for you to comment about where there are gaps and things that could be done to improve the situation. You have mentioned a few already.

Lesley Batchelor: We are very keen, as far as exporting is concerned, to try to help everybody to understand the implications of the markets that they are looking at. We are very concerned that people are going to markets without selecting them appropriately and that they are not spending time researching to find out which one is the best for them and not researching back to what the trade tariffs are, what implication that might have for the pricing they are going to input and what is going to happen as far as foreign exchange is

concerned. They are very much looking at this superficial marketing and the opportunity without going back and checking how much it is going to cost them to get into that market. Again, I can cite many cases—people going out on a trade mission to Brazil thinking they might export there, whereas in actual fact there is no reality of exporting there. Really you need to set up a business there to make any money there; the taxation is so high getting your goods into that market. It was completely unrealistic to take people there.

Dr Marshall: I would simply add on the information point there is a lot going on in the private sector to try to overcome the kinds of information gaps that Lesley is talking about. We at the BCC work closely with DHL to provide information on particular markets: the costs; the number of documents required to get into a market; etc. Just as a more general point, I would not underestimate the role that the private sector can play in this business support and export support agenda more generally. Very often the reflex action in Victoria Street is, “Let us create another Government initiative” when there are private sector providers that simply need to get to scale and can provide that service very well. When there was no Government help on foreign exchange, for example, we set up a foreign exchange hedging product with a private sector provider that was already in the marketplace, and that gives access immediately and is much more flexible and fleetier of foot than Government would be, because it would take Government a long time to set something like that up. Regardless of whether it is domestic business support or international, there should be some tests in place to say, “Is the private sector providing?” before Government leaps. Very often, that does not happen.

Q273 Chair: Just before we move on, I believe the Government has announced that it is going to have supply chain initiatives or an action plan next year. Do you think that is, shall we say, a little dilatory? Secondly, there is an initiative—the AMSCI. Have you any comments on that?

Simon Moore: I do not know about those particular initiatives, but I do think that this theme of supply chains that I have touched on just now is extremely important to be developed. I was talking to one of our members in the aerospace industry the other day who was talking about the supply that they are providing into the Joint Strike Fighter programme in the US, which involves a huge number of small and medium-sized engineering companies in different capacities. He said to me, “I am really pleased with our friends in BIS. They have turned round the export licences for us far faster than we thought they possibly could do.” It could have been a bureaucratic nightmare, he says, but it went through really swiftly and really quickly. That is illustrative of the point you are touching on here, which is about providing an efficient service of support to bring together the supply chains into those major engineering contracts—or any major contracts, for that matter. Credit to BIS for the work they did on that particular example.

Dr Marshall: One of the best ways to focus the mind on supply chains is when there is a deliverable that is the focus of that supply chain work. I would refer in particular to new nuclear as an example. My colleagues in Somerset and Suffolk have been busy building the local supply chains for the major civils contractors that are going to build our new nuclear reactors. It becomes a lot easier for businesses to talk about a supply chain and talk about engaging in it when it is clear what it is the supply chain for. When it is simply talking about a sector’s supply chain overall, it becomes very opaque and less easy

for them to engage with. Another example would be HS2 setting up an academy in Birmingham to make sure that the right people are available so that we can train up our own young people in order to take the opportunities that will come from that particular project. They are very specific. It is when we have supply chain initiatives emanating that do not have that specificity and do not have a particular end point in mind that it becomes much harder for our business communities to engage with them.

Chair: That is a very valuable point.

Q274 Mike Crockart: This is really a question for Dr Marshall about the comment that you made earlier and how you square the circle of keeping schemes consistent. You said that businesses become aware of a scheme after two years and start to use it after five. Our difficulty is that after five years we are potentially not here anymore. As a committee, it is our job to make sure that BIS is using its funds efficiently and effectively, so after three years we are getting a Minister in front of us going, “What about this scheme? It does not seem to have much take-up. Is that really an efficient use of money? Should we not be spending the money somewhere else, Minister?” How do we get past that from the conflicting demands of efficiency and consistency?

Dr Marshall: In the case of UK Export Finance, the beauty of it is it is very often guarantees rather than direct public spending. Many of the schemes that get put on the books of an export credit agency that do not get used never incur any particular expense to the public purse, so that level of risk is not there and they can be left alone until such time as they are required if they have been through the appropriate market testing, and businesses say, “When I cannot get what I need commercially, it is there; it is ready for me.” I can understand the dilemma that you are in when you are talking about spending programmes, where you do have a particular accountability role to play, and it is only right, but what I would encourage this Committee and others like it to do is not to go in on business support programmes after one year, a year and a half or two years but rather to go as far as you can in a Parliament to allow some of them to deliver results. It is the only way we are going to get away from this continuous revolution I was referring to earlier, which just confuses businesses and leads them to say, “I will do a Google search rather than ask Government for help”.

Lesley Batchelor: I would just like to make one quick point, if I may. We are all saying, “Oh, a Google search”. Do you know what? That is how everybody is using everything nowadays. We run education programmes and we have to make sure that the young people can access information and they can find things quickly, and the first thing they do is go to Google. We are not going to get rid of it. It is not necessarily a bad thing, as probably Matthew would say. He has found what he needed. We should be careful to acknowledge that it is a useful tool rather than to say it in a derisory manner.

Q275 Mr Binley: Let me declare an interest. I am Vice-Chairman of a LEP—I think the only Member of Parliament who is on a LEP. I tell you that before I ask my question. Beware. Lots of businesses throughout the country have spotted the fact that there is an inconsistency in the quality, efficiency and ability of LEPs. If that perception is right—I am telling you straight I think it is—how do we do something about it?

Dr Marshall: Nothing will change—and this I have directly from businesses engaging with LEPs all around the country—so long as the accountable body for the funding remains local authorities in individual areas. The good-meaning businesspeople and others who are on LEPs trying to prioritise funding in very many cases are still subject to the whim of local authorities in many areas.

Mr Binley: We do our very best to keep bureaucrats off. Is that what you are telling me?

Dr Marshall: Yes, and I believe many do, but it would be a very interesting thing for this Committee to do to look at money that has theoretically been allocated for LEPs to influence and where it has finally been allocated by the accountable body, the local authority. I do not believe that we are yet at the stage where the business and the public-private partnership that constitutes a LEP has the adequate level of influence over how economic development resources get spent in local areas.

Q276 Mr Binley: So you would say keep local councils out of it.

Dr Marshall: It would be wonderful if business-led organisations like LEPs could hold resources in some cases for economic development.

Q277 Mr Binley: Good. You have the opportunity to influence that by encouraging more and more businesses to be involved, do you not? Are you doing that?

Dr Marshall: We are. We do have an interesting position in our business manifesto, which is that we would like to see rate-payers vote on local economic strategies that are devised by LEPs. That is a way of binding together the businesspeople on LEPs, who might be 10 in a particular area, with the wider business community they are representing. If you have a local economic strategy that is voted on by businesses in that local area, you then get a little bit more legitimacy for the work the LEP is trying to do on behalf of the whole of the business community.

Q278 Caroline Dinenage: I have run a business since I was 19 years old and you spend your whole life keeping your head down and concentrating on the job of getting the work in, getting the work out, getting the bills paid, etc. Recently I sent a survey out to all the small businesses in my constituency and asked them what dealings they had had with the local LEP, whether they had heard of them, etc. Something like 99.5% came back and said they did not even know what it was, and I think my local LEP has been quite good at promoting itself. That is the conundrum. It is great to have them voting, but not if they do not really know you are there in the first place. How do you engage small businesses with the LEP?

Dr Marshall: Our research says that if a card comes through the door saying, “A body is about to take decisions on a massive pile of money that is going to influence the roads in your area, the skills you can access as a business, etc,” you stand up and take notice. If you are then offered the ability to vote on that strategy or on the spending proposals that then emerge from the LEP—

Caroline Dinenage: You would do it via a mailshot.

Dr Marshall: There are a million different ways to do it. My point is if the message was delivered to me as a businessperson that I have the opportunity to have a greater say over how resources are spent in my area and then do more business off the back of that, I would sit up and take notice despite the huge pressures on my time from running my business. If it meant the road junction that is stopping my deliveries from getting out gets fixed, or if I am in a services company and I cannot get the right staff and there is an opportunity to fix that, I would take notice.

Q279 Chair: Caroline has touched on the question I was going to ask you. I was not clear from what you were saying what your constituency would be if you had this vote. Would it be just businesses or would it be wider?

Dr Marshall: It would be all of the businesses in the LEP area that would have the opportunity to vote if it was the LEP's economic strategy. You already have precedents for this with Business Improvement Districts, where you have ratepayers' votes taking place for businesses who want to tax themselves to provide, say, city-centre cleaning services or whatever it might be. There is an architecture and there are possibilities.

Q280 Chair: How many BIDs have we got? I cannot remember off the top of my head.

Dr Marshall: There are dozens. I do not have the exact number to hand.

Chair: Again, if you could provide that, that would be helpful.

Dr Marshall: Yes.

Q281 Mr Binley: I want to pursue this a bit. In 2012, in his curate's egg of a report, Lord Heseltine recommended a "strong and stable, locally-based, private sector business support infrastructure". However, the Government has not been keen to come forward to support that infrastructure administratively, and some of our LEPs are finding it very difficult to get money to create the infrastructure that is necessary to do the sort of work you are talking about. What pressure should we put on Government to encourage them more to recognise—I think they are beginning to now—that organisations of this kind have got to have an administrative structure?

Simon Moore: Brian, can I take a specific aspect of that? One of the areas I am quite concerned with is foreign direct investment into the UK. If you are a substantial foreign company looking to invest in the UK—it could be in power stations in Somerset; it could be in technology companies in Berkshire; wherever it might be—it is very helpful to have a consistent message about what the UK offering is and what the infrastructure offering is. A lot of that happens at national level, with airports and so on, but if you take that down to LEP level, it is quite difficult for a UK company alone, but for a foreign company particularly, to come here and understand exactly what that offering is. My response to your question is: yes, it is really important that we have consistent leadership at LEP level, it is very important we have consistent engagement with local authorities at LEP level and it is very important that people understand what they are getting when they come to that local level in the context of foreign direct investment in the UK, which is where I am coming at it from—looking at it from the overseas perspective. It has less relevance for the UK export discussion, which is something I would be closer to.

Lesley Batchelor: I would just like to make a quick comment, if I may. We are only really interested in exporting and international trade—we do do a lot of work on importing. What we have tried to do is engage with the LEPs, and it is almost impossible as a small organisation to try to engage with LEPs. They are like phoenixes; some of them are reinventing themselves, and some of them have started from this place, and some of them have re-changed. It is not clear where they all are as far as the level of abilities is concerned and as far as their plans are concerned. Also, we are finding that the universities are getting very heavily involved, which should not be a bad thing at all but is skewing things away from local businesses, because these are vast organisations. That is just an observation that we have been trying to—

Mr Binley: Can you drop us a line to give us more information in that respect?

Lesley Batchelor: Yes, of course.

Dr Marshall: The point that I would make in response to your question is around funding streams in particular. One of the best elements of Lord Heseltine's report was a desire to see far less fragmentation in the funding available to local areas to pay for things like transport, skills, housing and economic development. Unfortunately, Whitehall, as ever, has managed to pull apart some of that again and make sure that individual Government Departments are controlling some of those funding schemes and that Local Enterprise Partnerships and others who are involved trying to do the right thing locally spend a lot of their time chasing money or accounting for money in different pots. If the Committee could do a follow-the-money exercise to try to find out where exactly it has come from and what the accountability mechanisms are, that would be hugely interesting and hugely illuminating and perhaps contribute to answering the question of more effectiveness of local organisations, particularly when we are about to see even more devolution to local areas.

Mr Binley: Can I then on the record say that suggestion would be worth pursuing?

Chair: Thank you. Rebecca, do you want to ask the question you originally were going to ask?

Q282 Rebecca Harris: I was slightly distracted by my coughing fit. It was really to ask you—particularly Mr Moore—what service your members have received from the Manufacturing Advisory Service and what your view on it is.

Dr Marshall: About 15% of our members in chambers of commerce around the country are manufacturers. Those that engage with the Manufacturing Advisory Service generally have positive things to say about it. I do not receive a lot of negativity about it. I saw dropping into my inbox the other day a name change and a merger with another scheme. That may confuse some of them. That was what I was trying to refer to before when I mentioned the continuous revolution; nothing can be left alone for long enough to make it common currency for business.

Q283 Rebecca Harris: We are back to that measuring thing we were talking about, though. How do we measure the impact of the investment in the MAS scheme? How do we

assess it? The All-Party Manufacturing Group has told us that “the funding for MAS should be maintained or expanded”. Do we agree with that?

Lesley Batchelor: I am on that committee, so I probably do agree with that. I would not really say anything more than that.

Rebecca Harris: But it is about how we measure that investment, really.

Lesley Batchelor: All of this is about measuring things. UKTI are being measured on targets; UK Export Finance have got targets; the new initiatives will all have targets. If only we could somehow or other create these into a group target that we could all contribute to rather than individual ones, that would then mean that UKTI might be more willing to signpost to people like UK Export Finance. It is the signposting thing that does not work; when you have got a target to hit, you hit your target rather than do what is for the greater good sometimes.

Dr Marshall: It would be nice to see outcome targets for MAS and others. I am sure they exist and I am probably ignorant in saying this, but across business support initiatives, having outcome rather than output as the principal source of measurement would be great. So many business support schemes around the UK are let on contracts that specify output targets, and the chasing of those output targets becomes the be-all and end-all of the scheme. You will have great individuals working in those schemes trying to get outcomes for the businesses they are working with, but output targets still reign. That is a cultural problem of the square mile we are in here around Westminster and Whitehall rather than anyone else. Moving that focus would be helpful.

Matthew McDonnell: That information is with MAS. When you fill in a project form, you have to give an outcome to the investment, and the two key drivers are increasing profitability and increasing employee numbers in the business. I believe that that information will be with MAS; it might just be further down the line, with the people on the ground.

Simon Moore: Rebecca, I am going to answer in a slightly different way. There are some factual issues that we are looking at. The level of awareness of MAS is around 50%, so measuring an increase in that would be interesting. The number of schemes they offer is about 700. That sounds like too many, so maybe we should have a look at that on a regular basis. A couple of facts like that would be useful. Looking at it slightly more strategically, one of the risks we have got is trying to solve yesterday's problems and not developing a narrative for the future. Quite an interesting bit of feedback my members are giving me is that high-end manufacturing is the story of the last decade and the UK has not been spectacularly successful at that in comparison with some of our European competitors. In patches we have, but not across the board. The next decade may be about something a little bit different, which is more about a services-led export culture. We are talking about the creative sector; we are talking about the design sector; we are talking about the tourist sector; we are talking about the life sciences; we are talking about education; we are talking about some of the brilliant innovation in healthcare. If we are going to develop a narrative about the next 10 years of where we are going to grow the UK economy and expand into the global economy more successfully, we need to start developing ideas and possibly even targets around some of those other areas. The thing I would just leave you with is: let us not try to solve yesterday's problems, but let us think about where the economy needs to go in the next five, 10 or 15 years.

Q284 Rebecca Harris: Do you think there is sufficient focus or there is focus on those other areas? I get the impression that *inaudible* [10:19:08] of the importance of things like life sciences and creative industries.

Simon Moore: There is work being done in these areas. The creative sector is beginning to tell the story that it is the second-biggest export business after financial services, and we are beginning to hear that more often now, for example. I am still concerned that we are going to try to solve yesterday's problems when manufacturing needs to be about high-tech, high-value-added luxury goods and then the design component and the application of the management services that we can provide into those. If I think about healthcare, for example, I went to China recently and China is desperate for our healthcare solutions, particularly for its ageing population. That is not necessarily about manufacturing; that is about management and about skill development. These are the areas that we need to be thinking about exploring into if we are really genuinely going to change and transform the export side of the economy over the next 10 years or so. I could use other examples to make the same point.

Lesley Batchelor: You mentioned right at the very beginning the £1 trillion that we are all aiming for. I understand that we are around about £500 billion at the moment, including services, of which £304 billion are physical goods. We are doing a great job. MAS is doing part of that work and everybody is contributing to this. The only thing I would lean towards saying is if we keep doing what we are doing we are just going to keep getting what we are getting. If we really want to build international trade, we have got to try to embed international trade into the psyche of our young people. We want to try to develop an A-level to go in with these new vocational studies in international trade. When I talk to people like AQA, they are not keen on doing it, because we do not have enough companies exporting—we do not have enough people demanding it. I am trying to say, “But there should be a demand, because it is part of the economic growth of this country”. We have a GCSE business studies that contains nothing about exports, we have an AS and an A-level that contains nothing about international trade, and yet we still expect young people to understand how this works. If we could just start with embedding it into our young people and getting behind it as a skillset that is needed, that would make a huge difference. I would very much value a letter from this Committee saying to AQA that they all think it would be a good idea to move it forward.

Chair: That is a very interesting point and we will look at it.

Q285 Caroline Dinéage: A really long time ago, near the beginning of this Parliament when William Hague was Foreign Secretary, he said that he wanted to see all our embassies overseas being like shop windows for British exports and our staff over there actively promoting British trade and services. Has that improved? Is that happening?

Lesley Batchelor: It is happening. Absolutely, yes. They are very good indeed.

Dr Marshall: It has come a long way. The FCO has changed tremendously. You have a lot of ambassadors now who are very much focused on commercial outputs. That has been a fairly recent but fairly strong change. There are still the things that bother exporters, though, in that, such as the FCO being so strapped for cash that they will ask an SME for £500 to use a meeting room or something like that in the embassy in order to

conclude a deal. Those minor irritants remain and are sometimes off-putting, but the role of the FCO overseas in helping to introduce companies to potential leads is growing and should be pursued under the next Government as well.

Simon Moore: I would completely agree with all those comments, Caroline. I have just come back from Japan and Korea, and I have to say that the Foreign Office staff from ambassador downwards in both those countries—I have seen the same thing in the US, Russia, China and India—are all absolutely committed to the commercial agenda. It has been transformational. One of the points we made in our 2011 report “Winning Overseas” was the Foreign Office was not committed to the commercial agenda and needed to be. Our view now is that that has changed. It has been one of the most stunning successes of this Parliament to get the ambassadors and their senior staff to focus on this as a priority. I have seen it across the world. Clearly it can always be better, but the first thing they want to talk to me about when I go and see an ambassador is the big three opportunities in his or her country. That is just tremendous. I am really pleased about it.

Chair: Can I thank you? That was very helpful. I will repeat what I say to other panels. If in retrospect you feel you would like to add something to an answer that you have given, please feel free to send it in the form of supplementary evidence. Similarly, if we feel we should have asked a question but did not, we will write to you and ask for your comments on it and would be duly grateful for your reply. Thank you very much. That has been very helpful and I have to say the brevity of your responses has been very helpful as well. Thank you.

Examination of Witnesses

Witnesses: **Dr Julie Madigan MBE**, Chief Executive, The Manufacturing Institute, **John Baragwanath OBE**, Projects Director, Advanced Manufacturing Research Centre, **Peter Templeton**, Director and Chief Executive Officer, Institute for Manufacturing Education and Consultancy Services, and **Malcolm Evans**, Chief Executive Officer, UK Manufacturing Accelerator, gave evidence.

Q286 Chair: Good morning and welcome. Thank you for agreeing to assist us with our inquiry. Can I just ask you to introduce yourselves for voice-transcription purposes, starting with you, Julie?

Dr Madigan: I am Dr Julie Madigan. I am Chief Executive of The Manufacturing Institute.

John Baragwanath: John Baragwanath. I am Projects Director of the Advanced Manufacturing Research Centre in Sheffield.

Peter Templeton: Peter Templeton, Chief Executive of the Institute for Manufacturing’s education and consultancy unit.

Malcolm Evans: Malcolm Evans, Chief Executive of a specialist manufacturing funder called the UK Manufacturing Accelerator and chair of a number of early-stage companies.

Chair: Thank you. I will repeat what I said to the previous panel. You may or may not have heard me say so. Some questions will be person-specific; others will be general. In the case of general questions, do not feel that you have to answer if you feel that the previous speaker has covered all the points that you would have anyway. My first question is to all and it is a fairly general one. How would you describe the overall health of the UK manufacturing sector? Who would like to lead on it?

Dr Madigan: It is reasonably robust. I would say, though, it is quite wary. You see rather a different picture in large organisations to small and medium-sized and micro companies. There is an issue about polarisation, with big national companies influencing policy quite significantly but very different experiences happening on the ground. For example, in Greater Manchester the average size of a company in manufacturing is 18 people and they are sitting on their reserves, primarily, waiting for things to improve before they invest. It is mixed but generally optimistic, I would say, from the numbers of small companies that we are engaged with.

John Baragwanath: I would echo that, really. It is optimistic and it is improving. There are particularly bright sectors, such as aerospace—as we all know—and automotive, which is improving. There are lots of opportunities in other sectors, such as nuclear, where the potential for UK manufacturing in things like the small modular reactor is really something to go for for the UK. It is an improving scene.

Peter Templeton: I would agree that the current situation is really more positive than it has been for quite a number of years. Looking to the medium and longer term, there are a lot of changes happening on, say, technology fronts, with materials technology, sensor technology, big data and so on, that may pose challenges, particularly for smaller and medium-sized companies, as they struggle to come to grips with those technologies.

Malcolm Evans: Thank you very much for inviting me. I do not think we really know what we want to do with it. That is the main issue. 10.5% of our GDP is manufacturing. The capacity and capability is of at least double that. This Committee aside, I am not really sure what the state wants to do with it. I went to a luncheon recently with quite a senior central banker. It was Chatham House rules, but the view in the bank was very much that it is enough and the German model of 15% or 16% is topsey for the UK. There is a huge sense of its quaintness. I do not know if you read the Foresight report. I read the whole lot, for my pains. It was an astonishing treasure map of the potential within British IP—within high-tech knowledge. It was quite an astonishing treasure trove, but it addressed in not one sentence who was going to pay for it and who was going to do it. The potential in UK manufacturing is utterly vast, but we do not quite know what we want to do with it. The will is quite equivocal.

Q287 Chair: There are a couple of points that I would just like to pick up. I will start with you, Julie. I got the impression you were saying that for the major manufacturing players it is quite optimistic but there is still a lack of confidence amongst small businesses. Is that a reasonable interpretation of what you said?

Dr Madigan: Yes. In some ways, when you listen to business schools, they often say in these recessions it is survival of the fittest, but it has mostly been survival of the fattest. It is the people who have kept the reserves and had the ability to fall back on reserves that have survived. That has made small companies think long and hard before they start to invest. The investment issue is a time bomb waiting to go off in this country. I would agree with the remark that Peter made about some of the advances in technology that are happening now. To me, one of the major issues that comes out of Foresight is how we are going to take a big population of very small companies forward in terms of investment and lift their aspirations with regard to the potential of these new technologies.

Q288 Chair: That is very interesting. It would appear these companies have got the money, and that to a certain extent would underline the point that the banks make all the time: “We are not lending as you say we should because companies do not seem to want to borrow”. Is that a fair comment again?

Dr Madigan: There is an element of that, but it is a question of how to use your reserves to best effect in many organisations. When you look at the number of demands that there are potentially on those reserves to grow sales, to improve productivity, to recruit staff and to engage with new technologies, it is sometimes bewildering for small companies to know which are the priorities and which steps are going to deliver the biggest returns. There are huge risks with all of those decisions.

Q289 Chair: Is their failure to invest or use those reserves fear or perhaps just a lack of appreciation of the potential for investment?

Dr Madigan: A mix of both, I would say.

Q290 Chair: If I can come to you, Malcolm, you portrayed a pretty bleak picture, if I could say so, slightly in contradiction to the other panellists.

Malcolm Evans: I do not want to be like that. The potential within British manufacturing is huge; it is actually setting it free. May I talk a little bit about the funding situation? I think Julie was more talking about the larger companies. If I can just make a few comments quite quickly—it is our own specialist area, funding. If we start at the absolute beginning, early-to-medium-sized UK manufacturing is under-capitalised by about 40%. That would be our own figure. I am not a bank-basher. Banks should not take growth-capital risks. The problem is that they were never particularly interested in manufacturing in the first place, so from being five out of 10 in terms of enthusiasm they went to zero and a decent bank—I have got no links with them—like Lloyds is back at four now. We are not missing a huge amount of the banking piece. What we are missing is money. In the old days, the state used to pay for a lot of infrastructure around manufacturing, or very wealthy individuals did. These days it is entirely institutional and people do not want to do it. If I could just traverse very quickly, it is too big for business angels; venture capital does not do it; PE is only interested in ownership; and banks do not lend to it, so we do not have the channels of allocation that we need in the UK. The problem is that we do not put money into early-stage industry. I go up and down the country all day long. I was in Huddersfield yesterday and just by walking the streets I found three things I want to invest in. I am in Derby tomorrow doing the same; I am in Bristol in Friday.

Chair: Could you come to West Bromwich?

Malcolm Evans: There is enough manufacturing in the West Midlands to easily supplant the 25% to 30% employment rate in Lancashire if only it had a few billion pounds in it, without being facetious. It is a horrible place, though.

Q291 Chair: I am very interested in this observation. One of the things that struck me was when I saw the percentage of regional GDPs coming from the different sectors. London—and I think the south-east, but certainly London—has by far the lowest percentage of manufacturing companies. If you go up the country, you will find there is an increase. My own area is the West Midlands, and East Midlands is probably the highest. Do you think there is a cultural problem with our banking institutions and so on—I was going to say largely centred in London, but I do accept there is a significant element in Edinburgh as well? Do you think it is a reflection of the banking culture, which, because there is so little manufacturing locally, does not really engage with it in the way that it should?

Malcolm Evans: There is definitely a cultural issue. It is a bit like everybody thinks maypoles are cute but nobody wants to dance round one.

Mr Binley: It is my favourite hobby.

Malcolm Evans: I may speak freely at this Committee because you are all pro-manufacturing, but the three party leaders' idea of doing manufacturing is to put a hair net on and to go to Keighley. There is more to supporting manufacturing than the grandstanding, and it does tend to get very much second-best in terms of cultural plays. So, yes, there is part of what you say. Banks do lend to manufacturing—let us just disabuse ourselves of the notion that they do not—but banking is only 50% of the funding equation; the rest is early-stage equity and the next bit is PE or public markets. Ignore the banks. We do not have enough money in industry. Just wind it back to the essentials. The state enables industry, it funds it, it exports it and it strives to keep it in UK ownership. Those are the big issues.

Chair: I have spent rather longer on this than I originally intended to, but it was necessary to pursue one or two lines of inquiry.

Q292 Mr Binley: I want to take this thing up of the larger SMEs who have got the reserves. We have got to be very definite about how we divide that up, because micro and small SMEs cannot get money for the life of them and many of them are dying because they are being strangled of finance. Understanding that is really very important. The next question is: in relation to what Malcolm has said, how do we leverage that money out? How do we take their fear away to use the money they are holding? It runs into many tens of billions. How do we leverage it out for the good of not only British manufacturing in the round but productivity particularly?

John Baragwanath: The situation is quite patchy. There are companies that are investing. We have got some really startling companies in manufacturing, particularly in the South Yorkshire area. It is looking at the success of those companies. They are very successful, and other companies need to look at that and see how they have invested and do likewise.

Mr Binley: But it is not the answer. We have got to give them incentive to get rid of their fear, and we are not doing it.

Malcolm Evans: Let me give you a starter for 10. Michael Oliver of Oliver Valves in Knutsford with his bare hands has built a £100 million-turnover valve company. He keeps haranguing Government for serious tax breaks on exports. There is one for 10. I will give you another one then they can give you some more. Massive, sustained investment incentives, not 100 grand one year and 500 the next, like Adam was saying. Visibility. “You spend money on your plant, you will get rewarded for it, and that goes for all time and forever.” There are a couple of clear ones.

Dr Madigan: Look at the Government schemes that have been around—the Regional Growth Fund, for example. When that was first launched it was a £1 million threshold. This comes back to the point about the fragmentation of the landscape in terms of capacity and capability at the LEP level. Some LEPs—for example Hull—have taken some of that RGF money and disbursed it down to small companies. Some of the amounts there are £5,000 or £10,000. They are not £1 million amounts. Those sorts of mechanisms could be shared between LEPs, for example. This comes back to the issue about LEP capacity and capability and the variability of that across the UK, which is one stumbling block, potentially.

Look also at some of the schemes that are coming out, like AMSCI, for example. We are fortunate enough to have a number of both very large and very small companies as our members and on our board. When that first came out, the large companies did not deal much below the first tier and the small companies did not have visibility of the OEMs at the top. The scheme is asking for something to be OEM-led. That was dogmatic, really; it was dogma-driven that it had to be OEM-led. Unless the OEM already had a problem that was specific that engaged down that supply chain, there was no way you could get small companies into it, even if you could see a generic problem throughout the supply chain. Bringing that together was quite hard work.

I can give you some very specific examples of where there are what I would perceive as new market failures that need to be addressed in that kind of dynamic. For example, a small tooling company in north Manchester. The gentleman knew that rapid tooling, and particularly digital manufacturing, could put him out of business in the future. He is very aware of new technologies. He diversified into them, then the recession hit. He went into administration. He phoenixed—he re-mortgaged his house to buy new machinery. He has not got reserves; he is up to the maximum. He is quite risk-averse now in terms of what he is doing. He is working for some of the big automotive companies on proof-of-concept tooling, but if he wanted to go to the next stage to provide rapid tooling—parts ready for manufacture—to local companies, he would have to invest in metal laser sintering. There is probably about £500,000 worth of kit there, and he cannot afford it. We said, “Could we get a number of small companies together that could share that kit?” That would enable him to do short lead times and repatriate manufacturing, in effect, but the AMSCI scheme was OEM-driven and because the OEM did not see that need down at the level of north Manchester, that did not fit with the scheme. There is an example of where policies driven by large organisations—aero, auto, process and chemical—do not necessarily fit with this granular landscape down at the local level.

Malcolm Evans: Let us take that straight into the MTC in Warwick, which has got great sintering. The metals and the technologies they have got in there are magnificent.

Dr Madigan: However, it is maxed out.

Malcolm Evans: And it is not for the likes of him. It is the state-funded research centre for Rolls-Royce. That is what it is.

Dr Madigan: But they are at capacity, which is really interesting to show that the catapults are creaking for capacity. That comes back to this death valley in innovation between the universities' expertise and what happens in terms of commercialisation, which is a real market failure the Government needs to tackle.

Q293 Mr Binley: You can lever stuff out. I have done it with Cosworth and we have now got a new engine production assembly line that is about to go on stream. We have done it in 18 months. If you get your finger out, you can do it, but you have got to kick your politicians to get their fingers out in part. I want to come back to this other thing about leveraging money. The big companies with supply chains can do more if they are encouraged to do more, and yet Premier Foods has just gone the opposite direction, in a totally disgraceful way. I hope that is picked up by the press. How can we help our very good engineering organisations to leverage more out of their supply chains and to help them more in this respect?

John Baragwanath: AMSCI is doing some work in that direction as well.

Mr Binley: Yes, they are.

John Baragwanath: We have been involved in some very successful AMSCI projects. It does go right down the supply chain. The catapults now are going right down the supply chains as well. Yes, they are working with the likes of Rolls-Royce and Airbus, but they are going right down into those supply chains. In fact, in our catapult the majority of the companies that we are dealing with now are SMEs.

Mr Binley: That is helpful.

Chair: Can I just point out we have spent 20 minutes on this? If we can move on, that would be helpful.

Q294 Mr Binley: Yes. Can I move to MAS now? The All-Party Group on Manufacturing has stated that a "lack of strategic management advice" exists for manufacturers. Is this a failing of MAS? Is it correct? If it is correct, what should we do about it? If not, we should tell the All-Party Group that they are wrong.

Chair: If you could be fairly brief in your answers that would be helpful.

Malcolm Evans: Scaling manufacturing companies is complex. You need to scale them across about a dozen axes ranging from finance to process, plant, people, skills, governance, export, new forms of marketing, supply, etc. There are at least 12. If I scale a modern-style service company—I am involved in digital—all I need to do is bring in technical marketeers after I have hit my pay stream. There is one axis of growth. MAS cannot do that. MAS shuffles plant around and draws white and yellow lines on the floor.

It is quite useful, but they are nowhere near multi-skilled enough to exercise multi-factor growth strategies. I know that for a fact.

Q295 Mr Binley: Do they need more money to become so?

Malcolm Evans: No.

Q296 Mr Binley: What do they need?

Malcolm Evans: Disbanding. I would like to see more investment money. I would like to hire a top-rate production direction and a top-rate digital marketer. I would like to get proper corporate finance advice. The market provides those things. Export is a different thing. Export needs state support. Internal, market-led expertise does not need a uni-dimensional state body.

Peter Templeton: For manufacturing firms to grow, they really need to do three things in parallel. One is to execute the current business model and continuously improve that business model. Secondly, they need to have a clear vision of their chosen future state, bearing in mind the changes in external context and drivers and changes in technologies. Having selected their chosen future state, they need to build the capabilities across the kinds of factors that Malcolm was talking about over time, which requires investment. Where MAS is strong is in improving the current capabilities within the current business model, such as around production and so on. Where it has not focused, I would say, to date is on helping firms to really understand what markets they should be in, what product groups they should focus on and how they compete, and then on helping those firms to identify a chosen future and how they are going to get there.

Dr Madigan: Having delivered the first, second and third terms of the Manufacturing Advisory Service in its regional state before it went to a national service, and worked with half of the manufacturing base in the North West, which is 9,000 companies, which was the target in the last MAS contract that we ran, which we were on target to achieve, and having been involved at the instigation of MAS when Stephen Byers brought back the Manufacturing Extension Partnership model from the States, MAS was strongly rooted in a very deep market research process about the needs of manufacturers at the time. Productivity—getting the product out the door at the right quality, at the right cost and on time—was and remains a big preoccupation for most manufacturers. For most small companies, just doing that every day is a big challenge. That has been the driver of MAS, and that has been the success of it, in that there is a very strong set of quality, cost and delivery metrics around that so it has got very strong evidence to show that it works. But the gentleman at the end is right; it does come from a productivity origin, and that it is its strength but also its weakness. I do not think you could say, “We have finished with productivity now and we need to move on” because it is a perennial issue in manufacturing. Look at the data on the inflation rates in small companies. 6.71% was quoted by the Federation of Small Businesses. It is the small companies in the supply chain that are having to pay higher input costs and are being squeezed on prices. Productivity is not going to go away as an issue. In fact, it is going to be around even more, particularly with austerity and the public sector cuts, because these all end up down in the micro—

Chair: I think we have got the point. John, did you want to add anything?

John Baragwanath: Just to remark on the fact that it used to be regionally based and now it is nationally based. It lost something when it went national. There was more of the local touch previously.

Q297 Paul Blomfield: I am reassured by some of your comments. I have to say I was a bit concerned by the point that Mr Moore from the CBI made. I want to take care not to misquote him and I will look at the transcript, but he was making a passing comment in answer to one of my colleagues' questions that we have looked at high-value manufacturing and that really has not worked for us, and we now ought to be moving beyond it to creative sectors without diminishing the creative sector. I am reassured that you would all disagree and think that high-value manufacturing has a future. Certainly when I look at the work that John and his colleagues are doing in the AMRC, I would have thought that is the case. But I wanted to come back to the point that Julie and others have made about finance being the critical issue. Do you think that the British Business Bank has the appropriate expertise or resources to help manufacturers access finance? Is that going to provide a solution?

Dr Madigan: There is some optimism there in different sources of finance—crowdfunding and local sources of finance. That is where things are treading. One of the issues for the future is about convergence of sectors. For example, one of the things we have done as a charity is to set up community-based digital fabrication laboratories that are free of charge for people—members of the public—to use to access additive manufacturing. We have our first millionaires that have appeared in that. They have walked in off the street with an idea that we have prototyped; they have then put that idea on Kickstarter. Our first gentleman got 453,000 in advance orders on Kickstarter for a product that was on sale in Apple stores worldwide within six months, and he is now a millionaire. He is a new entrant to manufacturing. There is an example where somebody from a non-manufacturing background has generated wealth for the UK. The issue there is that the product is manufactured in China, because he could not find a UK manufacturer to make that. Different sources lowering the barrier to entry for people to come in from different walks of life to access finance, as with that new initiative, is to be welcomed, but there is more to be done, particularly around investment in capital machinery and kit for manufacturing.

John Baragwanath: Investment and capital is always very difficult for a start-up company. If you had some money you probably would not go into manufacturing; you would invest it in something else. High-value manufacturing really is the future. We are talking about moving it from approximately 11% of GDP up to nearer the German 20%. That is an ambition that we are sure we can succeed in given the time. The opportunities available in high-value manufacturing are absolutely immense. I mentioned the small modular reactor, which is somewhere the UK could move into. They have all the expertise in order to make these things. You are taking a nuclear power station and putting it into a factory environment rather than building it on site. You are building small reactors and coupling them all together to effectively make a large reactor. It is definitely somewhere that the UK could be going. The opportunities in the medical sector are immense as well. Anybody who says high-value manufacturing is not the way forward does not really know high-value manufacturing.

Malcolm Evans: Can I answer your question about the Business Bank? No, it is not going to work. It is one of the huge lost opportunities of the current Parliament. What

it does is it allocates wholesale capital to an oversubscribed marketplace. It subscribes to two lines of funding. One is the mortgaging and the discounting, which is asset-backed lending, property mortgages and invoice discounting. Every dog on the street corner is selling you that. There is no market shortage of discounting and mortgaging. The second class of capital it allocates is short-term venture capital, and that only seeks one target; it seeks a three-year flush of a successful moving target. There is no shortage of that in the UK either. What there is a massive shortage of is long-term capital—either pure equity or a German-style roll-over debt product—which is not getting called in any generation soon. We have missed a massive opportunity. It costs £500,000 to start a factory; it takes £2 million to scale it. We uniquely provide capital in that space. It is like spearing fish in a barrel, the amount of enquiries we get. The British Business Bank is competing with the existing private sector, where there is a vast glut of funding, and it is doing nothing to assist the long-term development of manufacturing.

Q298 Mr Bain: That is a really interesting point, Malcolm. We know that there are hundreds of billions of pounds of corporate surpluses sloshing around the economy, not able to be invested productively at the moment. People like Professor John Kay have said this is something we should be looking at in terms of promoting investment.

Malcolm Evans: That is up the food chain.

Mr Bain: What kinds of institutions do we need within our banking system that will sort out this problem that you have identified?

Malcolm Evans: Invoicing and mortgaging subtracts from the overall sum of capital available to reinvest in growing businesses. It can help with early-stage businesses. Where it becomes a large part of the capital base, it suffocates businesses. You are robbing Peter to pay Paul. What we need is a different class of capital. This is why I am delighted to come to a group like this but I would not probably walk across the road to a LEP. It needs huge structural decisions by a Government long term, like Adam Marshall was saying, to create a class of capital that sails as close to state assistance rules as it likes—and possibly over them—and that sits in businesses for generations on a low coupon as a quasi-debt product or a quasi-equity product. We need several hundred billion pounds in British industry. We are woefully under-invested. Again, we are 30% to 40% light on invested capital. We need a big state decision to get money into business. Germany is so strong because the Allies put hundreds of billions of dollars into it 70 years ago. They are still taking advantage of that now. We need to do the same in a new guise for new generations or the 10% GDP will not go to 20%. We need money in business. You MPs need to do that; the private sector cannot do that on its own.

Q299 Paul Blomfield: I am interested in everybody else's response to William's point. You all seem to be agreeing on that, and it seems to echo themes that we have picked up on in previous reports, whether it is looking at R and D investment in our university-business collaboration report or whether it is looking at the operation of equity markets. You seem to be hitting on the nub of an issue here. I wonder if I can come back to a slightly more limited point about the British Business Bank. One of the things that we have heard in our evidence is the complexity of the terrain in terms of the offers to businesses and the

difficulties navigating them. Do you think that bringing initiatives together within the remit of a single organisation like the British Business Bank is going to help?

Dr Madigan: I believe it could. I always thought there was a particular requirement for more like an industrial bank, because as technology continues apace part of the issue is understanding the risks and the processes of adopting new technology. When you combine that with the picture that the gentleman at the end just outlined, you have got a double whammy—a triple whammy when you add in the historic low levels of investment in manufacturing in the UK. As we are entering this era of scarcity and convergence between disciplines and this huge technological change—colleagues at MIT refer to it as the next industrial revolution that is picking up, which is echoed in Foresight—we desperately need to come up with different forms and more creative mechanisms for getting new technology and capacity into small manufacturing companies. If that is one way of doing it—it sounds like it is not particularly performing at that level at the moment but it has got the potential—then that has got to be grasped, because the opportunity is going to pass us by otherwise. It is not, as Foresight said, going to be something 30 years down the line; we can already see this happening in businesses. There are massive opportunities to be had.

Paul Blomfield: Peter, you looked as if you wanted to come in on that point.

Peter Templeton: Yes. Thank you. High-value manufacturing has huge potential, but it is not just about increasing the technology readiness levels or putting in place the production facilities; it is the capacity across the enterprise, from how you go to market with the marketing and sales organisation to how you generate the next set of products, processes or service technologies, and then the servitisation and the bringing together of product and service-based business models to really change the way the firm competes using diverse forms of technologies. These are complex things and they are long-term things that firms have to undertake. The challenge as I see it is most of the finance is short-term finance and what is required is long-term finance—patient capital—in the way that the German forms of finance enable the Mittelstand companies to thrive.

Chair: The points that were made about the products for the Business Bank we could do with pursuing more, but we really have not got time to now, so I am going to write to witnesses and ask them to amplify that and also point to potential sources of funding.

Q300 Mr Walker: We heard from the Engineering Employers' Federation that there was a lot more appetite in the manufacturing sector for exports and, Mr Evans, you have commented a couple of times on the possibilities for expanding exports. Do you think that is something that is best supported through UKTI through some form of tax break, as you have suggested—or you suggested that people are interested in.

Malcolm Evans: Yes. It almost seems like an absurd comment that exporting is another world. You do need your hand held in that. But we did not start at the beginning. The very simple thing that we need to do with British exporting, in my opinion, is to create a new cultural imperative around all the businesses conducting an initial and an ongoing export audit. We came at it from the point of view of the schemes of support. The Church of England tried to reinvent itself with the Alpha programme down the road in Brixton about 20 years ago and it became a phenomenon. It needs to be ingrained in the culture of all early-stage businesses and all existing ones about what the possibilities are. UKTI at

moment is a little bit reactive. Kazakhstan might be the flavour of the month so you end up exporting to Kazakhstan. There is a place over there called Germany and one over there called the States. I have just invested in a start-up furniture manufacturer in Derbyshire. We are exporting to Germany already. You have got to get it into the culture.

Mr Walker: Surely it is a choice for the business whether it wants to export or not.

Malcolm Evans: It is their choice, but they are not going to be big and successful generally if they do not. We have got to get it more into the culture up front that we do an export audit and we keep doing it and doing it and doing it. It is part of the health of a UK manufacturing business.

Dr Madigan: We are currently working on an ERDF programme that we are matching for 450 small manufacturing companies. Part of the design of that was to allow them to join a network as we grew the group and they would learn from each other. We were astonished to find that hardly any of them were using social media in the business context—they are possibly in the personal context but not in the business context—and very many of them have not even got decent websites. Before you start talking about export, really for me the biggest thing you can do for these organisations is get them visible: get them decent websites, get them skilled up in terms of what they can do and introduce best practice of how manufacturers that are using these social media tools to good effect are generating business from it and transfer that. That will start to raise the bar. That comes back to the issue that in any given population—it also plays to the point Brian raised before about micro companies—there is a bigger and bigger job to do and it takes more and more resource to get down into those small companies to lift their game. That is one big aspect of market failure. There is a lot that could be done just by improving their web presence and their internet connectivity and social media knowledge to promote their business. That will bring in export sales and then that will prompt them to get an export audit and it would go from there.

Q301 Mr Walker: One of the striking things we saw in a previous inquiry when we looked at retail and the export opportunities there was the very high proportion of websites that are only in English and the huge proportion of the overseas market that is not only in English, and the opportunity to do more on that front. Peter or John, do you want to comment on this export point?

John Baragwanath: I agree with the previous speaker that more use could be made of social media, etc. It makes a small company quite often look like a much larger company and able to compete in an international market. Yes, I agree with that.

Peter Templeton: There is a range of aspirations and abilities in the leadership teams of smaller firms with respect to exporting and operating internationally. It is relatively easy through web media to export at a pretty low level but rather more challenging to support OEMs or tier-one companies in the supply chain as they grow internationally and often want their suppliers to grow with them. There is quite often a desire from those OEMs and tier-ones to have the suppliers provide the same components or sub-systems into their supply chain internationally. That requires expertise, investment and so on. There is another class of company that sets out to be globally successful from the outset. I spent 10 years with a spin-out from Massachusetts Institute of Technology. When I joined it was turning over \$20 million; when I left it was turning over \$350 million

with a market capital of \$2 billion. Right from day one, it was global. It has offices in Boston, Massachusetts; Europe; and Japan as the three chosen markets, and from there they went global. It is the mind-set of the leadership team and the competence of the leadership team that is essential to that kind of global scale and, indeed, supporting OEMs and tier-ones as they grow internationally. We need to perhaps take a more nuanced approach to what we mean by export and export support for those different categories of company.

John Baragwanath: I was out in Brazil recently. We were working with a university out there, ITA—it is one of their leading research organisations. I was impressed by the way the Germans look at the export market. They had the Fraunhofers out there all over the place and German companies were working with those Fraunhofers. We tried to get some help from UKTI to set up an AMRC out there, but the budget was not flexible enough to give us any assistance, so we landed up appointing a consultant to go out there for us. Really we wanted to put people on the ground.

Chair: If you could send some written evidence on that, that would be very helpful indeed.

Malcolm Evans: I know you are keen to finish. It just sounds like the whole thing is a hagiography of Germany, but we have heard a lot about the fact that our own overseas consulates have improved. The Germans do it better. It is heavily nuanced and it is heavily individualised. It really kicks ass, the way they get exports going.

Q302 Ann McKechin: We have all talked this morning about the issue of innovation and the need for investment. The Autumn Statement last week announced additional funding for the High-Value Manufacturing Catapult, but you, Julie, mentioned the fact that SMEs are really not benefitting from the catapults per se. How do you think the additional money could support SMEs?

Dr Madigan: The catapults are fantastic; they are a great idea and very successful and they are working with SMEs. But if you were to ask, “What is the total number of SMEs that they are working with compared to the around 250,000 VAT-registered manufacturing businesses in the UK?” you would not find it is a large percentage. One of the issues is the total capacity of all the catapults added together relative to the size of the problem. It is welcome that there is that additional money in the Autumn Statement. I believe that that is going to be used to put some boots on the ground in terms of more capability at local level, but given the magnitude of the funding that is there I do not think it is going to be enough when you do the maths in the first column, which is the total size of the issue. It is not just about leading-edge technologies, which is what the catapults are about; it is about the next stage of technology that is in the market but is inaccessible to SMEs by virtue of the funding required to access it. To me, that is where there is another piece of that jigsaw in the valley of death on innovation that needs to be plugged in. Although universities have played a great part, there needs to be more community-based, granular access to some of this equipment. Hopefully that is something LEPs will pick up on. As we know, individual LEPs have placed manufacturing in a different position in their priorities, and that is a concern with that structure because national economic objectives like rebalancing the economy towards manufacturing might not be reflected in each LEP’s priorities and agenda. It is a complex landscape, but I would like to see more

available market capacity down at the level where SMEs can access it to minimise the risk of experimentation with new technologies—and not in universities necessarily, because it is inaccessible to many.

Peter Templeton: If we look at the technology readiness levels of one through nine, universities typically address one through three; the catapults are generally four to six, although sometimes to seven; and then there is the seven, eight and nine to take technologies to market. I suppose what we have seen with SMEs in particular is that even if they can get access to TRL 6 technology, they lack the access to the equipment and the facilities to take the technology to TRL 8 and TRL 9. One of the ideas that we are currently discussing with our local enterprise partnership and the district council is the development of an industrial venture centre that supports and may well have common, shared equipment to help, early-stage ventures and SMEs go through TRLs 7, 8 and 9—working closely in partnership with the catapults but supporting SMEs in commercialising technology applications; and then linking that also with a technical and vocational skills centre that would be providing primarily NVQ Level 3, Level 4 and potentially Level 5 for these technological development operational and also the commercialisation aspects as well.

Q303 Ann McKechin: John, you have got a lot of experience in this area. What are your views?

John Baragwanath: Yes. The first view is that we are in this for the long term. This definitely is not a sprint. Fraunhofers, which I mentioned previously, have been supported since the war. We are looking at long-term timescales. Therefore, there is a need to get a cross-party agreement that things like the catapults are going to go for many years. Starting and stopping and moving from one initiative to another just does not work. The extra funding is very welcome; it will enable us to work much more closely with SMEs, with more people on the ground.

Q304 Ann McKechin: How feasible is this idea that Peter has mentioned about an intermediary centre where people can access equipment and try to reduce their risks given that the Hauser review, which has just completed recently, has mentioned that catapults should only be expanding at the rate of about one or two a year to allow them to build up and get critical mass?

John Baragwanath: There is nothing really new in this world. Time share of equipment has been going for the past 30 or 40 years that I know of. It comes and it goes. We have spare capacity within our catapult sometimes on some machines, for instance. We could allow SMEs to use those machines. We come into problems with state aid and things like that, but it is a possibility.

Q305 Ann McKechin: The Manufacturing Accelerator has highlighted a generally low awareness about R and D tax credits. Who do you think should be responsible for promoting this scheme? Do you think the scheme works for this sector of SMEs that we have been talking about this morning?

Chair: If you could be very concise with your answers it would be helpful.

Malcolm Evans: Yes, it is a cracking scheme. Change your accountant.

Dr Madigan: Yes. More needs to be done to show examples of where manufacturers have used it to good effect to others. That is a job for MAS, potentially. MAS has a recognised brand and is trusted and liked by manufacturers in the main; use that to promote the message.

John Baragwanath: When it first started—and going back as far as when Business Link first started—it was always that the accountants were the people that you should be going through. For me, the accountants are the body that we should be going to.

Ann McKechin: Thanks. Okay, agreement on that.

Q306 Rebecca Harris: We have touched a lot on the problems for SMEs and for the manufacturing supply chain, but what do you want to see in the Government's much-announced action plan for manufacturing supply chains?

Chair: Again, if you could keep it as concise as possible that would be helpful.

Malcolm Evans: It was a bit lukewarm, the previous response. It would be lovely to have more joined-up supply chains. It is an awkward point to come in. It is a bit like you are treating the symptoms of flu—you are treating the rash rather than treating the flu. It is more a systemic thing about supporting manufacturing around skills, capital and exports and hopefully the supply chain will muddle up. I do not see how you can spot-interject in that area. It is very well intentioned. I would love a bigger supply chain. It has withered. The innovation game has moved on. The market will drag it up a bit. I do not think you are putting your efforts in a useful place. The other panellists said that as well.

Peter Templeton: If we consider an industry sector like aerospace or automotive and, first of all, the external context that the sector is facing, there are huge changes, say, driven by environmental requirements—for example, emissions in cars and aircraft—and that set of drivers is creating a set of requirements for change, for new capabilities that are driving changes in the system and sub-system requirements for cars and aircraft. With cars it includes a move to electric vehicles, hydrogen vehicles and so on. That is working well at the OEM and the tier-one level, but it will have an impact down at the tier-two and tier-three level, and they are not seeing it. What they are seeing is a demand for cost, quality and delivery, which is important but it remains order-qualifying rather than order-winning. If we are going to have a really thriving supply chain over time, there needs to be a long programme of support that enables innovation in the supply chain to be realised in the way that it is realised in Germany. If we look at the aerospace supply chain in Germany versus that here, our technologies are significantly behind the German technologies in the aerospace supply chain.

Rebecca Harris: Is that coming down to investment again?

Peter Templeton: It is coming down to investment but also awareness of how the changes over 20 years will affect the systems at, say, the aircraft level or the car level and then the sub-systems and then the components. If one was to take a classical build-to-print company and your customer in the supply chain stops wanting the component you are being asked to build to print, will you have the capability to do the next generation or will that go elsewhere, potentially to Germany or otherwise overseas?

Dr Madigan: I would like to see more investment at a granular local level into smaller companies to enable them to access technologies to get into some of these supply chains more effectively. That would repatriate manufacturing as a result. The last AMSCI I did not think was thought through enough as to what the obstacles are to repatriating manufacturing for the SME. It was very much big-company-driven. There is definitely a need there, as Peter has articulated, but the length of time between investing at the top and seeing that trickle through to micros is enormous. We have to go in a pincer-like movement—more of a Schlieffen Plan—in from the top and then up from the bottom as well. I would like to see some of that funding find its way through LEPs or local structures to small companies.

John Baragwanath: The supply chain initiatives work well where there is an end goal. That was mentioned by the previous panel. In nuclear, automotive, aerospace, etc, they tend to work very well. I agree that more help for small companies at local level would be very welcome.

Q307 Mr Binley: I do not believe that we are all that far behind Germany, quite frankly. The way some of you are talking down is unacceptable. Why are Mercedes building their racing cars in this country?

Chair: Can you make it a question?

Mr Binley: I just want these people to know that we are not as far behind as they say. Come to Northamptonshire and I will show you. Let me ask you a question about supply chains. Is it not much more the responsibility of the prime organisation in a supply chain—that is the guy at the top who needs the supply—to do more than they are doing?

John Baragwanath: Yes, and they are doing.

Mr Binley: Not enough.

John Baragwanath: Aerospace is—

Mr Binley: Aerospace and Rolls-Royce are the two best examples you can tell me, but there are many others that ought to be doing more.

John Baragwanath: Yes.

Q308 Caroline Dinenage: We have touched on a lot of this, so in a nutshell, last year the Government's Foresight unit—we have already mentioned it—published a report on the long-term future of the manufacturing sector. How well does industrial strategy address the key future challenges for this sector?

Chair: If you could do it in a very pithy way that would be very helpful.

Dr Madigan: It needs to be longer-term and it needs to be cross-party. You can see from something like MAS that consistency of purpose in business, as in Government, hopefully, is key. The key issue is that a lot of the things that are in Foresight are cross-departmental. That seems to be a recurring theme now. It is within different groups in Departments and across Departments. Things like digital manufacturing and the advent of digital fabrication and community-based digital fabrication sits between the Cabinet

Office and several bits of BIS. It is joining all that up. The landscape is changing and the structures and processes need to change with it.

John Baragwanath: Manufacturing is changing considerably. Servitisation is becoming a big issue now. Rolls-Royce we mentioned; 50% of their revenue is derived from servitisation. Products are going to be bespoke products, so they are going to have to change product lines very quickly. Automation is going to be a really big thing. Foresight identified all these things—digitisation, etc. There is a lot of good stuff in there; it is picking the bits out that are going to create wealth.

Peter Templeton: I greatly welcome the industrial sector strategies. It is important that we not only address the sector strategies, such as aerospace and automotive, but recognise that there are common things across the multiple industry sectors of manufacturing. One of the national competencies in high-value manufacturing, for example, is design and manufacture for small scale and miniaturisation, which has applications in aerospace, in defence, in security and in medical. If we were to look purely at a sector-specific strategy, that might not be recognised as an important cross-cutting theme. We have to have a sector focus to make sure that we understand the end-market requirements and the supply-chain linkages, but also the cross-cutting things at a technology level and at a business level. Things like business strategy development, leadership and so on are common across manufacturing sectors.

Malcolm Evans: Industrial policy is in its rudest health in the 30 years of my working life. It is great to see. You need to concentrate less on some of the minutiae and more on the low-hanging fruit and the big themes. You need to enable manufacturing, which is infrastructure and skills. We need to fund it in a spectacularly radical and vigorous way. That includes keeping much more of it in our own national ownership. We keep on holding up automotive as a national exemplar. That money goes out very quickly from this country. We need to export it like every day on earth is our last. We need to pick the low-hanging fruit in those themes and do some really good things in that area. But the industrial strategy generally is the best it has been since the early 1960s.

Chair: Thank you very much. That is very helpful. I will repeat what I said to the previous panel. If you feel there is any more you would like to add to a question that you have been asked, please feel free to do so in supplementary evidence. You have been asked to follow up a number of things with supplementary evidence; we would be grateful to receive them, and we may well write with further questions to you that we would be grateful for your response to. Thank you very much.

Examination of Witnesses

Witnesses: **Nicola Bolton**, Acting Managing Director, Trade, UK Trade and Investment, **David Godfrey**, Chief Executive Officer, UK Export Finance, **Janice Munday**, Director of Advanced Manufacturing and Services, Manufacturing Advisory Service, and **Steven Barr**, National Director, Manufacturing Advisory Service, gave evidence.

Q309 Chair: Good morning and sorry for the slight delay. That is because we have been pursuing a number of themes and issues that we needed to bottom out. Can I thank you for agreeing to address the Committee and help us with our inquiry? If you could just introduce yourselves, starting with you, Nicola, that would be helpful.

Nicola Bolton: Hello. I am Nicola Bolton. I am the Acting Managing Director for Trade at UK Trade and Investment.

David Godfrey: Good morning. I am David Godfrey. I am Chief Executive of UK Export Finance.

Janice Munday: I am Janice Munday, and I am Director of Advanced Manufacturing and Services in the Department for Business, Innovation and Skills.

Steven Barr: Hello. I am Steven Barr. I am the National Director for Grant Thornton's contract for the Manufacturing Advisory Service with the Department for Business, Innovation and Skills.

Chair: Thanks very much. I will repeat again what I have said to other panels. Some questions will be person-specific; others will be to all of you. Do not feel that you all have to respond if the previous speaker has covered the points that you were going to make. I am going to start with a question. We have heard various judgments, if you like, on MAS, from "abolish it" to "give it loads more money". The Lloyds Banking Group has suggested that the uptake of MAS services is "patchy"—whether this contradictory opinion is a reflection of that I should be interested to know—and that the service delivered is "dependent on the experience and quality of the individual MAS adviser". Do you think this is a valid criticism?

Janice Munday: It is important that we look at the quality and experience of the MAS advisers. That has always been the reason that MAS is respected: that the MAS advisers are experts in their field. The figures show that we have helped around 17,500 manufacturers, that we have funded around 9,000 in-depth businesses with great results, and that the results were much better than originally forecast, both in GVA contribution and in jobs created. We have strong brand awareness—stronger than for some other business support schemes—which may account for why people feel so strongly about it. If I could ask Steven to talk about the work we are doing to make sure that we continue to upskill our advisers.

Chair: Yes, okay, but please do not go on and on. If you could just summarise it briefly, that would be helpful.

Steven Barr: Perhaps I could just add two points. One is the high level of customer satisfaction we get from SMEs—well over 95%, consistently over the three years. That is a good sign. I do not want to suggest that we are complacent in any way. Training of the advisers is very much part of the service that we provide and it will certainly be part of the new Business Growth Service, which includes manufacturing at the heart of it.

Q310 Rebecca Harris: This is a question for all to answer, but on MAS. According to the evidence we have had from BIS, 43% of medium-sized manufacturers are using MAS

but a much smaller proportion—only 17%—of what are labelled as micro businesses, of which proportionately there are very many more. Why is it not reaching the micro businesses?

Steven Barr: There are a number of key factors here. Perhaps the one to start with is that we are targeting SMEs with growth potential. What that means is there is a selection process as part of it. We are more interested in those organisations that we can help to grow most rapidly so they can make the biggest impact on the UK economy. Inevitably, you might expect larger companies that are slightly better established, with better ideas and better processes in place, to be better receptive to the kinds of options we have. That is not to say that we are biased against the smaller end of the companies; it is just an inevitable part of how it works.

Rebecca Harris: Does anyone else want to comment on that?

Janice Munday: As Steven has said, we do have to be targeted in our selection, and we want to put our resources behind those companies that can grow fastest. We are going to be part of the Business Growth Service, which means that there will be other advisers who can help non-manufacturing companies who have growth ambitions, and you will cover that in a later session. But the targeting is working.

Q311 Rebecca Harris: It is difficult to target, though, is it not? With changing technologies, it may well be that some of these micro businesses really could benefit enormously and grow very rapidly. Do you think there is sufficient awareness of what you have got on offer for businesses and for smaller firms that might have the potential?

Steven Barr: There are two principal ways that we target. One is by looking at data that is in the public domain about what those companies are up to and what their rates of growth are, so we can target the kinds of things that they should be interested in from a manufacturing point of view. Then more broadly, we have our network of 85 advisers, and they are very closely connected with all sorts of companies—even the ones that we do not serve—so they will go and make contact with those companies and find out a lot more about them. It is through that that we really fine-tune who we work with and what we offer them.

Chair: Before we leave the subject, there were some quite strong criticisms of MAS from the previous panel. I could not begin to summarise them at this point, but we will be going through the transcript and we will write to you to make the points that were made and would be grateful for your response.

Q312 Ann McKechin: The Government has made a recent announcement about trying to support the supply chain. I wonder if Janice and Steven could explain to us how the Advanced Manufacturing Supply Chain Initiative has supported UK manufacturing and how its success is going to be measured.

Janice Munday: The Advanced Manufacturing Supply Chain is a relatively new initiative and has been going for a relatively few years. We have run now five national rounds and two local rounds. The local rounds were very much focused on businesses in the auto and aerospace manufacturing sectors in the West Midlands and the Liverpool LEP—it was run by four LEPs—and what we have done since is opened up AMSCI to national purpose. It is national, although the money is England-only because we have an

arrangement with the governments in the other countries that if there are really good cases coming through then they will pick them up.

Q313 Ann McKechin: Is it still just these two sectors, automotive and aerospace?

Janice Munday: No. We started with automotive and aerospace. Since then, we have had some very good successes in construction, life sciences and electronics, which now account for just over 50% of our winners. We have been consciously trying to extend it to other manufacturing sectors since we went national.

Q314 Ann McKechin: Under what metrics do you assess success in these schemes?

Janice Munday: We are looking for a slightly narrow range of companies. We are looking at those who want to work in collaboration—within themselves, with institutions such as the High-Value Manufacturing Catapult, and with some universities—and who have really good ideas that are very innovative that will help to re-shore production to the UK or otherwise enhance GVA. The metrics for each of the projects will be set within the metrics for what those projects are. Overall, we are looking at metrics of jobs created, jobs sustained and GVA contribution, and we are also looking at a metric about how much work we have re-shored or kept in the UK.

Q315 Ann McKechin: Is there any metric about exports? That has been one of our focuses this morning.

Janice Munday: The work we are doing on AMSCI is very much around the start of new processes. What we would expect to do through the additional support that is available through the Business Growth Service will be to pick up those companies and help them to export, but it is not a metric. As I say, a lot of this is, “Can we keep some work in the UK?”

Q316 Paul Blomfield: Perhaps following on from Ann’s point and asking Nicola a specific question, the Government has given you a target of doubling the value of UK exports to £1 trillion by 2020. Are you going to hit it?

Nicola Bolton: The answer is that we are committed to this and we are doing everything that we can do. It is an energising aspiration. It is a whole-of-Government approach.

Paul Blomfield: That sounds like a politician’s answer.

Chair: Could you just speak up slightly? I am having difficulty hearing.

Nicola Bolton: I was saying it is a whole-of Government approach and it is an energising ambition. We are doing everything that we can do. It would be wrong, though, for me to predict the macroeconomic picture that is going to impact exports between now and 2020. I would look to my friends in the Office for Budget Responsibility to help with that. But certainly we are working very hard and joining up across Government, working with the private sector and businesses, focused by markets and by sectors, towards the 2020 ambition.

Chair: That does seem to me to be Sir Humphrey speak for “no”.

Nicola Bolton: Personally, I believe we are going to do everything within our power to meet it.

Mr Binley: Have you thought about becoming a politician?

Q317 Paul Blomfield: What more do you think could be done to enable you to meet the ambition?

Nicola Bolton: What we are really trying to focus on is working in partnership with lots of different organisations. For us, this is about extending our reach—whether it is out through the FSBs of the world or the CBIs of the world, or whether it is extending our reach through the major banks or the big accountancy firms who are dealing with businesses on a daily basis and which are the main organisations that businesses tend to have to deal with. It is about joining up in that way. It is about working with our colleagues in UK Export Finance, for example, to really just extend the power of our reach around the world and raise awareness of exporting. Some of that will be around advertising and marketing type of activities as well as being able to provide specialist expertise for businesses in particular sectors wanting to get to particular markets and countries.

Paul Blomfield: Thank you. I am sure we are going to explore some of those themes a bit further.

Q318 Mike Crockart: How would you answer the criticism of, for example, the Britain is GREAT billboard campaign, which is saying it is a great billboard campaign but it does not give businesses the information they need about how to contact you or any of the other people that you are trying to build co-operation with to get them to the point where they are exporting more?

Nicola Bolton: That is why the Business Growth Service has just been launched. It brings together a focal point for business to get really tailored support. I personally believe that it is really important to raise awareness of why it is good to export and to build the capability of your business in the meantime rather than saying you have to come necessarily to UK Trade and Investment, for example. We have got lots of partner organisations, whether it is the local chambers of commerce or overseas business networks, who can help and provide that specialist expertise.

Q319 Mike Crockart: Surely the problem with having lots of partners is it is unclear who to approach to get the help.

Nicola Bolton: It is and it is not. It is about signposting. What you cannot rely on is a single place for people to get to. There are multiple channels.

Mike Crockart: But that is exactly what the first panel that we had—the businesses—want. They want a single place to go to.

Nicola Bolton: Yes, and the Business Growth Service is a single place for them to go to, for example—the greatbusiness.gov.uk site.

Mike Crockart: That is what needs to be publicised more, then.

Nicola Bolton: Yes. We just launched it a couple of days ago, as I am sure you are aware, and so partly now we will be driving up the communication and awareness-raising around that.

David Godfrey: Could I just add something from the point of view of UK Export Finance? We were late to the party of Britain is GREAT and Exporting is GREAT but we are now an integral part of it. Whenever there are trade missions, conferences or seminars under the umbrella of Exporting is GREAT, UK Export Finance will have one of our trade stands, saying, “This is what we do”. For us, a Department that I am sure you have heard from previous speakers has variously been described as the Government’s best-kept secret or as having hidden its light under a bushel, this has been really important to get our message out there that we do support exports, exporters and small companies. We do it in partnership with UKTI—you talk about cross-referral. There is an example of how that umbrella, when focused, can be quite beneficial.

Q320 Mike Crockart: I suppose the difficulty is how you make it interesting and sexy. I had Edinburgh Business Day in October, and we had people along to give export advice but we also had Google. 70 people went to see Google and five people went to the session on exporting. How do we get past that?

David Godfrey: My own view is that we have over many years lost a generation of businessmen and businesswomen who are adept at and think about exports. There is a cultural thing and there is a financing thing we need to bring together to make companies—particularly the growth companies—think more internationally than just about the UK domestic market and think beyond the EU as to where the real growth is. It needs to be a combined effort. There is a cultural thing as much as anything at play here.

Q321 Mr Walker: Nicola, you mentioned the Federation of Small Businesses as one of your partners in this. To be fair, I have seen good work from UKTI in my neck of the woods up in Worcestershire, where there have been good joint shows with UKTI and local organisations like the chamber and the Federation of Small Businesses about how to export, but they have told us that they feel UKTI still needs to make a “concerted effort” to reach out to SMEs and allocate resources “to encourage small firms to export”. Why do you feel that UKTI is perceived to be still struggling to reach out to smaller businesses?

Nicola Bolton: It is a reach-and-range question. There are so many small businesses out there and we are only a finite entity of people and money to do something with. Partly we are limited by purely the resources that we have got. Also, it comes back a little bit to the conversation I was just having with Mike about awareness-raising and the different channels of communication that there are, really.

Q322 Mr Walker: There seems to be a good level of awareness that there is support out there and that UKTI exists to do this job. If anything, UKTI has done a good job of raising that awareness. Why do you think small companies are not necessarily engaging in that? Is it simply that there is a proportion of small companies that never will?

Nicola Bolton: There is a proportion of small companies that never will, and then some of them just are not aware of how easy it is to take the next step into exporting. A

lot of the work that our team of international trade advisers do in the English regions, for example, is to work with companies not only to help them access overseas markets and learn about the countries but also to build their own capabilities and skills. You cannot start exporting if you are not capable as a business in the first place, so much of the work that we do with the ITAs on that side of things—our Passport to Export programme, the Gateway to Global Growth and so on—is helping them just build their capability as a business. One of the things that will help them is something like our e-Exporting programme, which will help companies reach through online channels other markets. With a lot of the small businesses being founded by more digitally-oriented people these days, it is a more natural step for them to think about exporting in that sort of way. That programme aims to bring together a lot of commercial agreements and memoranda of understanding that we have signed with the Tmall and Alibabas and so on of the world that help them springboard into new marketplaces. What we are also doing is through-branding some of those on those foreign marketplace websites with the GREAT brand so that you get some really good bringing-together of the awareness and build a “British is best” concept, if you like, behind the particular themes.

Q323 Mr Walker: That is very interesting. We had some feedback from some of the earlier panels that the work that the GREAT Britain campaign is doing overseas is very much appreciated and is really good interaction, and yet the advertising campaign domestically in the UK is seen to be a bit less pointful. Do you know what the breakdown is in terms of spending between the two? Do you recognise that concern?

Nicola Bolton: I do not know what the breakdown of spending is, but I can write to you afterwards with the figures.

Mr Walker: That would be useful.

Nicola Bolton: There is a difference there. UKTI is not responsible for the GREAT campaign—that is run from Number 10 and you would need to talk to them more specifically about that—but UKTI ran a campaign in the UK a year ago that was very successful in generating leads and opportunities for new businesses, and I know that we would be keen to do more. I cannot share that because we are in discussions about it, but we are aware of that.

Q324 Mr Walker: One other line from the FSB. They concluded that there is a “perception among some of a wider shift in priorities away from smaller businesses”. I have talked with previous panels about this concern that the drive to promote medium-sized businesses exporting has sometimes made small businesses feel like they are not the focus. I am sure that is not the intention, but do you feel there is any risk that UKTI could sometimes cherry-pick the larger companies that are doing bigger deals in order to meet export targets?

Nicola Bolton: No, I do not think we do. We are agnostic about the shape and size of companies that we support, we are blind to the sectors that they operate in and we do not mind which markets they want to go out and trade in. It was new money that was put into the MSB programme, so we did not divert money away from supporting small businesses into the MSB programme when it was launched. That is very clear and on record and Lord Livingston has corresponded with Mike Cherry to that effect. We have a very clear distinction there.

Q325 Mr Binley: I was struck by Mr Barr's view that there is a very high client satisfaction level with MAS. I noticed it was placed at 95%. What are the criteria? Is it increased profitability or increased employment? Is that the basis for satisfaction, or do they just like you?

Steven Barr: I am sure they do.

Mr Binley: I am not sure about that yet; you have got to convince me.

Steven Barr: There is a wide range of factors. It includes the quality of the service, and the knowledge and understanding of the adviser who works with them—a whole range of factors that add up to their experience with the Manufacturing Advisory Service. I do not have the details to hand but I could provide them.

Mr Binley: Could you let us have them? I have heard all this nonsense for a very long time—nine years on this Committee—and what I really want to see is what the improvements are in terms of actual factors. I want to know whether profitability has increased, whether size of exports has increased and whether size of manufacturing has increased. They are the things that count. All too often we do not quite get the answers in those forms. Can you come back to us with those answers?

Steven Barr: Can I just check: is it specifically the jobs and GVA or is it also the quality—

Mr Binley: I want outcomes that we can see and judge by. I have been crying for those for a long time now. If you could come back to me with those outcomes, I would be grateful.

Steven Barr: I will certainly do that.

Chair: And to the Committee.

Mr Binley: Thank you very much. The same for UKTI, if you would, please.

Q326 Caroline Dinéage: We have heard concern that UKTI has not guaranteed the level of funding for the Tradeshaw Access Programme into 2014. Businesses value continuity and the ability to plan for the future. I wondered if you could confirm what the level of funding for this scheme will be going forward, please.

Nicola Bolton: I would like to start by confirming that overall we have increased the level of funding that goes to business for exhibition support. Spend on things like our Tradeshaw Access Programme this full year remains around 28% higher than it was in 2012-13. I cannot confirm what the funding level is going to be for next year because we are just in the course of doing our business planning at the moment so our budgets are not finalised, but we have doubled the amount of support that we have provided to businesses and we have created a range of offers for them. You have trade-show access that they can get; they have events and missions that they can go to. We are looking at a total package of offers. I am meeting with around 40 trade associations of the Sponsors Alliance later this week to talk about that and to discuss where we are and how we work together on that. I am taking a very collaborative approach to working with them. We have a series, for example, of sector panels that we are convening to allow them to feed in and shape the

requirements for next year—for example, which are the core events that they think are really important for businesses in their particular sector—so that we can work together on that.

Q327 Mr Binley: What outcomes are you looking for?

Caroline Dinenage: That is what I was about to say.

Nicola Bolton: The outcome I am looking for is to help more businesses get abroad to trade shows and win business. It is very simple.

Q328 Caroline Dinenage: It is really difficult to measure the outcomes of these trade shows because sometimes the benefits can be seen a really long way down the track. Is there any way that you can pull the data—

Nicola Bolton: We do measure it. We measure it in two ways. UKTI overall looks at the number of companies that we assist. Every time we help a company go to a trade show, that counts as that type of assistance. We also monitor and ask them to tell us the amount of business they win as a result of working with UKTI—something called a “business win”. We have a form; it is signed by the customer and it sets out exactly the level of support that they have had from UKTI and whether they would have achieved that on their own or not, and various other things that they fill in. That drives and underpins the outcome that we deliver in terms of supporting business. It is robust and auditable.

Mr Binley: So it is going to be easy for you to let us have those figures.

Nicola Bolton: We can let you have figures about business wins, absolutely.

Q329 Mike Crockart: Just a very quick question before we leave UKTI. I was struck by the answer you gave to one of the previous questions where you said you were blind to sectors. I was quite surprised by you saying you were blind to sectors given that BIS has spent so much time identifying particular sectors and building strategies around them. Does that not fit into the policies that you then follow of which sectors you are—

Nicola Bolton: Not at all. I think you have misunderstood my point. We have two halves to our business. We have the bit of the business that is the ITAs out on the ground—the 300-plus international trade advisers helping the nearly 48,000 businesses every year who pitch up one day and say, “I would like to export and I would like to do it in France or Germany or China”. We do not say to them, “Ah, but you are in Sector X and therefore we are not interested”; we help them. We have another part of our business that is sector-oriented, and that is where our High Value Opportunities programme comes in. That has delivered some £14 billion worth of business wins since its inception in 2011. That is very sector-oriented. We link into the industrial strategy sectors—in fact, we cover over 20 different sectors, but we are linked into those highlighted in the industrial strategy, where we join up on our trade and our investment activity to bring it together as a whole. Indeed, Janice and I and our bosses are looking at how we do more now to align Janice’s teams in the industrial strategy bit of BIS and the UKTI sector teams so that we can make sure that we are even more tightly working together than we are today. When I say “blind” I mean we have to be reactive and help any business that comes to our doors, but for our high-value opportunities, the whole point of which is about finding the

opportunities that have got the most potential to bring the supply chain along behind them, we are very much focused with sector strategies. You will have seen some of those published, I am sure.

Q330 Mike Crockart: What is the split of your resources that are going into those two sides?

Nicola Bolton: It depends what you mean by resources. They are not all UKTI resources because we have private-sector delivery partners. That was why I was hesitating; I was getting into how many people we employ.

Mike Crockart: Perhaps it is something to take away, then.

Nicola Bolton: Yes. If you do want a breakdown, there are about 400 people working in the regions in the international trade teams. I will come back with the exact number on our sector teams.

Chair: Yes. You can easily submit that as supplementary evidence. Mr Godfrey, it is your turn. Export finance: an incredibly important but also incredibly arcane area. Can I bring in William Bain to question you on it?

Q331 Mr Bain: Thank you. I seem to specialise in incredibly arcane things, Chair. Mr Godfrey, if I can ask you about the buyer credit facility, this was the most popular product that BIS was offering in terms of export finance in terms of the amount of money involved. It was roughly £2 billion last year, helping 16 exporters. What metrics have you established to estimate what value this particular scheme has to the UK economy?

David Godfrey: Stepping back, UK Export Finance has to, through the cycle and over time, not be a drain on the taxpayer. We have to make money for the taxpayer. Indeed, over the last 10 years, we have paid a significant amount of money over to the Treasury as a result of our overall activities. We would not look at an individual buyer credit in that context; we would look at it from the point of view of whether we are earning sufficient premium on that exposure to justify the extension of it, and we would look at what it is doing in terms of both the company that we are helping to secure that contract that it would otherwise not secure and also how many companies in the supply chain are being supported in the UK as a result of that. What we do not look at for an individual buyer credit is some metric of the number of jobs created, for instance.

Q332 Mr Bain: The number of companies that export that are helped by this particular facility has risen from three to 16, but what scope have you examined for what is the unmet need amongst particularly our small and medium-sized manufacturers who could be looking at exporting?

David Godfrey: You have to look at the whole range of products that we offer. Buyer credits are one particular traditional form of support whereby we will offer a guarantee in favour of a bank that provides loans to a buyer provided that that foreign buyer uses the proceeds of that to purchase from the UK. That is the traditional form of export credit. As you will know, in 2011 we were given powers to re-enter what is called short-term business. Short-term business was privatised in 1991 because we believed then that the private markets would deal with that kind of support, which I will go on to define.

As a result of the credit crisis, we found out that the private market did not provide that sort of support. What we are also providing now by way of support for up to two years is export insurance. That is to say, if you are exporting to Kazakhstan, we will give you insurance that you will be paid for that export, we will support working capital if you need to build working capital in the context of an export contract, and very often you are required to provide bonds—performance bonds or advance-payment bonds—which we will do as well. I really think what one has got to look at now is the whole range of products that UK Export Finance has available to it to support both large companies and small and, indeed, micro companies.

Q333 Mr Bain: It is interesting that the number of companies helped by the Bond Support Scheme, for example, has doubled between 2012-13 and 2013-14 to 68. It is, indeed, the most popular scheme in terms of the number of companies helped that you are offering. What would you explain is the particular reason for that?

David Godfrey: Bond support is essentially a contingent liability. A bank is asked to issue a bond on behalf of you, the UK contractor and exporter. It sits on a bank's balance sheet for quite a long time—it can be there for five years or longer. It uses up credit capacity. In an environment where banks continue to be constrained, particularly for SMEs, it is a product that can be not terribly popular. What we find with smaller companies is that, in my estimation as a former banker, they are often asked for unreasonable and unrealistic terms for that bond support—for instance, to have it cash-collateralised, which for an advance-payment bond, when you are getting the cash in for your working capital, really rather defeats the purpose. We have found that a lot of small companies have come to us on the basis that their bank will only provide a limited amount of support or, indeed, no support at all, and our willingness to shoulder that risk for bond support has been very popular.

Q334 Mr Bain: It is a very interesting point. What we have heard repeatedly this morning from the three different panels is that there is still too much of a culture of short-termism, much of it being driven still by the banks, and that we do need to be more creative in the sorts of products that are available to small and medium-sized exporters to allow them to have a chance for the long term. Do you see this particular Bond Support Scheme as one that could expand to meet that gap in the financial services market for SMEs?

David Godfrey: We are there; we are available. Absolutely. To the extent that companies require more by way of bonding support, we are there to support that. We are there to support working capital needs. As I mentioned earlier, you may need to build working capital. Again, the banks have lost a generation of people who are able to look at self-liquidating trade transactions—that is, the security of the transaction itself gives you the comfort to be able to provide the support for it, so you will see a big increase in working capital in anticipation of or ahead of an export contract. We think that is absolutely legitimate. As companies are growing, they build working capital to support exports and to create jobs. Again, we will provide support for working capital. One of the things that we are looking at right now is ways in which we can extend our Act, which is going through the process right now, to be able, particularly for working capital, to make that product available more broadly.

Q335 Mr Bain: In the annual report this year it was reported that UKEF underwrote the export of aircraft worth more than £54 million to the Republic of Ireland. Is this just one example of UKEF taking on liabilities to export to EU member states? Is the criticism that could be made of this particular underwriting not that it is simply targeting an easy win rather than supporting those businesses that wish to export to new or harder-to-reach markets?

David Godfrey: Supporting that particular transaction did in no way detract from our ability to support exports to the rest of the world, and particularly to the growing markets that I know we need to attack. We are able to support exports through buyer credits to rich markets—to the EU. It may well be that in that case the alternatives for financing were not available or were not open to that particular buyer and in that case we were able to support it. Since the credit crisis, we have supported business to markets that historically we would not have supported. We have done buses to New Zealand, for instance, which a few years ago you would never have thought we would do. That is lessening now because the banking market is coming back quite strongly, but we are able to support that kind of business—but not to the detriment of those areas particularly where HVOs are involved, which tend to be in the emerging markets where finance and the availability of finance is critical.

Q336 Mr Bain: Do we still need export guarantees in order to trade with EU nations such as the one that we have just discussed?

David Godfrey: From time to time. There will be a limited requirement for them. Again, a lot depends on the cycle of finance. In 2008 and 2009 it was difficult to finance things in most countries, quite honestly, particularly long-term. One of the goals I am trying to achieve in my term as CEO is to ensure that we have a portfolio of products that is fit for purpose through the cycle. There is a real danger of short-termism and, “You are not using this, so let us stop it”, whereas as the cycle moves we need to be responsive to that cycle and be able to fill gaps when those gaps arise, as they did in 2008 and 2009, and as they inevitably will do again.

Q337 Mr Walker: Both UKTI and UKEF have expanded their offering to small businesses and are making that push to reach out to more small businesses. Both come from a history of having been involved with very large deals particularly, and particularly on the resources front and so on and so forth, in the past. I just wonder if you have looked at the case for cross-subsidy there in terms of charging the biggest companies—the big multinational companies that you work with headquartered in the UK—more for the very valuable support that you provide to them in order to support SMEs and spend more on reaching out to SMEs. Is that something that been considered in either UKTI or UKEF?

Nicola Bolton: I asked the question. I only joined UKTI in the summer and it was one of the questions I asked. I am told that we are not allowed to do that and that there has been investigation into that and there is case law that prevents us doing that. I am not a legal expert, but it is getting into the state aid type of territory when you come to cross-subsidisation. We can charge for events and indeed we do charge for different events, so that would be our mechanism.

Mr Walker: Yes. But you can only charge the cost; you cannot effectively make a profit and redistribute that. Is that what you are saying?

Nicola Bolton: We are probably getting into definitions of aid and things like that.

Mr Walker: If you can write with some more information on that, I would be very interested to see it, because it is something I have pushed before with Ministers. It would be quite interesting to look at.

David Godfrey: I would say pricing of our products is not an issue. We are governed by a series of pricing grids that are established at the OECD level and that we have been heavily involved in, which is risk-based pricing. For certain types of sovereign there is a floor below which you cannot go, at least if you are an OECD ECA. Those are pretty rigorously adhered to. We do not get criticisms from the likes of Airbus or Rolls-Royce that we are uncompetitive, and if we ever did we would look long and hard at the pricing to make sure that a UK company was competitive. We do not cross-subsidise as such. Is the business that we do for the micro companies profitable per se? If you fully costed it, no, it probably is not, but that is not the way we look at it. I am not looking at whether I am making enough premium on a micro business to cover the expected loss—which will be higher than it will on a bigger business—because overall, going back to the earlier question, our metric is to ensure that we cover our administrative costs, we cover our expected loss and we make a small return on the capital that the Treasury puts aside to support us. I do not think it is an issue.

Q338 Chair: Could I just intervene at this point? When you determine whether you are going to support a particular venture, do you have a premium rate that corresponds to the level of risk involved? If so, how do you assess that risk?

David Godfrey: Absolutely. We assess it with very much the same techniques as the banks would use. If it is a sovereign, we would look at the sovereign credit rating, we would look at the likelihood of default and we would look at the expected recovery rate—how long we think it would take us to work that through. We would have a very strong view on the expected loss and what we needed to cover that expected loss.

Q339 Mike Crockart: You are talking about credit facilities, corporate bonds and support for working capital, all banking products and particularly trying to fill in where the market has failed. You are doing that aimed very much at companies that are exporting. What is the difference between what you are doing and what the British Business Bank is doing across the economy more generally? Is there internal Government competition going on there? Is there an argument for bringing those two together?

David Godfrey: There is certainly not internal Government competition. I met last week with Lord Livingston and Keith Morgan, who is my counterpart at the British Business Bank, specifically to talk about areas where there may be overlap or underlap between the British Business Bank and UK Export Finance. I would say the business models are very different between the two organisations. The British Business Bank is looking at funding institutions where that funding will create leverage into the economy. For every pound that they invest, the private sector—be it a bank or a fund—will invest £7 or £8. They do it very much on a wholesale basis and it is delegated through delegated authorities to the institution. Ours is much more of a bespoke single-name credit, and it is targeted purely at exports. That sounds like me trying to argue that they are completely different. There are ways in which we think we can work more closely together. We can

learn from them through their delegation model to delegate some of our authority to banks and brokers so that they can get more quickly and more efficiently into the private sector. We can work with companies and funds where some of their expansion capital may well go to companies that are going to export and they should know about us, which we already do with the Business Growth Fund—every one of their companies gets a flier on UK Export Finance so that when they invest in a company for growth, hopefully a large element of which will be exports, they know that we are there. We can do more, but we are working with the British Business Bank and the British Growth Fund to make sure that each of us is aware of the others' capabilities.

Mike Crockett: I accept what you are saying about it being a different model—it is a wholesale model—but equally we have heard evidence from companies that have been arguing for the British Business Bank to be able to take on more of the responsibility, for example, for regional growth funds, which are very much targeted at individual companies. There is definitely a movement there.

David Godfrey: We welcome the discussion, because there are fertile areas to pursue.

Q340 Chair: I have a couple of quick questions. What proportion of your guarantees fail? Again, if you want to provide us written evidence, that would be very helpful.

David Godfrey: Yes, I can provide you with that. The best evidence of that is our claims, and our claims paid in the last decade have been very modest. We can get the exact numbers. I think it is as low as £30 million. Remember that our risk portfolio is running at something like £19 billion. That is contingent liabilities that are off the Treasury's balance sheet and the Treasury would like to keep them that way, but every now and then we have to make claims.

Q341 Chair: Given the fact that you effectively operate on a cost-neutral basis to the Government, is there not a danger that you cherry-pick the easy ones that guarantee that you get your money back, if you like?

David Godfrey: The answer to that is no. We do not cherry-pick. We look at cases that are brought to us by banks, by insurance companies and by exporters direct and we will assess them on the merits of the risk involved. There are cases where we will turn transactions down because we just do not think that the risk is the right risk. I can think of one case where we did that. We went back to the company and we said, "We do not think this is the right risk", and they agreed with us in the end. No, very strongly.

Q342 Chair: Could you also give us some figures—again, written evidence will be fine—on the numbers that you turn down?

David Godfrey: Yes, I am sure we can get that information.

Chair: Okay. That concludes the questions. Thank you very much. That is very helpful indeed. Again, if you feel that there is anything you would like to add to any of the questions that we put to you, please feel free to do so, and we will be following up with one or two questions as well. Thank you very much.

