


Thursday, 16th April 2009



I am delighted to submit the following memorandum in response to your call for comment on the Enterprise Finance Guarantee Scheme.

Memorandum from the British Marine Federation to the Business and Enterprise Committee of the House of Commons concerning the Enterprise Finance Guarantee Scheme

- 1.1 The British Marine Federation is the trade association for the leisure boating industry, representing around 1,500 member companies. Our members provide the boats, equipment, facilities and services that enable nearly 4 million people to enjoy their recreation afloat on the coast and inland waterways of our country. The BMF also operates the London and Southampton International Boat Shows via its subsidiary National Boat Shows.
 - 1.2 Our industry is wholly comprised of small and medium-sized enterprises with over 95% of companies within our membership employing less than 50 people (based on BMF membership statistics). In total the UK leisure marine sector directly employs over 35,000 people and generates annual revenues of nearly £3 billion, of which 35.1% represents export sales. Over recent years the leisure marine sector has been recognised by Government as a manufacturing success story and a growing and valuable contributor to the UK economy.
 - 1.3 The BMF welcomes the opportunity to submit evidence to the select committee hearing at a time when many member companies are facing financial difficulties, including access to credit from lenders and other financial institutions.
 - 1.4 A number of firms in the leisure marine industry have entered administration in the last six months and hundreds of highly skilled workers have lost their jobs, often in areas of the country with few other high-skill employment options.
- 2.0 *Threshold of an annual turnover of £25m for applicants*
- 2.1 The vast majority of marine businesses are small and medium sized enterprises. As the BMF alluded to in its recent submission to the committee in its inquiry,

Financial Support for Small and Medium Sized Enterprises, access to credit can be close to impossible, interest rates for overdrafts and loans are at unprecedented premium over base-rate, while the inflexible attitude toward loan covenants are driving otherwise valid businesses into administration.

- 2.2 While the vast majority of SME's within our sector qualify for help under the Enterprise Finance Guarantee Scheme, the £25 million threshold for turnover can also affect them indirectly.

While only 16 of our 1600 members have turnovers in excess of £25 million, their cumulative worth is well in excess of £1.1 billion. This constitutes over 35% of the total worth of the UK leisure marine industry, however the majority of small manufacturers also rely upon these 16 companies as their key customers. Despite this, larger marine businesses remain unable to secure affordable credit from the private sector or the Government (quantitative evidence of this can be furnished to the committee in confidence, on request).

- 2.3 Many companies have reported difficulties in receiving payment from the larger businesses within the sector which, as larger concerns, have greater exposure to a depressed credit market. Payment terms, on many occasions, have been extended from 30 to 90 days and many smaller businesses have little choice but to accept part payments for work and materials that have already been delivered. As a consequence, many SME's who act as suppliers to the larger manufacturers are struggling to maintain sufficient operating capital. This *increases* their need for credit *beyond* what would be required in a more stable economic climate, consequently driving an increase in applications to the Enterprise Finance Guarantee Scheme and putting additional pressure on the tax payer.
- 2.4 One of the larger yacht manufacturers deals with over 300 separate suppliers who rely on their business in order to remain financially viable but, despite possessing a healthy order book, the business has often been unable to pay them in a timely manner, exclusively due to the depressed credit market.
- 2.5 With this in mind, the BMF would strongly advocate that the threshold for turnover within the Enterprise Finance Guarantee Scheme be relaxed and a level of support made available to larger organisations, appropriate to the number of suppliers and employees they support, as well as turnover.
- 2.6 This would not only serve to aid a comparatively buoyant, British owned industry but would also have the effect of reducing the burden on the tax payer by allowing companies to cascade Government support through the supply chain. The net effect would be reduced administration to both the Government and applicants and an overall reduction in the exposure of the tax payer to corporate debt. It would also ensure businesses throughout the supply chain could operate with a healthier capital reserve, significantly reduce their exposure to bankruptcy proceedings and improve their credit profile in the eyes of traditional lending

institutions.

3.0 *Effective Promotion of the Scheme to the Private Sector*

3.1 The BMF has worked extremely hard over the last year to promote Government initiatives aimed at supporting industry to its members. It has come to our attention, however, that a vast number of our members are wholly unaware of the Enterprise Finance Guarantee Scheme and we would strongly urge the committee to recommend to Government that they invest in order to promote it. This is particularly true of very small and sole trader companies where knowledge of the scheme appears to be virtually non-existent.

3.2 The BMF itself, as a qualifying medium sized enterprise (all be it not-for-profit), has received no information in regard to the scheme, only becoming aware of it through its public affairs activity on behalf of its members.

4.0 *Administrative Burden of the application process*

4.1 The BMF understands the need for Government to attain accurate and appropriate information in order to ascertain the validity of claims made against the Enterprise Finance Guarantee Scheme. With an unprecedented amount of credit being offered to private enterprises, it is only prudent that Government attain sufficient evidence that the credit will have a beneficial effect on the national economy. However, the experience of our members would appear to indicate that the correct balance has yet to be struck for small and sole trader businesses.

4.2 Many of the smaller BMF members have reported significant difficulties in securing these funds due to a lack of understanding of the Enterprise Finance Guarantee Scheme at local bank branches. While the scheme can be administered through 26 lending institutions, the reality appears that availability depends on the knowledge of the individual bank manager in question. Having made a number of telephone enquiries to major High Street lending institutions, recently supported by Government funding, the BMF spoke to several phone bankers none of whom professed to know what the proposed scheme was, nor, after consulting with their supervisors, were they able to improve the situation. Contact through telephone is perhaps the first point of call for small businesses and sole traders with their bank. When facing difficulties, it is crucial that bank staff are aware of this Government initiative otherwise the funding will be all but inaccessible to SME's.

5.0 *Conclusions*

5.1 In conclusion, while the BMF is broadly supportive of the Government's plans to provide guaranteed credit to SME's, we believe that the tax payer's money should be used carefully and with a holistic view of the economy. The leisure marine

industry, being a wholly discretionary business, relies heavily on credit to service a comparatively buoyant market and guaranteed funding can help ensure the longevity of the industry. However, we remain concerned that the current proposals may not leave this British industry on the best footing once it emerges from recession and we would urge the committee to consider our suggestions in the light of this, in its ongoing discussions.

6.0 *Next Steps*

- 6.1 The BMF would be delighted to provide any further evidence to committee, should you require it, and is also available for oral evidence. We look forward to further involvement in your inquiry.