The Manufacturers' Organisation

makeuk.org

FINANCE: OPENING DOORS TO INVESTMENT IN MANUFACTURING

In partnership with

Lombard

NatWest

CONTENTS

KEY FINDINGS

IMPROVED ACCESS
TO FINANCE
COULD ADD AN ADDITIONAL
£9.2BN
OF INVESTMENT
OVER THE NEXT 12 MONTHS

62% OF MANUFACTURERS
USE FINANCE TO INVEST
IN CAPITAL EQUIPMENT

THE MARKET FOR
ASSET FINANCE
HAS GROWN BY
7%
IN THE LAST YEAR

47% USE FINANCE FOR
WORKING CAPITAL NEEDS

31% USE FINANCE TO
INNOVATE

MANUFACTURERS ARE THE
2ND BIGGEST
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40% OF MANUFACTURERS
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WITHOUT ACCESS TO FINANCE,
70% OF MANUFACTURERS SAY
SOME INVESTMENTS
WOULD NOT HAVE HAPPENED

87% **WILL NEED FINANCE**
TO MEET THEIR GOALS
OVER THE NEXT 2 YEARS

MORE THAN 1/2 **REMAIN UNAWARE**
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NEARLY 7/10 BELIEVE THAT GOVERNMENT SHOULD FOCUS ON
CLOSING THE INFORMATION GAP
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INTRODUCTION

Finance is like fuel for investment in the manufacturing sector. It creates opportunities for manufacturers to reach their organisational goals that might be more challenging to achieve within their own means. Without it, many businesses would not be able to start or scale their production processes to meet growing demand. In such a dynamic industry, these businesses must continuously invest in innovation and sustainability while evolving in an ever-changing external environment that regularly tests their resilience. In the last five years alone, manufacturers have faced challenging times – from dealing with the possibility of a No-Deal Brexit, to a global pandemic followed by an energy crisis and unprecedented labour shortages that cost the industry approximately £21m a day in potential output at its peak[1].

Though many of these crises have eased, it has become clear to manufacturers that volatility is the new norm and they must therefore invest to build resilience as part of their business models. As the survey results show, manufacturers continue to require finance to invest in plant and machinery, day to day operational costs, innovation and expanding domestically or overseas. While these priorities will remain, looking ahead, manufacturers are expecting to seek finance for investments in robotics, energy efficiency, skills, and even cyber security to ensure they are protected against future threats but can also seize the opportunities that are presented as a result of an evolving economy and changing global landscape.

However, manufacturers continue to be deterred by factors such as economic uncertainty and higher costs which has led to limited use of finance despite the opportunities it can bring. The findings of this survey also indicate manufacturers are lacking awareness of the breadth of finance solutions that exist to support ongoing investment needs. In some cases, there is also a lack of knowledge regarding how to access public sources of finance, which can be a key enabler to supporting manufacturers to achieve their goals. While the survey highlights that there is a level of complexity when it comes to what a lender requires to support the funding of investments, there are examples where working in partnership with funders, suppliers and obtaining external support across the sector eco-system has demonstrated success for manufacturers.

An exercise that builds on existing mechanisms of support provided by the financial sector is required to help improve awareness and give manufacturers the confidence they need to meet their ambitions. Using finance is a tried and tested method of achieving business ambitions, particularly given seven in ten manufacturers say that some investments would never have happened if it were not for the access to private and public finance. The benefits of improving access to finance could be substantial. As our evidence suggests, investment could increase by approximately £9.2bn in the next 12 months.

[1]Make UK analysis of ONS productivity and vacancy data

NATWEST VIEWPOINT:

Finance plays an important role in helping UK manufacturers unlock investment to grow, innovate and/or become more sustainable. Despite recent challenges, the manufacturing sector has remained resilient and businesses have continued to invest to ensure they remain future fit. Access to external finance has been a key enabler to support these ambitions. That said, with such a broad range of options and providers available, the choice could seem overwhelming. This coupled with low awareness of funding solutions available to improve technology adoption, boost productivity and embed sustainable practices could lead to disengagement among those who could benefit from finance the most.

Three key areas feature prominently in this report, and we're keen to help de-mystify perceptions and signpost practical tips to ensure manufacturers understand the ways they could easily and efficiently access finance.

ACCESS TO FINANCE PROVIDES ACCESS TO OPPORTUNITY:

Almost three quarters of companies say without access to finance investments would not take place, so it's encouraging to see that funding support available is unlocking investment for key projects.

However, many businesses continue to use their own cash to fund other investment projects including digitalisation, energy efficiency and decarbonisation. External finance has evolved to support these additional needs, so it's evident that more awareness is needed around the types of financing available to manufacturers as an alternative to using own funds. For example, asset finance could be used beyond funding traditional plant and machinery and at Lombard we are able to fund investment in technology and renewables to help manufacturers embrace the benefits and cost savings this investment could bring. The additional benefit to using this type of funding is that the asset is used as security therefore leaving other debt and working capital lines unaffected. Finance could also be used to reduce risk, particularly when trading globally. With the geopolitical uncertainty seen in recent years, trade facilities such as loans and letters of credit could provide security for both parties, thus helping many businesses negotiate more favourable terms.

FLEXIBLE FUNDING TO PROVIDE FUTURE FINANCIAL STABILITY:

While the economic environment remains volatile, accessible finance remains a source of capital for manufacturers. Investment often requires a longer-term commitment and the benefits this brings to a business is often not immediately demonstrated. The main aspect many lenders will look at is the affordability of the finance based on historic performance as this is a good measure of what the business could deliver moving forwards.

Providing flexible finance for future looking investments requires greater partnership and collaboration between lenders and manufacturers, with the support of organisations such as catapults and equipment suppliers, to ensure businesses maintain financial strength and stability while accessing innovative financing solutions to support longer term plans. Identifying the return on investment and timescales linked to this will help support applications for funding. For example, providing evidence on energy savings through investment in renewables or new plant to support confirmed new sales orders.

FOSTERING AN ECO-SYSTEM OF EXTERNAL SUPPORT:

In addition to private sector funding, there's a wealth of public finance funding, tax reliefs or services available to support investment. When businesses are able to access this, it often generates significant benefits to them. However, the report highlights how difficult it is for manufacturers to navigate the complexities that exist in accessing this support and a number of public sector grants, initiatives and programmes are unknown to many manufacturers. We're keen to work collaboratively across the industry and build an eco-system of support for manufacturers that will improve technology adoption, boost business productivity and create more sustainable businesses. Signposting and creating awareness of this support is key, and we encourage others across the industry to do the same.

At NatWest and Lombard, we look to continue to evolve our support to UK manufacturers and have many solutions to enable businesses to grow, innovate, improve productivity and become more sustainable. Last year NatWest Group committed to provide £1bn in additional lending to UK Manufacturing to support the Net Zero transition.

With the leading market share in the sector, we work with 50,000 businesses and customers across the Manufacturing industry – from sole traders and SMEs, through to large corporates and PLCs. Our specialist manufacturing teams could look to make accessing finance simple for you, matching funding solutions to your needs.

Aside from funding, we also appreciate manufacturers need additional support to scale up, reduce costs and review options to become more sustainable. We have several additional solutions and propositions to support businesses with this.

To help manufacturers scale and grow, our Accelerator programmes provide free coaching, mentoring and networking opportunities to help you build your team, venture into new markets or seek further investment. In addition to this we provide flexible support for high-growth businesses, whether you're growing, sustaining growth or scaling. We'll work with you to maximise the new opportunities out there.

We know that energy costs remain a key concern, especially where margins are already tight. Our digital Energy Help and Support tools enables businesses to review their premises energy efficiency, and access tailored recommendation which could reduce their energy costs and carbon footprint. The tools use a business' postcode to offer detailed support on everything from solar panels to low-carbon heat pumps - including estimated costs, return on investment and help with sourcing suppliers.

For more information on how NatWest and Lombard could support your business with solutions, see page 33.

Security may be required. Products fees may apply. Finance is subject to status and for business purposes only.

Laura Capper
Head of Manufacturing and Construction, NatWest

Ian Isaac
Managing Director, Lombard

PART 1
ACCESS TO FINANCE

Limited access to finance (whether that limitation is real or perceived) is a challenge that has created obstacles to growth for many businesses for over a decade now, despite historically low interest rates. Over time, many businesses in the UK have built into their psyches an aversion to risk which places greater weight on the cost of finance, rather than the opportunities finance can create.

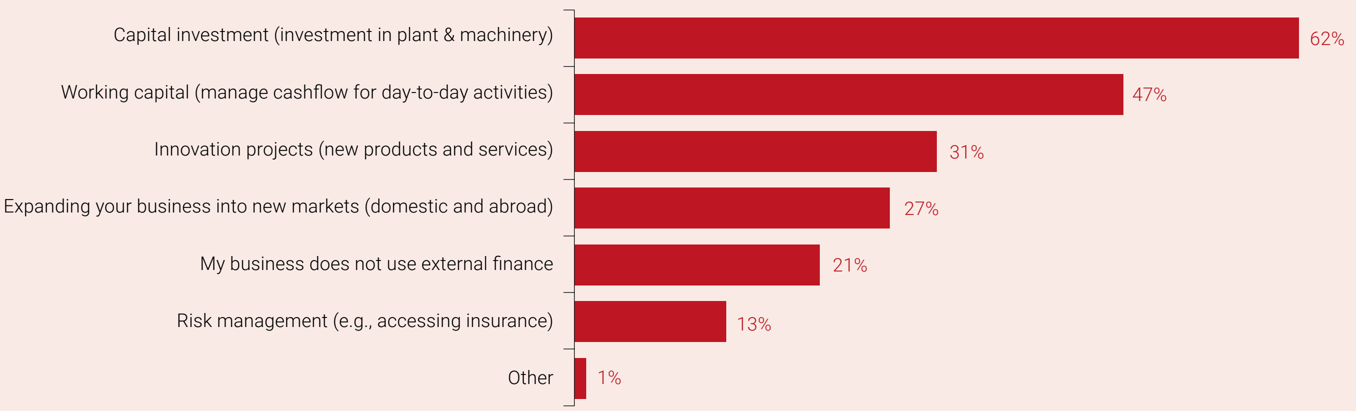
Existing studies on understanding the use and access of finance tend to focus on SMEs, given these businesses make up the largest population of firms. But it is these firms that often face the greatest barriers to access as they lack the expertise and know-how to navigate a complex financial market. For example, 65% of SMEs highlight a lack of awareness of available finance options, and 53% have previously pointed to the limited access of supply of finance[2]. Nevertheless, the funding landscape is developing fast, especially for SMEs, who now have a wider range of financial options available to them than ever before, thanks to initiatives like Open Banking and greater use of digital technologies.[3] The next step is to find innovative ways to bring those options in front of the businesses that need them.

Manufacturing is a highly capital-intensive industry, with significant sunk costs that requires access to long-term capital. It can often mean that because of the long-term nature of investments, it can be more challenging to demonstrate the benefits of new projects. Together with ongoing working capital funding requirements and for many businesses, the addition of pandemic-related debt, this has resulted in some manufacturing businesses facing greater challenges when requiring support for funding. This, however, can be changed over time by ensuring manufacturers know where to look when seeking advice and support, in addition to a greater partnership with funders to ensure businesses maintain financial strength as well as financial flexibility to support current and future investment needs.

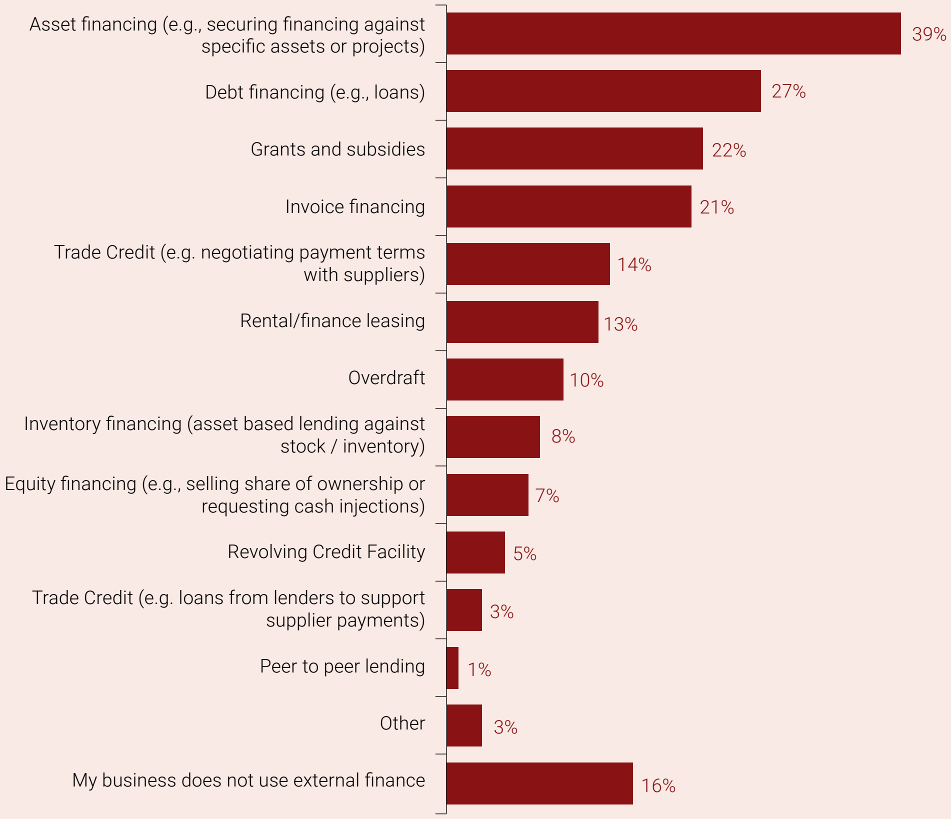
To better understand how we can approach improving the perceived access of finance for manufacturers, the findings of this survey begin by highlighting what these types of businesses use finance for and how they approach investment.

Chart 1 and 2 – Manufacturers use finance to invest in capital, support day to day costs, increase innovation and access the most relevant forms of finance to meet these needs

% share of manufacturers citing what they access finance for, and what types of finance they use



[2]British Business Bank, Access to Finance Spotlight: UK Findings (2021)
[3]British Business Bank, SME Finance Monitor (2023)



Source: Make UK/NatWest Future Finance survey (2024)

The survey finds that for most manufacturers (62%), the main reason for accessing finance is to fund investment in plant and machinery. This is unsurprising, as the primary technologies used to produce goods are machines and specialist tools, which combined with the skill sets of engineers, make everything from cars to the ready meals we find on supermarket shelves. This is followed by finance for working capital (47%), innovation (31%) and for expanding into new markets (27%).

To understand these priorities in greater depth, we have explored the main reasons for accessing finance; namely capital, working capital, innovation, and market expansion, which highlights the broad range of financial products that manufacturers commonly seek out.

PLANT AND MACHINERY

There is a substantial variety of machines, tools and equipment designed for different purposes in the industrial space. For example, computer and hardware technologies support a plethora of functions such as record keeping and enabling the use of software to track inputs. Alternatively, vehicles such as vans and lorries may also be classified as machinery that support business functions. All businesses in the UK will make use of some kind of plant and machinery, whether it be laptops and mobile phones or heavy capital equipment like blast furnaces or CNC machines. That diversity in plant and machinery brings with it a diversity in cost that requires access to different types of finance, often more long-term finance.

To support investment in plant and machinery, two-fifths (39%) of manufacturers make use of **Asset Finance**, which secures finance for the business against the asset the funds is being used to purchase. Asset finance as a sector continues to demonstrate encouraging growth, with the market expanding by 7% in 2023 to £23.5bn for SMEs[4], thus highlighting the appetite for accessing funds. It is often one of the most appropriate forms of finance due to terms and costs, and is convenient in that it is offered close to purchase decisions, for a specific asset and therefore doesn't tend to interfere with wider financing structures.

Manufacturers continue to invest in plant and machinery despite all the external headwinds. Plant and machinery assets wear out over time and, even during times of subdued demand it can become costly and inefficient to run aging machines. Asset finance offers a way for businesses to prepare for growth, as demand conditions usually improve for those businesses who continue investing, as they are often the most prepared to capitalise on growth opportunities.

[4]British Business Bank, SME Finance Monitor (2023)

IS THERE PUBLIC SUPPORT FOR INVESTMENT IN PLANT & MACHINERY?

In addition to the debt-based solutions that exist for plant and machinery, manufacturers can also benefit from access to **capital allowances**, which support the management of cashflow delivered through tax relief. In 2021, the Government introduced the super-deduction scheme which offered a 130% allowance for most plant and machinery for a two-year period. This was a highly generous and applauded scheme but was let down by its inaccessible nature (unusable for leasing and second-hand machinery) and short timeframe[5]. This resulted in the Government making a series of changes to capital allowances, such as making the £1m threshold for the Annual Investment Allowance (AIA) permanent and introducing Full Expensing capital allowances. While capital allowances do not provide finance in a traditional sense, it offers a path to improving the return on investment (ROI) for plant and machinery investments, which in turn can improve access to finance by improving the risk profile of projects.

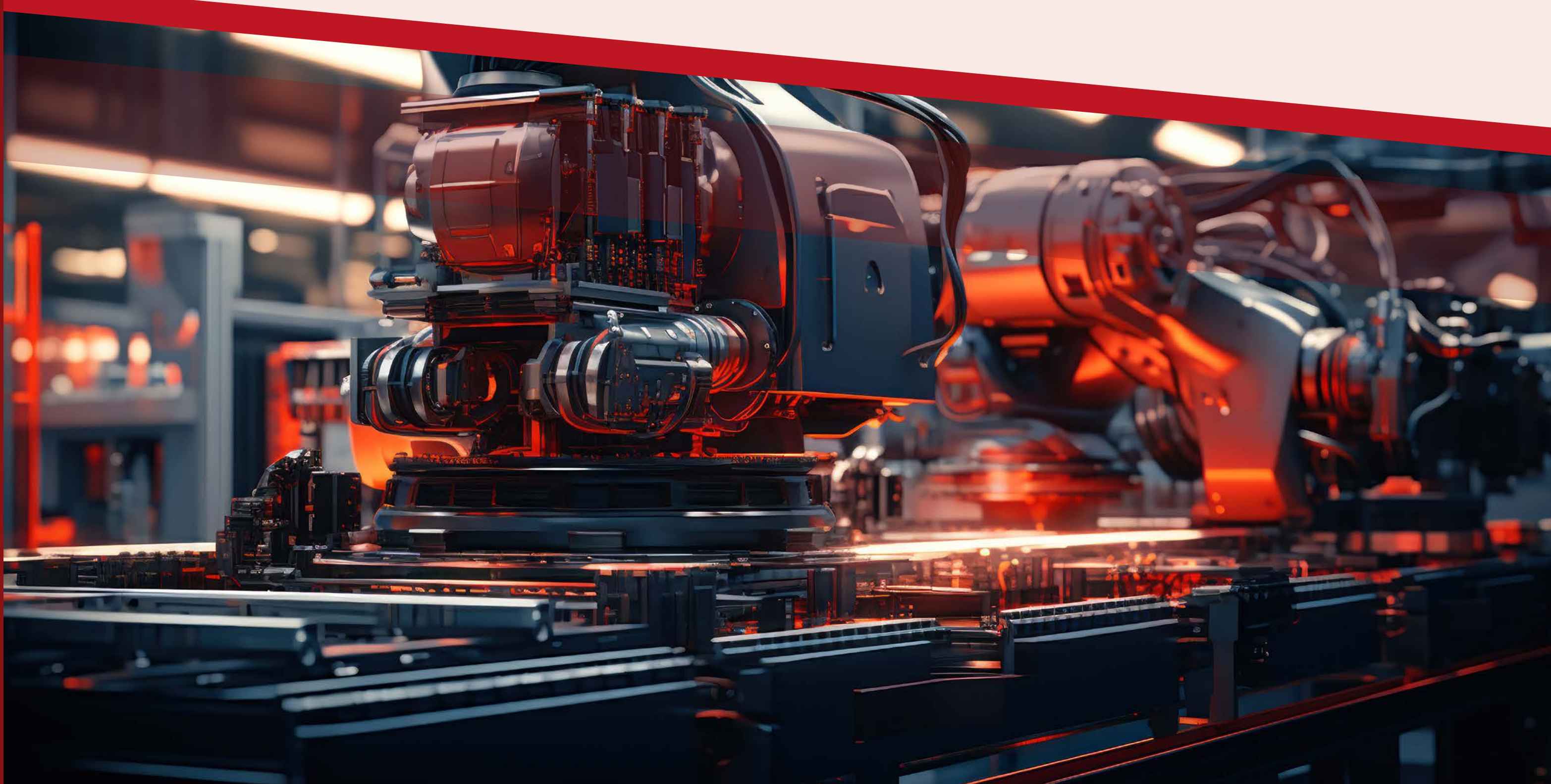
[5]HMRC, Research & Development Tax Credits Statistics (2023)

WORKING CAPITAL

The second biggest reason (47%) for manufacturers to access finance is financing working capital.

These are the day-to-day costs of running the business and often include typical operation processes, such as paying interest on existing debt or sundry creditors. The types of finance accessed for these purposes are likely to be more short-term in nature, such as using overdraft facilities or company credit cards.

For working capital requirements, one in ten (8%) accessed **overdrafts** to support day to day cashflow. An overdraft may seem like the only option, but assets such as debtors or stock can be utilised as security e.g. Asset Based Loans for Stock and Invoice Discounting for Debtors. These solutions link the asset to the debt, reducing the need for Personal Guarantees and/ or Deeds Security, and provides more of a flexible option, whereby the drawdown amount available is reflective of the asset volumes and values held.



THE BENEFITS OF FLEXIBLE FINANCE

Despite few manufacturers accessing the diverse portfolio of financial products available to support their needs, it does not necessarily mean that these solutions are not useful but rather businesses may be unaware of their benefits. Two examples of such products are Invoice Finance and Trade Credit.

Invoice Finance: This type of finance, accessed by 21% of manufacturers, offers manufacturers flexibility in terms of fluctuating sales/ debtor book and associated working capital requirements, which is particularly useful where stressed supply-chains impact payment terms from customers. Invoice finance is designed to grow alongside the business and can be used in a flexible manner, such as managing cash flow during seasonal changes. It is an excellent tool to support manufacturers as it protects their liquidity and can support growth ambitions. This type of finance, including ABL (Asset Based Lending) which is a market that has experienced 13.2% growth in 2023, can be used by any business and is often a great option for SME manufacturers[6].

Trade Credit: Though this form of finance is less used by many manufacturers, there can be significant benefits. Trade credit arrangements provide security in terms of both payments and quality of goods, compared to open account terms. This is highly relevant where manufacturers are seeking to diversify their supply-chains and /or customer base, forging relationships with new partners to access markets with new customers who may benefit from British made products.

These two financial products are not the only solutions available to businesses but are excellent facilities that can help free up cash flow, alleviate tensions on work capital requirements (which can be an alternative to overdrafts) and are easy to access for most manufacturers.

[6]UK Finance, Invoice Finance and Asset Based Lending update (2024)

INNOVATION

31% of manufacturers access finance for innovation. Manufacturing is one of the most research & development (R&D) intensive sectors in the UK, accounting for approximately £41 for every £100 spent by the private sector.[7]

To remain competitive, innovation is key as products and processes must continuously improve to meet the needs of an evolving consumer base. This includes meeting our net zero goals as traditional manufacturing processes become out of date and businesses increasingly invest to make more efficient use of resources, introduce upcycling, reduce waste, and become more energy efficient.

In line with the need to finance innovation, 22% of manufacturers access grants and subsidies to support their investment goals. Grants and subsidies are often linked to innovation and R&D projects, such as the Made Smarter programme or Innovate UK that open doors for many manufacturers. Although, subsidies may also support investment in capital as well as day to day expenses too, particularly for start-ups. As the survey findings show, there remains a substantial proportion of the industry who are unaware of public sources of support, with over half of manufacturers being unaware of initiatives such as Horizon Europe, Made Smarter or Help to Grow as well as organisations like the UK Catapults. All these solutions can support innovation as well as link up to other relevant types of support (such as advice and information that can be provided directly by lenders).

31%

OF MANUFACTURERS ACCESS FINANCE FOR INNOVATION

BACKING MANUFACTURING, BY BACKING INNOVATION

Manufacturing is a dynamic industry, and its innovative nature is one of the reasons that these businesses make heavy use of Government tax reliefs like R&D tax credits to support that investment.

For example, in 2022 the manufacturing sector spent over £11.4bn in R&D expenditure, the largest industry to do so, and claimed more than £1.7bn in R&D tax credits, the second largest claimant that year[8].

R&D tax credits have undergone changes recently that aim to simplify access as well as expand on definitions to cover data costs and cloud computing, so that manufacturers can take better advantage of the scheme. More can be done with the tax relief system to support innovative business, and currently it is not yet clear whether recent changes will on balance support or hinder manufacturing.

[8]HMRC, Research & Development Tax Credits Statistics (2023)

[7]Make UK, Manufacturing – The Facts (2023)

EXPANDING INTO NEW MARKETS

Over one in four manufacturers (27%) use finance to expand into new markets. Expanding into new markets can be achieved from a multitude of financial solutions, such as accessing equity or debt finance for mergers and acquisitions, or investing in new products and services (closely related to investment in innovation) and reshoring overseas production to the UK. The type of finance available to meet these objectives are numerous. However, specific financial solutions do exist for businesses that are looking to expand, particularly those with plans to access new export destinations. For example, trade finance, or export finance, can come in various forms such as letters of credit, export credit insurance, bonds & guarantees, and export factoring[9] which can give confidence to businesses who want to export or import. Similar to invoice finance, building awareness and sharing knowledge of the benefits of these solutions will give manufacturers more flexibility and options to reach their goals.

The UK Government also provides an Export Credit Agency that works with over 100 private credit insurers and lenders to help UK businesses access export finance. Though the service has a strong track record, many manufacturers remain unaware of the support they could receive if they proactively reached out to services such as UK Export Finance. Links can be created through the networks built between businesses, trade associations, and financial providers who can direct and encourage manufactures to seek out what is available to them.

27%

OF MANUFACTURERS USE FINANCE TO EXPAND INTO NEW MARKETS

THE FACTORS THAT CAN DETER ACCESS TO FINANCE FOR MANUFACTURERS

Manufacturers say that external, uncontrollable factors such as economic uncertainty and higher interest rates are key reasons for not accessing finance in the past. This is reasonable as economic conditions can determine investment needs, as well as impact the return on investment (ROI) of different projects. Despite the uncertain economic environment, manufacturers are increasingly reviewing their business models, focusing on cost management and creating efficiency gains, accepting that economic uncertainty is normal.

Additionally, low interest rates for over a decade have led to many becoming comfortable with access to cheap credit. Whilst this can make accessing finance more difficult today, opportunities for growth can still exist and if manufacturers have ideas that they believe could improve productivity, reduce costs and make them more competitive, then the true cost of that finance is easily trumped by the potential value of the opportunity. Rising interest rates may mean that there needs to be greater focus on ensuring the viability of projects, which is where greater collaboration with lenders, or research institutions, who can provide information and insight to ensure the best projects are still able to access the finance they need. It is also worth reflecting that the high level of interest rates today are only relative to the rates businesses have benefited from since the global financial crisis. In reality, the long-run average interest rate still remains historically low today, especially when compared to rates exceeding above 10% during the 1970s and 1980s.

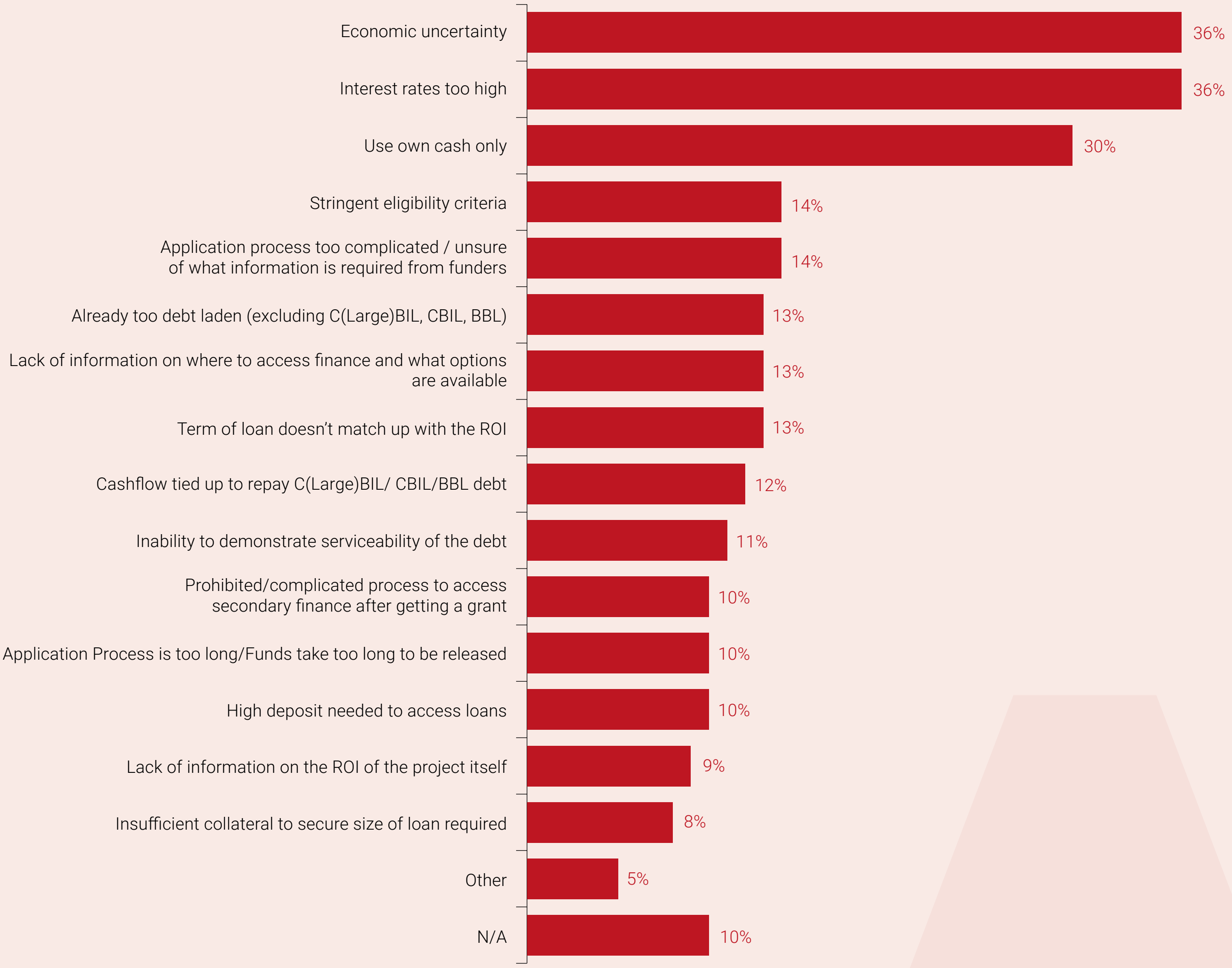
[9] British Business Bank, What is trade finance and how does it work?

Furthermore, a minority of manufacturers across the board have indicated challenges that limit access, such as stringent eligibility criteria, complicated application processes, having too much debt already and lacking access to information on options for finance. 14% of manufacturers highlight that they are unsure of what information they need to provide to lenders to access funding, which further enhances the finding that many businesses lack knowledge and awareness. These challenges can be resolved with access and dissemination of information as well as a more cohesive approach between Government, manufacturers, trade bodies and lenders to better understand the projects that require finance, and what could be achieved from their success. In addition, there needs to be more collaboration between Government and industry when designing grant schemes, for example, by allowing SMEs to provide information on their business only once, so that information could be re-used to reduce costs, increase efficiency and reach businesses with appropriate levels of support more directly.

This is not just about improving information on accessing finance, but also ensuring that knowledge is coupled with information on the wider range of support available from the public sector and harnessing the power of digital technologies, which many lenders allow free access to.

Chart 3 – Uncontrollable factors deter access to finance more so than business specific issues

% share of manufacturing selecting challenges that have restricted access to finance

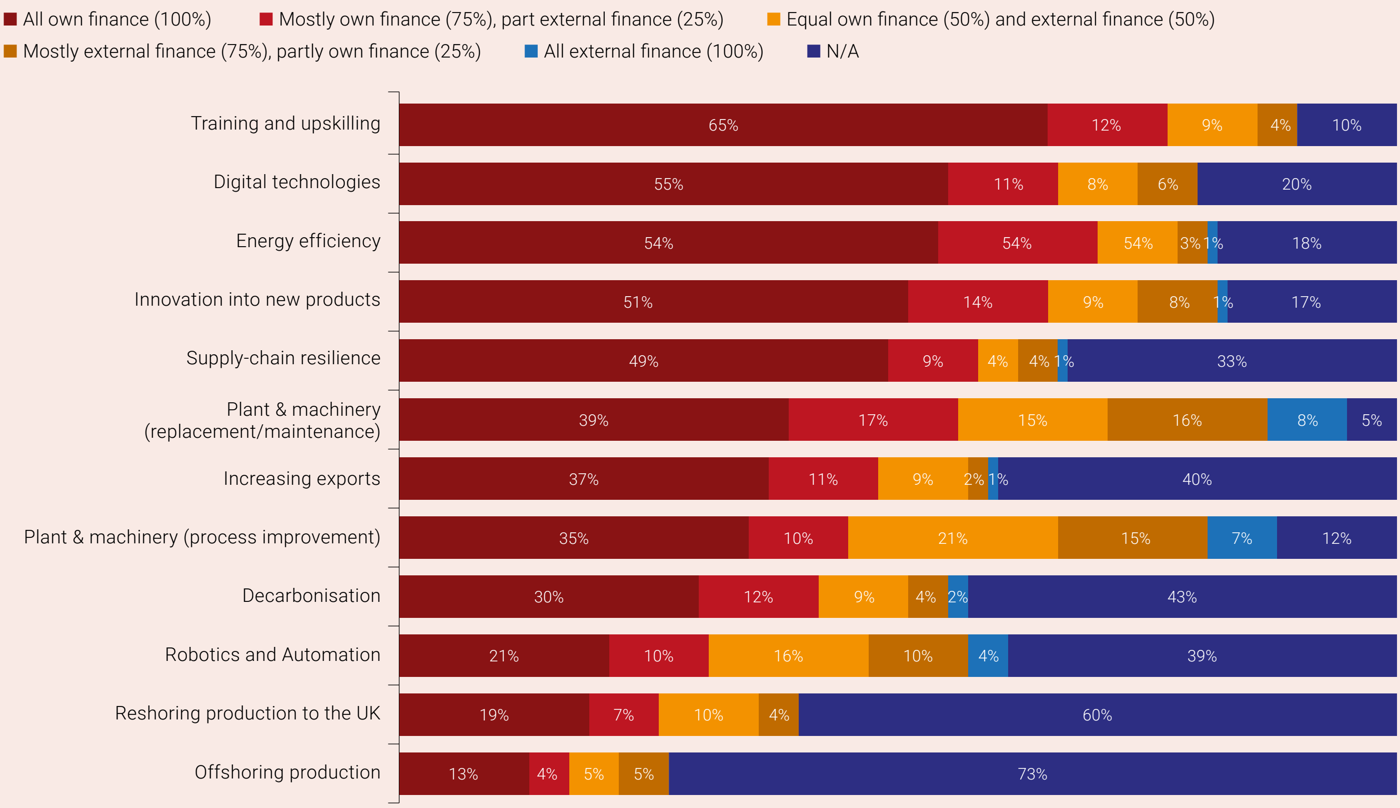


Source: Make UK/NatWest Future Finance survey (2024)

FINANCING INVESTMENT: CHOOSING BETWEEN USING PRESENT AND FUTURE EARNINGS TO FINANCE INVESTMENT TODAY

Chart 4 – Manufacturers prefer to utilise own finance to invest in skills, digital technologies and energy efficiency

% share of manufacturers citing combinations of own and external finance for investments



Source: Make UK/NatWest Future Finance survey (2024)

Manufacturers often prefer to invest in different areas of their business using their own cash, or past profits. Yet, they do also combine own finance with external finance, where external finance can mean anything from debt to equity and grants.

The findings show, in the last 12 months, that manufacturers overwhelmingly financed investment in training & upskilling (65%), digital technologies (55%), energy efficiency (54%) and innovation into new products (51%) with their own funds.

However, there was a greater degree of finance use for plant and machinery. Whether it be for replacement/ maintenance or process improvement, over half of businesses used external finance to support investment in capital equipment.

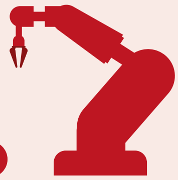
Robotics and automation stands out, where 40% of manufacturers made some use of external finance to increase investment. Robotics and automation are closely related to plant and machinery which may explain the greater use of external finance. Our evidence shows that nearly one in three manufacturers are planning to invest more into robotics, with businesses spending an average of 4.1% of their turnover on automation technologies in the last 12 months.[10]

MORE THAN 1/2 USE FINANCE TO INVEST IN PLANT & MACHINERY

[10] Make UK/Infor, Manufacturing and Automation: Opening the Gates to Productive and Efficient Growth, 2023

27% UTILISED FINANCE TO INCREASE INVESTMENT IN ENERGY EFFICIENCY

40% USED FINANCE TO SUPPORT INVESTMENT IN ROBOTICS AND AUTOMATION



Similarly, investment in innovation into new products is highlighted by 32% of manufacturers who used external finance. Robotics and product innovation are somewhat interconnected as the emergence of AI and digital technologies allows for improved processes to facilitate both the manufacture and development of new products. For some manufacturers, growth in these areas can be achieved by accessing finance, nonetheless 38% of businesses have indicated that a lack of budget and high costs has slowed the adoption of automation.[11] Nevertheless, 60% of manufactures say automation brings benefits to productivity, and 49% say that it also improves quality.[12]

Despite the strong preference to use own finance, in all categories some businesses make use of external finance to invest in different areas such as upskilling, robotics, energy, supply-chain resilience or exporting. Whilst those that make use of finance do not always form the majority of manufacturers, this proves that finance enables a broad range of purposes, with many manufacturers already realising this and taking advantage of it.

This suggests that a significant share of manufacturers remain unaware of the potential solutions that exist, for example many lenders now provide bespoke support for businesses investing in renewable technologies such as solar panels or even offshore wind. These include specific types of green finance which can often be used in combination with public finance schemes as well as accessing advice from a specialist network, such as the UK catapults or academia. Although the lack of take-up of green finance could also be due to a personal preference to use their own funds, there is still a significant opportunity to support more manufacturers with their climate transition.

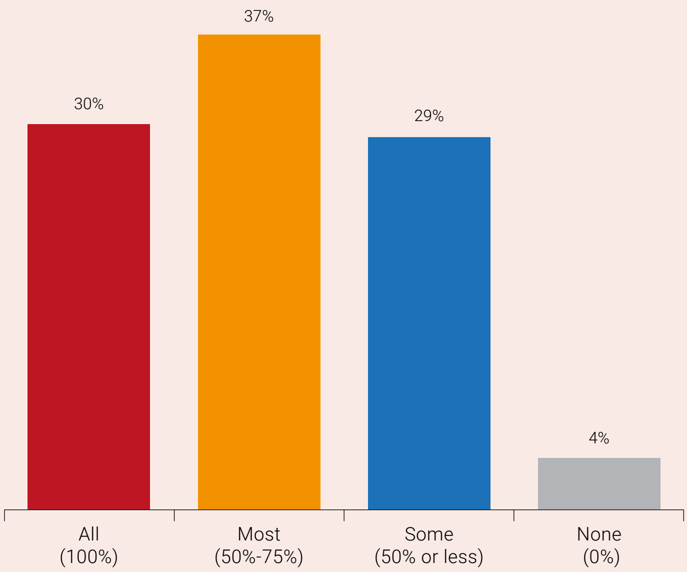
The same could be said for other areas of investment such as training and upskilling, which is critical to achieving both net zero and digitalisation goals. For example, many of the 65% of manufacturers who use only "own finance" for training investment may not be aware of solutions that exist to support staff skills, such as the Government's Help to Grow: Management programme. More collaboration to identify the solutions that already exist and directly target businesses that may need it will be essential and although costly, will bring worthwhile benefits long-term.

[11] Make UK/Infor, Manufacturing and Automation: Opening the Gates to Productive and Efficient Growth, 2023
[12] Ibid

FINANCE: UNLOCKING DOORS TO GREATER INVESTMENT

Chart 5 – Nearly 3/4 of manufacturers wouldn't have proceeded with a portion of investments if they did not have access to finance

% of manufacturers selecting the proportion of investments that would have still taken place if they had no access to finance



Source: Make UK/NatWest Future Finance survey (2024)

Only 30% of manufacturers say they would have completed all investments even if they had zero access to finance. However, cumulatively the remaining seven in ten manufacturers would have invested less than intended if access to finance was removed. This expands upon the findings revealed earlier, that finance creates opportunities and opens doors to projects and investments that would otherwise not be possible.

70% OF MANUFACTURERS SAY SOME OR MOST INVESTMENTS WOULD NOT HAVE TAKEN PLACE WITHOUT ACCESS TO FINANCE

PART 2
ACCESSING THE FUTURE

We know now that finance creates opportunities for investment that may not otherwise be possible, this has been the case for seven in ten manufacturers.

While many manufacturers use their own cash to invest in training/upskilling, digital technologies or energy efficiency, the heights a business can reach within their own means may be limited. UK manufacturers are beginning to recognise this as they look ahead.

The biggest areas manufacturers expect to need finance for in the next two years are plant and machinery for process improvement, and for replacement/maintenance as well as for robotics. Manufacturers also intend to access finance for energy efficiency, new products/services, skills, and cyber security. This demonstrates that manufactures see finance as an enabler to becoming future fit. While many favour traditional sources of finance, increasing education and awareness of the breadth of support offered by funders, is likely to encourage accelerated investment.

Chart 6 – Manufacturers expect to require finance to invest in plant & machinery, robotics, energy efficiency and new product development

% share of manufacturers selection what investments they will need finance for over the next 2 years

Source: Make UK/NatWest Future Finance survey (2024)

These priorities may be motivated by recent events such as the energy crisis that resulted in manufacturers' electricity bills rising by 500% in some cases and international sanctions that have accelerated cyber-attacks on UK business. For example, 42% of manufacturers reported enduring a cyber incident between 2021 and 2022, with losses that ranged between £50k and £250k for an average manufacturer.[13]

Manufacturers are wary of the future and therefore many investment plans are designed to build resilience into their business models. The quality and level of finance available can differ depending on the type of investment. For example, there is excellent awareness and availability of support for innovation and investment in capital equipment, but there may be a perception that there is a lack of availability of finance for non-traditional investments, such as for energy efficiency or cyber security. The availability of finance and support for these types of investments is evolving quickly with solution providers actively offering broader support toolkits alongside financial products to help manufacturers on their journey. Using energy efficiency as an example, lenders often work with several key partners with expertise in energy efficiency or net zero, which manufacturers can benefit from by accessing the resources these experts can provide. Many lenders also work closely with institutions such as the National Cybersecurity Centre (NCC) to continuously provide updates on cyber security.

[13]Make UK/BlackBerry, Cyber Security in UK Manufacturing, 2022

Many examples of such collaboration exist today, and financial providers are continuously looking to improve their offerings. The relevant information is out there, and the financial sector is willing to facilitate connections alongside offering finance. The challenge is how to ensure that manufacturers are aware of what to do and where they can go when they need support.

A brief look at the categories that may face the highest demand for finance (if at least one in five manufacturers intends to use finance) is illustrated below in order of priority.

87%

OF MANUFACTURERS
WILL REQUIRE ACCESS TO FINANCE
TO MEET THEIR INVESTMENT PLANS IN THE NEXT 2 YEARS

THE AVAILABILITY OF FINANCE FOR THE HIGHEST-RANKING INVESTMENT CATEGORIES[14]

PLANT & MACHINERY:

1

Manufacturers are known to make use of asset and debt finance to invest in capital. However, in addition, businesses can also make use of the following to manage cashflow and improve ROI for different investments:

- **Full Expensing Capital Allowance** (100% first year allowance) or the Annual Investment Allowance (AIA)
- Venture Capital investment programmes such as **EIS**, **SEIS**, **SITR** and **VCT** (primarily for small/new businesses)

ROBOTICS AND AUTOMATION:

2

Most machinery that could be categorised as robotics or automation will likely be treated similarly to plant and machinery, and hence make use of very similar sources of finance, including tax reliefs.

However, as modern technologies are imperative to the digitalisation of the industry, robotics/automation can benefit from grant funding such as **Made Smarter and Innovate UK** who have provisions for innovation projects in automation. These subsidies support manufacturers who are not just buying automation tech off the shelves but those building and experimenting with their own bespoke technologies.

ENERGY EFFICIENCY:

3

The cost of energy skyrocketed during the nation's recovery from the pandemic which exposed manufacturing supply-chains and highlighted how many businesses, even those not classed as energy intensive, faced dissolution due to the inability to cover typical working capital.

The Government stepped in to subsidise wholesale electricity prices with the EBRS/EBDS schemes to alleviate the burden on manufacturers. In addition, financial support exists to enable investment in energy efficiency such as the **Industrial Energy Transformation Fund (IETF)** but access is limited in addition to tax reliefs, such as **business rates exemptions** for investment in solar and heat pumps, and **capital allowances** for energy efficient plant and machinery.

NEW PRODUCTS/SERVICES:

4

Manufacturers invest heavily in innovation intended to improve products and services. As a result, these businesses rely heavily on tax reliefs such as **R&D tax credits** to finance projects and likely access external finance in the form of subsidies or even equity finance. Significant amounts of R&D often take place within SMEs who are often the incubators of innovation. In addition, public sources of funds like **UKRI** can support innovation in products.

SKILLS (TRAINING/UPSKILLING):

5

Manufacturers mainly use own finance to invest in training, but one in four (26%) believe that finance will be needed to accelerate upskilling as skills needs evolve to meet modern objectives such as net zero (green skills) or digitalisation (digital skills).

The **Apprenticeship Levy**, though designed with good intention, has failed to generate investment in apprenticeships leaving a skills gap that has continued to widen. However, availability of finance is more flexible for "learners" who have access to **student finance** to pursue degrees and the **lifelong learning entitlement** which will enable retraining/upskilling at the preference of the employee, not employer, from 2025.

CYBER SECURITY:

6

Investment in cyber can account for both software as well as upgrades to onsite hardware (e.g. servers and data centres), including training for staff/managers to change business practices. All the identified sources of finance for the other categories could be used to support investment in cyber, even insurance.

However, barriers to information and risk can prevent access and currently there is little in the way of bespoke finance available to invest in cyber, other than **insurance**.

[14]Top categories are identified by whether % share of businesses indicating a need to access finance is greater than or equal to 20%. Colour scheme indicates whether existing availability of finance is Strong (green), Medium (yellow), or Weak (red)

SPOTLIGHT ON ENERGY EFFICIENCY AND NET ZERO – ACCESS TO GREEN FINANCE

An intriguing finding from the survey indicates a potential shift in expectations and behaviour towards finance when considering energy efficiency. Over half of manufacturers (54%) financed energy efficiency investments with only "own finance" whilst 30% did the same for decarbonisation projects. However, in both categories, 28% of manufacturers used finance to some extent for energy efficiency projects, and 27% did the same for decarbonisation. There exists significant opportunity to bring manufacturers closer to their sustainability goals by highlighting the benefits and uses of bespoke financial solutions. Especially if the UK is to meet its net zero objectives which will require a collective effort between industry and the public sector.

Looking ahead, energy efficiency investing ranks 4th for projects that will require access to finance over other related categories, such as sustainability and on-site energy generation (although energy efficiency projects could result in improvements in both by their nature). This may suggest that the type of projects manufacturers are planning to engage in will be mostly focused on growing in size and the potential gains that can be achieved through investing via only "own finance" means will be limited. As a result, manufacturers are opening their arms to accepting finance as a possible way to achieve those energy efficiency goals, and this will require a shift in the financial sector's provisions to support those objectives with purpose built financial products. To some extent that shift has already been set in motion by the financial sector.

In 2023, the UK Government published an updated Green Finance Strategy which highlighted examples of public funding opportunities to transition the UK into a Net Zero economy such as the £20bn Carbon Capture, Usage and Storage (CCUS) investment. Furthermore, during the Spring Budget for 2024, the Chancellor announced a further £120m funding for GIGA (Green Industries Growth Accelerator) to support the expansion of low carbon manufacturing supply-chains across the UK. These are the types of support that need awareness building to ensure manufacturers can maximise their benefits. It is an area that the lending sector can also help direct businesses on the relevant paths.

THE EVOLUTION OF GREEN FINANCE TO SUPPORT NET ZERO AMBITIONS

The Government's plans to invest more in green infrastructure and clean technologies aim to motivate the mobilisation of private sector funding to capitalise on potential opportunities as well as direct investment activities towards more socially beneficial causes such as protecting the environment, biodiversity and reduce waste.

The financial industry has proactively responded to those messages by listening to the needs of businesses, which has resulted in an evolution of support available for manufacturers, particularly for accessing green finance. An example is providing digital technologies that enable manufacturers to better understand the potential impact of green investments and calculate their carbon emissions so they can better demonstrate their ESG credentials or identify opportunities for efficiency gains.

There is already a growing sector of private investment vehicles that target industries that meet certain ESG credentials and financial services can also offer project financing (debt) to support these investments. According to the Green Finance Institute, to adapt to the effects of climate change the UK needs to invest between £5-£10bn annually across both public and private sectors[15], and therefore will require support from both the public and private sector to achieve it.

Manufacturers can play a tremendous role in helping the UK achieve that investment target, especially given unlocking access to finance can result in substantial increases to investment. Not just in the UK, but the evolution of green finance can lead to the growth of green sectors that can enable the global economy to reach its net zero targets too. The opportunity to supply green and sustainable goods and services to the rest of the world is estimated to be worth up to £1 trillion for UK businesses by 2030[16], presenting a substantial export opportunity for those businesses that take those leaps of faiths. Indeed, exports within low carbon and renewable energy industries are growing fast, with exports from these sectors estimated to have growth by 67% between 2020 and 2021, compared to 6% for average exports in that same time[17].

ALMOST 30% OF MANUFACTURERS USE FINANCE TO INVEST IN ENERGY EFFICIENCY

Across the manufacturing sector alone, the average turnover for businesses within the low carbon and renewable energy economy (LCREE) is worth approximately £13.4bn and directly employs over 75,000 people[18]. The UK evidently has a sizeable green industry and motivating the access of finance to the many manufacturers that could benefit from these technologies can help generate growth and prosperity within the UK, whilst also enabling businesses to share their technologies with the rest of the world so that we may simultaneously tackle climate change and grow the domestic economy.

The finance sector, because of that need, has progressed and evolved its offering to collaborate with key partners to help provide solutions for businesses to seize opportunities linked to the net zero transition, and to also enable access to sustainable finance to support these needs. The challenge remains that use of finance to meet green goals is currently limited due to a lack of awareness and knowledge of the opportunities that finance, and wider supplementary support can create. Currently just under 30% of manufacturers make use of finance to invest in technologies for energy efficiency and decarbonisation, so there are many more businesses that public and private sector engagement could help reach.

[15]Green Finance Institute, What next for adaption finance, 2023
[16]McKinsey, opportunities for UK businesses in the net zero transition, 2021
[17]Green Finance Strategy (2023)
[18]ONS, Low carbon and renewable energy estimates, 2023

CASE STUDY: SLEEPEEZEE

Sleepeezee
ESTABLISHED 1924

The benefits of green finance should not be understated. Sleepeezee, a UK bed manufacturer that built a reputation for its use of pocket spring interior mattresses, demonstrates the opportunities created when using finance to improve energy efficiency.

The rising cost of electricity created a need for Sleepeezee to identify efficiency gains and used finance to support the installation of nearly 600 solar panels that enabled them to cut their carbon emissions and produce their own electricity. In addition to the energy generation investment, the business also invested in new automation equipment to enable workers to focus on more value-added tasks and improve productivity. External finance enabled Sleepeezee to avoid compromising its cashflow for working capital needs, whilst meeting their goals. The investment produced the following benefits:

- Increased productivity
- Can now generate 25% of their own energy needs
- Reduced the business' carbon footprint by 47 tonnes
- Is now more able to demonstrate they are a responsible manufacturer, which will create opportunities with new customers and suppliers

Sleepeezee's story identifies how finance can open doors for manufacturers, and how the financial sector's provision has evolved to meet modern needs. In addition to the delivery of finance by the lender, Sleepeezee shared more information about their business to the lender via site visits and demonstrations of technologies which enabled the lender to better assess the project and ensure they can help the business achieve their goals without taking on too much risk. As a result, the relationship between borrower and lender operated as a partnership which highlights the importance of relationship focussed business.

The example above demonstrates how the lenders and manufacturers can work together to achieve outcomes that are not only beneficial to the business but local areas and residents. Since Sleepeezee can generate some of its own energy requirements they can also reduce pressure on the grid freeing up capacity for other businesses or households. However, as part of enabling energy efficiency investment with finance, there must be increased attention to investing in local infrastructures (e.g. the electricity grid) to make such investments more viable.

More on their story is available **here**.

PUBLIC SECTOR SUPPORT FOR GREEN INVESTMENTS

Alongside the private sector, public sector support has developed substantially in recent years. Although, much of the current support is weighted towards businesses that meet energy intensive definitions, such as the Industrial Energy Transformation Fund (IETF), a £500m fund available until 2028 that supports energy intensive businesses by supporting investment in low carbon technologies.

In addition, regional programs exist to support businesses more directly, such as the Business Energy Advisory Service (BEAS) that is funded by Government in partnership with Business Growth West Midlands, who are offering up to 4000 free energy assessments and grants to SMEs to facilitate energy efficiency investments. The key element of services like these includes access to finance in combination with advice and support, which is of particular interest to SME manufacturers who may lack sufficient expertise and resources to maximise these opportunities.

Programs like these have already demonstrated success by supporting manufacturers like Alucast, an aluminium foundry in Wednesbury who faced substantial energy cost rises and were able to make use of WMG's Manufacturing Energy Toolkit to reduce energy usage. The service encouraged the business to experiment with shutdown periods, breaking myths that shutting down machines could result in damage and eliminated idle time saving over £78,000 in energy costs and reduced CO_2 emissions by 19.9 tonnes across two years. This example highlights that it is not just the finance element that matters but additional advice/support and the use of digital technologies can lead to massive gains.[19]

The examples above highlight the growing availability of support and finance for energy efficiency investments, which are slowly penetrating day to day conversations between manufacturers and lenders. However, uptake may be more limited due to a lack of awareness which can be addressed by greater collaboration between the private sector and the public sector. For example, services like BEAS could ensure that businesses are aware that they can seek additional support from financial institutions and, vice versa, lenders can support manufacturers by signposting them to existing services like BEAS or Made Smarter and the UK Catapults. By expanding upon these opportunities, all relevant stakeholders can reach the businesses that aspire to invest in major energy efficiency projects, as the survey indicates manufacturers are planning to do and need finance to achieve it.

[19] Manufacturing Energy Toolkit in Action Alucast cuts energy costs by £78,000 with clever machine monitoring - Success Story Assetbank (warwick.ac.uk)

THE OPPORTUNITY COST OF LIMITED ACCESS TO FINANCE

Imagine a world with very few barriers to accessing finance. The outcome of such a scenario that enables much greater access to finance indicates that investment would increase substantially.

Most manufacturers told us (where over 50% of the sample sits) that they would increase their investment in different categories from anywhere between 0-20% as a share of their annual turnover over the next 12 months, if access to finance was 'easier'. This could account for a substantial increase in investment, particularly if larger manufacturers become more willing to engage in lucrative projects. Also, a material share of manufacturers would increase their investment in critical categories by more than 20%, the standouts include capital equipment (17%), innovation and R&D (18%), and expanding into new markets (14%).

We estimate that investment within these set critical areas of a typical manufacturing business would increase spending by £9.2bn, a marked addition on top of the typical level of annual investment in the sector (i.e. normally approx. £33bn for capital expenditure and approx. £19bn for R&D).

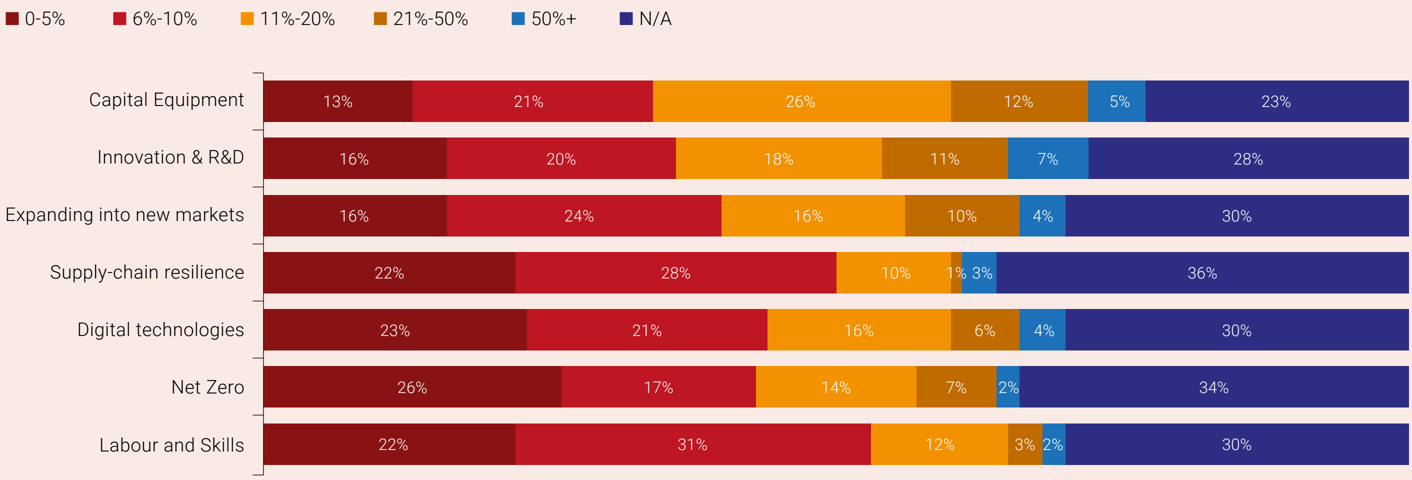
It is a no brainer to tackle the barriers to accessing finance, particularly the lack of awareness and knowledge of financial support and what finance can do for a business, especially given the additional investment that could be achieved.

UNLOCKING ACCESS TO FINANCE COULD LEAD TO AN ADDITIONAL £9.2BN[20] IN INVESTMENT BY MANUFACTURERS

Tackling the issue of awareness could be achieved through education and more effective dissemination of information. For example, the Government's Help to Grow management programme could introduce modules that teach business leaders how to approach seeking finance on top of financial management. In addition, manufacturers may be unaware of how funding options have evolved over time and that modern solutions can be accessed to achieve modern goals, such as energy efficiency needs, upskilling workers or investing in robotics. Alongside financial support, businesses should seek the full breadth of information available, such as evidence of best practice from industry or academia to ensure that the finance is used to its full potential. While these endeavours will not be costless, the potential gain of near £10bn of additional investment is worthy of consideration to a higher degree of attention.

Chart 7 – Manufacturers would increase their investment if access to finance was easier

% increase in investment as a share of business turnover over the next 12 months



Source: Make UK/NatWest Future Finance survey (2024)

[20] Estimated using the weighted average increase in investment as a % share of turnover against the weighted average turnover for the sample.

WEIGHTED AVERAGE INCREASE IN INVESTMENT AS A % OF TURNOVER (IF ACCESS TO FINANCE WAS EASIER)

CAPITAL EQUIPMENT
14% MORE INVESTMENT

INNOVATION AND R&D
14% MORE INVESTMENT

EXPANDING INTO NEW MARKETS
11% MORE INVESTMENT

DIGITAL TECHNOLOGIES
10% MORE INVESTMENT

NET ZERO
8% MORE INVESTMENT

SUPPLY-CHAIN RESILLIENCE
7% MORE INVESTMENT

LABOUR & SKILLS
7% MORE INVESTMENT

PART 3
ENABLING ACCESS TO FINANCE

The first two parts of this report clarify that manufacturers need access to finance to function. They use it to invest in capital, manage day to day costs, innovate and expand into new markets. And, unsurprisingly, many investments would not happen at all without the use of external finance. Secondly, looking ahead to the next two years there is a major need for finance as manufacturers are planning to invest more in energy efficiency, digitalisation, robotics, AI and, of course, new plant and machinery.

Across the findings of the survey results, there is an indication that the physical barriers to accessing finance are not as materially significant as the lack of awareness of the support available, which applies for both private and public sources. As illustrated below, many manufacturers remain unaware of existing support which draws attention to the need to reformulate how we approach businesses to ensure they understand what is available to them, but also how to change the mindset of businesses so that they are more comfortable to reach out when they may face a problem.

THE COST OF UNAWARENESS OF PUBLIC SOURCES OF FINANCE AND SUPPORT

Though barriers still exist to accessing finance for some manufacturers, the financial industry has matured substantially over time to meet the needs of manufacturers today, and tomorrow. However, there is a cost to unawareness that can result in underinvestment leading to businesses not achieving their productive potential. Addressing the challenges associated with information and awareness will ensure that manufacturers can make use of what is already there to its full potential, rather than reinventing the wheel, much of the support businesses need already exists. With effective collaboration between public and private sector institutions, work must be done to close the information gap.

Nevertheless, many manufacturers remain unaware of programmes such as Knowledge Transfer Partnerships (KTPs) (53%), Catapults (56%), the British Business Bank (58%) or the Help to Grow Management Scheme (61%). While 14% of manufacturers are not aware of R&D tax credits, nearly seven in ten have not heard of Horizon Europe which is a critical source of funding for innovative firms.

The true cost of unawareness is not simple to quantify, (though we could say that the cost is close to £9.2bn) as businesses that more actively take advantage of public support may or may not find more success than those that do not use it. Recent evidence on Horizon Europe explores the funding program's impact on users between 2010 and 2022 which finds, remarkably, that the grants fuelled a 20% increase in employment and a 30% increase in total assets compared to a sample of businesses who were not successful recipients of the grants. These findings were not specific to manufacturing or the UK, but manufacturers accounted for 25% of the nearly 40,000 firms that have sought funding from Horizon Europe[21]. This example indicates that, if businesses that make use of public support can find greater success to achieving their goals than those that don't, then surely it is imperative that public and private sector bodies collaborate to address this issue of lack of awareness.

TIME BUILDS FAMILIARITY

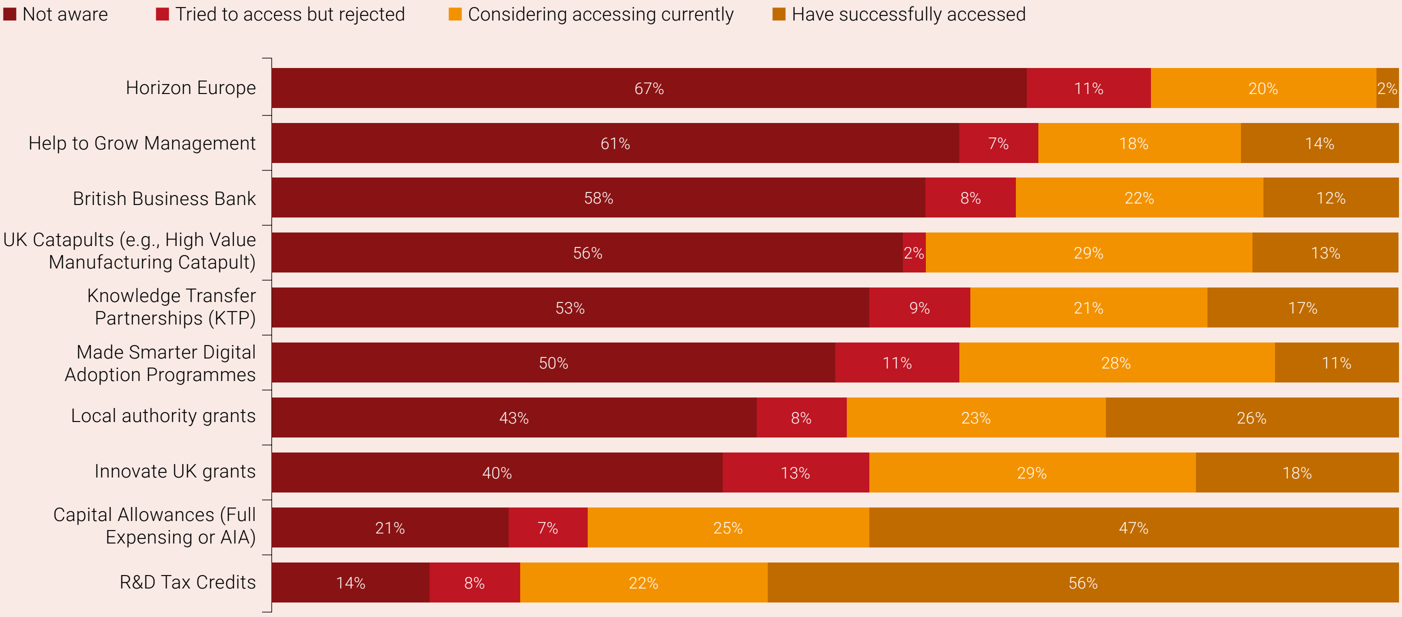
Capital allowances and R&D tax credits consistently remain tools that report the highest levels of awareness. These are systems that have existed for decades which have allowed manufacturers to build familiarity with its use, as well as access finance through an alternative means, mainly tax reliefs. This could also suggest that receiving financial support that's transferred via the tax system and is proportionately related to business performance is most closely related to making use of

[21]European Commission, The Horizon Effect: A counterfactual analysis of EU research and innovation grants, 2023

"own finance" given there is no cost of borrowing to tax reliefs. Nevertheless, some businesses are also unable to make use of these schemes due to their complex natures which often requires the use of expert consultants to maximise its benefits.

Chart 8 – Manufacturers remain unaware of sources of public support

% share of manufactures citing awareness of different forms of public support



Source: Make UK/NatWest Future Finance survey (2024)

CLOSING THE INFORMATION GAP: WHAT DO THE MANUFACTURERS SAY?

Asking manufacturers what they believe would improve their access to finance reveals new ideas as well as, once again, favoured traditional approaches such as centralised systems that collate information on different sources of finance. This is not new and there have been several attempts by Government to provide such a service, with an active webpage that enables businesses to filter existing grants and subsidies. However, 69% of manufacturers still believe there is a need for a government provision that is a more bespoke service to the individual business and can adequately identify relevant finance. Naturally, it would be challenging to create a centralised database with information on both public and private sector funding and support. However, a centralised system of exclusively public support can work in conjunction with the private sector and become a tool that even lenders can use to help advise manufacturers appropriately. Long-term, it would be worth exploring for Government to consider whether they can create an accessible, user-friendly, database for both public and private sources of support when considering the potential massive benefits to UK businesses.

Such a task would require substantial resources from the perspective of the Treasury but the emergence of new technologies, such as digital dashboards and Artificial Intelligence (AI) tools may create opportunities to finally get this ask right. Furthermore, 48% of manufacturers believe there needs to be better signposting for existing sources of finance, including for debt-based solutions. Government should begin exploring whether new digital technologies can be used to centralise information on specifically public sources of support.

Investment in better signposting can be delivered by both the Government and the private sector, who can advise businesses seeking support. The challenge is that not every manufacturer is actively looking, and nor do they necessarily have the resources to research public and private sector support, whilst juggling the numerous day-to-day challenges and opportunities they face. Although support exists, it is offered by a number of entities, so it can be challenging for many businesses to know where to start. Existing solution providers like Made Smarter are often able to help businesses with bespoke challenges even if they do not apply for funding given they have access to their own technologies such as 3D printing and Machine Learning tools. In some cases, the support these institutions can provide may fall outside of their marketed remit but the only businesses that will know about this are those that actively invested time to find answers. As part of the drive to do better with signposting, there needs to also be a drive to improve the quality of education delivered, such as training for leaders and use of success stories to motivate those businesses who may not know where to look for support but give them the confidence to start somewhere. In many cases, a manufacturer could start their journey by asking their local bank or local authority.

FORWARD LOOKING GROWTH

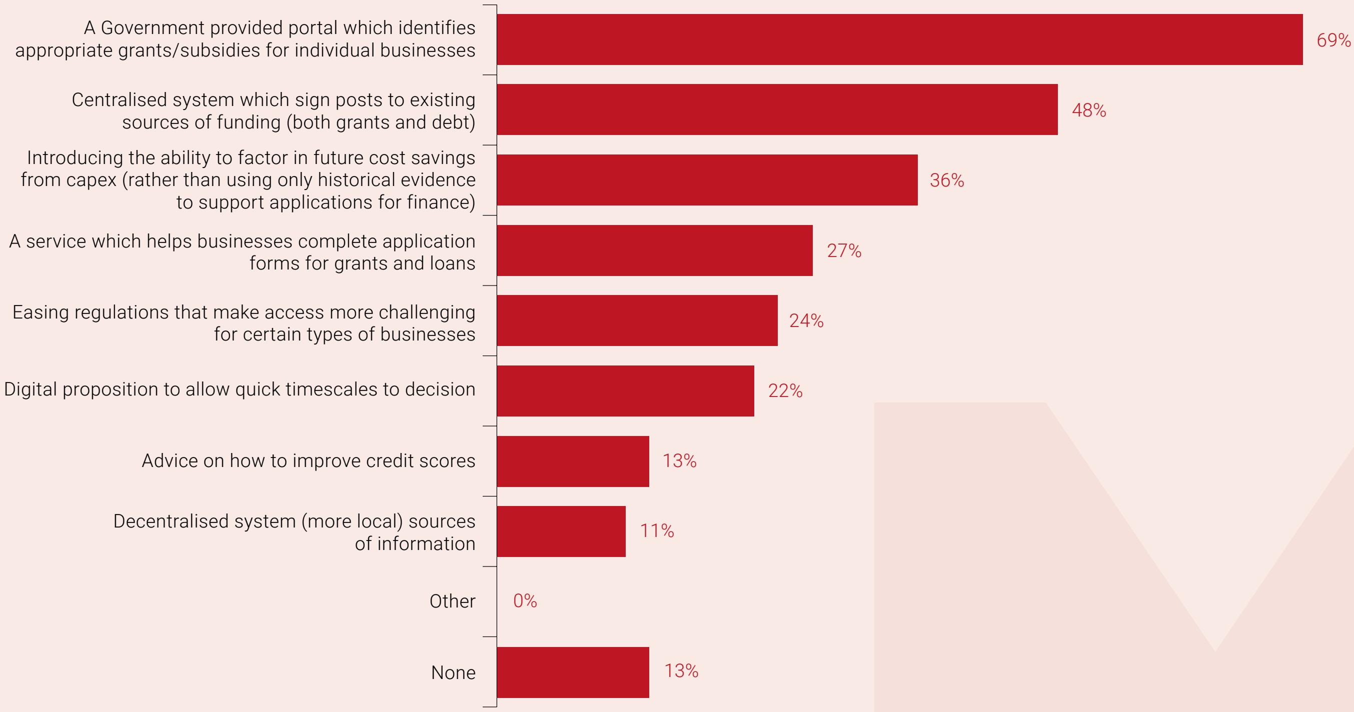
Following the priorities to solve the information challenges around finance, manufacturers also want to see providers of finance to factor in future cost savings more effectively from capital expenditure. Manufacturers believe that lenders may be too focused on using historical information to assess whether a business can afford the finance repayments and, in many cases, lending models are not focused enough on the opportunity an investment may bring.

Overcoming this hurdle can also be achieved through the dissemination of better information and highlighting to manufacturers how they can better demonstrate the value of their projects, so lenders are equipped with the right information to support them. For example, manufacturers can demonstrate ROI using cashflow forecasts, however, these figures are generally caveated with a margin of error that creates risk for the providers of finance. Manufacturers can take this a step further to ease any concerns by giving more specific information on how the investment project will result in cost savings, productivity gains or innovation of new products, which is ideally backed by supplier data.

Lenders are continuously evolving their practices to evaluate projects which can take account of the opportunity the investment brings. For example, equipment suppliers can showcase the benefits of their technologies to productivity by demonstrating its impact on workers or output, and manufacturers investing in green technologies can highlight the savings made in terms of the output per kilowatt of electricity used in production. Understandably, lenders will want to base finance serviceability on tangibles to ensure responsible lending practices, but manufacturers can rebalance the scales by working with their financial partners in a mutually beneficial manner.

Chart 9 – Manufacturers believe that information on sources of public finance needs to be centralised

% of manufacturers selecting preferred options



Source: Make UK/NatWest Future Finance survey (2024)

PART 4
WHAT SHOULD MANUFACTURERS DO NOW?

Solving the challenges on unawareness is not simple, given the unawareness is not easy to define. It is like finding solutions to help businesses answer questions like "how do you know what you don't know?" which presents a conundrum for policy makers.

Pulling certain levers, like building centralised hubs to access information and investing in marketing campaigns to build awareness of what is already out there can help. In addition, manufacturers can also think about whether finance is not just a means to an end, but a necessary ingredient to break ceilings that limit growth ambitions. Here are some things a manufacturer could think about the next time they are prospecting a potential investment:

EXPLORE EVERY NOOK AND CRANNY TO KNOW ALL YOUR OPTIONS FOR FINANCE:

1. When considering new investments, whether it be for new plant and machinery or energy efficiency or something else, there's only so much that could be achieved within the limitations of using "own finance". It is worth always exploring whether finance could enable the scaling of a project by thinking bigger. If the productivity gains are greater than the cost, then it may be worthwhile embarking on the project.

2. Proactively seek opportunities to take advantage of finance for growth areas such as training/upskilling, digital technologies, or energy efficiency. It unlocks investment, but also remains a source of capital despite global uncertainty.

3. Consider using the assets in your business as security which will enable you to leave other debt/ working capital lines unaffected, providing more scope to deal with global uncertainty and in particular potential future supply chain issues and embrace emerging opportunities for new product and/ or markets.

4. Explore funding options which can support tackling domestic and global political/ economic uncertainty and geopolitical instability, particularly with regards to supply chains/ re-shoring and potential new export markets (fast-growing emerging economies, where demand is strong).

COLLABORATE WITH OTHERS AND SHARE INFORMATION TO MAXIMISE VALUE:

5. For projects that are more stretching, such as investments that require using new or unproven technologies (which may result in more challenging circumstances to secure lending), manufacturers should consider whether they can offer lenders the opportunity to visit facilities and demonstrate the value of technologies and productivity. It is not always the issue that businesses may be unaware of existing sources of support, but providers of support may also be unaware of the benefits different investment projects create. Equipment suppliers also have a role to play here in terms of helping businesses demonstrate tangible benefit to funders.

6. To maintain financial strength and financial stability, manufacturers can collaborate more closely with lenders by providing more in-depth information on potential investment projects. This could include the impact of the project on productivity and growth, cost savings generated and expected return on investment. Lending responsibly is vital for both lenders and borrowers, so a closer partnership when reviewing forward looking investments can lead to a better outcome.

7. Always ask additional questions early on about potential sources of finance. Debt based loans may be able to facilitate flexible repayments which may not be clear at the initial review and could be factored into the total cost of the finance for the business. For example, there are several tools that financial providers can offer borrowers to support them. This includes options like capital repayment holidays and terms to flex to seasonality which can help a business manage cashflow.

USE EVERY TOOL AVAILABLE TO GIVE YOUR BUSINESS THE BEST ADVANTAGES:

8. Reach out in every investment opportunity to lenders, trade associations, local councils or local educational institutions like schools and universities to seek advice and support. And even other businesses! At times, connecting to one organisation can create links to others that provide relevant expertise and support, particularly for new technologies and solutions. In some cases, networks like the UK Catapults, Made Smarter or the British Business Bank may be able to provide more support than what is defined in their remit such as testing blueprints for products using 3D printers or support on how to embark on a net zero strategy.

9. Actively seek out additional, or complementary tools and solutions that are available from lenders. In the age of modern technologies there may be solutions, like energy usage monitors, that could help make savings and support investment decisions. Often these tools are made available for free!

10. A centralised portal already exists for public grants and subsidies which are mainly for SMEs. Manufacturers can seek information here, with greater use industry can provide feedback on how to improve these technologies further.

CONCLUSION

The findings of this survey give us insights into manufacturers' thought process, despite these businesses preferring to invest using their own cash or past profits. Firstly, we learn that manufacturers' preferences to accessing finance are inherently "sticky", often resulting in making use of the most common types of finance to achieve their goals. Many of these businesses prefer to achieve their goals within the limitations of their own balance sheets. Except for in certain cases such as investment in plant and machinery which is almost wholly dependent on accessing external finance.

Yet, most manufacturers admit that some or most investments in the last twelve months would not have happened at all if it were not for finance. This important finding demonstrates the opportunities that finance can create, particularly as manufacturers have ambitions to invest in energy efficiency, robotics, skills, and cyber security. Unlocking access to finance could add billions in additional investment to the UK economy and enable us to achieve our national goals. As the results indicate, the biggest problem we have today may be linked to awareness of existing sources of finance and its benefits, which in itself limits manufacturers' access to credit. Solving these challenges will not be simple, but a focus on education to close the knowledge gap, investment in digital technologies to centralise resources, as well as better understanding the features of finance that could be attractive (flexibility, cost, information and being more forward looking when evaluating projects). This could enable us to set the foundations of a long-term industrial strategy which must include the access of finance as one of the industry's key pillars for success.

RECOMMENDATIONS

RECOMMENDATIONS FOR GOVERNMENT

Skills:	– Reduce employer National Insurance contributions to ease pre-profit taxation burden on SME employers. – From 2025 allow employers to offer the Lifelong Entitlement (LLE) to retain workers as well as promote upskilling in modern skills. – Expand the finance modules in the Help to Grow management curriculum to inform leaders on who to approach when seeking finance.
Net zero:	– The Industrial Energy Transformation Fund (IETF), should be extended, increased, and reshaped into a more accessible fund for SMEs and mid-market businesses. – Expand the 12 months 100% business rates relief on green plant and machinery and equipment, as well as the 100% business relief on building improvements to at least 3 years.
Innovation:	– Enhance deductions for specific classes of R&D activities, such as R&D resulting in direct reductions to carbon emissions or accelerating digitalisation and automation to increase productivity. – Review the changes to the R&D tax credits made in 2023 to ensure it has not negatively impacted innovation. – Take forward the commitment to roll out Made Smarter adoption and evolve the programme to replicate a modern-day Manufacturing Advisory service.
Barriers to doing business:	– Expand full expensing of capital allowances to allow for the leasing of capital and upcycling of second hand plant and machinery. – Enhance the marginal relief available to businesses negatively impacted by the “associate company” rule on corporation tax. – Allow councils to factor in the definition of SMEs when applying small business rates reliefs, so the reliefs reach more manufacturers and reduce the disincentive to invest. – Central government portal for grants and subsidies, including specific schemes such as Horizon Europe and clear guidance on how to complete application forms. – Make it easier to re-use information that businesses who have previously applied for grants, to improve speed and accuracy of applications for grants/subsidies. Especially if a business has previously applied for one grant, then other departments or local authorities should be able to access that information if the same business applies for other grants.
Trade:	– Ensure the package of grants and practical support, designed to assist exporters attending trade shows and similar events overseas, remains in step with export market priorities and demands of exporters.

RECOMMENDATIONS TO THE FINANCIAL SECTOR

Improving support for industry:	– **Make it simple, make it easy** – be transparent and up-front with businesses around what information they will need to provide to support a lending application, with particular reference to instances where lenders may be able to factor in future cost savings/return on investment to demonstrate serviceability of the debt and what information is needed to do this. – **Work across the eco-system** – signpost businesses to support available via programs and grants e.g., UK Catapults & Made Smarter. – When speaking to businesses, **ensure they are aware of the funding options** beyond traditional plant and machinery, particularly training/upskilling, digital technologies and energy efficiency, where businesses currently have a strong preference to use their own funds. – **Proactively approach businesses** to discuss growth, de-risking supply chains, digitalisation & sustainability/ net zero plans and the solutions available to manufacturers.

The Manufacturers' Organisation

Make UK, The Manufacturers' Organisation, is the representative voice of UK manufacturing, with offices in London, Brussels, every English region and Wales. Collectively we represent 20,000 companies of all sizes, from start-ups to multinationals, across engineering, manufacturing, technology and the wider industrial sector. Everything we do – from providing essential business support and training to championing manufacturing industry in the UK and the EU – is designed to help British manufacturers compete, innovate and grow. From HR and employment law, health and safety to environmental and productivity improvement, our advice, expertise and influence enables businesses to remain safe, compliant and future-focused.

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For more information, please contact:

Fhaheen Khan
Senior Economist
fkhan@makeuk.org

British manufacturers are the lifeblood of our economy and at NatWest we're committed to helping our manufacturing customers navigate the challenges and embrace the opportunities presented by an evolving and changing sector. We know that manufacturing businesses require a bank that understands industry dynamics and through our sector insight, specialist trained staff and vast network of strategic partners we could support you with tailored solutions to help you thrive and achieve your ambitions.

We support over 50,000 businesses across the sector with funding solutions that could help you optimise your day-to-day cash flow, gain fast access to funds by raising them against your existing domestic and international unpaid invoices as well as supporting you to manage your trading relationships whether they are domestic or cross border in nature.

Our asset finance division Lombard, is the largest provider in the UK*, making it easier for businesses to gain a competitive edge by accessing funding for the latest equipment and technological innovations – all whilst being able to spread the cost of the assets over a long period and gaining potential tax benefits. Whether you are investing in new production assets, adopting robotics and automation, or putting solar panels on your factory roof, Lombard are able to provide a dedicated account manager to who could support you with a range of funding solutions to prevent you from tying up working capital or putting cashflow under pressure.

At NatWest and Lombard we are also committed to helping businesses across the manufacturing sector to transition to net zero through financing and practical support. Which is why we committed to provide £1 Billion in additional lending to UK Manufacturing to support the Net Zero transition.

For more information on our solutions and to access our manufacturing Insights click here: **Manufacturing | NatWest**

For further information on Lombard: **Finance Options | Asset Finance Solutions | Lombard**

NatWest Business

Lombard

* Asset Finance UK Top 50, 2022
Security may be required. Products fees may apply. Finance is subject to status and for business purposes only

Invoice financing services are provided by RBS Invoice Finance Limited. Security may be required. Product fees may apply. Subject to status, business use only. Specific eligibility criteria apply. Any property or asset used as security may be repossessed or forfeited if you do not keep up repayments on any debt secured on it.

The Manufacturers' Organisation

makeuk.org

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