The manufacturers' organisation

AN UNCERTAIN RETURN

INVESTMENT MONITOR 2014

MAKE IT BRITAIN

EEF - CAMPAIGNING FOR A STRONGER MANUFACTURING BASE

Lombard

Contents

Executive summary

Investment and the UK economy

- Recent trends in UK capital investment show an improving picture, with five consecutive quarters of expansion marking the longest period of unbroken growth in over a decade;
- But this follows a protracted period of subdued investment expenditure, implying a weak starting point for this revival;
- Annual business investment spending has been remarkably flat over the past 15 years;
- Capital spending as a share of GDP has been falling steadily in most developed economies over recent decades, but UK has been a consistent underperformer among its peers.

Will the recent rise in investment be sustained?

- The economic picture facing manufacturers can be described as one of steady improvement;
- One in three survey respondents stated that they planned to invest the same on plant and machinery over the next two years than they did in the previous two years;
- Levels of profitability in the sector remain below the average for the economy as a whole;
- Spending on "intangibles" such as new software and marketing have become at least as important as traditional factors of production in determining companies' business strategies;
- More than 70% of companies plan to raise investment on staff training and recruitment.

What is driving investment decisions?

- Over a third of firms attribute increased capital spending plans to feeling more confident about levels of demand and wanting to expand into new areas of activity;
- 35% of companies investing in new plant and machinery to broaden productive capacity;
- But evidence that many companies' investment spending largely reflected a need either to replace or upgrade existing equipment;
- More often than not, major capex decisions are determined by access to finance, whether in the form of available internal funds or external finance from banks and other providers.

Identifying investor types

- Almost half the firms in our survey state that their investment plans over the next two years are driven more by issues of affordability than by what they believe their business needs;
- Corporate cash holdings have been on the increase, but more so among smaller companies, limiting the potential boost to total investment should they follow through on capex plans;
- Survey points to willingness among sizeable group of companies to boost investment spend beyond current plans if improvements were made to policy environment;
- Financing investments remains a particular challenge for firms with a turnover below £10m.

Recommendations

- A more predictable business environment boosts confidence – a clear economic strategy;
- Sustaining action to ease credit constraints for SMEs – a dynamic financing environment;
- Keeping control of the cost base – working towards a lower cost of doing business;
- Capturing the pace of change in the UK tax system – reform of capital allowances;
- Reflecting the growing importance of intangible investment – boosting innovation support.

1. Investment and the UK economy

Business investment is a crucial element of any sustainable economic recovery. Expenditure by firms on new plant and machinery, innovation and people are a key driver of productivity and a crucial component of a better balanced economy.

Summary

- Recent trends in UK capital investment show an improving picture, with five consecutive quarters of expansion marking the longest period of unbroken growth in over a decade;
- But this follows a protracted period of subdued investment expenditure, implying a very weak starting point for the current revival;
- Aside from a short-lived boost prior to the onset of the financial crisis, annual levels of business investment spending have been remarkably flat since the late 1990s;
- Capital spending as a share of GDP has been falling steadily in most developed economies over recent decades, but UK has been a consistent underperformer among its peers.

Recent trends

Following five consecutive years of respectable growth, total fixed capital investment in the UK declined sharply in the 2008/09 recession, falling by 7% in 2008 and then slumping by a further 17% in 2009. For much of the period since the end of the downturn, mirroring the insipid pace of recovery of the broader economy, growth in capital expenditure remained very subdued, with the overall level of fixed investment in 2013 only marginally higher than four years earlier. This was in sharp contrast to official expectations during this period of a rapid expansion in investment spending, estimates of which had to be repeatedly revised lower by the independent Office for Budget Responsibility (OBR), in the process thwarting the government's aspirations for a swift rebalancing of the economy driven by investment and net trade.

What is capital investment?

Total fixed capital investment comprises all private-sector and central and local government expenditure on plant and machinery, transport equipment, software, new dwellings and other buildings, major improvements to existing dwellings and structures such as roads, and some miscellaneous costs associated with the purchase of buildings and ownership transfer of non-produced assets.

Total UK fixed capital investment in 2013 was £215.9bn (14.1% of annual GDP).

Business investment accounts for a little over half of total fixed capital investment (57% in 2013) and comprises all private-sector spending on plant and machinery, transport equipment, software, and all buildings and structures *not* defined as dwellings.

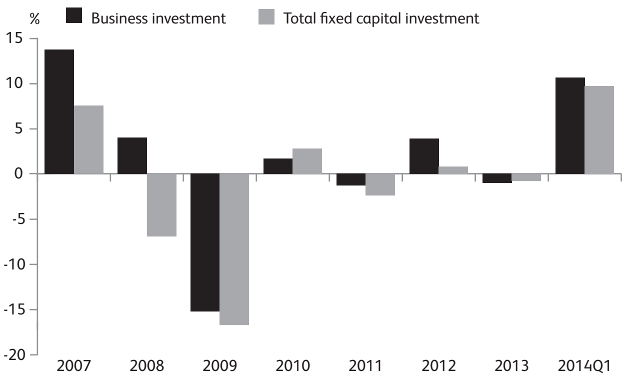
Total UK business investment in 2013 was £123.6bn (8.1% of annual GDP).

A more encouraging investment picture has nevertheless emerged gradually over the past year, as activity in the UK economy has rebounded at an unexpectedly rapid pace. Official figures suggest that a recovery in fixed capital spending began in the first half of 2013 and has since been sustained, with five consecutive quarters of expansion up to Q1 2014 – its longest period of unbroken growth in more than a decade.

Chart 1

Recent signs of life in UK capital expenditure

Trends in investment spending (% change, year on year)



Source: Office for National Statistics

As Chart 1 shows, the trend in business investment has largely followed that in total fixed capital investment, with expenditure by firms falling back sharply in 2009 and then struggling to recover until a more marked rebound over the past year. A similar run of five consecutive quarters of expansion up to Q1 2014 represents the longest period of business investment growth since the late 1990s.

The caveat to what is certainly a welcome development is that after a five-year period of weakness, this rebound springs from a comparatively low base. Despite recording double-digit growth in the 12 months to March 2014, as of the end of Q1 2014 total business investment in the UK was still a substantial 16% below its pre-crisis peak level in early 2008.

Types of investment

What do companies invest in? A breakdown of official UK investment spending data by type of asset reveals the dominant role of buildings and construction. In 2013 investment in **dwellings and other buildings and structures** (new and existing) accounted for 62% of all UK capital expenditure, a substantial share that has remained broadly unchanged over the past two decades.

As Chart 2 highlights, combined investment in **transport equipment** and the larger category of **other machinery and equipment** accounts for just under one-quarter of total UK capital spending.

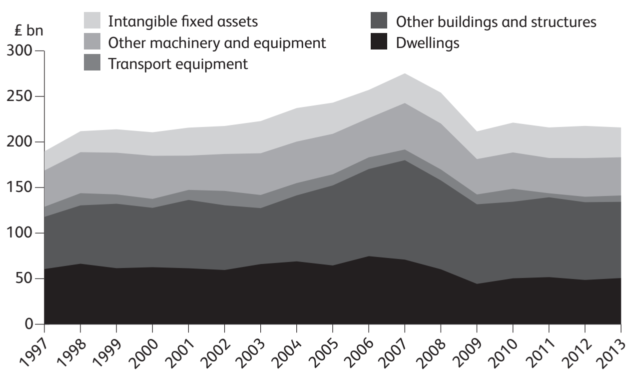
This share is likely to be larger within the manufacturing sector itself, given its comparatively high capital intensity and concentration of machine tool equipment.

The remaining share of firms' overall capital spend is allocated to **intangible fixed assets**. These are capital items that have no physical form, but are often of critical value to a company, such as software, goodwill, branding, training, patents, licenses and trademarks.

Chart 2

UK capital investment dominated by building structures

UK capital investment by type of asset (£ bn at chained volume measure)



Source: Office for National Statistics

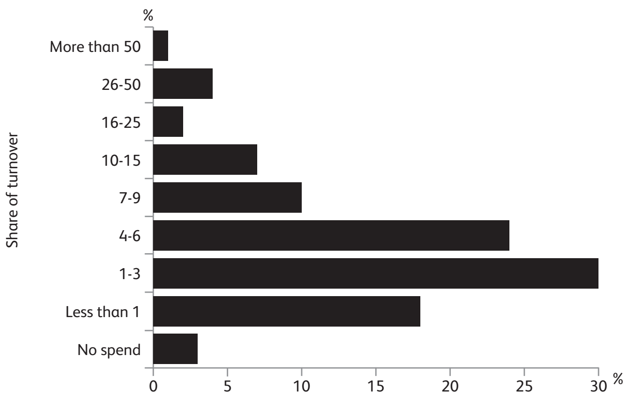
The share of total UK capital investment spent on **other machinery and equipment** alone has been fairly stable over the past two decades at around 20%. Following the financial crisis this proportion declined to a low of 17.9% in 2011, but expenditure in this category has since picked up gradually, pushing up the share to an average 19.5% in 2012–13.

This recent increase tallies with our survey findings, which indicate that a large majority of manufacturers invested in plant and machinery equipment over the past two years, albeit at fairly moderate levels. Of those companies that raised their capital spending, around half invested less than 3% of their turnover in capital equipment, with a further one-quarter allocating 4–6%. Overall, the results are broadly in line with official statistics showing the historic average for investment spend by manufacturers of 2–3% of turnover.

Chart 3

Manufacturers taking action to raise investment

% of companies citing UK investment spend on plant & machinery as share of turnover (past 2 years)



Source: EEF Investment Monitor 2014

Those companies that had invested 10% or more of their turnover in new plant and machinery, just under 15% of our sample, were predominantly smaller in size, with less than 100 employees and/or total annual turnover of less than £10m.

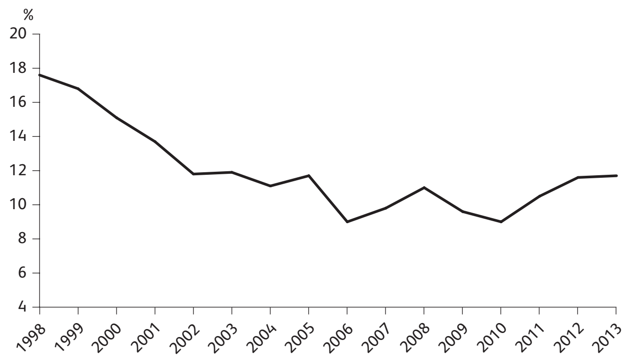
This trend over the past two years of steady rather than spectacular increases in plant and machinery capex among manufacturers also squares with the latest official investment data broken down by sector. These figures from the ONS are currently being published only on an experimental basis, but show a tentatively encouraging pick-up in levels of total manufacturing investment from a post-recession low in 2010.

Chart 4 shows the level of manufacturing investment expressed as a proportion of manufacturing gross value added (GVA) – a measure of investment intensity in the sector. It indicates that over the past few years the UK's manufacturers have been investing moderately more relative to the size of the sector (just under 12% of GVA in 2013, up from 9% in 2010), reversing a trend of steady decline in the decade prior to the financial crisis.

Chart 4

Heading in the right direction

Manufacturing investment as share of manufacturing GVA (constant prices)



Source: Office for National Statistics

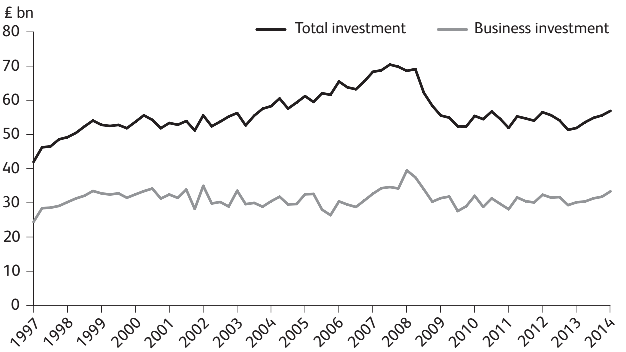
Overall, the recent trends in UK capital investment – within manufacturing and across the broader economy – point to a moderately improving picture. But there is no denying that after a protracted period of subdued investment expenditure, the starting point for this tentative revival is undeniably weak.

Chart 5 below shows the overall real-term levels of UK fixed capital investment and business investment dating back to the start of the official data series in 1997. What is clear is that aside from a short-lived rise in the 6-12 months prior to the onset of the financial crisis, annual business investment spending has been remarkably flat over this entire period. Given the extent to which the economy as a whole has expanded since the late 1990s (UK real GDP in 2013 was 35% higher than its 1997 level of £1.13trn), this implies that business investment now accounts for a much lower level of national income.

Chart 5

Current investment spending at similar levels to late 1990s

Total fixed capital investment and business investment (£ bn at chained volume measure)

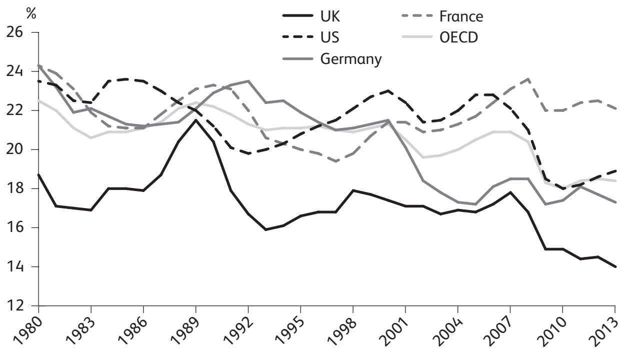


Source: Office for National Statistics

Chart 6

A laggard among its peers

Total fixed capital investment as a share of GDP



Source: Office for National Statistics

The falling share of fixed investment expenditure in the economy is not a UK-specific trend – capital spending has been declining steadily in almost all major developed economies over recent decades. Since 1990 Germany's investment/GDP ratio has declined by a quarter (to stand at just over 17% in 2013), and at a faster pace than the OECD average. But as Chart 6 shows, the UK has long been a consistent underperformer compared with its peers.

In 2013 capital spending accounted for just 13% of GDP in the UK compared with 19% in the US and averages of 18% across the EU28 and the OECD. The comparative figures for China and India were 46% and 34%, respectively. Aside from a short-lived investment upswing in the late 1980s, the UK has experienced a protracted period of weak capital spending growth, the consequences of which continue to weigh on the economy's industrial infrastructure, export competitiveness and skills base.

2. Will the recent rise in investment be sustained?

The UK may have a poor historical record on official investment spending in comparison with many of its peers, but the more recent trends in capital expenditure are nevertheless encouraging, as is the marked improvement in most domestic economic indicators over the past 12 months. Reflecting this pick-up in sentiment, our survey shows that most manufacturers intend to boost investment expenditure on plant and machinery and on intangible assets such as human capital and marketing over the next two years. However, in general, spending plans are moderate in scale.

Summary

- Economic picture facing manufacturers can best be described as one of steady improvement.
- One in three respondents plan to invest the same on plant and machinery over the next two years than they did in the previous two years.
- Levels of profitability in the sector remain below the average for the UK economy as a whole.
- Spending on "intangibles" is a key element of companies' overall business strategies.
- More than 70% of companies plan to raise investment on staff training and recruitment.

Solid momentum in the economy

The economy is on track, in 2014, to expand at its fastest rate in seven years, with most independent forecasts expecting UK growth to outpace most (if not all) other advanced countries. The manufacturing sector has been at the forefront of this turnaround, with output expanding for a fifth consecutive quarter in April-June 2014, productivity improving, employment strengthening and real wage growth outpacing that of the wider economy.

A sustainable wider economic recovery is still far from assured, given the persistent pressure on real incomes, subdued export trends, real GDP per head still well below pre-crisis levels, growing concerns over the UK's "productivity puzzle" and more substantial public spending cuts planned over the next five years. But there is no doubt that manufacturers are now operating in a more robust business environment than at almost any time over the past six years.

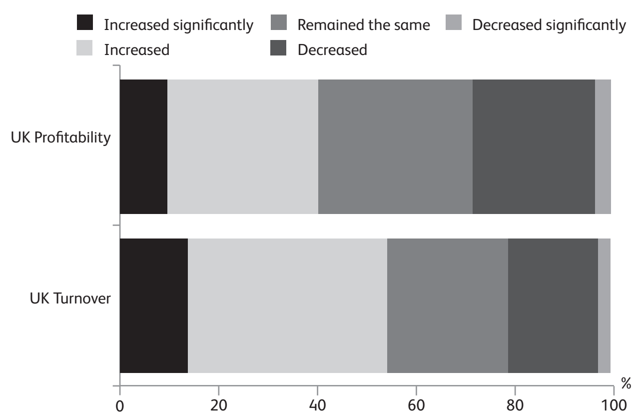
This is supported by our survey findings on recent trends in turnover, which show that more than 50% of companies reported sales growth over the past two years, compared with 20% that saw a decline. This result was largely replicated across firms of all sizes – a slightly higher share of the largest companies recorded a rise in turnover, while a small number of firms with less than 100 employees were the only respondents to have experienced a significant drop in sales.

As Chart 7 shows, two-fifths of firms in our survey reported a rise in profitability over the past two years, compared with one-quarter that saw a decline. The positive balance of 12% of companies was somewhat lower than that recorded in our previous investment survey in 2012, however, suggesting that while an improving demand environment has helped to support sales growth, this was not necessarily translating into higher profits.

Chart 7

Business conditions are improving

% of companies citing change in performance (past 2 years)



Source: EEF Investment Monitor 2014

Official data from the Office for National Statistics (ONS) do show a gradual upward trend in the net rate of return (operating profit as a share of capital employed) among UK manufacturing companies over the past two years. However, productivity levels in the sector remain below the average for the UK economy as a whole, underlining the particular pressures affecting manufacturers' bottom line.

This tallies with separate EEF survey data over recent years, which have revealed a fairly subdued trend in profit margins across the sector, with strong competitive pressures and sensitivity to exchange rate developments in certain sectors limiting the scope for manufacturers to raise prices. This has clear implications for investment planning, as increased profitability strengthens companies' cashflow position, boosting their ability to further invest in the capital equipment needed for their business.

Investment heading higher, but at a moderate pace

As things stand, while not universally robust, the economic picture facing manufacturers can best be described as one of steady improvement.

In line with firming sentiment across the industry and the wider economy since early 2013, EEF's quarterly *Business Trends Survey* has reported a sustained period of solid investment intentions among manufacturers. Since late 2013 companies have adopted an even more positive outlook in terms of their capital spending plans, with results in each of the past four quarters among the strongest in the survey's history (including a record-high level in the first three months of 2014).

This has coincided with a marked upward shift in official and independent forecasts for UK GDP growth in 2014. Back in late 2013 – when the EEF's annual *Executive Survey* had revealed positive, but still fairly moderate, capital spending plans among manufacturers, focused primarily on replacement or incremental new investments in the UK – the average independent forecast for 2014 GDP growth was just over 2%. This has since risen steadily to stand at a more robust 3% (as of June 2014), with projections for employment growth also much rosier.

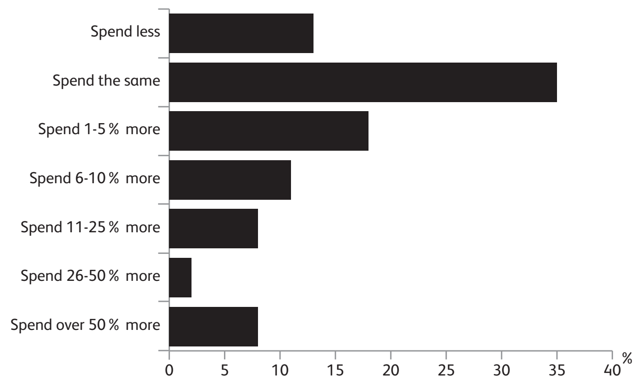
Has this improvement in economic sentiment prompted a similar step-change in companies' investment activity for the coming years?

On the face of it, our survey data would suggest not. One in three respondents stated that they planned to invest the same on plant and machinery over the next two years than they did in the previous two years. This was particularly the case for mid-sized firms with an annual turnover of between £10m and £50m. A further 13% of manufacturers indicated that they expected to spend less on plant and machinery equipment over the next two years, with this proportion fairly stable across all sizes of companies. These results are broadly in line with the findings from our previous investment survey in 2012.

Chart 8

Positive investment plans, but moderate in scale

% of companies citing UK investment spend on plant and machinery (next 2 years compared with past 2 years)



Source: EEF Investment Monitor 2014

As Chart 3 highlighted in the previous section, the vast majority of manufacturers have been investing a share of their turnover in new plant and machinery over the past two years, so the fact that one-third of firms are planning to spend the same amount in the next two years still points to a general up-tick in investment spending. However, given that the overall trend in capital expenditure on new plant and machinery over the past two years has been fairly modest, our survey data showing that almost 50% of companies are not planning to scale up their near-term investment plans does support a continuation of the "steady rather than spectacular" story on capital spending.

Of those firms that are planning to spend more on new plant and machinery than in the recent past, three out of five manufacturers have penned in moderate increases of less than 10%, with a fairly consistent pattern across all sizes of company.

Around one in six of the firms scaling up their capital investment plans over the next two years (or 8% of all survey respondents) have earmarked a substantial boost, spending at least 50% more on plant and machinery than over the past two years. Smaller companies with less than £10m annual turnover account for the largest share of this group.

Investing in more than machines

Expenditure on physical assets such as machinery, buildings, computers and vehicles clearly forms an integral part of manufacturers' investment plans, but spending on "intangibles" such as new software or database technology, marketing, human capital and organisational change have become at least as important as other traditional factors of production in determining companies' overall business strategies.

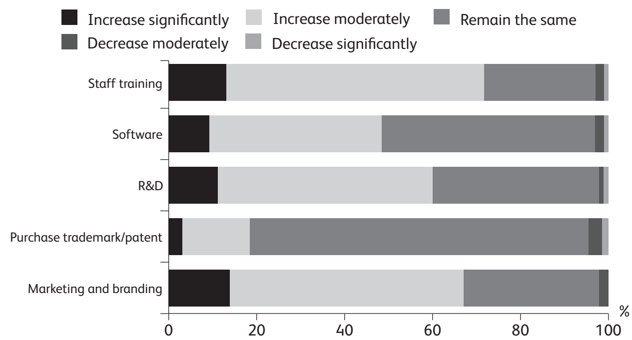
As the world economy has been remodelled over recent decades by rising competition from low-cost producers, an increasingly globalised supply chain environment and significant technological advancements, UK-based manufacturers have identified the importance of product quality, strong brand awareness, customer collaboration and employee training as key sources of competitive advantage. A skilled and flexible labour force able to respond quickly to changing customer demands is vital, as is the importance of driving productivity improvements through research and investment in new product design and service provision.

The global aspect of supply chains can have a significant impact on patterns of investment spending by firms. For example, a UK-based manufacturer may decide to undertake the research, design and marketing of a product within the UK, while outsourcing final production to a third party-owned overseas factory. In this scenario, the firm would be engaged in little or no direct capital spending on plant and machinery within the UK, but would still be adding considerable value to the domestic economy via its investment in more intangible areas of the production process. However, this may not necessarily be reflected in the official investment statistics.

Chart 9

Look to the intangibles

% of companies citing change in level of expenditure (next 2 years)



Source: EEF Investment Monitor 2014

As Chart 9 shows, alongside their investment plans for plant and machinery, a majority of our survey respondents intend to increase spending on a range of intangible areas over the next two years. More than 70% of companies plan to raise investment on staff training and recruitment, with one in six of those companies targeting a significant increase. This latter group saw a clear split in terms of company size, with a bigger share of smaller firms with annual turnover below £10m planning a significant rise in expenditure on staff training and recruitment compared with larger companies.

Reflecting the robust trend in manufacturing activity over the past year, workforce jobs in the sector have risen in each of the past five quarters (the longest consecutive period of growth since 1995), and our survey results on intangibles expenditure suggest that this positive trend is likely to continue over the near term. The planned rise in training and recruitment spend also underlines the importance to manufacturers both of retaining their existing skilled employees and developing their skills base further in order to gain the most benefit from ongoing advancements in technology and production processes.

Three out of five companies in our survey expect to increase their levels of expenditure on marketing and branding activities over the next two years, which is a similar proportion that plan to boost spending on research and development (R&D). Again, in both of these areas, it is mostly the smaller firms that are earmarking a significant rise in investment.

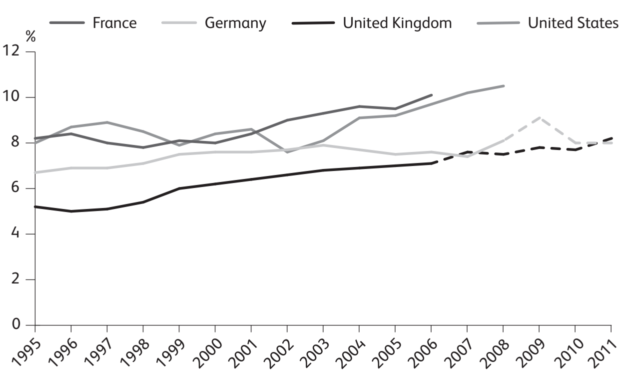
Competitive pressures mean that more of the UK's manufacturers are proactively seeking growth opportunities in new markets – our *2014 Executive Survey* showed that companies viewed emerging market demand as the greatest opportunity for expansion this year – which more often than not can require investments in market research, branding and product development.

EEF's recently published *Innovation Monitor 2014/15* highlighted the critical role of innovation spending in strengthening competitiveness across the manufacturing sector. Whole-economy data on UK business R&D expenditure as a proportion of GDP (BERD intensity) reveal a stable trend over the past decade, which translates to a decline in the UK's relative position given improvements in most competitor economies. A slightly better picture emerges when looking just at manufacturing, where the UK stands up better against international comparisons of BERD intensity. Although still lower than in key comparator countries, recent data does suggest that the gap is narrowing–a trend that would seem to be supported by our survey data on planned R&D expenditure.

Chart 10

UK manufacturing R&D intensity edging higher

Manufacturing business expenditure on R&D as a % of manufacturing GVA



Source: OECD 2013, Eurostat 2014, ONS 2014 and EEF analysis

Measurement issues

As Chart 2 highlights, UK companies' expenditure on intangibles accounts for a relatively modest share of official measures of overall investment spending. In 2013 expenditure on intangible fixed assets totalled £32.7bn according to ONS data, equivalent to 15% of total fixed capital investment.

However, it is widely acknowledged that the official measure of intangible investment in the UK falls short of capturing the total level of spending by firms on the broad range of intangibles. As of July 2014 the official measure of investment in intangible fixed assets primarily reflects companies' investment in software, accounting for around 80% of the total spend on intangibles according to the ONS. Expenditure by firms on other items such as workforce training, research and development (R&D), advertising, product and service design, intellectual property and organisational change are not fully captured in the official investment statistics.

Some changes are in the pipeline. As part of a broad revision of the UK national accounts data, from late September 2014 estimates of companies' expenditure on R&D will for the first time be treated as a form of investment (having previously been regarded as a cost to firms), and included in the official measure of UK fixed capital expenditure. According to the ONS, this is expected to boost the overall level of annual investment by £20-25bn.

However, other areas of intangible expenditure will remain excluded from the official investment statistics. A number of research studies** over the past decade have attempted to quantify the total level of spending by UK firms on all intangible assets, and their estimates point to a broadly similar level of expenditure as total private sector investment in capital goods (around £120-130bn).

**Nesta Working Paper No. 14/02 (2014) *UK investment in intangible assets*. Available online at: http://www.nesta.org.uk/publications/uk-investment-intangible-assets; Corrado, Hulten, et al (2005) *Measuring capital and technology: an expanded framework*, University of Chicago Press.

The difficulties of accurately defining and measuring firm's expenditure on intangible assets such as product and service design or organisational change are acknowledged in the studies. However, it is very likely that they provide a more complete picture of the overall level of investment spending in the economy than is presented in the official statistics, which would imply somewhat higher levels of investment intensity in the UK. This would not necessarily lead to an improvement in the UK's relative standing among its peers on levels of capital spending, as issues related to the measurement of intangible investment are commonplace in most developed economies.

Manufacturing is likely to account for a considerable share of intangible investment given that the sector accounts for three-quarters of R&D spending and more than half of UK exports. Its greater exposure to international competition and involvement in trade means manufacturing is likely to be associated with significant expenditure on items such as market research, product differentiation and organisational capital.

Broad spread, but near-term plans more focused on plant and machinery

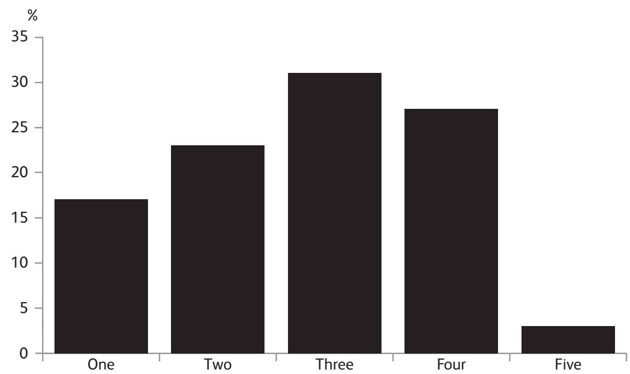
Underlining the important role of intangible investments across the manufacturing sector, our survey shows that companies' planned spending on intangibles over the next two years is, for the most part, spread across a broad range of areas. Just over 60% of companies expect to increase investment in three or more categories, with just one in six focusing spending on a single area.

Manufacturers are clearly committed to increasing their spending in areas such as recruitment and training, R&D, marketing and software over the coming years, but how do these plans compare with firms' investment intentions on more traditional factors of production?

Chart 11

Broad range of spending on intangibles

% of companies increasing intangibles investment, by number of areas (next 2 years)



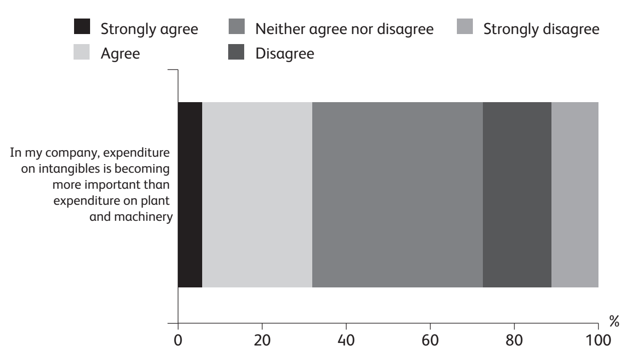
Source: EEF Investment Monitor 2014

A small positive balance of respondents to our survey stated that expenditure on intangibles was becoming more important for their company than expenditure on plant and machinery, with a slight bias among smaller firms. As Chart 12 shows, the most common response implied a fairly equal weighting between the two areas of spending, which itself underlines the integral role that intangible investment now plays in many manufacturers' overall capital expenditure plans.

Chart 12

An integral part of firms' investment spend

% of companies' response to statement



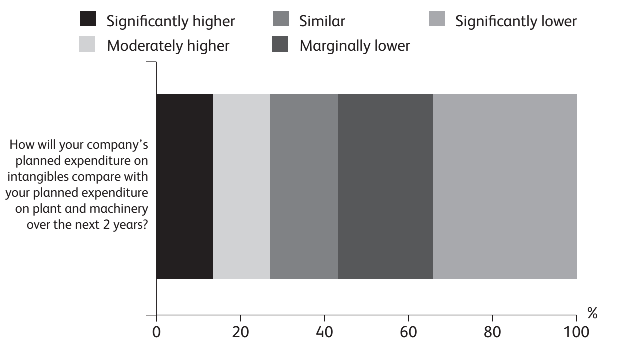
Source: EEF Investment Monitor 2014

That said, companies' investment intentions over the next two years are still skewed more towards spending on plant and machinery. Almost half of the firms in our survey expected their level of investment in intangibles to be lower than that on new capital equipment, compared with one in five that identified a larger share of their investment pot allocated to intangibles. This result was broadly replicated across firms of all sizes, and did not appear to be affected by companies' recent investment decisions.

Chart 13

Spending on intangibles playing catch up

% of companies citing relative levels of investment spending (next 2 years)



Source: EEF Investment Monitor 2014

3. What is driving investment decisions?

Analysis of manufacturers' plans suggests that levels of investment in plant and machinery could be fairly moderate, with most planning replacement investment or incremental new investments in the UK. Sentiment across the sector has certainly strengthened over the past couple of years, but firms' perception of a "new normal" of continued global uncertainty will prove difficult to shake off.

Summary

- Over a third of firms attribute increased capital spending plans to feeling more confident about levels of demand and wanting to expand into new areas of activity;
- 35% of companies were investing in new plant and machinery to broaden their productive capacity, via product development, entering new markets or diversifying supply chains;
- But evidence that many companies' investment spending simply reflected a need either to replace or upgrade existing equipment;
- More often than not, major capex decisions are determined by access to finance, whether in the form of available internal funds or external finance from banks and other providers;
- Not a uniform story, as different firms tend to rely on different forms of finance. For larger firms, the availability of bank credit has materially improved over the past few years;
- Dismantling the roadblocks to capital spending is critical to provide more long-term certainty that manufacturers need to invest and grow.

More confident, but still cautious

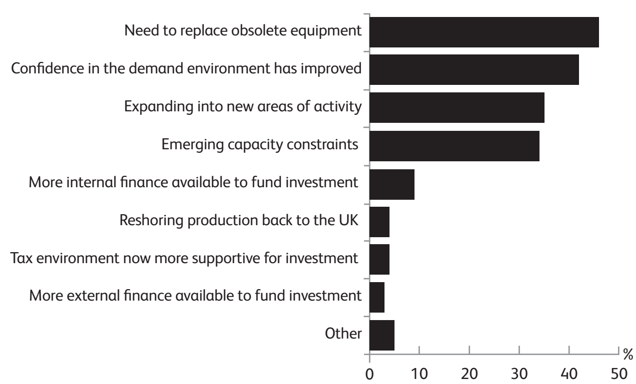
In our survey, companies highlighted four main factors influencing their decision to invest in plant and machinery over the next two years – in the process revealing a rather mixed message from across the manufacturing sector. On an encouraging note, more than a third of firms attributed their decision to increase capital spending to feeling more confident about levels of demand and/or to their plans to expand their business operations into new areas of activity.

However, less positive was evidence of many companies' investment spending being driven simply by a need either to replace or upgrade existing equipment, implying no discernible boost to overall capacity. Reflecting the sector's capital-intensive nature, there is clearly a constant requirement across manufacturing for replacement investment, as plant and machinery reach the end of their useful life. But the fact that it emerges as the main reason for firms' capital spending intentions over the next two years (in contrast to previous EEF surveys, where it has been ranked lower) suggests there is still a degree of caution on the part of many firms.

Chart 14

Mixed picture of investment drivers

% of companies citing two main drivers of increased plant and machinery investment (next 2 years)



Source: EEF Investment Monitor 2014

A picture that emerges therefore is one whereby a substantial share of companies appear to be basing their capex decisions more on a basic "necessity" to invest – alongside replacement needs, emerging capacity constraints were the fourth key factor identified in our survey – rather than having the full confidence in the economic outlook to "want" to invest in new equipment on their own accord to expand their productive capacity.

Overall, only a small number of firms identified improved access to finance (whether external or internal) and a more supportive tax environment as key drivers influencing their decision to invest in new plant and machinery equipment over the next two years.

Need to replace obsolete equipment: cited by 46% of firms as one of the main factors behind their capital spending plans, with a slightly smaller share among large companies. The protracted period of weak business investment growth following the 2008/09 recession suggests that more firms than usual may have held off longer than usual from replacing or upgrading their capital equipment, whether in an effort to support cashflow or simply to ensure survival in what was a highly uncertain economic climate. In one sense, the large share of firms now engaged in replacement investment could be viewed as an encouraging trend, marking a welcome improvement in general sentiment among manufacturers (see below) that is encouraging more firms at least to upgrade their existing equipment. But it raises questions over whether the process of delaying such decisions during the post-recession period has contributed to a permanent deterioration in the productive capacity of the UK's capital stock.

Confidence in the demand environment has improved: just over two in five firms identified reduced uncertainty and better demand prospects as a key reason for increasing investment in plant and machinery. More than half (55%) of the smallest and largest companies identified this as a main driver, compared with around one-third of medium-sized firms. The UK economy has certainly rebounded strongly since mid-2013 and continued to display considerable momentum in the first half of 2014, with manufacturing activity expanding at its fastest pace in five years. Just as important, however, has been the stabilisation of sentiment in parts of the global economy, not least in the Euro area. Although demand prospects in the region remain subdued, the risks of a major political or economic shock have diminished considerably compared with 2010-12, which has helped to support a recovery in financial markets and broader business sentiment.

Expanding into new areas of activity: 35% of companies said they were investing in new plant and machinery in order to broaden their productive capacity, either in terms of product development, entering new markets or diversifying into new supply chains. Such firms were more likely to have also noted improving confidence in the demand environment. This result was broadly replicated across most small and medium-sized manufacturers, but less than one in seven large firms saw this as a key driver of investment.

Emerging capacity constraints: identified by one in three manufacturers as a key factor in boosting plant and machinery investment, this was particularly prevalent among large companies (annual turnover above £50m), where more than half cited a need to respond to capacity pressures as a reason for expanding their capital expenditure plans.

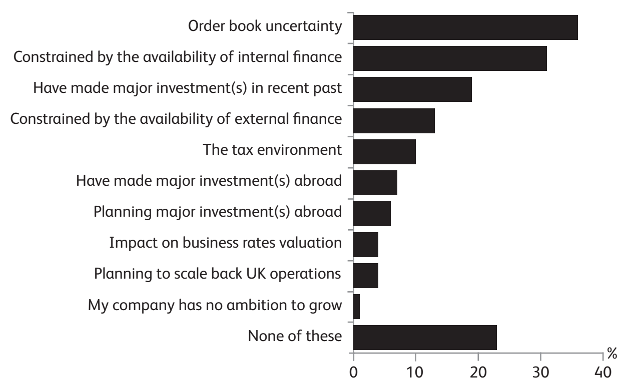
Feeling constrained?

Compared with the recent past, our survey indicates that more firms are now feeling a greater degree of confidence with regard to their own business performance and to broader economic conditions. However, the fairly moderate level of planned new capital investment over the next two years suggests that a sense of caution continues to prevail across parts of the manufacturing sector, with companies still facing a number of barriers that are inhibiting a more significant uplift in investment spending.

Chart 15

Demand caution and funding concerns

% of companies citing key factors affecting decisions to invest in plant and machinery (next 2 years)



Source: EEF Investment Monitor 2014

Uncertainty over prospects for demand and new orders are cited by more than one in three companies as the key factor constraining their capital spending plans for the next two years. This is especially the case for small firms, with almost half of those with annual turnover below £5m viewing order book uncertainty as the biggest barrier to investment growth, compared with less than one in five of the large companies.

Although overall business sentiment has strengthened steadily over the course of the past year, in line with rising economic activity, it is clear that concerns over the durability of the recovery are still front and centre for some manufacturers. This is likely to reflect one or more of the following factors: the sustained pressure on domestic real incomes; subdued demand trends in many key export markets (particularly the euro zone); sensitivity to exchange rate movements; the prospect of a gradual rise in interest rates; and the expectation of further substantial public spending cuts and/or tax rises after the 2015 general election.

Whatever the reasons, this uncertainty reduces companies' incentive to invest by pushing up the opportunity cost of undertaking capital spending projects, implying a required higher rate of return once firms do eventually take the decision to invest.

Finance issues

According to our survey, the other main factor having a clear impact on manufacturers' investment plans is access to finance. More often than not, major decisions on new capital equipment are determined by whether there are sufficient internal funds available for investment and by the cost and availability of finance from banks and other providers.

The provision of bank lending to corporates, while having improved gradually over the past year, remains substantially tighter than in the decade prior to the financial crisis. Net lending to UK private-sector non-financial companies has fallen in each of the past five years. A protracted period of balance-sheet repair by the main commercial banks has made them less able and willing to extend loans, and this dearth of lending has clearly been a factor behind the subdued trend in overall capital spending since the onset of the recession.

Across a sector as diverse as manufacturing, however, the story is not a uniform one, partly reflecting the fact that different firms tend to rely on different forms of finance. The issue is largely one of company size. For larger firms, the availability of bank credit has materially improved over the past few years, while many have also engaged in a shift towards alternative sources of finance, such as bond issuance and forms of equity finance.

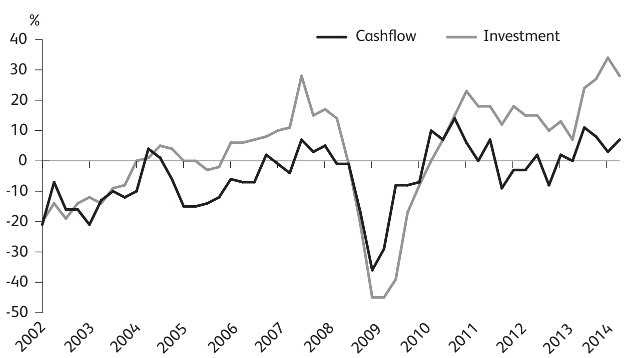
Access to capital markets nevertheless remains largely the preserve of the biggest companies. The majority of small and medium-sized firms are predominantly reliant on bank credit (usually in the form of corporate loans) and internal funding.

According to our survey, a modest one in eight firms identified the availability of external finance as affecting their investment plans over the next two years, and of those almost all were either small or medium-sized companies. On the one hand, the modest share of manufacturers citing constrained access to external funding would seem to tally with evidence of credit conditions moving in a more positive direction over the past year or so (albeit following a marked deterioration in 2008-10). On the other hand, this could understate wider access to finance issues among manufacturing SMEs. A range of surveys since the crisis, including research from the Enterprise Research Centre, have identified a cohort of "discouraged borrowers" that have in effect withdrawn from seeking external bank finance after experiencing problems with their previous finance provider (perhaps due to refusal of an overdraft, or a sudden renegotiation of their existing loan's terms and conditions).

Chart 16

Investment intentions track cashflow position

% balance of companies reporting investment intentions and cashflow balance



Source: EEF Business Trends survey

Internal finance, which is generated through retained earnings, accounts for a substantial share of companies' funding for investment, and anecdotal evidence suggests it has become an even more important source since the crisis, particularly for firms with limited access to non-bank external finance. EEF's Business Trends survey data show that investment intentions and cashflow balances are closely linked (see chart 16), so that when cashflow balances rise, investment plans often follow suit.

Following a fairly stable picture on cashflow expectations between 2011 and 2013, cashflow balances have been steadily improving over the past year. A pick-up in sales, a downward drift in the cost of inputs and some recent tax changes are all likely to be contributing to the improving cashflow picture. This in turn is likely to be supporting manufacturers' commitments to new capital expenditure. However, as Chart 14 revealed, less than 10% of firms in our survey cited this as a key factor driving their investment plans over the next two years. Another caveat is that companies may decide to invest some of the money abroad rather than in the UK, as they have often done in the past. Businesses need to be confident that risk-adjusted returns in the UK will be at least as high as they would be overseas.

Almost one-in-three firms in our survey highlighted internal finance as one of the main factors holding back investment, with this proportion rising near to 50% among small companies. This suggests that while the broader demand outlook, firms' cashflow positions and the availability of credit may have all improved to some degree compared with the very subdued post-crisis environment, a significant number of firms still identify a constraint on the absolute level of internal funds available for new investment.

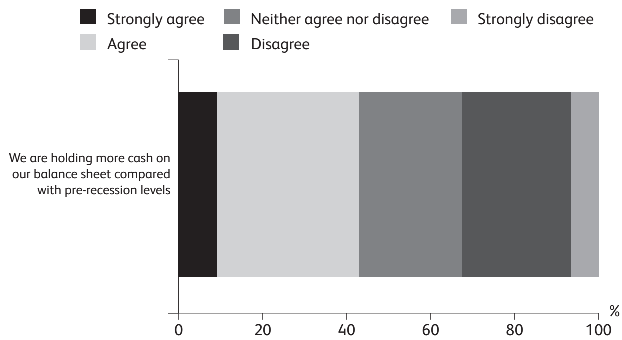
Cash holdings

These constraints may endure even in the face of a much improved cashflow position, as a result of the financial crisis having changed the approach taken by some firms towards cash management. Just over 40% of firms in our survey are now choosing to hold more cash on their balance sheet compared with pre-recession levels, compared with 30% that are holding less. For companies with an annual turnover below £25m, the balance of opinion was more strongly in favour of holding increased cash reserves.

Chart 17

More cash, more caution?

% of companies' response to statement



Source: EEF Investment Monitor 2014

There could be several reasons for increasing cash reserves, for example companies wanting to strengthen their balance sheets in order to aid debt refinancing, fund acquisitions, prepare the ground for dividend pay-outs, or simply as a precautionary motive in response to changes to the external finance environment and the outlook for demand. This would tally with one of the main findings in our Executive Survey 2014, which showed that a majority of manufacturers are facing a "new normal" of economic uncertainty.

One specific issue highlighted by a number of firms in our survey was the impact of higher pension deficits – as well as the costs of implementing auto-enrolment and planned pension regulatory changes – further constraining the availability of internal funds. The provision of occupational pension schemes has become increasingly costly for employers over the past decade, with monetary policy compounding the issue in the post-recession period by depressing bond yields and thus pushing up overall pension scheme liabilities. This then has a potential knock-on impact on investment spending, as the need to fill widening pension deficits reduces the level of available internal funding for capital expenditure projects. Pressure has eased slightly over the past year as UK economic activity has rebounded, with bond yields and especially equity markets picking up, providing some relief for those firms with underfunded pension schemes.

Closer inspection of these cash-hoarding firms would suggest that this has had an impact on recent investment activity. For those that have held onto more cash in recent years the proportion of turnover invested in new plant and machinery over this period has tended, on average, to be lower than across the sample as a whole. That said, their forward looking expectations on the pace of growth of investment spending is not materially different the sector as a whole over the coming years.

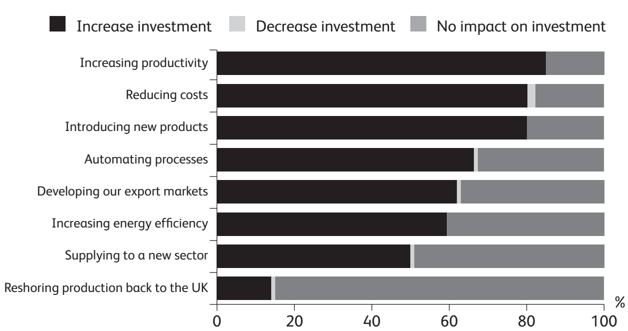
Why this matters

Dismantling the roadblocks to growing investment is critical to provide more long-term certainty that manufacturers need to invest and grow. Companies are continually taking a strategic view of their offering, for example, tailoring products and services for different markets, looking for opportunities to take capabilities into new sectors and supply chains, and continuous improvement in manufacturing processes. As Chart 18 shows, achieving these kinds of strategic aims often implies an increase in capital investment. Manufacturers therefore need confidence that key aspects of the business environment will not change substantially between a decision on investment being formulated and it delivering a return to the business further out.

Chart 18

Why barriers to investment matter

% of companies citing impact of business strategies on planned investment (next 5 years)



Source: EEF Investment Monitor 2014

Manufacturers must invest to grow and remain competitive in dynamic global markets. Investing in capital equipment and developing new products and processes – as well as spending on intangible areas such as skills, marketing and branding – raises the productivity of capital and labour, keeps manufacturers at the forefront of changing customer demands and makes their products and related services more marketable.

There are the outcomes that manufacturers' investment plans will be aiming to deliver over the next five years and beyond. In response to ever present competitive threat from other developed economies on the same journey of industrial renaissance and from new players that will quickly climbing the manufacturing value chain UK companies' focus on efficiency and new product launched will remain relentless.

Added to this is the technological push of greater automation and the requirements from customers and legislation to further improve industry's environmental performance will also demand higher levels of investment in machinery and intangibles, particularly software.

4. Identifying investor types

As we have highlighted, recent trends in capital investment spending offer some encouragement, albeit amid continued demand uncertainty and access to finance constraints for some firms. The next 12-24 months are a critical time for the UK economy. Following the initial cyclical rebound, the issue now is whether growth can be sustained over the medium term, spurred by a genuine revival in business investment. In order to gain a better sense of UK manufacturers' capital spending plans, priorities and strategies, we need to drill deeper. Can we identify particular growth drivers or barriers to investment spending among groups of firms? Are manufacturers essentially doing what their business needs, or can we identify specific hurdles holding back investment among specific groups?

Summary

- Almost half the firms in our survey state that their investment plans over the next two years are driven more by issues of affordability than by what they believe their business needs;
- Corporate cash holding have been on the increase, but more so among smaller companies, limiting the potential boost to total investment should they follow through on capex plans;
- Support for view that growing confidence among manufacturers leads to more investment activity, but uncertainty likely to persist over austerity, tax reform and UK-EU relations;
- Survey implies a willingness among sizeable group of companies to boost investment spend beyond current plans if improvements made to policy environment;
- Financing investments remains a particular challenge for manufacturers with a turnover of less than £10m.

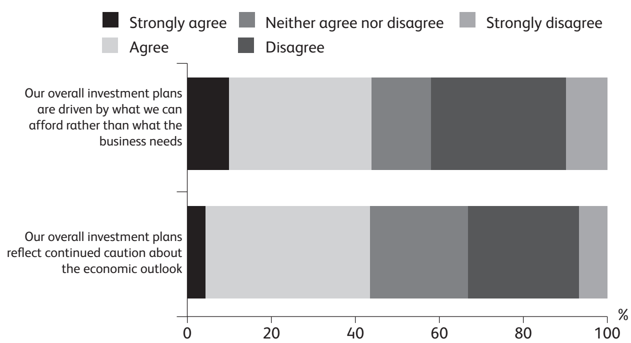
Drilling down

The previous chapters have identified that sentiment among manufacturers is improving compared with the long post-recession period of depressed output, as business conditions at home and across the broader global environment have picked up. But our research has also revealed a degree of caution on the part of many firms. As Chart 19 shows, almost half of the respondents in our survey state that their investment plans over the next two years are being driven more by issues of affordability than by what they believe their business needs.

Chart 19

Lingering uncertainty

% of companies' response to statements



Source: EEF Investment Monitor 2014

Issues related to broader economic uncertainty and subdued demand are not easily overcome, but there is scope for policymakers to prioritise specific areas of policy in order to create a business climate that supports investment, addressing some of the indecision that can hold back capital spending plans. Can we identify particular drivers or barriers to investment spending among particular groups of firms? It is clearly the case that all companies need a consistent message of policy stability from government to encourage long-term investment planning. But there is also scope for the government to prioritise reform in specific areas aimed at clearing the roadblocks to investment that are affecting specific groups.

Investor types

We identified four particular groups of companies in our survey:

1. Broad investors

Companies spending more on UK plant and machinery investment in the next two years and increasing expenditure on three or more areas of intangible investment in the next two years.

2. Holding back

Companies identifying 'order book uncertainty' as key factor affecting their level of UK plant and machinery investment in the next two years.

3. 'Have to' versus 'Want to'

Companies identifying 'need for replacement investment' and 'emerging capacity constraints' as key factors affecting their level of UK plant and machinery investment in the next two years, compared with those companies identifying 'improving demand' and 'expansion into new areas'.

4. Little by little

Companies that spent <3% of turnover on UK plant and machinery investment in the past two years and are spending either the same or a modest 1-5% more in the next two years.

Not all of the groups necessarily offered a distinctive take on their respective investment decisions and planning. For the most part, the '**holding back**' group displayed similar characteristics and trends to the full sample of companies. The only stand-out difference was a weaker profitability performance in the past two years among those firms citing order book uncertainty.

Some interesting findings emerged from the '**little by little**' group of companies – those that spent a relatively modest share of their turnover on new plant and machinery investment in the past two years and plan to spend a similar or slightly higher amount over the next two years. This group of manufacturers accounts for around one-quarter of our survey sample, and mostly comprises small and medium sized firms.

A larger proportion of the 'little by little' group had seen an increase in profitability over the past two years compared with the rest of the sample, and stated that they were holding more cash on their balance sheet than in the pre-recession period. Despite this, a clear message from this group of firms is that their investment spending (on plant and machinery and intangibles) over the next two years is being driven primarily by affordability issues than by the overall needs of their business.

This is reflected in the fact that almost two-thirds of companies in the group identified a need to replace obsolete equipment as a key factor influencing their capital spending plans over the next two years, a much larger proportion than the overall sample. And while the 'little by little' group are marginally were confident with regard to demand prospects (and notably less concerned over the state of their order books), they are less likely to be increasing investment in order to expand their business into new areas of activity. One possible reason for this is access to finance constraints: despite more companies holding larger cash reserves and seeing a rise in profitability, 40% of firms in this group identified the availability of internal finance as a key factor affecting their plans to invest in plant and machinery over the next two years, ten percentage points higher than for all respondents of the survey.

Companies in the '**broad investor**' group display a number of similar characteristics to the 'little by little' group, while appearing more willing to engage in investment activity. Again, almost two-fifths of 'broad investors' identified the availability of internal finance as a key factor affecting their plans to invest in plant and machinery over the next two years, while one in five highlighted the constraints posed by access to external finance. In both cases, these were higher proportions than for the whole sample of companies. There was also a higher degree of uncertainty over order books, with almost half of the 'broad investor' firms citing this as a key factor affecting their investment decisions (compared with 36% of all companies), and an above-average share of firms highlighting issues related to the tax environment.

Despite these concerns, not only is this group of companies broadening its investment spending over the next two years, it also has a greater inclination to boost capital expenditure in order to expand into new areas of business activity. Over 40% of firms identified this as a main driver of their investment decisions. In addition, this group is less likely to have made major investments in the recent past. Drawing all this together, it would suggest that scope exists among the 'broad investor' companies to engage in additional capital spending above and beyond what is currently planned if they faced a more favourable policy environment with fewer roadblocks to investment.

Business ambitions can also make a difference

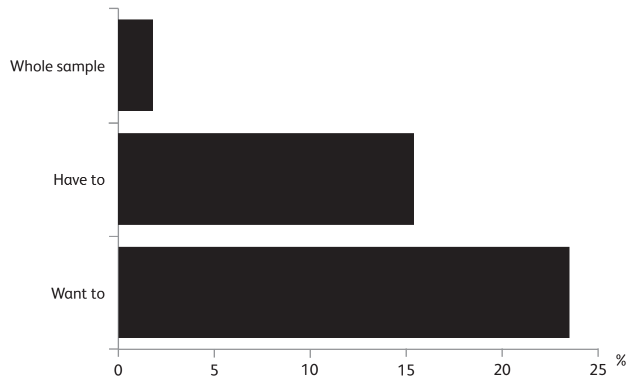
Looking at different drivers of investment decisions in the next two years, there are some difference and similarities between companies investing for expansion – '**Want to**' – and those investing out of necessity – '**Have to**'. The main differentiator between the groups is the level of expenditure over the past two years, with those investing as a result of improving confidence and the ambition to enter new areas of activity spending, on average, a higher proportion of their turnover on new plant and machinery. This includes a fifth of the 'Want to' group investing more than 10% of turnover, compared with one in seven of the 'Have to' group. There is, however, somewhat less divergence when it comes to planned increases in capex over the next two years.

The groups also have affordability constraints in common. In both cases companies are more likely to indicate that business need is secondary to the availability of resources when it comes to making investment plans (as shown in Chart 20). This in turn would indicate that there is again scope for higher levels of investment were more funding to be available. Our survey shows that both groups of manufacturers are more likely to cite internal and external financing constraints as limiting factors in the coming two years.

Chart 20

Affordability constraints regardless of strategy

% balance of companies agreeing with statement



Source: EEF Investment Monitor 2014

Assumptions on business investment – facts or myths?

As we noted earlier, business investment growth has, until recently, failed to match up to repeated forecasts of a strong rebound. A number of explanations have been put forward in an attempt to explain not just the much-delayed rebound in business investment, but also the comparatively weak performance seen for much of the decade leading up to the financial crisis.

Our survey and the closer inspection of activity by different groups of firms sheds a bit more light on some of these assumptions.

1. Companies simply hoarding cash which they're now about to splurge

More companies agree than disagree, matching up with some official data showing that corporate cash holding have been on the increase. However, across manufacturing it would seem that a majority of these cash-holders are small companies, with the largest turnover category most likely to say that they have not been building up their reserves. While those firms with larger cash balances compared with the pre-recession period have been investing a lower proportion of their turnover on new plant and machinery, the fact that they are more likely to be SMEs will limit the boost they will provide to overall investment levels should they execute their plans to raise investment spending in the coming two years.

2. Investment will recover when confidence improves

Our survey would seem to back the view that growing confidence should be followed by more investment, with over two-fifths of companies already citing this as a driver for higher investment spending in the next two years. Improving demand conditions are just one component of increased confidence; certainty – or a lack of it – about the business environment can heavily influence the scale, timing and location of investment plans. In the UK, companies still face the uncertainty of future fiscal decisions which could impact on their cost base or the tax environment. Perhaps more significantly, debate over the UK's future relationship with the European Union – a vital trading partner for many UK manufacturers – is another source of considerable uncertainty.

3. Finance is still an issue for small firms

As outlined earlier in this report there has undoubtedly been some improvement in lending conditions for SMEs relative to the 2008/09 period. Nevertheless, for manufacturers with a turnover of less than £10m, financing investments remains a challenge, with a high proportion citing this as a barrier to increasing investment, as was the case in surveys prior to the crisis.

5. Recommendations

Cracking the UK's long-standing challenge of accelerating investment growth will require concerted and continuous efforts to lower the hurdles to more ambitious investment plans in the UK, while also ensuring that the policy environment is keeping up with the changing pace of technology and modern manufacturing. Our survey has clearly identified confidence and cash as constraints to the full implementation of manufacturers' investment strategies in the UK.

1. Certainty and predictability in the business environment can help shore up confidence – a clear economic strategy

With numerous sources of uncertainty at home and overseas, government can offer a degree of offsetting certainty and predictability in the business environment. A clear vision of our economic objectives with a clear demonstration that all government departments are working towards the same 2020 growth objectives remains vital.

Before, during, and after the General Election campaign manufacturers want to hear continuing commitments to rebalancing the economy and that this objective will provide a framework for future policy and spending decisions.

2. Sustaining action to alleviate credit constraints for SMEs – a dynamic financing environment for manufacturers

Increasing diversity in the provision of finance should remain a medium-term aim for government policy. The lack of a broad range of financing options for SMEs has been a long-standing feature of the UK business environment.

With small companies still facing credit constraints it is critical that interventions such as the British Business Bank have a long-term future and are in a position to invest in new and innovative funding options. These must include a portfolio of products which include patent growth capital, mezzanine finance and those supporting plant and machinery investment across all parts of the supply chain.

3. Keeping control of the cost base for industry – working towards a lower cost of doing business

Cash is king for manufacturers and keeping the cost base competitive in the UK is vital for supporting investment levels and making the UK a location of choice for adding new capacity. Positive recent action on future energy costs from the government was welcome, but a longer-term commitment to keep energy prices at or below the average of our European competitors would be a big step in keeping future energy policies in check.

Similarly an ongoing focus on tackling the regulatory burden, which can add both financial and administrative costs, should be a target for this and future governments, including positive engagement in Europe to drive forward a "one-in, one-out" approach to regulation.

It is clear that manufacturers are thinking differently about their investment needs as their competitive advantage, market opportunities and technological progress influence the balance, level and focus of their capital spending plans. These shifts must also be reflected in how government approaches changes to the business environment, designed to increase overall investment in the productive capacity of our economy.

4. Capturing the pace of change in the UK tax system – reform of capital allowances

Capital allowances are the way in which the tax system recognises the depreciation of assets. Over time the rate at which plant and machinery are replaced and the time taken by the tax system to recognise the full cost of the asset has fallen out of line. Temporary measures, such as the recent increase in the Annual Investment Allowance, have sped up the writing-off period for new machinery investment and therefore supported firms' cashflow.

But the system has been subject to too much volatility and uncertainty and this has to change if the UK's tax system is to be better aligned with advances in technology and an increasingly competitive global environment. Consultation on how the system should be reformed for the long term should begin now to ensure we have a stable and competitive system in place by 2016.

5. Reflecting the growing importance of intangible investment – boosting innovation support to complement tangible investments

As investments in plant and machinery go hand in hand with intangible investments for many manufacturers, government policy must ensure that support for innovation and applied research is adequately resourced.

This should include sustaining funding for the Technology Strategy Board in real terms over the next Spending Review period, increasing funding for the High Value Manufacturing Catapult Centres and maintaining the broad and stable definition of qualifying expenditure for the R&D tax credit.

Lombard Viewpoint

Given the importance of capital investment to the UK economy, Lombard is proud to sponsor the 2014 Investment Monitor Report. As the largest and most experienced provider of business asset finance, we have worked with manufacturing stakeholders to champion the need for more capital investment within the sector to facilitate economic recovery and ensure the UK regains its prominence on the global leader board.

This report gives us a detailed insight into existing levels of capital investment across Britain's manufacturing sector, the rationale for this and an overview of some of the barriers preventing companies from committing further expenditure in this area in the near future.

Capital investment covers expenditure on physical assets such as plant and machinery, vehicles, buildings, computers and, as is increasingly becoming important within UK businesses, on intangible items such as software and database technology.

Following a sharp decline in total fixed capital growth investment during the recession, the report portrays a more positive picture now emerging. It highlights a rise in investment expenditure from the first half of 2013 which has since been sustained with five consecutive quarters of expansion up to the first quarter of 2014, the longest period of unbroken growth in more than a decade.

We cannot be complacent as there are significant challenges remaining, but it is very encouraging to see upward movement which adds further colour to the broader economic picture emerging across the UK.

Finally whilst the report tells us of the steady decline in the UK share of fixed investment expenditure compared with GDP levels, it is however encouraging that it highlights more capital investment overall within the UK manufacturing sector, reversing a continuous decline in the decade prior to the financial crisis. While profitability remains a challenge compared to other sectors, there is steady progress being made in addressing this. There is also evidence of the UK further closing the gap on its rivals in terms of R&D, a welcome development for the longer term competitiveness of our economy.

In summary, manufacturers are taking a cautious approach but are also feeling bolstered through further confidence in the improving economic climate. As a specialist in the financing of assets, we very much welcome the positive outlook this report sets out and look forward to continuing to support more businesses across the manufacturing sector.

Richard Hemsley, Managing Director, Lombard

About us

EEF is dedicated to the future of manufacturing. Everything we do is designed to help manufacturing businesses evolve, innovate and compete in a fast-changing world. With our unique combination of business services, government representation and industry intelligence, no other organisation is better placed to provide the skills, knowledge and networks they need to thrive.

We work with the UK's manufacturers, from the largest to the smallest, to help them work better, compete harder and innovate faster. Because we understand manufacturers so well, policy makers trust our advice and welcome our involvement in their deliberations. We work with them to create policies that are in the best interests of manufacturing, that encourage a high growth industry and boost its ability to make a positive contribution to the UK's real economy.

Our policy work delivers real business value for our members, giving us a unique insight into the way changing legislation will affect their business. This insight, complemented by intelligence gathered through our ongoing member research and networking programmes, informs our broad portfolio of services; services that unlock business potential by creating highly productive workplaces in which innovation, creativity and competitiveness can thrive.

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About Lombard

As the largest and most experienced provider of business asset finance, Lombard is delighted to be sponsoring the EEF Investment Monitor Report.

Lombard has worked with manufacturing stakeholders to champion, both at a Government and individual company level, the need for more capital investment within the sector to facilitate economic recovery and to ensure that UK manufacturing regains its prominence on the global manufacturing leader board.

UK manufacturers have long recognised that the UK cannot compete on price alone, but that the sector's strengths lie in innovation, productivity and quality. However, to ensure that the sector's reputation in these areas is maintained, regular capital investment is essential – as is the availability of effective funding solutions to support this.

As a specialist in the financing of assets, Lombard can offer manufacturers a range of financing solutions that are flexible and best suited to their requirements. Asset finance can be used to finance almost any type and size of asset valued from £5,000 to several million pounds.

Lombard is the dedicated asset finance arm within The Royal Bank of Scotland Group, and has a team of manufacturing specialists located at regional offices located throughout the UK.

As the largest asset finance provider in the UK and voted Best Leasing & Asset Finance Provider by Business Moneyfacts for six consecutive years from 2009 to 2014, Lombard provides various forms of asset finance to businesses of varying sizes – from SMEs to large multi-national corporates. Products range from Hire Purchase, Finance Lease, Operating Lease, to Sale and Leaseback, as well as multi-specialist divisions that provide funding for sustainable energy, marine, aviation and technology products.

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