FINANCE & LEASING ASSOCIATION (FLA):

AUTUMN STATEMENT SUBMISSION

Introduction

1. The Finance & Leasing Association (FLA) is the leading trade body for the UK asset, consumer and motor finance providers of leasing and hire purchase. Many of the FLA's members are independent, non-bank lenders who provide finance to underserved groups or deliver funding in markets where banks may be unwilling or unable to offer finance.

2. This paper sets out the FLA's key priorities ahead of the Chancellor's Autumn Statement.

Recommendations

3. We recommend the following:

- **Ensure the British Business Bank (BBB) is adequately resourced and replace its Recovery Loan Scheme (RLS)** with a permanent targeted Business Finance Growth Guarantee with a Green Finance variant.

- The **creation of an Emergency Warehouse Finance Liquidity Scheme** for independent non-banks, so they can support SMEs in times of crisis.

- Reform of the **Mandatory Bank Referrals** scheme so it can be deployed more flexibly, helping SMEs become 'Match Fit for Finance'.

- **Simplifying and rationalising the capital allowances** regime including the introduction of a **simplified, targeted 'green' tax allowance for small businesses**.

- **Reforming the way commercial credit data is shared and** submitted to ensure that accurate data on businesses is collected and SMEs can benefit from this information.

- **No introduction of the enhanced Basel rules in the UK**, in line with the approach taken by peer countries, until the business environment is much stronger and only then if the prudential risk is fully established

Replace the British Business Bank (BBB) Recovery Loan Scheme (RLS) with a permanent targeted Business Finance Growth Guarantee

4. The British Business Bank's (BBB) various support schemes: Enterprise Finance Guarantee Asset Finance Variant, Coronavirus Business Interruption Loan Scheme (CBILs) and temporary Recovery Loan Scheme (RLS) have all supported FLA asset finance members in providing finance to small business. The BBB's role in supporting businesses is well established and further support for the BBB would ensure it can deploy schemes quickly and continue to innovate in the way in which it can support the UK's businesses and work with funders.

5. In the case of the RLS, this provides a first loss guarantee on a portion of the lending. The guarantee is assignable between lenders and there is no portfolio cap. When RLS expires in 2024, we want this to continue with the establishment of a permanent scheme. This would provide our members with certainty and allow long-term planning with their customers: mainly small and medium-sized businesses. A new Business Finance Growth Guarantee should be created, modelled on the previous schemes. Our expectation is that the guarantee percentage would change. However, retaining the removal of the cap and the assignment of guarantee is critical to the success of the scheme.

6. We also want to see a green variant of the RLS replacement: a Green Finance Growth Guarantee that enables lenders to fund green assets that are outside of the risk criteria due to a lack of a secondary market or residual value data.

Emergency Liquidity Wholesale Funding Guarantee

7. In the event of a future credit crisis, lenders will need rapid access to liquidity beyond support schemes such as the Recovery Loan Scheme (RLS) and the Enterprise Finance Guarantee (EFG) schemes. These schemes play an important role in helping business get access to finance but need to be reinforced by a liquidity solution which can support small lenders.

8. Non-bank lenders provide support for underserved customer groups and lack access to the support structures available to banks, such as Term Funding for SMEs, potentially putting them at risk of a liquidity squeeze in times of crisis in turn limiting the support they can offer their SME customers.

9. The Bank of England's Term Funding Scheme was not available for independent non-bank funders. This means during a liquidity freeze, such as occurred at the height of the pandemic and lockdowns, these funders were severely limited in the support they could offer to small businesses. Of the £22.6 billion of asset finance new business that went to SMEs in 2022, £7.9 billion was provided by non-bank members.

10. To ensure we avoid a liquidity freeze in the future, we recommend a new Emergency Warehouse Liquidity Finance Scheme is required to address the liquidity gap that may arise. The EWFLS would provide a top slice guarantee to wholesale funders and investors who are financing independent non-bank SME lenders. This would allow the lender to provide payment deferrals to viable SME customers and support them as required through the crisis as well as allowing businesses to continue business as normal e.g., acquire assets.

11. We also recommend that British Business Investment (BBI) has a liquidity pool that can be deployed if required to support the independent non-bank lender. This would be modelled on the BBI's existing mezzanine and senior debt programmes.

12. The EWFLS should be established now as an off the shelf emergency mechanism to deal with a future crisis.

Reforming the Mandatory Bank Referral Scheme

13. Changes to regulations surrounding Mandatory Bank Referrals (MBRs) and simplifying access to business credit data can support innovative approaches to help SMEs access finance.

14. In 2016 MBRs were introduced that required banks to refer declined finance applications from SMEs to alternative finance providers. MBR assumes lenders' risk appetite to be the main reason for declining an application when it could be that the application itself is flawed or that the business does not have a fundable profile.

15. MBR simply cascades applications which, having failed once, are likely to do so again. In fact, 9 out of 10 businesses using the MBR are unable to secure funding through the referral process.

16. We propose that the MBR system is reviewed to ensure it can more effectively deliver support to SMEs. Instead of simply cascading down referrals which are still likely to fail, funders including banks should be able to deploy the MBR process in a more flexible way, which allows them to access a greater range of services including tailored advice.

17. For example, there may be alternative approaches or funding opportunities which can be used to support a business. It may be that MBR can be used to leverage alternative funding sources, allow funders to deploy innovative lending products, or be expanded to allow for referral to a wider range of products, advice and services for businesses that cannot access traditional bank funding combined with supporting SMEs to become 'Match Fit'. Use of business credit data can help identify what businesses can do to make them more fundable. SMEs will have a far better chance to get the right finance at the right time.

Simplifying and rationalising the capital allowances regime

18. Government should work towards a capital allowances landscape which includes a limited rage of broadly applicable allowances, namely:

    a. Full Expensing, including assets for leasing
    b. The Annual Investment Allowance
    c. A new, targeted green tax allowance
    d. A review of targeted first year allowances (FYAs) with a view to reducing their number

19. The introduction of full expensing at the last Budget was a welcome development which has greatly simplified the investment landscape for businesses. We are working with HM Treasury and HMRC with a view to including leasing under the full expensing regime and look forward to the outcome of this process.

20. The working group established by HM Treasury to explore the inclusion of assets for leasing can play a further role in supporting the development of a further simplified capital allowances environment more generally. For example, used electric vehicles are currently ineligible for any capital allowance. The working group should be retained as a forum to identify issues with the current capital allowances regime and develop options for simplification.

21. The Government should, in parallel, introduce a targeted green tax allowance. This would bring together existing allowances (including the current complex range of special rate capital allowances) and benefit small incorporated and unincorporated businesses. It would extend to zero emission vehicles, or any 'green' capital investment. The policy should also be extended to the zero emission vehicles leasing and rental sectors.

22. With respect to targeted FYAs we would urge the government to initiate a review of these with a view to reducing their number and broadening their scope. This would resolve the issue of multiple allowances with complex eligibility rules, which limit their appeal, especially for smaller businesses.

Reforming the way commercial credit data is shared

23. Businesses should be able to access their credit data more easily. Business owners need help to improve their credit profile, and this begins with getting easy access to the data held on them under the Commercial Credit Data Sharing Scheme (CCDS).

24. Consumers can readily access their credit file from credit reference agencies and receive tailored advice from service providers on improving their credit score. Whilst Businesses have the right to access their CCDS data, this is rarely exercised. Data may also be provided in a proprietary format by the CRA which is difficult to interpret for the business or for a third-party service provider.

25. This means that SMEs are unable to benefit from the same insights that consumers do when they access their credit data. HM Treasury should review the way in which businesses are able to access the data held on them by the CCDS.

26. We recommend that the CCDS mandating process is reviewed to ensure that banks who were new entrants to the market when it was established and have now grown are included. We also recommend that the way data is submitted to CCDS is standardised.

No introduction of the enhanced Basel rules in the UK

27. Our members have raised concerns regarding the implementation of the Basel 3.1 standards and the potential for unintended consequences, particularly with respect to SME customers.

28. The increase of risk weightings may have the unintended effect of reducing access to finance for SMEs, and increasing the cost of such finance where it is able to be offered at all. Application of the Basel 3.1 standards in the way which is proposed by the PRA would result in capital requirements which would be out of proportion to the risk presented by SME lending.

29. This could mean that funders become more risk-averse and less willing to lend to SMEs, particularly those with weaker credit profiles. Such a reduction in the availability of credit for SMEs could limit their ability to grow and invest in their businesses.

30. There is also the risk that application of the standards could disproportionately affect smaller banks and independent lenders, who would face higher securitisation and compliance costs.

31. Removal of the SME supporting factor could create a material risk to economic growth and limit the ability of the market to serve these customers, which could in turn result in a less competitive and diverse credit market, to the detriment of all customers.

32. The supporting factor is a key acknowledgment of the importance of SME lending and of the need to serve these customers to support the wider UK economy. Removing it ignores the need to support these customers particularly in times of economic hardship when some SMEs may be less lendable propositions, potentially creating an illiquid credit market.

33. The application suggested by the PRA goes beyond the lighter touch approach taken by peer countries and means that UK SMEs may struggle to access some forms of credit.

34. The proposed changes should therefore not be introduced in the UK, until the business environment is much stronger and only then if the prudential risk is fully established.

About the FLA

The Finance & Leasing Association (FLA) is the leading trade body for the UK business finance (leasing and hire purchase), consumer credit and motor finance sectors. In 2022, members of the Finance & Leasing Association (FLA) provided £150 billion of new finance to UK businesses and households, £51 billion of which helped consumers and businesses buy new and used cars, including 84% of private new car registrations. £116 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £34 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing almost a third of UK investment in machinery, equipment and purchased software in the UK last year.

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September 2023