



FLA response to BEIS Committee Inquiry:

Post-pandemic economic growth: Levelling up - local and regional structures and the delivery of economic growth

About the FLA

1. The Finance & Leasing Association (FLA) is the leading trade association for the UK consumer credit, motor finance and asset finance sectors. FLA member companies include banks, the finance subsidiaries of major manufacturers and independent finance firms. They offer credit services to customers from all social groups, via credit and store cards, personal loans, point of sale finance, motor finance and a number of other consumer credit products, as well as a wide range of leasing and hire purchase services to businesses of all sizes. Their specialist nature allows them a unique insight into their customers' needs.
2. In 2019, FLA members provided £140 billion of new finance to UK businesses and households, of which £46 billion was provided by FLA non-bank members. Over £35 billion of finance was provided to businesses (including £20 billion to SMEs) and the public sector to support investment in new equipment, representing over a third of UK investment in machinery, equipment and purchased software. £48.0 billion helped consumers and businesses buy new and used cars, including over 91% of private new car registrations. £104.7 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK.

The role of finance and leasing in “levelling up”

3. The UK's regions must be helped to “level up” and improving both the availability of finance and the demand for it is essential to achieving this.
4. FLA markets support over 330,000 jobs, distributed throughout the UK. Our members are based throughout the country and are in a unique position to understand their local customers' needs.
5. Our recommendations (set out below) would improve the supply of finance to customers nationwide. However, it is essential that robust regional economies are created which improve the *demand* for finance.
6. Accordingly the Department for Business, Energy and Industrial Strategy (BEIS) must also consider the role of Government in helping to generate this demand, in encouraging significant private investment and improving infrastructure in the areas that need it most.



Summary: Our Recommendations

7. To support regional economic growth, this paper suggests targeted interventions which would both stimulate demand and ensure that finance gets to customers in the areas that need it most, including:
 - a. **Extension of the Annual Investment Allowance**
 - b. **A “green finance guarantee”**
 - c. **Increase the “plug-in” grant for commercial vehicles**
 - d. **Expansion of locally targeted provision of business advice and information for SMEs**
 - e. **Greater use of the British Business Bank, including the ENABLE scheme, to support businesses outside of London and encourage inward investment**
 - f. **A commitment to prioritise financial education**
8. We would be happy to provide oral evidence to the Committee to expand on these proposals.

About our members:

Automotive finance

9. FLA members provide automotive finance to consumers and businesses in every constituency across the UK. This finance enables their customers to meet their mobility needs at a monthly price they can afford – whether their need is to get to work, get the children to school, enable a care worker to get to every home across town, or help commuters get to their local station.
10. It is especially important that access to finance is maintained for those workers and businesses in areas where public transport is not a viable means of getting to work, which are often the areas most in need of “levelling up”.
11. Motor finance providers have provided forbearance to support over 660,000 consumers across the UK since lockdown began, with the self-employed, public sector workers and key workers making up the greatest number of these. Although this was absolutely the right thing to do, it has come at a significant cost to motor finance providers.

Asset Finance

12. Our members providing asset finance help regional businesses to grow in sectors as diverse as construction, agriculture, transport and engineering. This support can have a “multiplier effect” supporting local growth. Asset finance



also provides funding for commercial vehicles, including the vans and HGVs that are used by businesses across the UK.

13. FLA members also have a major part to play in supporting industries reliant on finance, such as the manufacturing and automotive sectors. These industries are often cross-regional. Targeted measures to support them would ensure economic benefits would be distributed across the country in the areas that need it most, rather than solely in London and the South East.

Consumer Finance

14. FLA members provide a broad range of consumer finance products including credit cards, mortgages, personal loans and point-of-sale finance, which assist consumers in managing their expenditure. Customers also benefit from the additional protections provided under the Consumer Credit Act – particularly when making larger purchases such as holidays. However, it also plays an integral role in day to day household budgeting for millions of families, particularly when buying essential goods such as cookers and fridges, together with clothing and school uniforms.
15. Improving consumers access to finance and their confidence in being treated fairly and being able to borrow and spend wisely are important components of levelling-up. Prioritising financial education will be essential in delivering this. The FCA's [Financial Lives Survey](#) found that:
 - 24% of consumers have little or no confidence in managing their money and 46% of all UK adults report low knowledge about financial matters.
 - 1 million adults are unbanked and potentially vulnerable.
 - Access to financial services is a particular issue in rural areas. Of UK adults who never use the internet, 70% live in rural areas. And the take-up of mobile banking by adults is nearly half that of adults in urban areas.
16. The Money & Pensions Service (MAPs) is already providing a comprehensive resource for consumers seeking further information on how best to manage their finances, as part of its [Financial Capability Strategy](#). In response to the Coronavirus pandemic, FLA members are also working with their customers to identify their needs for further money guidance or debt advice. This builds on the work firms have been undertaking for many years to promote financial education. A more coordinated and sustained approach is required to ensure that those in more deprived areas of the country are not excluded financially.



Our proposals

a) Extension of the Annual Investment Allowance

17. We would support the extension of the Annual Investment Allowance (AIA) increase to £1 million beyond the originally planned end date of 31 December 2020. Many businesses will now be unable to take delivery of plant and machinery eligible for the allowance, funded by our members. This will dramatically change the business case for taking on this equipment and will increase its cost to these businesses at a time when they may be struggling.
18. The AIA is extensively relied upon by manufacturing businesses, which are disproportionately based outside of London. The North West is the biggest region in terms of the UK's manufacturing output, worth £28.5bn (Make UK, 2020), and asset finance in particular plays a major part in enabling growth in this industry, by allowing firms to acquire new equipment easily. Extending the AIA would help to enable these businesses to recover more quickly from the effects of COVID-19 and to unlock future growth

b) Expansion of locally targeted provision of business advice, education and information for SMEs

19. In previous submissions to this Committee, we have made the case for a business information service for SMEs. We argued the service should help SMEs find the right finance for them, assist them navigate the complex regularity rules and understand the tax system.
20. We welcome the establishment of the Government's Business Support Guide website as it has gone a long way to address our recommendations. We believe this can be built on further to identify ways of reaching typically underserved or unrepresented groups within the business community, especially those in areas in need of "levelling up".
21. We also consider that the regional Growth Hubs could be strengthened, with funding targeted to the regions most in need. This would ensure they are adequately funded and that their staff are aware of where to direct local businesses when they are seeking finance should be a key part of any improved business advice landscape.
22. Better use of Growth Hubs, which are an important component of financial education, could allow for more regionally targeted advice, supporting the Government's "levelling up" regional agenda.
23. This would enhance the financial inclusion of SME owners and ensure they are equipped with the knowledge and resources they need to run their businesses



successfully. This could be achieved with specially trained staff with knowledge of the finance options available to business, based at the Growth Hubs as a source of advice.

24. SME owners could also be offered a short qualification or certificate which covers the basic principles of financial management, based on a similar principle to the European Computer Driving Licence (ECDL). This qualification would help new SME owners, freelancers, and the self-employed get to grips with the key principles of financial management. Such a scheme could be supported by industry, including by the FLA, with the Growth Hubs providing a local point of contact for interested businesses, and used to target the initiative at the areas in most need.
25. The “Be the Business” campaign to enhance productivity provides another model for how such a financial education campaign could be provided, based on mentoring with other business leaders. This programme has been successful, and if applied to smaller businesses and targeted at areas most in need using the Growth Hubs as a signposting service, could further enhance the potential of SMEs in this area.

c) Increase the “plug in grant” for commercial vehicles

26. Government should provide greater support to enable the adoption of low-emission and electric versions of commercial vehicles. Private cars meeting the Government’s “low emission” criteria receive a grant of 35% of the purchase price. Vans, taxis, and trucks meeting the criteria receive a maximum grant of only 20%.

d) A “Green Finance Guarantee”

27. The introduction of a green finance guarantee for vehicles would help lower the risk of financing lower income customers and facilitate their access to a low carbon or zero carbon vehicle. This is important for consumers in regions with a lower average income and would support these regions in achieving local pollution reduction targets.
28. Such a guarantee would greatly improve financial inclusion in these areas by reducing the risk for lenders of lending to higher risk customers. The reduction in risk could also lower the cost for these customers who may otherwise be unable to consider replacing their vehicle with an environmentally friendly, newer and more reliable alternative.

e) Greater use of the British Business Bank (BBB) to support businesses outside of London and encourage inward investment in these areas



29. The work of the British Business Bank (BBB) in partnership with the financial services sector, has been essential in helping to support businesses in need during the current crisis. We believe the BBB can also play a role in the “levelling up” agenda.
30. Providers of finance to smaller businesses often lack the scale required to access capital markets – a key source of funding for lending institutions – in a cost-efficient way. The ENABLE Guarantee programme helps funders with a government-backed portfolio guarantee to cover a portion of a designated lending portfolio’s net credit losses in excess of an agreed ‘first loss’ threshold, which they receive in exchange for a fee. The asset finance variant of the Enterprise Finance Guarantee (EFG) scheme also supports businesses seeking finance by guaranteeing a portion of the lending.
31. These programmes can also be used to target businesses in regions by reducing the risk for lenders of funding these businesses. We suggest that further work is undertaken to identify the ways the BBB can support the levelling up agenda with both the ENABLE and the EFG programmes.
32. We believe these programmes should be enhanced and promoted to a much greater degree. To enhance these programmes, we also propose that the level of guarantee provided is increased to ameliorate the reluctance of wholesale funding markets to lend to smaller funders, and to support regional growth by de-risking business investment in targeted areas.
33. We would also support a increased guarantee being made available for business based in targeted areas to encourage a greater level of inward investment to the areas most in need.

f) *A commitment to prioritise financial education*

34. The Money and Pensions Service’s (MaPS) work on enhancing financial capability to allow everyone to make the most of their money and pensions should be strongly supported. MaPS will play a key role in achieving this vision, by supporting and working with a wide range of organisations and by delivering services where appropriate, including on a regional basis to address the discrepancies in financial inclusion.

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