FLA Recommendations for the Comprehensive Spending Review

The challenges for 2021 and beyond

1. To create a sustainable, prosperous country for everyone, the UK needs to change. The move to a net-zero economy by 2050 requires widespread adoption of new technologies and attitudes. Unravelling the productivity puzzle requires innovation. The UK's regions must all be able to play a full part in its future success, and we must ensure that economic prosperity benefits everyone in an inclusive way.

2. Access to finance is essential to help the UK meet these future challenges. Consumers and businesses will need access to finance to support the continued growth of the UK economy, especially given the significant economic impact of Covid-19. The providers of finance, our members, will also need to support their customers, particularly those who find themselves in financial difficulty.

3. This paper sets out proposals from the Finance & Leasing Association (FLA) for the Government to consider ahead of the Comprehensive Spending Review, focussing on improving productivity, levelling up regional economies, improving financial inclusion and helping to achieve net zero.

Our Recommendations

To help "level up" regional economies and improve economic productivity:

- A new version of the Enterprise Finance Guarantee Asset Finance variant to help our members further support small businesses.
- An expanded funding framework for independent funders.
- An expanded role for the Small Business Commissioner to act as a point of contact for small businesses to identify when government action is required.

To ensure greater levels of financial inclusion and shared prosperity:

- A review of government support to consumer lenders to ensure that independent lenders can continue to support customers during a liquidity crisis.
- A review of the consumer credit act to make it responsive to customers' needs.
- Better Financial Education for both consumers and businesses.

To help achieve "net zero" carbon emissions:

- A "Green Finance Guarantee" to support the move to low emission vehicles.
- An increased plug-in grant for commercial low emission, matching that for private cars
- Bringing forward fast charging infrastructure targets.
- Enabling lenders to access capital allowances for their fleet of vehicles.

About the FLA

4. The Finance & Leasing Association (FLA) is the trade association for the UK consumer credit, motor finance and asset finance sectors. FLA members 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, as well as leasing and hire purchase services to businesses of all sizes. Their specialist nature allows them a unique insight into their customers' needs.

5. In 2019, FLA members provided £140 billion of new finance to UK businesses and households, of which £44 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 billion helped consumers and businesses buy new and used cars, including over 91% of private new car registrations. £105 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK.

PRODUCTIVITY AND LEVELLING UP

A new version of the Enterprise Finance Guarantee Asset Finance Variant

6. The Government's support schemes including the Coronavirus Business Interruption Loan Scheme (CBILS) have helped to deliver much needed funding to businesses. However, these schemes are temporary, time-limited interventions responding to a specific economic need. Businesses will need ongoing support once these schemes reach an end, so they can provide finance to business across the country looking to acquire the equipment they need to remain competitive and productive.

7. The introduction of the CBILS scheme provided an opportunity to trial new ways of providing support to businesses, with increased agility and efficiency from lenders, Government and the BBB working together. It is crucial that these lessons are not lost by reverting to the original Enterprise Finance Guarantee Scheme.

8. Accordingly, we propose that the best features of the CBILS scheme be retained as part of a revamped asset finance variant of the Enterprise Guarantee (EFG) scheme, to deliver ongoing support.

9. A significant challenge for smaller independent lenders during the current crisis is accessing wholesale funding. The ability to assign the Government guarantee to a wholesale funder in the event of default of the junior lender will help to free up lending and improve the liquidity of the wider wholesale funding market , ultimately delivering more funding to businesses. We would strongly support this flexibility being made available to users of the EFG variant.

10. The current EFG scheme requires the customer to make a monthly payment. Under CBILS, the lender bears the cost of the facility, including any fees. This removes a potential deterrent to the customer and is easier to administer. These changes encourage greater use of the scheme. We recommend retaining this fee structure for the EFG variant when CBILS come to an end.

11. As a result of lobbying efforts by the FLA, HM Treasury and the BBB took the decision to remove the portfolio cap from CBILS in April 2020. This meant there was no limit to the amount of lending an accredited lender could provide under the scheme. This significantly improved the supply of CBILS-lending to businesses and provided assurance to lenders about the longevity of the support scheme. We recommend that the cap with respect to the EFG variant is either removed or significantly increased to stimulate the supply of lending.

12. We would also strongly support an increase to the Government guarantee available under the EFG variant to match the 80 percent guarantee currently available under the CBILS scheme, at least until March 2021, to allow businesses to continue to access funding whilst they are in hardship.

13. The level of guarantee should be kept under review, with a view to eventually lowering this to 50% in the longer term, higher than the 20% currently available under EFG, depending on current market conditions.

An expanded funding framework for independent funders

14. In a short period of time, the British Business Bank was asked by the Government to transform the Enterprise Finance Guarantee into CBILS. It was also asked to accredit many new lenders quickly.

15. The BBB undertook this task as expected, professionally and as swiftly as it could given the resources it had.

16. This difficult period for the UK economy has demonstrated that the BBB can play a critical role in supporting our members who fund small businesses across the country.

17. However, the BBB was limited by the resource it had at its disposal and our members were limited by the funds that they could access. During this time, we argued that there should be a level-playing field for independent funders as they were unable to access the Bank of England’s Term Funding for SMEs.

18. Without adequate funding, independent funders, even when accredited under the government guarantee scheme were unable to support struggling businesses. Our proposals with fix this policy failure.

19. We propose that the British Business Bank is given additional funding to ensure it can support the high demand from funders and lenders. This funding should be used to continue to build its excellent team and to deploy funding via schemes such as ENABLE.

20. We also recommend that the criteria for accessing the ENABLE scheme is reviewed to make it easier for independent funders to access liquidity without the current need for match funding.

Better information provision for SMEs and an expanded role for the Small Business Commissioner

21. In previous submissions to Government, we 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.

22. We welcomed 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.

23. We urge the Government to continue to support this and build on its current offering. We have already been in discussion with the Department for Business, Energy & Industrial Strategy about this. We look forward to further constructive engagement and are happy to assist in the development of the site.

24. We also believe that the Growth Hubs could be strengthened to ensure they are adequately funded and that their staff are aware of where to direct businesses when they are seeking finance should be a key part of any improved business advice landscape. Better use of Growth Hubs could allow for more regionally targeted advice, supporting the Government's "levelling up" regional agenda.

25. We also foresee a greater role for the Small Business Commissioner and their role in helping businesses with late payment disputes. We believe the role of the Small Business Commissioner should be further expanded to identify problems areas that SMEs face and be able to recommend policies to address them e.g. dealing with the regulatory burden.

FINANCIAL INCLUSION

Review of Government's support for consumer lenders

26. The British Business Bank (BBB) provided an effective mechanism to support lending to business throughout the pandemic and will continue to play a key role in supporting this lending. However, consumer lending is equally important and plays a key role in economic recovery.

27. Consumers will still need access to finance to buy a car to get to work, or purchase a property, but they will only be able to do so in many cases with the support of a robust financial services industry.

28. Equally, FLA members will need to support individuals making these purchases and offer forbearance where it is needed. FLA members have offered unprecedented levels of forbearance throughout the pandemic and this has had in turn impacted their own ability to offer competitive, affordable finance to their customers.

29. The latest FLA figures show that members had received over 1.8 million requests for Covid-19 related forbearance. Lenders require urgent support for this huge demand for forbearance and be able to provide new credit over the next 12 months. Our analysis shows that the motor finance market may be unable to meet demand for finance from up to half a million customers.

30. This is especially true for smaller and non-bank independent lenders. We would urge the Government to review the support available for lenders of this size and type who play a key role in offering a vibrant and competitive funding mix to consumers.

31. In particular, we support a review of the guarantees available to these lenders and whether better delivery mechanisms or more responsive regulation requirements are required to protect the ability of these lenders to offer support for their customers in the future.

32. Without intervention, those customers most likely to be excluded from the financial landscape who may rely on specialist lenders may be frozen out of access to credit. Lenders have already had to tighten their lending criteria, and further significant tightening is likely in the medium term. This means that, in the absence of intervention, fewer consumers and businesses will be eligible for the finance to support them during the recovery, and that finance will be at higher rates of interest.

The Consumer Credit Act and forbearance

33. For firms regulated by the FCA, the challenges created by the Covid-19 pandemic have highlighted shortcomings in the Consumer Credit Act (CCA), which underpins the regulatory regime. The Consumer Credit Act was originally passed in 1974, in an environment which does not reflect current customer behaviour, sophistication, or access to information. It also does not address the considerable innovation in credit markets that have taken place since that time including online banking and the emergence of non-bank funders.

34. The CCA imposes strict requirements on the information and documentation that must be provided to customers. This has limited firms’ flexibility to amend credit agreements for those in difficulty. This reduces competition and customer choice, leading to higher costs for customers and businesses.

35. We recommend a complete reform of the way the CCA operates, as part of HM Treasury's review of regulation in the financial services sector.

A commitment to prioritise financial education

36. 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. It is vital that the Government continues to support this work in concert with the financial services industry.

37. For businesses, SME owners in particular are vulnerable to gaps in their financial knowledge. 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. We would urge the Government to work with us to develop such a qualification.

ACHIEVING NET ZERO

A Green Finance Guarantee

38. FLA members currently fund 94% of all new cars purchased by consumers – this has risen from 92% pre-crisis. In all, they provided £48 billion in 2019 to help consumers and businesses buy new and used cars. Captive finance companies finance the acquisition of LEVs produced by their OEM parents, and a small but growing number of independent finance companies (including banks) provide finance for the acquisition of used low emission vehicles (LEVs). Finance companies play a critical role in enabling the roll out of LEVs as without the finance, take-up will be significantly lower.

39. The Government has an unprecedented opportunity as we enter the post-pandemic recovery phase to encourage green investment. One way of achieving this would be via a Green Finance Guarantee, that would reduce the risk of lending and consequently lower the cost of finance for ULEVs making them more affordable for lower income consumers. We are working with the Green Finance Institute and the Low Carbon Vehicle Partnership, both of which are co-funded by Government and industry, with a view to producing joined-up solutions and proposals which enable the 2035 (or earlier) targets to be met.

40. 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.

Increasing the "plug-in grant" for commercial vehicles

41. 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%. The grants should be at the same level for both private and commercial vehicles.

42. This is especially important for "gig economy" workers including delivery drivers and private hire drivers who have to provide their own vehicles and will often turn to finance to do this. They are often expected to drive low emission vehicles at considerable cost to them. Were they to acquire these vehicles for private use, they would be able to do so at a significantly lower cost than using them for their business use.

Bringing forward fast charging infrastructure targets.

43. The Government set out a vision for the UK to have one of the best charging infrastructure networks in the world in its Road to Zero strategy, supported by the new Rapid Charging Fund announced in the March 2020 Budget. Data from the International Energy Agency suggests we have made good progress but have fallen short of investing as much as some countries like the Netherlands and Norway in per capita terms and providing lower plug-in grants than those countries.

44. To achieve an earlier phase out date Government may wish to consider bringing forward targets for a rapid chargepoint network by leveraging speedier installations and defining clearer responsibilities and incentives for the stakeholders involved. This might also include incentivising local government to provide a generous package of benefits to ULEVs displaying green number plates.

Enable lenders to access capital allowances for their fleet of vehicles

45. Currently capital allowances and the Annual Investment Allowance cannot be claimed by finance and leasing companies which purchase vehicles and lease them to businesses and consumers. If lenders, including leasing companies, could offset purchases of EVs against their tax position this would enable them to offer much more competitively priced finance/rental payments for ULEVs. Research undertaken by the British Vehicle Rental and Leasing Association (BVRLA) suggests passing on the benefit of capital allowances could lead to customer savings of £20-£30 a month.

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