



**House of Commons Business Enterprise and Industry Strategy Committee  
Inquiry into Small Businesses and Productivity**

**Finance & Leasing Association's response – March 2018**

**Introduction**

1. The Finance & Leasing Association (FLA) represents UK providers of asset finance (leasing and hire purchase). The FLA's members include specialist lenders, subsidiaries of banks, independent asset finance providers, and captive finance companies owned by equipment manufacturers. In 2017 they provided £32 billion of new finance to businesses and the public sector, £19 billion of which went to SMEs. They play a vital role in allowing SMEs to access finance to grow their businesses, acquire new equipment, and invest in new technologies.

**Supporting the UK Economy**

2. FLA members enable UK businesses to purchase goods and services, and invest in new machinery and equipment. The finance they provide has an important role to play in improving productivity and enabling growth among SMEs. The major economic sectors – manufacturing, transport, construction, agriculture, retail and services more generally – all benefit from the finance offered by our members. FLA members also increasingly fund high-value manufacturing, and allow SMEs to acquire innovative technology at reasonable cost.
3. While FLA members' economic contribution is already large, we believe more can be done to ensure the flow of affordable finance to UK SMEs, thereby improving their productivity and increasing the range of appropriate finance options available to them. Compared with other forms of finance, SMEs are less likely to be rejected for asset finance, as often the asset itself is the only security required. This form of finance enables businesses to gain access to the latest equipment without the costs of outright purchase.
4. We have identified two key areas where the Government could assist the FLA's members to help their customers, and thus improve productivity and the ability of businesses to scale-up their operations. These are:
  - (i) Increasing the awareness of business finance options by ensuring that small businesses in particular understand the benefits of asset finance.
  - (ii) Simplifying the tax regime for leasing to make it more appealing to businesses.

We discuss each of these in more detail below.



## **Increasing awareness of asset finance**

5. Asset finance plays a critical role in helping UK businesses, and in particular small businesses, achieve their investment goals. It enables businesses to acquire the latest equipment and machinery, improve their productivity and grow their output, without having to make large upfront payments. Asset finance is particularly suited to businesses looking to expand their operations and ensures the cost of doing so is predictable, and the asset to be financed is provided quickly.
6. In its 2017/18 Small Business Finance Markets Report, the British Business Bank (BBB) reported that asset finance was among the top three forms of finance most commonly obtained by SMEs during the previous three years. Furthermore, the research showed that asset finance was the most common type of finance sought by SMEs on the most recent occasion of seeking finance.
7. However, asset finance could be used by many more businesses if more of them knew where to get it. The BBB's research found that while 86 per cent of respondents are aware of leasing and hire purchase, only 46 per cent know who to approach to obtain it. These findings suggest that additional work is needed to improve awareness of how businesses can apply for this affordable and readily available form of finance.
8. The FLA has itself undertaken a programme of work to educate small businesses about asset finance, working with bodies such as the Institute of Chartered Accountants in England and Wales (ICAEW), the Association of Chartered Certified Accountants (ACCA), Renewable Energy Association and other key stakeholders. The FLA has published a booklet in partnership with the ICAEW and the BBB on the advantages of leasing and hire purchase which has been made available to the 39 Local Enterprise Partnerships (LEPs) in England. We also contribute regularly to the BBB's Business Finance Guide, and we carry out a wide range of other activities aimed at improving customer awareness of leasing and hire purchase.
9. We have worked closely with the BBB on the development of a 'one stop shop' for SMEs seeking finance. We therefore strongly welcome their commitment to developing a 'scale-up hub' for businesses as we believe that this has the potential to evolve into a comprehensive online "Small Business Financing Options Portal" for all businesses. This would provide an impartial, online list of the funding sources available to all SMEs. It could include the finance companies that actually offer SME finance, and provide links to them allowing small businesses to apply direct to lenders for the different types of available finance.
10. The FLA works closely with the LEPs and Growth Hubs to ensure that they are aware of the role asset finance can play in supporting small businesses, and improving their success and productivity. In addition to our own work in this area, we believe that each Growth Hub would benefit from a dedicated member of staff who could provide information on access to finance, and assist small businesses in the drafting of their business plans.



11. We also believe that excessive regulation can be a barrier to business growth, innovation and productivity. For example, much of the finance provided to small businesses is covered by the Consumer Credit Act (CCA). A recent survey of our members showed that the current regulatory requirements for customer information, documentation, and credit-worthiness assessments (all designed for the consumer credit markets) are inappropriate for the business finance markets. Half of survey respondents reported that some brokers, equipment suppliers and other intermediaries have decreased or stopped providing regulated business finance as a result of the introduction of the current credit regime. We therefore believe that the CCA's regulatory boundary should be moved in order to ensure a more proportionate and better-targeted regime.

### **Lease Taxation**

12. The current taxation regime for leasing can dissuade SMEs from using asset finance. It is complex to apply, and can create situations where SMEs may be driven to purchase an asset outright due to the tax advantage of doing so, even if this may not be the most appropriate way of acquiring that asset. The system is currently under review following the adoption of the new IFRS 16 accounting standard. We believe the Government should use this opportunity to simplify the tax system as a whole for leasing and make it much easier for businesses to benefit from it.

**George Anastasi**  
**Senior Policy Adviser Asset Finance**  
**Finance & Leasing Association**  
[George.anastasi@fla.org.uk](mailto:George.anastasi@fla.org.uk)

**March 2018**