



**BUSINESS ENERGY AND INDUSTRIAL STRATEGY COMMITTEE INQUIRY
INTO POST-PANDEMIC ECONOMIC GROWTH:
WRITTEN EVIDENCE BY THE FINANCE & LEASING ASSOCIATION**

About the FLA

1. The Finance & Leasing Association (FLA) is the leading trade body for the UK asset, consumer and motor finance sectors. In 2019, FLA members provided £140 billion of new finance to UK businesses and households. Nearly £105 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. 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. FLA member funded over 91% of private new car registrations in 2019.
2. In the three months to May 2020 total new business provided by FLA members was 44% lower than the same period the previous year, at £21.1 billion. Of this, £5.6 billion was provided to businesses, 44% lower than the same period the previous year. This included £3.3 billion to SMEs, 43% less than the same period last year.
3. The remaining £15.5 billion of consumer finance new business represented a 44% fall compared to the same period the previous year. This included £4.6 billion for consumer car finance, 56% lower than the previous year.

Summary

4. FLA members support investment by businesses and consumers and will therefore play a pivotal role in rebuilding the economy post Covid-19.
5. In the short-term, finance companies, including non-bank lenders, require Government support to underpin the forbearance being offered to their customers. Failure to do so risks slowing down economic recovery if firms cut the supply of finance and/or raise prices.
6. Finance is an important component of greening the economy to meet the net zero emissions target, whether through supporting public or private sector investment or funding home improvements or low emission vehicles.
7. We have presented a number of ideas to stimulate economic growth via expansion of the British Business Bank ENABLE scheme to ensure that business has access

to more funding, extending the timeframe for the Annual Investment Allowance beyond the end of 2020 and measures to increase awareness of asset finance by SMEs across the regions.

The FLA's interest in the Inquiry

8. As debilitating as it has been to the global economy, the pandemic does offer the opportunity to accelerate a number of measures that would support the rollout of finance to support recovery.
9. We have responded only to those questions which are relevant to the markets we represent.
10. We would be happy to give further evidence to the Committee as the Government's response to the coronavirus evolves.

Response to Questions

What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?

11. **Restoring economic confidence** must be at the heart of the Government's recovery strategy. FLA members fund important aspects of the economy which are critical to enabling consumers to spend, for example by making household purchases, or helping firms to acquire equipment such as plant and machinery to grow their business.
12. The recovery is likely to take some time and so it is essential that **future prosperity must be shared** throughout the UK's regions and across all segments of the population.
13. The Government must ensure effective incentives are in place if the goal of **net-zero emissions** is to be accelerated. FLA members are important enablers of this whether it is via their funding of environmentally-friendly home refurbishments, low emission vehicles for consumers to complete more local journeys to work or the local high street, or the provision of green bus fleets. Businesses and consumers would benefit greatly if ambitious green incentives were made available for a long period of time, including beyond the term of the current Government. This is reliant on building cross-party support.
14. Covid-19 has increased the use by businesses of technological solutions to serve their customers and improve their **productivity**. The UK should continue to embrace **innovation** to expedite recovery in a more efficient way.

How can the Government borrow and/or invest to help the UK deliver on these principles?

15. We would encourage the Government to support expansion of the British Business Bank ENABLE scheme to help business have access to more funding. ENABLE 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. To enhance the programme, we 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 the greater involvement of institutional lenders. This would help all types of funders, including independent, non-banks.
16. The Government would boost business investment if it extended the Annual Investment Allowance threshold of £1 million beyond the currently 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.
17. We would urge the Government to continue its investment in the charging infrastructure and grants to encourage customer take-up of green vehicles.
18. Not all these priorities require funding. For example, the Government and regulators may facilitate digital technology by promoting best practice and minimising regulatory interference.

What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?

19. FLA members granted over 1.6 million requests for Covid-19 related forbearance in the fifteen weeks ending 19 June. Lenders require urgent access to funding to support 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. As the biggest consumer finance market after mortgages and credit cards, motor finance is a bellwether for the economy. Equally importantly, our members are key to reigniting the High Street with the finance they provide for household goods. In 2019 FLA members provided £8.9 billion of retail store and online credit.
20. To help support the economic recovery following Covid-19 it is vital that lenders have access to the liquidity they need to deliver funding to businesses and consumers. We propose the creation of a Coronavirus Lending Forbearance Guarantee. Such a guarantee would ensure support can continue to be provided by lenders to consumers in the same way as support is being provided by lenders to businesses. Non coronavirus related risks would remain with the lender/owner. To address the costs suffered by lenders and owners as a consequence of

forbearance offered in accordance with FCA temporary guidance, the Government would provide a guarantee of 80% of exceptional compliance costs.

Whether the government should give a higher priority to environmental goals in future support?

21. Yes, now is an ideal opportunity to build on existing investment in the housing stock and low emission vehicles (LEVs). The Government has sensibly used the planning system to encourage investment in the infrastructure, for example charging points in car parks in new housing developments. We would urge the Government to offer favourable VAT treatment for charging installations given the greater flexibility it has outside the EU VAT regime.
22. It is also important to increase initiatives at a local level. Our members support local authorities in their endeavours to create low-emission zones or to move to zero-emissions bus fleets. They also allow businesses to acquire newer more efficient equipment, including heat generation and energy storage, enabling a greener future.
23. We welcome business-led interventions such as the "[Build Back Better](#)" campaign which will need the support of a vibrant finance and leasing sector to build action on climate change into the UK's recovery plan. FLA members have already supported schemes such as distributed heat networks and low emission zones.

How should regional and local government in England, (including the role of powerhouses, LEPs and growth hubs, mayoralities, and councils) be reformed and better equipped to deliver growth locally?

24. Existing knowledge of the finance options available to businesses varies widely across the Growth Hubs. The FLA has therefore been working closely with them to highlight the role that asset finance plays in supporting small businesses. We believe that the network needs to be adequately funded and strengthened, with staff trained to know where to direct businesses when they are seeking finance. This should be a key part of any improved business advice landscape. Better deployment of Growth Hubs would also allow for more regionally targeted advice, supporting the Government's "levelling up" regional agenda.
25. We have long advocated a business information service for SMEs to help them find the right finance, assist them with navigating the complex regularity rules and understanding the tax system. The Government's Business Support Guide website goes a long way to address our recommendations. We believe this can be further developed to identify ways of reaching typically underserved or unrepresented groups within the business community. We are in discussions with the Department for Business, Energy & Industrial Strategy on how it can further develop this service.

26. We also foresee a greater role for the Small Business Commissioner, as expanding their remit to include provide business information to SMEs and act as a sounding board for their concerns, would fit with their existing role of helping businesses with late payment disputes.

What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the 'levelling up' agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?

27. Firms lending to consumers and funding businesses, particularly SMEs, have done the right thing to support their customers during the pandemic. We have highlighted above the help needed by firms which have provided forbearance for an extended period of time. If the Government does not intervene, firms will both tighten their lending criteria further (so fewer customers will be able to get finance) and raise prices – which will harm businesses and consumers at the time they most need access to affordable finance. Therefore, the Government should temporarily underwrite such finance for all lenders by means of a guarantee (or guarantees).

What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)?

28. Our members serve a diverse market whether by customer base (for example, funding cars for near-prime consumers, such as key workers) or sectors financed (from agriculture to construction and engineering). This diversity must be maintained. One way of achieving this is for the Government to support non-bank, independent finance providers active in markets which banks do not find attractive (see paragraph 15).

**Finance & Leasing Association
7 July 2020**