



## Investing for growth - boosting the real economy

Finance & Leasing Association and Manufacturing Technologies Association  
Roundtables at the 2015 Conservative and Labour Party Conferences



# The Issue

Manufacturing is at the heart of the UK's productive economy, but historical under-investment has affected the sector's ability to access the latest hardware and software. Only by harnessing these new technologies can we secure productivity gains and remain competitive in the international marketplace.

This is why the Finance & Leasing Association (FLA), which represents asset finance (leasing and hire purchase) providers, and the Manufacturing Technologies Association (MTA), which represents engineering-based manufacturers, joined forces to co-host roundtable events at the 2015 Labour and Conservative Party conferences.

Along with Parliamentarians and policy-makers, we brought together lenders and business people from the high-tech sector to identify areas where the Government could help to improve the future financing of manufacturing. This document provides a snapshot of the issues discussed, and our recommendations for action.

FLA members provided £105 billion of new finance to the UK economy in the twelve months to August 2015 – £28.3 billion of which (mainly leasing or hire purchase) went to businesses and the public sector, funding 32% of all UK investment in machinery, equipment and purchased software.

The MTA represents companies involved in the construction and supply of manufacturing technology. Their machinery, software and expertise is at the heart of every advanced manufacturing supply chain. Directly employing just under 10,000 people, most of them highly skilled, the sector's annual turnover in the UK is some £1.6bn - with a high export rate.



# Challenges & Recommendations

**Challenge:** Participants agreed that the level of awareness of asset finance (leasing and hire purchase) among small businesses was lower than it should be. If more businesses, especially SMEs, understood that asset finance could help manage their cash flow, free up capital, and keep their equipment up-to-date, they would take advantage of this efficient funding option.

**Recommendation:** The Business Finance Guide, developed jointly with the British Business Bank and the Institute of Chartered Accountants in England and Wales, is a great start, but the Government could make a real difference by creating an on-line directory of all UK business finance providers. This could sensibly be run by the British Business Bank and should be publicised widely by the Government.

**Challenge:** A lack of skilled workers is preventing UK manufacturing firms from realising their potential. Many FLA members already finance manufacturing apprenticeships, mentor small businesses, and support Training Centres as part of the Government-backed High Value Manufacturing Catapults (technology and innovation centres which bring together the private sector and academia), but more could be done.

**Recommendation:** The Government's commitment to apprenticeships should include a national secondary school curriculum that is better focused on design and technology, and gives students a basic understanding of business and investment.

**Challenge:** Lending to around 1.5 million small businesses, including many sole traders, is currently regulated by the Financial Conduct Authority (FCA) under a regime designed to protect individual consumers. Even if this type of lending represents only a small proportion of their businesses, funders have to apply the new FCA regime across all their lending, or run two parallel systems. The disproportionate effect is made worse because, even if lending agreements qualify for the available exemptions from regulation, the brokers introducing them must themselves be fully regulated by the FCA before they can use the exemptions.

The net effect is that a number of funders and intermediaries are withdrawing from the small business lending markets, so reducing the supply of finance to the sector.

**Recommendation:** The Government should accelerate its promised review of the Consumer Credit Act, including – as a matter of urgency – the application of the consumer credit regime to business lending.

**Challenge:** Manufacturers agree that the accelerating pace of technological change is driving the need for more investment, but the assets involved are often a complex mix of physical technology and intangibles like software. It's a challenge for lenders to calculate the value of intellectual property, and at times the overall value of the package being funded may greatly exceed the collateral provided by physical equipment. Many manufacturing companies, particularly at the smaller end of the spectrum, also struggle to raise the deposit required for a lease or hire purchase agreement. As a result, manufacturers of cutting-edge technology report difficulties in obtaining finance.

Manufacturers of plant and machinery have taken advantage of the temporary £500,000 Annual Investment Allowance (AIA) rate. The Government has recently announced that the AIA will continue, but at the reduced level of £200,000. The certainty is welcome, but the AIA is only one of the fiscal levers the Government has at its disposal. The Writing Down Rate (at which investment can be claimed against tax) is currently 18%, a rate too low to be internationally competitive. This means that British businesses, especially manufacturing businesses, continue to invest at a disadvantage.

**Recommendation:** Funders should consider more innovative ways of using a business's assets (other than those being funded) as additional collateral for a lease or hire purchase agreement.

The funding of intangibles and the problem of raising deposits should be addressed by a suitably-constructed Government scheme to underwrite a modest part of the risk (as already happens in other markets). One option would be to include asset finance in an adapted version of the Enterprise Finance Guarantee scheme. The Regional Growth Fund (RGF) has helped funders provide finance for SME investment and has safeguarded and created many SME jobs. But it could be better targeted at growing businesses, and we urge the Government to address this when considering the future of the RGF (or similar schemes).

The British Business Bank would be the obvious home for such enhanced finance support schemes, and could become an impartial 'one-stop-shop' for finance. Building on the adoption of a £200,000 permanent Annual Investment Allowance, Government should now consider what additional support is needed to make the tax implications of UK investment decisions comparable with those in competitor economies – one such area is the Writing Down Rate.

# Participants

The FLA and the MTA would like to thank all those who gave their time to contribute to the discussions:

## **Liz Barclay**

Freelance Journalist (Chair)

## **Elliott Burton**

Special Adviser to Small Business, Industry and Enterprise Minister, Anna Soubry MP

## **Celia Charlwood**

Government Affairs Adviser, Engineering Employers' Federation

## **Alan Cunningham**

Partner, DLA Piper

## **Matthew Davies**

Deputy Chief Executive and Director of Policy and Communications, Asset Based Finance Association

## **Philip Davies**

Managing Director, Five Arrows Leasing Group

## **Matthew Fell**

Director for Competitive Markets, CBI

## **Erin Flood**

Senior Policy Adviser, Federation of Small Businesses

## **Simon Goldie**

Head of Asset Finance, Finance & Leasing Association

## **Stephen Ibbotson**

Director, Institute of Chartered Accountants England and Wales

## **John Lane**

Director, CNC Capital

## **Nigel Mills MP**

## **Paul O'Donnell**

Head of External Affairs, Manufacturing Technologies Association

## **Lord O'Neill of Clackmannan**

## **Stephen Panke**

Managing Director, Panke Pearson

## **Stewart Plant**

Partner, DLA Piper

## **Mike Randall**

Chief Executive Officer, Close Brothers Asset Finance

## **Mark Ridgway**

Managing Director, Group Rhodes

## **James Selka**

Chief Executive Officer, Manufacturing Technologies Association

## **Edward Simpson**

Head of Government Affairs, Finance & Leasing Association

## **Stephen Sklaroff**

Director General, Finance & Leasing Association

## **Keith Softly**

Head of Product, Lloyds Bank Commercial Finance

## **Adam Tyler**

Chief Executive, National Association of Commercial Finance Brokers

## **Gabriele d'Uva**

UK MD - Equipment Finance Business, GE Capital UK

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