



Shaping the UK's future prosperity: recognising the opportunities for recovery

Executive Summary

To shape the UK's prosperity and seize the opportunities for recovery, new policies are needed to help consumer and business funders continue to finance their customers and ensure access to finance for those customers. These policies must take account of the increasing level of debt amongst many consumers and businesses. We propose that:

- **Government extends the provision of guarantees** for business and consumer lending until the recovery is firmly established, and at least until the Spring of 2021.
- **HM Treasury provides a Forbearance Liquidity Support Scheme** to offer funding to lenders to deliver the liquidity they need to help to their customers.
- **The British Business Investment (BBI) Direct Lending Scheme is reformed** so that it works for a wider range of specialist funders of SMEs and consumers who do not have access to Bank of England support.
- **The Annual Investment Allowance's previous £1 million limit is reintroduced** with no taper to support businesses acquiring plant and machinery.
- **Consumer regulation** is overhauled so that consumers can more easily access finance and are not hamstrung by legislation meant to protect them, while also enabling lenders to develop better products.

Meeting the UK's Future Challenges

The need for change

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 a diverse and inclusive way. The UK's exit from the European Union also presents challenges and opportunities for policymakers and businesses.

The impact of Covid-19

The Covid-19 pandemic has also created its own unique and unprecedented economic challenges. Many individuals and businesses now find themselves in unexpected hardship through no fault of their own. If a 'second wave' occurs in the autumn this will only exacerbate these challenges, whilst the ability of lenders to help is reaching breaking point.

The role of FLA members

Funders of businesses, consumers and the public sector can help to deliver prosperity and speed up the recovery by providing these groups with the finance they need to acquire new equipment, invest and grow.

To unlock this potential, lenders need government support, for the immediate challenges caused by Covid 19, and in the medium and long-term. So much assistance has been given to people to defer debt repayment that lenders' ability to provide fresh lending is constrained.

What FLA Funders Do

- Our members include banks, the finance subsidiaries of major manufacturers and independent finance firms.
- They lend to customers from all social and business groups, via credit, personal loans, point of sale finance, mortgages, motor finance and leasing and hire purchase services.
- The business sectors they may lend to range from agriculture, to construction, to transport and communications.
- Their specialist nature gives them a unique insight into their customers' needs. The support they offer to individuals and businesses, often at critical times, helps them to meet the UK's future challenges.

Key Facts

- In 2019, our 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.
- Within this £38 billion financed new and used car purchases, supporting, over 91% of new car sales to consumers.
- Over £35 billion of finance (including £20 billion to SMEs) was provided to support investment in new equipment from high-value manufacturing assets to commercial vehicles as well as state of the art medical equipment. This represented over a third of UK investment in machinery, equipment and purchased software.

A phased approach to recovery

We believe a phased approach to recovery, considering the short, medium and long-term needs of businesses and consumers, is most likely to deliver a rapid recovery:

Short term: Supporting customers in need

Funders are offering unprecedented levels of forbearance to help their customers. This cannot be sustained without increasing costs for customers or restricting access to finance, unless there is government support.

The government should **maintain the current guarantee schemes until the recovery is well established, at least until Spring 2021** and **provide a Forbearance Liquidity Support Scheme** to provide funding for lenders to give them the liquidity they need to help to their customers.

Access to the British Business Investment Direct Lending Scheme must also be expanded to give specialist independent lenders the help they need to support their customers and ensure the continuation of a competitive credit market.

Medium Term: Unlocking investment and new spending

Once concerns over their short-term survival have been allayed, businesses will embark on new spending and borrowing.

The £1million Annual Investment Allowance should be reinstated without the taper to promote investment in plant, machinery and technology across the regions.

Better information provision for SMEs is needed to help them navigate regulation, the schemes on offer and make informed decisions about finance.

Long Term: Enabling growth and structural change

More permanent measures will be needed to help insulate businesses and consumers from further shocks, and to allow FEA members to act with the flexibility and agility required to help their customers.

A new **programme of government loan guarantees** should replace those created in the crisis, **focussing on promoting productivity**, including through better infrastructure, technology and achieving net zero.

Reforming regulation, including implementing the Financial Conduct Authority's 2019 recommendations regarding the now outdated Consumer Credit Act, would also ensure that UK consumers and SMEs have access to a diverse, flexible, competitive and vibrant credit market.

Opportunities for recovery

Using the phased approach and the measures outlined above, our members can support the UK in meeting its key economic challenges, namely:

- *Achieving a net-zero, low carbon economy*
- *“Levelling up” regional economies within the UK*
- *Enhancing economic productivity*
- *Creating a diverse, inclusive prosperity*

We set out how our policy proposals can help to achieve this below.

Achieving a net-zero, low carbon economy	
The Challenge	Achieving net-zero is a core aim of the Government. The recent Covid-19 pandemic has led to interventions such as the " Build Back Better " campaign, exploring opportunities to accelerate moves to a net-zero economy. Firms seeking to do this will need the support of a vibrant specialist finance and leasing sector.
Our role	<p>FLA members have already supported schemes such as distributed heat networks and low emission zones. Our members funded over 91% of private new car registrations in 2019. Increasingly these have been low-carbon or electric vehicles. We have also supported local authorities in their endeavours to create low-emission zones or to move to zero-emissions bus fleets. Our members also enable businesses to acquire more efficient equipment, including heat generation and energy storage technology.</p> <p>We now need to ensure that more finance can be provided to enable customers to accelerate the move towards low carbon vehicles and equipment.</p>
Reducing barriers	<p>Consumers and businesses need access to affordable finance if they are to invest in low carbon technology. Government help, through new guarantee schemes, is needed to stimulate greener asset purchases, as well as stimulating economic growth.</p> <p>Reform of the Consumer Credit Act is also essential if the target of zero carbon emissions from new cars is to be achieved by 2035.</p>

“Levelling up” regional economies within the UK

The Challenge	The UK’s regions must be helped to “level up” and finance is one of the keys to achieving this.
Our role	FLA markets support in excess of 330,000 jobs. Our members are based around the UK and are in a unique position to understand their local customers’ needs. They help regional businesses to grow in sectors as diverse as construction, agriculture and transport and communications. The North West, for example, is the biggest region in terms of the UK’s manufacturing output, worth £28.5billion (Make UK, 2020), and asset finance plays a major part in enabling this.
Reducing barriers	Government should reinstate the £1m Annual Investment Allowance and end the taper to support investment and growth in new technologies and ways to do business, supporting UK productivity. Other proposals set out in this paper, including the expansion of the British Business Investments (BBI) Direct Lending Scheme and provision of SME support and information, can also be regionally targeted to support growth.

Enhancing economic productivity

The Challenge	The Covid-19 pandemic has forced businesses to adopt new approaches to engaging with their customers, including digital sales channels, new business models and revenue streams. According to Be the Business around a fifth of businesses pivoted to new products or services, or accelerated development plans for their company during the pandemic. Another 13%, forced to put their business into hibernation, used the time to plan for the future.
Our role	Such innovation improves productivity, but to make the most of it, businesses need access to finance, and the knowledge of their business offered by FLA members. For businesses, new equipment is often more efficient equipment. Innovation in funding, such as the funding of intellectual property, also supports productivity.
Reducing barriers	Business sentiment is understandably fragile, but building confidence begins with the availability of funding. The British Business Investments (BBI) Direct Lending Scheme, which supports funders, needs to be expanded. This requires a rethinking the role of the BBB’s investment arm to secure long-term investment and begin to answer the productivity puzzle. Reinstating the Annual Investment Allowance would also make a major contribution in this area.

A diverse, inclusive prosperity

The Challenge	A diverse, inclusive society is essential to economic success. The Covid-19 pandemic has impacted different demographic groups to different extents. In general the least well paid are most likely to have lost jobs or income, and there are more women and those from ethnic minorities in such roles.
Our role	Our members provide flexible finance solutions to a diverse range of businesses and socio-economic groups, all with differing needs. They have a responsibility to ensure that appropriate forbearance and support is shown to the customers who need it most. They also have a wider societal role in being positive role models for a professional, diverse financial services sector.
Reducing barriers	<p>FLA members are currently providing unprecedented levels of forbearance from their own funds, which has implications for future lending – in both availability and cost to the customer.</p> <p>HM Treasury should provide a Forbearance Liquidity Support Scheme to provide funding for lenders to give them the liquidity they need to help to their customers</p> <p>To offer forbearance in a flexible and customer-appropriate way, targeted at those groups that are most in need, the government needs to look again at the regulatory landscape: ensuring forbearance, conduct and prudential regulation are not at odds with each other, and reforming outdated regulations including the Consumer Credit Act. Reform of the Act could particularly help the provision of Sharia products.</p>

Conclusion: Finance, Business and Government in Partnership

The degree of change that is needed immediately and over the longer term requires a full partnership between the finance sector, business, and government. Each has their own role to play: business to lead growth and innovation, finance to help make it happen, and government to take on a share of the risk and reinforce depleted resources. The FLA welcomes the creation of the Ministerial Consumer Finance Forum and Business Finance Council and pledges its support to work through these in partnership to tackle the unprecedented challenges but also opportunities of the crisis.

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Annex: How our proposals can help meet the UK's future challenges: a summary

		Achieving a net-zero, low carbon economy.	“Levelling up” regional economies within the UK	Enhancing economic productivity	A diverse, inclusive prosperity
Short Term	Extension of guarantee schemes and provision of liquidity support scheme	Helps funders provide news assets and support consumer lending.	Consumer and asset finance is non-discriminatory and supports customers nationwide.	Allows businesses to be supported whilst they rebuild capacity.	Protects customers from recovery action by allowing funder to show forbearance.
	Expansion of the British Business Investment Direct Lending Scheme	Can help businesses get funding for more energy efficient equipment and support consumer lending.	Makes funding accessible to businesses across the UK.	Increases access to finance for small businesses leading to access to better equipment and increased productivity.	With appropriate targeting and marketing this scheme can appeal to underserved or under-represented groups.
Medium Term	Reinstating of the Annual Investment Allowance £1million limit, with no taper	Unlocks investment in cutting-edge green technology.	Helps regional manufacturers acquire new equipment.	Helping business to invest improves productivity.	
Longer Term	A review of the regulatory landscape to make it fit for the future	CCA reform is essential if the 2035 (or earlier) target for ultra-low emission vehicles is to be achieved.	Better regulation can help create a competitive and diverse finance market including a network of regional, small non-bank funders.	A vibrant and competitive market is supported by better regulation. This improves efficiency.	Development of a <i>sharia</i> -compliant finance market can only be achieved if the CCA is reformed.
	Better information provision for SMEs	Can assist small business to 'go green'.	Information can be regionally targeted using Growth Hubs with funding channelled to the areas in greatest need.	Can help ensure that businesses are aware of their options to get help and grow or become more productive.	Can be targeted to help individuals from underserved or under-represented groups start a business or get finance.
	A new programme of government loan guarantees	Helps funders provide news assets and support consumer lending.	Consumer and asset finance is non-discriminatory and supports customers nationwide.	Allows businesses to be supported whilst they rebuild capacity.	Protects customers from recovery action by allowing funder to show forbearance.