**FINANCE & LEASING ASSOCIATION (FLA):**

**BUDGET SUBMISSION 2024**

## Introduction

1. The Finance & Leasing Association (FLA) is the leading trade body for the UK asset, consumer and motor finance providers of leasing and hire purchase. Many of the FLA's members are independent, non-bank lenders who provide finance to underserved groups or deliver funding in markets where banks may be unwilling or unable to offer finance.

2. This paper sets out the FLA's key priorities ahead of the Chancellor's Spring Budget.

## Recommendations

3. We recommend the following:

- **Simplifying and rationalising the capital allowances** regime with the inclusion of **leasing in the full expensing regime** and the introduction of a simplified, targeted 'green' tax allowance for small businesses.

- **Ensure the British Business Bank (BBB) is adequately resourced and replace its Recovery Loan Scheme (RLS)** with a permanent targeted Business Finance Growth Guarantee which includes green and greener assets.

- **Ensuring the tax system supports net zero by** changing VAT rules and benefit-in-kind rules by reducing the VAT rate for public electricity charging to match that for domestic charging and allowing BIK to apply to used EVs.

- Reform of the **Mandatory Bank Referrals** scheme so it can be deployed more flexibly, helping SMEs become 'Match Fit for Finance'.

- **Reforming the way commercial credit data is shared and** submitted to ensure that accurate data on businesses is collected and SMEs can benefit from this information.

- The **creation of an Emergency Warehouse Finance Liquidity Scheme** for independent non-banks, so they can support SMEs in times of crisis.

## Simplifying and rationalising the capital allowances regime

4. We welcomed the announcement of a technical consultation on draft legislation to include leasing in the full expensing regime. We will work with HM Treasury on its proposals once published and urge the Chancellor to announce the inclusion of leasing at the Budget.

5. Making full expensing permanent at the Chancellor's Autumn Statement (2023) provided certainty for business and will incentivise investment.

6. The Government should, in parallel, introduce a targeted green tax allowance. This would bring together existing allowances (including the current complex range of special rate capital allowances) and benefit small incorporated and unincorporated businesses. It would extend to zero emission vehicles, or any 'green' capital investment. The policy should also be extended to the zero emission vehicles leasing and rental sectors.

7. With respect to targeted FYAs we would urge the government to initiate a review of these with a view to reducing their number and broadening their scope. This would resolve the issue of multiple allowances with complex eligibility rules, which limit their appeal, especially for smaller businesses.

8. To ensure the UK's capital allowances regime maintains competitiveness with peer countries and increases investment, we recommend that the capital allowances regime consists exclusively of the following:

    - Full Expensing, including assets for leasing
    - The current Annual Investment Allowance
    - A new, targeted green tax allowance
    - A more limited number of targeted first year allowances (FYAs)

## Replace the British Business Bank (BBB) Recovery Loan Scheme (RLS) with a permanent targeted Business Finance Growth Guarantee

9. The British Business Bank's (BBB) various support schemes: Enterprise Finance Guarantee Asset Finance Variant, Coronavirus Business Interruption Loan Scheme (CBILs) and temporary Recovery Loan Scheme (RLS) have all supported FLA asset finance members in providing finance to small business. The BBB's role in supporting businesses is well established and further support for the BBB would ensure it can deploy schemes quickly and continue to innovate in the way in which it can support the UK's businesses and work with funders.

10. In the case of the RLS, this provides a first loss guarantee on a portion of the lending. The guarantee is assignable between lenders and there is no portfolio cap. When RLS expires in 2024, we want this to continue with the establishment of a permanent scheme. This would provide our members with certainty and allow long-term planning with their customers: mainly small and medium-sized

businesses. A new Business Finance Growth Guarantee should be created, modelled on the previous schemes. Our expectation is that the guarantee percentage would change. However, retaining the removal of the cap and the assignment of guarantee is critical to the success of the scheme.

11. We also want to see the inclusion of green and greener assets. This could be specific a green variant of the RLS replacement: a Green Finance Growth Guarantee that enables lenders to fund green assets that are outside of the risk criteria due to a lack of a secondary market or residual value data.

**Changing VAT rules to support net zero**

12. Modest changes to the VAT system can provide opportunities to support business growth. For example, reducing the VAT rate for public electricity charging to match domestic charging at 5% would further encourage the switch to EVs. Reducing the VAT applied to zero emissions vehicles and reducing the VAT rate applied to vehicles or equipment which is leased or hired (e.g., via Personal Contract Hire) would also support the transition to net zero.

**EV take-up: Benefit-in-kind Reform**

13. Currently many consumers can use salary sacrifice schemes to acquire Battery Electric Vehicles (BEVs), this has helped bring ownership of BEVs within the reach of many who might otherwise have simply purchased a petrol or diesel car, making a huge difference to the UK's carbon emissions and improving air quality. However, the salary sacrifice scheme disproportionately favours higher rate taxpayers acquiring luxury vehicles. We suggest a twin track approach of limiting salary sacrifice on BEVs to 20% whist at the same time expanding its scope to used BEVs.

14. This would achieve would widen access to BEVs for lower rate taxpayers and would help to foster a healthy used marketplace for BEVs. It would also ensure that Government funds are spent ensuring as many consumers as possible are driving BEVs rather than restricting support to those more likely to afford new BEVs.

**Reforming the Mandatory Bank Referral Scheme**

15. Changes to regulations surrounding Mandatory Bank Referrals (MBRs) and simplifying access to business credit data can support innovative approaches to help SMEs access finance.

16. In 2016 MBRs were introduced that required banks to refer declined finance applications from SMEs to alternative finance providers. MBR assumes lenders' risk appetite to be the main reason for declining an application when it could be that the application itself is flawed or that the business does not have a fundable profile.

17. MBR simply cascades applications which, having failed once, are likely to do so again. In fact, 9 out of 10 businesses using the MBR are unable to secure funding through the referral process.

18. We propose that the MBR system is reviewed to ensure it can more effectively deliver support to SMEs. Instead of simply cascading down referrals which are still likely to fail, funders including banks should be able to deploy the MBR process in a more flexible way, which allows them to access a greater range of services including tailored advice.

19. For example, there may be alternative approaches or funding opportunities which can be used to support a business. It may be that MBR can be used to leverage alternative funding sources, allow funders to deploy innovative lending products, or be expanded to allow for referral to a wider range of products, advice and services for businesses that cannot access traditional bank funding combined with supporting SMEs to become 'Match Fit'. Use of business credit data can help identify what businesses can do to make them more fundable. SMEs will have a far better chance to get the right finance at the right time.

**Reforming the way commercial credit data is shared**

20. Businesses should be able to access their credit data more easily. Business owners need help to improve their credit profile, and this begins with getting easy access to the data held on them under the Commercial Credit Data Sharing Scheme (CCDS).

21. Consumers can readily access their credit file from credit reference agencies and receive tailored advice from service providers on improving their credit score. Whilst Businesses have the right to access their CCDS data, this is rarely exercised. Data may also be provided in a proprietary format by the CRA which is difficult to interpret for the business or for a third-party service provider.

22. This means that SMEs are unable to benefit from the same insights that consumers do when they access their credit data. HM Treasury should review the way in which businesses are able to access the data held on them by the CCDS.

23. We recommend that the CCDS mandating process is reviewed to ensure that banks who were new entrants to the market when it was established and have now grown are included. We also recommend that the way data is submitted to CCDS is standardised.

**Emergency Liquidity Wholesale Funding Guarantee**

24. In the event of a future credit crisis, lenders will need rapid access to liquidity beyond support schemes such as the Recovery Loan Scheme (RLS) and the Enterprise Finance Guarantee (EFG) schemes. These schemes play an important role in helping business get access to finance but need to be reinforced by a liquidity solution which can support small lenders.

25. Non-bank lenders provide support for underserved customer groups and lack access to the support structures available to banks, such as Term Funding for SMEs, potentially putting them at risk of a liquidity squeeze in times of crisis in turn limiting the support they can offer their SME customers.

26. The Bank of England's Term Funding Scheme was not available for independent non-bank funders. This means during a liquidity freeze, such as occurred at the height of the pandemic and lockdowns, these funders were severely limited in the support they could offer to small businesses. Of the £23.5 billion of asset finance new business that went to SMEs in 2023, £8.7 billion was provided by non-bank members.

27. To ensure we avoid a liquidity freeze in the future, we recommend a new Emergency Warehouse Liquidity Finance Scheme is required to address the liquidity gap that may arise. The EWFLS would provide a top slice guarantee to wholesale funders and investors who are financing independent non-bank SME lenders. This would allow the lender to provide payment deferrals to viable SME customers and support them as required through the crisis as well as allowing businesses to continue business as normal e.g., acquire assets.

28. We also recommend that British Business Investment (BBI) has a liquidity pool that can be deployed if required to support the independent non-bank lender. This would be modelled on the BBI's existing mezzanine and senior debt programmes.

29. The EWFLS should be established now as an off the shelf emergency mechanism to deal with a future crisis.

**About the FLA**

The Finance & Leasing Association (FLA) is the leading trade body for the UK business finance (leasing and hire purchase), consumer credit and motor finance sectors. In 2023, members of the Finance & Leasing Association (FLA) provided £151.2 billion of new finance to UK businesses and households, £52.4 billion of which helped consumers and businesses buy new and used cars, including 78% of private new car registrations. £112.5 billion was in the form of consumer credit, accounting for almost a third of all new consumer credit written in the UK. £38.7 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing almost a third of UK investment in machinery, equipment and purchased software in the UK last year.

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