

Funding SMEs to deliver growth

Finance & Leasing Association (FLA) and Federation of Small Businesses (FSB) Roundtables at the 2016 Conservative and Labour Party Conferences



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Formal Brexit negotiations are due to begin by the end of March 2017. If the UK is to take full advantage of the opportunities which Brexit may open up, it is essential that business confidence is maintained, and growth among SMEs encouraged.

This includes ensuring that small businesses know about, and can easily access, the funding they need to invest and grow. While the Government has created a number of schemes (including via the Bank of England and the British Business Bank) aimed at improving the flow of finance to small businesses, more needs to be done to match demand for finance with the available sources. Similarly, despite recent attempts to reduce the regulatory burden on small businesses, further targeted measures are needed to free up time and resources which could be better spent on growing businesses and creating jobs.

The roundtables

At the recent Labour and Conservative party conferences, the Finance & Leasing Association (FLA) and the Federation of Small Businesses (FSB) hosted roundtable events to discuss these issues. MPs, Ministers, finance experts and business owners (see list on overleaf) made a number of valuable suggestions, set out below. They constitute a package of measures which, if implemented, would significantly improve SMEs' access to funding, and the environment in which they do business.



The FLA and FSB

The **Finance & Leasing Association (FLA)** represents companies which provide finance to businesses and consumers in a variety of UK markets. In 2015, FLA members provided UK businesses with new asset finance (leasing and hire purchase) worth £29 billion, supporting almost a third of all UK investment in machinery, equipment and purchased software. About 60% of the total went to small firms. The asset finance market has proved resilient in uncertain economic times, achieving 35 consecutive months of new business growth in August 2016.

Established 40 years ago, the **Federation of Small Businesses (FSB)** represents 170,000 small and medium-sized businesses. In its recent submission to the House of Commons Business, Innovation and Skills Committee's inquiry into access to finance, the FSB pointed out that smaller businesses have a relatively low awareness of alternative sources of finance.



Finding the right finance

Many roundtable participants stressed that the smaller the business, the more difficult it was to divert resources into seeking appropriate finance when it was needed. Small businesses often struggled to find the time to shop around and compare finance types and costs. This meant that existing sources of business advice (including accountants, small business networks and the Business Banking Insight) had an important role to play. The new Local Enterprise Partnerships (LEPs) – which included Growth Hubs – could also help, but their understanding of business finance varied considerably. As a result, business owners were confused about where to get reliable information on funding options. Another challenge for a small business seeking finance was the need for a speedy application process once it had found the right finance. An easily-searchable web-based guide to available sources of finance would make a big difference. The Competition and Markets Authority's recent report on the UK retail and SME business banking market had also concluded that a "one-stop-shop" was required and had established a process aimed at creating one, but implementation was taking too long.

Recommendations:

The Government should create a comprehensive and impartial online directory of finance providers, probably through the British Business Bank. It should be marketed as the UK's simple, quick, one-stop-shop for business finance.

The Government should take action to ensure a consistent level of expertise on SME finance at each of the 39 LEPs.

The regulatory burden on small firms

Business owners attending the roundtables pointed out that regulatory burdens fell disproportionately on smaller firms. Without spare resources to dedicate to regulatory compliance, owners often faced a stark choice between filling in forms and running the business. Examples included the 64 pages of official guidance from HMRC on how to determine who controlled a business for tax purposes, and the complex and onerous anti-money laundering rules. An improvement in the UK's productivity would be even more important in a post-Brexit world, so a simpler and more practical regulatory environment was essential.

Recommendation:

The Government should consider urgently how best to lighten the load of regulatory compliance for small businesses.



The regulatory burden on suppliers of finance

Regulation was not only a problem for small firms, but also for those who wanted to provide them with funding. The Financial Conduct Authority's (FCA) new regulatory regime for credit was based on the 1974 Consumer Credit Act (CCA). Unfortunately, the Act was designed to protect individual borrowers in an era before the advent of modern digital communications, and was drafted so as to cover the provision of finance (including leasing and hire purchase) to hundreds of thousands of very small businesses. The result was that many lenders and finance brokers faced disproportionate compliance costs, which were discouraging the provision of finance to small partnerships and micro-businesses.

Recommendation:

The Government should reassess the extent to which the FCA's credit regime should apply in the business finance markets. It should also consider a more proportionate regime, recognising that customers want to take advantage of new communications technology when transacting agreements.



Support for Funding

Roundtable participants noted that the Government had created a range of schemes designed to improve the flow of finance to small businesses. The recent extension by the British Business Bank of the Enterprise Finance Guarantee Scheme to cover leasing and hire purchase was to be welcomed. But the Bank of England's Funding for Lending and Term Funding Schemes were available only to banks, restricting their effect in a lending market which included many non-bank lenders. And the funding available to the new LEPs (see above) did not properly replace the Regional Growth Fund (RGF), which had just been abolished. Generally, small businesses faced a confusing array of different schemes provided by different agencies with different objectives.

Recommendations:

The Government should review its business support schemes to ensure maximum coherence, simplicity and breadth of coverage for small businesses seeking finance, including leasing and hire purchase.

The Government should consider replacing the RGF with a suitably-designed successor scheme aimed at growing businesses.

Summary of recommendations

The Government should:

- Create a comprehensive, impartial and user-friendly online directory of finance providers.
- Ensure the LEPs have a consistent level of expertise about SME finance.
- Lighten the load of regulatory compliance for small businesses.
- Reassess the application of the FCA's regulatory regime for credit in the business finance markets, and reform the regime to make it more appropriate for small businesses.
- Streamline and focus its various business finance support schemes.
- Replace the old RGF with a suitably-designed successor scheme.

We would be happy to discuss these recommendations further with policy-makers and other stakeholders. Please see our contact details overleaf.



Participants

The FLA and the FSB would like to thank all those who gave their time to contribute to the discussions at this year's party conferences:

Peter Alderson, Managing Director, LDF

Liz Barclay, Freelance Journalist (Chair)

Louise Beaumont, Head of Public Affairs & Marketing at GLI Finance

Karen Bellion, Owner, Othella

Steve Bolton, Co-Head, Barclays Asset Finance

Ian Burge, PR Manager, Aldermore

Ian Cass, Managing Director, Forum of Private Business

Mike Cherry, National Chairman, Federation of Small Businesses. Director at W.H. Mason & Son Ltd

Mark Chidley, Member, Financial Services Consumer Panel

Glenn Collins, Head of Technical Advisory, Association of Chartered Certified Accountants

Carl D'Amassa, Group Managing Director – Business Finance, Aldermore

Alan Cunningham, Partner, DLA Piper

Matthew Davies, Head of Policy and Communications; Deputy Chief Executive, Asset Based Finance Association

Rod Dowler, Chairman, Industry Forum

Mark Farrar, Chief Executive, Association of Accounting Technicians

Simon Goldie, Head of Asset Finance, Finance & Leasing Association

David Hinder, Constituency Secretary, Ribble Valley Labour Party

The Rt Hon Lord Hunt of Wirral MBE

Stephen Ibbotson, Director, Institute of Chartered Accountants England and Wales

Ian Isaac, Head of Sales, Lombard

Margot James MP, Minister for Small Business, Consumers and Corporate Responsibility

Andrea Kinnear, Head of Communications, Finance & Leasing Association

Councillor Sam Margrave, Nuneaton & Bedworth

Nigel Mills MP

Louise Neave, Legal Director, DLA Piper

Ian O'Donnell, Owner, Real Point

Sonali Parekh, Head of Policy, Federation of Small Businesses

Ruby Peacock, Senior Public Affairs Adviser, Federation of Small Businesses

Chris Pond, Vice-Chair, Financial Inclusion Commission

Edward Simpson, Head of Government Affairs, Finance & Leasing Association

Stephen Sklaroff, Director General, Finance & Leasing Association

Jessica Smith, Public Affairs Adviser, Federation of Small Businesses

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