2016 / 2017
FINANCE

The Parliamentary Review

A YEAR IN PERSPECTIVE

www.theparliamentaryreview.co.uk

Foreword

The Rt Hon Theresa May MP

Prime Minister

This year's *Parliamentary Review* follows a significant year in British politics. It was a year in which our economy continued to grow, as the Government followed its balanced plan to keep the public finances under control while investing to build a stronger economy. It was a year in which we began to deliver on the result of the EU referendum by triggering Article 50 and publishing the Repeal Bill, which will allow for a smooth and orderly transition as the UK leaves the EU, maximising certainty for individuals and businesses.

And, of course, it was a year in which the General Election showed that parts of our country remain divided and laid a fresh challenge to all of us involved in politics to resolve our differences, deal with injustices and take, not shirk, the big decisions.

That is why our programme for government for the coming year is about recognising and grasping the opportunities that lie ahead for the United Kingdom as we leave the EU. The referendum vote last year was not just a vote to leave the EU – it was a profound and justified expression that our country often does not work the way it should for millions of ordinary working families. So we need to deliver a Brexit deal that works for all parts of the UK, while continuing to build a stronger, fairer country by strengthening our economy, tackling injustice and promoting opportunity and aspiration.

In the year ahead we will continue to bring down the deficit so that young people do not spend most of their working lives paying for our failure to live within our means. We will take action to build a stronger economy so that we can improve people's living standards and fund the public services on which we all depend. We will continue with our modern Industrial Strategy, deliver the next phase of high-speed rail, improve our energy infrastructure and support the development of automated vehicles and satellite technology, building a modern economy which creates the high-skill jobs of the future.

At the same time, work needs to be done to build a fairer society – where people can go as far as their talents will take them and no one is held back because of their background. So we will continue to work to ensure every child has the opportunity to attend a good school. We will continue to invest in the NHS and reform mental health legislation, making this a priority. And we will work to address the challenges of social care for our ageing population, bringing forward proposals for consultation to build widespread support.

So this is a Government determined to deliver the best Brexit deal, intent on building a stronger economy and a fairer society, committed to keeping our country safe, enhancing our standing in the wider world, and bringing our United Kingdom closer together. We will continue to put ourselves at the service of millions of ordinary working people for whom we will work every day in the national interest.

"This year's *Parliamentary Review* follows a significant year in British politics"

Foreword

The Rt Hon Philip Hammond MP

Chancellor of the Exchequer

It's been a long road back for the British economy. In 2009 our deficit was at a post-war high, our economy shrank by 4.3% and millions feared for their jobs. Thanks to the hard work of the British people since then, we have reduced the deficit by three-quarters, we have been the second fastest growing G7 economy for the past two years, 2.9 million net new jobs have been created and our employment rate is the highest ever recorded.

By controlling our public spending, backing business and creating the environment for enterprise and investment to thrive, we have got the UK economy back on track.

But now we face new challenges. The deficit is down but debt is still too high. Unemployment is at a 40-year low, but real pay growth is stagnating. And I understand that people are weary of the hard slog of repairing the damage caused by Labour's great recession.

All our progress could be put at risk if we listen to those who say we should abandon the economic plan that has brought us so far, just as we are coming to the final furlong. And it is up to all of us, in business and in Government, across every sector covered by *The Parliamentary Review*, to make the case, all over again, for a market economy, sound money and a system that incentivises enterprise and innovation.

So I will stick to the plan to bring the public finances back to balance, at a pace that supports the economy in the face of short-term challenges, and to make longer-term changes. I will pursue a Brexit outcome that puts jobs and prosperity first. And I will continue with my priority to build a productive and dynamic economy.

It is only by making sustained increases to our productivity that we can deliver the higher wages that will increase living standards and fund the improvement of our public services. That is why I announced the £23 billion of additional investment in infrastructure and innovation at the Autumn Statement last year, and why I launched an overhaul of our technical education system at the Spring Budget.

It is a good start, but there is more to do if we are to close the productivity gap with our competitors, and build a strong economy to provide opportunity, prosperity and the funding for public services that this country needs. I am determined to get on with the job.

This is how we can unlock the full potential of our economy and create an economy that works for everyone.

> "We have been the second fastest growing G7 economy for the past two years"

Foreword

Liz Field

CEO, PIMFA

Our trade association became PIMFA (Personal Investment Management and Financial Advice Association) by bringing together the former memberships of the Association of Professional Financial Advisers (APFA) and the Wealth Management Association (WMA) on 1st June so we can speak with a stronger united voice in such a context.

PIMFA's mission is to create an optimal operating environment so that our member firms can focus on delivering the best service to clients and responsible stewardship for their long-term savings and investments.

Today that environment has a host of regulations impacting it that are proving to be huge undertakings for our firms. Chiefly amongst these is the European legislation, the Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR) that comes in to effect on 3rd January 2018. The regulation has multiple facets and over ten areas that require review - from costs and charges and suitability to product governance and transaction reporting.

Another issue keeping our members awake at night is cybersecurity. This was rated as the second key risk by CEOs in our recent sentiment survey (with regulation being number one).

In an accelerating technological world the sensitive data held by financial services firms is highly sought after and under constant attack, with the UK economy estimated to be losing over £52 billion a year as a result of cybercrime.

Finally attracting and retaining talent was the third highest perceived risk cited in the PIMFA survey. There is a need for the industry to be more broadly reflective of its ever changing, dynamic client base.

By PIMFA works with key industry stakeholders such as the NCA, City of London Police, the ICO, the FCA, HM Treasury etc. to help educate and advise our member firms in this area.

acknowledging clients' requirements and designing evolving solutions to best meet their needs we can ensure we remain as one of the world's leading investment centres.

One way to do this is to develop the debate around diversity – employment figures from ONS' Labour market data highlights that the UK's finance and insurance services industry is currently employing fewer women than ten years ago.

As the political and regulatory context continues to gather momentum the industry is working hard to keep pace. Alongside over 80 events and multiple publications, PIMFA has 30 committees and working parties dedicated to covering key issues with over 450 participants from the sector sharing their insights and expertise to discuss the way forward in our industry.

"Our member firms can focus on delivering the best services to clients"

Andrew Neil

Return of the Two Party System

The BBC's Andrew Neil gives his take on the state of Parliament following the June 2017 general election.

It was a year in which politicians learned not only of the power of a referendum to overrule the will of Parliament – but of its power to change the party system in which they operate. Nobody saw this coming. But, in retrospect, perhaps we should have, since we had the fallout from the Scottish referendum to guide us.

In the autumn of 2014 the Scots voted 55%-45% to remain part of the United Kingdom. That was supposed to settle the matter of Scottish independence for a generation, until some Scottish Nationalists began regarding a generation as no more than a couple of years. But in post-referendum elections to Holyrood and Westminster, it also recast the Scottish party system.

Remember, Scotland had been one of the first parts of the UK to throw off the British two-party system and replace it with a multi-party choice of SNP, Labour, Tory, Green, Lib Dem and even UKIP. But as the constitutional issue took centre-stage – and remained there even after the referendum – Scottish voters coalesced round a binary choice: for or against independence.

Thus was a new two-party system born of a centre-left Nationalist party (the SNP) and a centre-right Unionist party (the Scottish Tories). The other parties have not been completely obliterated, especially in Holyrood with its peculiar voting system. But by the general election of 2017 Scotland had become a battle between a dominant Nationalist party and a resurgent Tory party representing the Union. Two-party politics was back north of the border.

So we should have been prepared for something similar when Britain voted 52% to 48% to leave the European Union in the June 2016 referendum. At the time, we remarked on the power of referenda to overrule both the Commons (where MPs were 65% pro-EU) and the Lords (probably 80% pro-EU). What we did not see was how the Brexit referendum would reconfigure English politics just as the Scottish referendum had redrawn Scottish politics.

So we were taken by surprise for a second time. In this year's general election – perhaps the single biggest act of self-harm a sitting government has ever inflicted on itself – almost 85% in England voted either Conservative or Labour. The English had not voted in such numbers for both major parties since 1970, when the post-war two-party system began to wane – and declined in subsequent elections to a point where barely 65% voted Tory or Labour, encouraging some commentators to think the decline terminal.

The referendum, however, reversed the decline. The Brexit vote ended the schism on the Eurosceptic Right as UKIP voters returned to the Tory fold; and those on the Left of the Greens and the Lib Dems flocked to Jeremy Corbyn's more 'Red Flag' Labour offering. So, as in Scotland previously, two-party politics was back with a vengeance in England too.

But without one crucial element. Our historic two-party system regularly produced one-party government for the life of a Parliament. But our new two-party system has produced a hung Parliament with no party having an overall majority. This knife-edge parliamentary arithmetic means the smaller parties may be down – but they are not out.

The Conservatives need an alliance with one small party (Ulster's DUP) to be sure of a majority. Even then, with the Tories and Labour divided over Brexit, no majority on any issue will be certain and on many votes the smaller parties will be pivotal in determining many outcomes.

So politicians return from their summer recess to a great parliamentary paradox: the two-party system has resurrected itself but rather than bringing with it the stability and certainty of the two-party politics of old, almost every major vote in the months ahead will be uncertain and unpredictable – and politics will be peculiarly unstable. Power will rest in Parliament. Government will be able to take nothing for granted. No vote will be in the bag until all the votes are counted. Westminster will have a new lease of life – perhaps even a spring in its step. Our democracy might be all the better for it.

Neil believes two referendums have redrawn the map of British politics.

Brexit and beyond

The effect of Brexit on the finance industry is uncertain, given the complexities of leaving the EU

In July 2017, following the disruption of a snap election, talks with the EU over Brexit started to take shape. There has been no shortage of serious attempts to forecast what the outcome of Brexit and the talks could mean for the financial services sector.

In October 2016, Oliver Wyman published a report, commissioned by TheCityUK, which aimed to estimate the impact of the UK's exit from the EU, particularly with respect to the UK financial services sector. In compiling the report, Oliver Wyman worked closely with TheCityUK's Senior Brexit Steering Committee and senior industry practitioners. It also consulted the major sectoral trade associations in its attempt to estimate the impact of the UK's exit from the EU.

The starting point is that the UK-based financial services sector (FS-sector) is very important to the UK economy as a whole. It's annual earnings amount to some £190-205 billion and the sector provides direct employment to over 1.1 million people. It also generates some £60–67 billion worth of taxes every year. Plus it contributes to a trade surplus that amounts to some £558 billion.

The sector, the report points out, is an interdependent, interconnected ecosystem that has been developing now for many years. The ecosystem itself brings significant benefits to financial institutions and the corporates and the households that it supports. The downside of this, the report notes, is that the UK's exit from the EU could be felt more widely than simply in business transacted with EU clients.

'Our analysis suggests that, at one end of the spectrum, an exit from the EU that puts the UK outside the European Economic Area (EEA), but otherwise delivers passporting and equivalence and allows access to the Single Market on terms similar to those that UK-based firms currently have, will cause some disruption to the current delivery model, but only a modest reduction in UK-based activity. We estimate that revenues from EU-related activity would decline by approximately £2 billion (around 2% of total international and wholesale business), that 3–4,000 jobs could be at risk, and that tax revenues would fall by less than £0.5 billion per annum,' the report says.

However, a scenario that sees the UK move to a 'third country' status with the EU without any regulatory equivalence, would be expected to have a more dramatic impact. The report points out that severe restrictions could be placed on the EU-related business that can be transacted by UK-based firms.

'In this lowest access scenario, where the UK's relationship with the EU rests largely on World Trade Organization (WTO) obligations, 40–50% of EU-related activity (approximately £18–20 billion in revenue) and up to an estimated 31–35,000 jobs could be at risk, along with approximately £3–5 billion of tax revenues per annum,' the report says.

At the same time, the knock-on effect on the financial services ecosystem in the UK could be profound as major players relocate out of the UK. 'An estimated further £14–18 billion of revenue, 34–40,000 jobs and around £5 billion of tax revenues might be at risk,' the authors note.

Europe too, could be a big loser. Oliver Wyman points out that for some institutions, the cost of relocation and the ongoing inefficiencies associated with a more fragmented environment could cause them to close or scale back parts of their business. 'Others, particularly with parents located outside of the EU, could move business back to their home country, reducing their overall footprint in Europe,' it warns.

On the plus side, with Brexit giving the UK a strong push in the direction of forging new relationships and trade links, the report points out that we could see significant opportunities arising from new networks of trade and investment agreements. Initiatives that, for example, nurture the growth of FinTech, would boost jobs, revenues, taxes and the trade surplus delivered by the financial services sector.

European businesses, as much as their British couterparts, have a strong interest in ensuring minimal disruption to their work

It seems obvious that EU business in general has a strong interest in supporting the UK's continued status as an international financial centre. This is true not just because of the services directly provided to EU businesses by the sector, but also, as the report notes, because the UK has been, and continues to be, a conduit for global investment into the EU. 'The best outcome would be to recognise these dynamics and [craft agreements that] deliver mutually beneficial results for the UK, the EU and the rest of the world,' the report concludes.

The legal implications

Following on from the Oliver Wyman report, the law firm Freshfields Bruckhaus Deringer (Freshfields) was commissioned by TheCityUK to carry out a legal analysis of the impact of Brexit on the sector and related professional services industries.

The Freshfields report rules out the most optimistic scenario, which is where the agreement between the UK and the EU results in full equivalence and passporting across the scope of the single market directives. However, the report was commissioned and written before the disastrous (for Theresa May) June General Election, and therefore is partially blind to the current argument (or debate, to give it a politer colouring) within the Government between the 'soft Brexit' camp and the 'hard Brexit' camp.

The possibility of a hard Brexit, particularly given the government's deal with the DUP, is a cause of conern amongst some of the British public

The crux of the matter is immigration, where the likes of Chancellor Philip Hammond want to ensure that UK business continues to have access to EU domiciled talent – making him more favourable towards the EU's 'free movement of peoples' doctrine – while the Prime Minister and those in her camp are strongly opposed to the 'free movement of peoples' approach and want strictly enforced borders with strong controls over immigration. The latter approach is incompatible with continued membership of the European economic area (where acceptance of the 'four freedoms' is a non-negotiable requirement for membership).

Quite which faction, the 'hard' or the 'soft' Brexiteers will come out on top at the end of the proposed two-year Brexit negotiating cycle remains to be seen.

The Freshfields report focuses on two scenarios. The first sees the UK having 'third country' status, with the equivalence already established continuing, but with no new access arrangements in place to compensate for the loss of passporting rights. The second is where the UK does not succeed in obtaining equivalence across the core single market directives.

To be clear, 'equivalence' occurs where the EU agrees that a particular UK supervisory regime is 'equivalent' to the requirements in a specific EU directive, and offers equivalent protections to consumers. Equivalence can be granted in full, or partially, or can be time limited.

According to the Freshfields study, firms they talked to wanted to keep as much of their activities in the UK as possible and to continue their EU-related business with as little disruption as possible. No surprise there. The report also found that firms are basing their contingency planning on a worst case scenario, i.e. no equivalence and massive disruption to services.

Legislating for the UK's withdrawal

David Davis, as Secretary of State for Exiting the European Union, has been personally responsible for much of the negotiations

The main takeaway from the Government's own March 2017 white paper on how it sees legislation progressing, is Theresa May's assurance that the Government intends to convert the 'acquis' i.e. the body of European Community legislation, into UK law at the same time as it repeals the European Communities Act.

'The same rules and laws will apply on the day after exit as on the day before. It will then be for democratically-elected representatives in the UK to decide on any changes to that law, after full scrutiny and proper debate,' the Prime Minister said in her foreword to the white paper.

David Davis, the Secretary of State for Brexit, emphasised in his foreword that the Great Repeal Bill would not be 'a vehicle for policy change'. It is just designed to take what was EU law and turn it into UK law. The business of deciding which of the EU derived laws needs to be repealed or amended can happen at a more leisurely pace. The Great Repeal Bill will simply give the Government the necessary power, as Davis puts it, to correct or remove the laws that would otherwise not function properly post Brexit.

Review of the UK banking sector

In a briefing report looking at the regulatory environment the global financial services sector can expect to face through 2017, the Deloitte Regulatory Centre notes that, taken as a whole, 2016 was another difficult year for the financial sector. Economic and political uncertainty added a large complicating factor to the already difficult task the sector faced in completing preparations to bring their organisations into line with the post-crisis regulatory regime.

The City of London is the centre of the UK banking industry, and a focal point of concern following the referendum result and the ensuing uncertainty regarding regulation

'A prolonged period of tepid economic growth and persistently low and volatile interest rates has squeezed profitability in some sectors and put significant pressure on longstanding business models and balance sheet management. Firms are further challenged by continuing uncertainty over the final shape of post-crisis financial regulation. While regulators are keen to preserve the hard won reforms of recent years, rising political uncertainty in developed economies (as demonstrated by the UK's referendum decision to leave the EU and the US presidential election results) has increased the volatility and hence unpredictability of the macro-policy environment. This has caused some to go as far as questioning the sustainability of free trade and open markets,' the report claims.

Barclays comes close to tripling profits for 2016

Barclays' pre-tax profits for 2016 rose to £3.2 billion for 2016, almost triple its 2015 pre-tax profit figure. However, as Chairman, John McFarlane, warned in his press briefing, the bank still has serious issues to resolve.

The bank needs to reach a settlement with the US Department of Justice over a longstanding mortgage-bond mis-selling scandal. So far Barclays has refused to settle out of court. It is the only major bank to hold out

The US Department of Justice has been highly critical of Barclays' behaviour, and is still taking action against the group

against the swingeing fines imposed by various US authorities for egregious mis-selling and other fraudulent or semi-fraudulent activities by financial institutions in the lead up to the global financial crash of 2008.

The US Department of Justice case is that Barclays jeopardised the financial position of millions of American homeowners over the sale of residential mortgage-backed securities (RMBS) in the run up to the banking crisis

Barclays is also struggling to dispose of its African bank at an acceptable price.

In March 2016 Barclays announced that it wanted to sell its 62% stake in its Africa business, despite its long history of operating in Africa. The bank has been heavily criticised in the past for its sluggish management of its Africa business and its failure to identify and exploit opportunities in a continent that has the youngest demographic on the planet. Barclays Africa Group employs 45,000 people across Africa and controls banks in ten African countries, including Ghana, Kenya, Tanzania and Uganda.

By November 2016 Barclays Africa was the worst performing lender on the six-member FTSE/JSE Africa Banks Index. The bank managed to sell around 12% of its stake in May 2016 but further sales ran into trouble when the South African Reserve Bank made it clear that it did not want shares to end up in the hands of a buyout company.

The Reserve Bank is playing the role of lead regulator for all of the African countries involved in Barclays Africa and is determined to ensure that any transaction that takes place will go smoothly with no disruption to customers, the banking sector or the South African currency.

Co-op sale leaves the Co-op Group with just 1% of the bank

At the end of June 2017 the Co-op Bank announced that it had concluded a £700 million deal with hedge funds. The deal refinances the bank but leaves the Co-operative Group owning just 1% of the bank. In 2013 the Group owned the Co-op Bank outright, but saw its stake dwindle first to 30% then to just 20% within a year.

In 2013, under its former Chairman, the disgraced Paul Flowers, the Co-op Bank had needed an injection of £1.5 billion to stay solvent after a massive black hole was discovered in its accounts. In February, the bank, which was still desperate for funds, said it was putting itself up for sale. At the time, the Co-op Bank Board said it was looking both at a sale and at 'other options' including a stock market floatation.

The bank has proved something of a disaster for the Co-operative Group. In early April 2016, after the bank reported its results for the 2015–2016 year, the value of the Co-operative Group's remaining 20% stake in the Co-op Bank shrank to just £185 million.

This was well down from the original £333 million it put into the bank in 2013 to keep it solvent. Six months later the value of its 20% stake was down to £140 million, giving the bank a notional value of £750 million.

Despite seeing its stake reduced all the way down to one percent after the hedge fund deal, the Co-operative Group emphasised that the Co-op Bank would retain the 'name, brand and commitment to co-operative values, as set out in its ethical policy'.

In March 2017, the bank announced its results for 2016, reporting a statutory loss before tax of £477 million. This is a reduction in the £610.5 million loss before tax reported for 2015. The improvement came from lower operating costs, lower losses on asset sales and lower conduct charges, the bank said.

The Co-operative Bank is now almost entirely owned by other interests, following the Bank's disastrous performance over the last few years

Chairman Dennis Holt called 2016 'a year of both progress and challenge for the bank'. Considerable progress has been made in delivering the bank's turnaround plan over the last three years, and the bank is now stronger in many areas than it was in 2013,' he said.

HSBC intent on putting scandals and revenue slumps behind it

In February 2017 HSBC reported a 62% slump in annual pre-tax profit for 2016, so Stuart Gulliver, the Bank's Chief Executive Officer (CEO) was naturally delighted when HSBC was able to announce in May that it had achieved a 12% increase in adjusted pre-tax profit for the first quarter of 2017. Profit, after discounting one-off items, was \$5.94 billion while revenue was up 2% on the same quarter in 2016, rising to \$12.8 billion.

Outperformance in Asia plus a strong showing by the bank's investment arm, with trading revenues up 29% for the quarter, eclipsing the average increase of 9% recorded by nine of the largest global investment banks, were responsible for most of the increase. Gulliver said that revenue growth had also come from a solid recovery in retail banking and wealth management.

Stepping down as Chairman in October, Douglas Flint has overseen a difficult period for HSBC, following the Libor scandal

Misconduct scandals, swingeing fines and the fact that globally, HSBC has exited from almost 100 businesses and ceased operations in 18 countries, has taken a heavy toll of the bank in recent years. Moreover, HSBC is about to see major changes in its top management.

Gulliver is due to retire in 2018 and the present Chairman, Douglas Flint, steps down in October this year, making way for Mark Tucker, the Head of the insurance firm, AIA Group. Tucker will have the responsibility of appointing a new CEO to succeed Gulliver.

In its determination to put scandals like the Libor rigging fiasco and money laundering charges behind it, the bank hired some 1,800 extra compliance staff in the first five months of 2017, bringing its total compliance headcount worldwide to more than 6,000.

In August 2016 HSBC announced its first share buyback, drawing on capital released from the sale of its Brazilian business. It bought US$2.5 billion of stock. In his February briefing on HSBC's 2016 full year results, Gulliver noted that the bank planned to buyback a further $1 billion worth of shares, and had received the necessary regulatory clearance.

The bank has something of a cash windfall at present because it is now able to remit money back to its UK headquarters from its US operation. So further buybacks are not completely out of the question, though Flint said that he would not want to steer shareholder expectations in that direction.

Asked whether HSBC was now on track to grow revenues after years of revenue shrinkage, Iain Mackay, Group Finance Director, said that the signs were looking very good.

Lloyds Bank clears its bailout debt

Lloyds Banking Group is now almost wholly privately owned, with only a small government stake remaining

In the first week of April 2017 Lloyds Banking Group (LBG) announced the closure of 100 branches and the loss of 325 jobs. The closures affected 54 LBG branches, 22 Halifax branches and 24 Bank of Scotland branches. The losses are part of a wider attempt by LBG to shrink its cost base, with the total job cutting exercise said to ultimately result in the Group shedding 12,000 jobs.

The closures are part of a plan announced by the bank in June 2016 and reflect a general move among High Street banks to shift more of their business to the internet – which they say is in response to customer demand. LBG plans to use mobile branches to continue services in affected areas.

Despite inevitable criticisms over its branch closure programme, 2017 started well for LBG. Announcing its first quarter results at the end of April, the banking group reported that profits had doubled by comparison to Q1 2016. Pre-tax profit was up at £1.3 billion versus £654 million. This looks particularly healthy in the light of the bank having to set aside a further £350 million to cover payment protection compensation claims.

At the time the results were announced, the Government's stake in Lloyds had shrunk from 43% to less than 2%, and it had already recovered all the taxpayer's bailout cash, amounting to £20.3 billion. In May, just a few weeks after the Q1 results announcement, the Government sold its remaining 0.25% stake in Lloyds, returning LBG to full private ownership almost a decade after the 2008 bailout.

The move was widely seen as a pivotal moment for the UK banking sector, with LBG being the first lender to clear its bailout debt to the Government. According to LBG, the Government made a profit for the taxpayer of £900 million on the conclusion of the deal.

Not so good for the bank is the fact that in October this year its former Chief Executive, Eric Daniels, and Chairman, Victor Blank, are due to give evidence in a £450 million law suit brought against the bank by some 6,000 investors who claim the bank withheld information from them during its government-instigated take-over of Halifax Bank of Scotland (HBOS) at the height of the global financial crash of 2008. Claimants include many small retail investors and some 300 corporates, including pension and investment funds.

The takeover massively damaged Lloyds and led directly to the Government having to bail out the bank. Helen Weir, now Marks & Spencer's Financial Director, is also due to give evidence.

The Lloyds/HBOS Shareholder Action Group expects the hearing, scheduled for 2 October, to last for 12 weeks. One of the main claims being made is that the directors of Lloyds TSB failed to disclose that the bank had secretly made a £10 billion loan facility available to HBOS and that HBOS had already required funding of up to £25.65 billion from the Bank of England and $18 billion from the Federal Reserve.

Under the circumstances, the action alleges, exchanging 0.605 Lloyds shares for each HBOS share amounted to a gross over-valuation of HBOS's share capital. The case 'would highlight the inexcusable failure of the Directors to share crucial information with their shareholders ahead of the deal going through,' the shareholders claim.

Former Lloyds chairman Eric Daniels is undergoing intense legal scrutiny, which may have ramifications for the bank

Restructuring at RBS

On 24 February 2017 the Royal Bank of Scotland reported an operating loss before tax of £4.08 billion for 2016. The loss deepened to £6.955 billion once additional items such as litigation and conduct costs, plus restructuring costs were taken into account.

Restructuring costs included a £750 million provision in respect of its remaining State Aid obligations regarding Williams & Glyn (W&G). The bank had been obliged by the European Commission to dispose of its 300-branch W&G portfolio as a condition of receiving a taxpayer bail-out of £45.5 billion during the 2008 global financial crisis. The Government has now come up with a plan which it hopes the EU will accept, which would allow RBS to abandon the sale.

The Government plans to use £750 million RBS has set aside to enable challenger banks to increase their market share

Paul Pester, the CEO of TSB, has been critical of government plans to increase competition, labelling them as insufficient

The bank is still 71% owned by the Government and has singularly failed so far to find a willing buyer for its W&G branch network, the major barrier being the difficulty of separating the two entities' IT infrastructure. To date, RBS has spent some £1.8 billion attempting to sell the W&G tranche.

The Government is proposing to use the £750 million RBS has set aside to enable challenger banks to increase their market share of the small to medium-sized business market (SMEs). So far, the plan has been less than enthusiastically received by several of the challenger banks. In April, Paul Pester, Chief Executive Officer of TSB, which was successfully carved out by Lloyds, slammed the Government plan. 'Writing us a cheque for £100 million would be very interesting, but it ain't going to do much for competition,' he commented in an interview with the Press Association.

For its part, the Commission has said that it can only accept the new plan 'if the new commitments can be considered equivalent to those originally provided'. There has to be considerable doubt that the EU will consider that equivalence has been achieved.

FinTech's bright future

Governor of the Bank of England Mark Carney has stressed both the challenges and opportunities that the growth of FinTech presents to regulators and the industry at large

In a recent speech, the Governor of the Bank of England, Mark Carney, pointed out that FinTech has spurred a host of new entrants, including new payments providers, peer-to-peer lenders, robo-advisors, innovative trading platforms and foreign exchange agents. In time, he noted, these new entrants would likely bring about the unbundling of traditional banking models and may well deny banks their traditional economies of scale and scope.

Plus, he pointed out, FinTech has systemic consequences that are highly complex and pose challenges for regulators. More diverse business models and alternative providers are positives for financial stability, but robo-advisors and traders could encourage 'herding' behaviour, with trades becoming more and more correlated.

Other positives include the possibility of better credit risk analysis, with Big Data analysis able to provide a more accurate and dynamic picture of the state of the economy. Economic forecast improvements might well emulate weather forecasting, which has steadily improved in accuracy in recent years.

'My own forecast is that FinTech's consequences for the Bank of England's objectives will not become fully apparent for some time. Many of the technologies needed to deliver such transformations are nascent – their scalability and compatibility untested beyond Proof of Concept,' he added.

Rapid growth suggests InsurTech could rival FinTech

Global investment in the InsurTech market by insurance companies totalled US$1.7 billion in 2016, across some 173 deals. The insurance companies were way behind the banks in recognising that buying innovative technology start-ups was a great way of responding to and countering the potential threat from such start-ups.

Accenture Partner, Steve Watson, keeps a close eye on InsurTech. He reckons that although more than half of all insurance InsurTech deals take place in the US, the UK, along with Germany and China has become a significant centre for such deals. 'There is a growing recognition that although the banking and capital markets may have started their FinTech journeys earlier (and built up a considerable weight advantage), it will ultimately be the insurance industry that sees the most benefit – and the greatest level of disruption – from this global upsurge in innovation,' he comments in a recent blog.

Accenture, alongside other organisations, have noted the disruptive and innovative potential of InsurTech

In particular, a number of new InsurTech companies are focusing on the potential benefits to be derived from the ever expanding 'network of things'. 'This is great news for those insurers and start-ups that can harness this army of devices to deliver new levels of insurance personalisation, better real-world outcomes for their customers, and increased due diligence with respect to their own internal risk profiles,' he comments.

The Financial Conduct Authority in 2016/17

On 27 July 2017 the Financial Conduct Authority (FCA) outlined proposals to extend the Senior Managers and Certification Regime to all financial service firms. As always with this regime, the aim is to make individuals more accountable for their conduct and competence. The intention is to encourage personal responsibility for actions and to make sure that the lines of responsibility are clearly demarcated.

The proposal envisages five conduct rules that apply to all financial services staff at FCA-authorised firms. The rules emphasise integrity, due care, skill and diligence, along with being open and cooperative with regulators.

FCA proposals regarding competition and behaviour aim to strengthen regulation whilst limiting interference

Mark Carney visits Cass Business School in London - the School's report on financial regulation was highly critical, perceiving a distinct lack of measures to avoid future financial crises

Senior managers will need to be approved by the FCA and will appear on the FCA Register.

Jonathan Davidson, Executive Director of Supervision – Retail and Authorisations, at the FCA, said 'This is about individuals, not just institutions. The new Conduct Rules will ensure that individuals in financial services are held to high standards, and that consumers know what is required of the individuals with whom they deal. The regime will also ensure that Senior Managers are accountable both for their own actions, and for the actions of staff in the business areas that they lead.'

One of the FCA's major reports over the last year was its study of the competitiveness of the asset management industry, which it launched in November 2015.

The FCA notes that the UK asset management industry is the second largest in the world, managing around £6.9 trillion of assets. Over £1 trillion of this is managed for UK retail investors, £3 trillion for UK pension funds and £2.7 trillion for overseas clients. The final report confirms the findings set out in the interim report published in 2016. This found that price competition is weak in a number of areas in the industry.

To drive competitive pressure on asset managers, the FCA will:

» support the disclosure of a single, all-in-fee to investors

» support the consistent and standardised disclosure of costs and charges to institutional investors

» recommend that the Department for Work and Pensions (DWP) remove barriers to pension scheme consolidation and pooling

» chair a working group to focus on how to make fund objectives more useful and consult on how benchmarks are used and performance reported.

The report also contains recommendations aimed at improving the effectiveness of intermediaries. These include proposing a market study into investment platforms and a recommendation that HM Treasury should bring investment consultants into the FCA's regulatory perimeter.

In October 2016 the FCA and the Prudential Regulation Authority (PRA) came under attack in a report compiled by the Cass Business School for the financial services think tank, New City Agenda. The report suggested that UK regulators were 'sleep-walking' into another financial crisis, and that crucial changes put through in the wake of the 2008 global financial crash were already being watered down.

The administrative costs incurred by the regulators now amount to £1.2 billion a year, six times what they were in 2000. Plus, there are now over 13,000 pages of rules guidance and supervisory statements published by the FCA and the PRA, which, the report claims, is creating a bureaucracy that is both overzealous and ineffective.

What's next?

Commenting on the prospects for the UK economy after Brexit, accountants PricewaterhouseCoopers (PwC) note that the current rate of growth going into the Brexit negotiations is not exactly brilliant. Growth slowed in the first half of 2017, while inflation rose sharply, squeezing consumers. PwC is predicting that gross domestic product (GDP) growth for 2017 as a whole will come in around 1.5%, and will drop another point in 2018, to 1.4%.

This modest growth prediction is despite the fact that the UK economy grew by 2%, from Q1 2016 to Q1 2017. However, the quarter-over-quarter growth rate for Q1 2017 was just 0.2%.

Nor, in all probability, can the UK expect much help from the US economy, traditionally one of the major growth engines driving global growth, along with China. At the time of writing, forecasters were scaling back their growth predictions for the US economy. One of the major concerns for pundits being the fact that President Donald Trump's attempt to repeal the health care reforms instituted by his predecessor have been thrown out by the Senate. This has cast doubt upon President Trump's ability to deliver his promised tax and economic stimulus and has caused some analysts to downgrade their growth predictions for the US economy.

As *The Parliamentary Review* goes to print, it looks as though low growth will continue at least through much of the Brexit negotiations. Whether it will have given way to higher growth or started to slide towards recession by the time the Brexit talks come to an end is anyone's guess.

Early setbacks for the Trump administration on healthcare reforms have caused growing doubt over the president's ability to see through his planned economic measures

JCB Finance

Paul Jennings, Managing Director, JCB Finance Ltd

JCB Finance is a joint venture between JCB, the UK's largest manufacturer of construction and agricultural machinery, and the Royal Bank of Scotland, providing hire purchase and leasing facilities to UK businesses. Pioneering new digital tools, JCB Finance helps businesses spread the cost of investment on asset-secured lending and has seen rapid growth over the past 10 years. Having a link with the iconic JCB has a real benefit but Managing Director, Paul Jennings, a 38 year market veteran, knows that the company can't simply rely on JCB's pre-eminence – it has to have proper regard to its own responsible trading and that of its industry.

After the 2007–2008 financial crisis, bank lending collapsed and asset finance also suffered. Many asset lenders left the market entirely, finding the new conditions too 'hot' for their short-term pricing models. JCB Finance, conversely, consolidated its leading market position and continued to lend through this dark period and even grew rapidly through the recession which followed. From January 2008 to end-2013 we lent £2.75 billion for leasing and hire purchase, more than any other UK manufacturer linked funder.

Responsibility

Our company finances JCB's iconic range of construction and agricultural machines but we also finance other 'tracks and tyres' – cars, trucks, vans, cranes and some fleets – all where there is a connection with JCB customers. We don't finance equipment that competes with JCB products but we will finance other brands that are not directly competing with JCB.

It is easy to list several important facts that contribute to our market-leading position; our heritage and size (£925 million turnover in 2016); high-quality and varied customer base – from microbusinesses to FTSE plcs –, our 100-strong team of asset finance experts nationwide; and our reputation for quality customer service. What we believe does make JCB Finance the best in the business is our responsible, rigorously applied lending practices.

We do not cut corners but seek to provide customers with a product with risk properly priced in. We see this as a basic duty of care. It has ensured that we have remained a non-stop provider of funding to SMEs and large companies through thick and thin for over four decades. As the asset finance market has recently proliferated, new entrants may be tempted to undercut the market by not pricing in the risk properly. This has the potential to undermine the market and fuel the next credit boom.

There are four current risks in asset financing. They are: customer default risk; asset depreciation risk and the speed of this depreciation; compliance risk, especially

AT A GLANCE

- » Market leader in manufacturer-captive leasing and hire purchase finance
- » Established in 1970
- » £925 million turnover in 2016
- » Team of 103 finance professionals including 22 field-based experts
- » Deep construction and agriculture sector expertise
- » Asset management and specialist disposal team
- » Customer online service launched in 2016

> "We seek to provide customers with a product with risk that is properly priced in. We see this as a basic duty of care"

Iconic JCB Backhoe Loader. Similarly JCB Finance are leaders in innovative finance solutions and service on a wide range of plant and equipment to UK construction, agriculture and industry

with greater regulatory compliance within the leasing and HP industry; and, finally, Brexit. Customers signing a three to five year deal today will, at most, be only half way through their repayment period when Britain leaves the European Union, meaning that market turbulence may well happen before the end of their fixed-term agreements.

Innovation

JCB Finance keenly embraces new technology. We have introduced several innovative digital services including JCB SalesMaster and online customer services. We listened to the market when we created the JCB SalesMaster app, developed in-house by our experienced Sales Aid Solutions team. The app lets our nationwide dealer network configure and price machinery on optimum finance terms to acquire a JCB or other large asset in a clear and consistent way that is compliant with Financial Conduct Authority (FCA) regulations. We invested further in service innovation with the launch of JCB Finance Online in 2016, making JCB Finance a leader in its field to offer customers 24/7 access to their asset finance account.

We are presently seeing a race in the asset finance sector to put everyone online to save cost. We have thought carefully about the digitalisation of business as it affects all of us. The logic of any transformation of financial services – which should be a true customer service – via automation has to be carefully assessed. Where is the balance between customer-led demand and finance providers' desire to drive costs out in the face of falling margins? In the past two years, provision of credit to the SME market has rapidly improved and it will be ironic if a combination of regulatory impact coupled with online automation causes a second wave of contraction of funds available to SMEs especially at a time of political uncertainty. We have decided to do only what unequivocally proves itself as superior customer service.

Responsible and sustainable lending

The FCA came into force in 2013 to maintain the integrity of financial markets and to protect borrowers from the repeat of financial practices involved in the 2007/8 financial crisis. Better controls are very welcome but, in reality, new finance regulations cannot determine what is classed as adequate pricing for risk by lenders.

As demand for asset finance continues to grow healthily, supporting the 'bounce' in a cautiously-growing UK economy, both returning and new asset finance lenders are super-eager to grow their market share in this busy market. We welcome competition but also encourage reflection on the pricing lessons of pre-crisis 2006/7 in how lenders operated then and the consequences that followed.

Infrastructure will be key Brexit component

We believe that building big infrastructure in Britain will be a key part of the post-Brexit economy. The leasing and HP sector has an important part to play in supporting this but, again, could get itself into difficulty if it does not price all the risks correctly.

As a market leader who has been in business for 47 years with a cast iron reputation for service, JCB Finance wants British industry to grow and prosper. We believe in the world-class quality of British manufacturing, logistics and construction companies. The economy relies on this together with quality support of the lending community that serves it.

Business Lending Group

Business Lending Group (BLG) started operations in 2003, just as the mainstream banking market was consolidating, centralising and consequently moving further away from their core customers. At BLG, we are unashamedly small, parochial and bespoke. We seek to serve regional and local homebuilders with tailored finance packages that allow them to build quality but affordable new homes.

Stuart Parfitt, Founder and Managing Director of Business Lending Group

A small, but perfectly formed team

Whilst we may be small, we think big. We are committed to growing with our customers to create more of the affordable new housing stock that the UK so desperately needs. In this we have one key advantage over our peers in mainstream banks; we understand the needs of small businesses, because we are one. At just over 30 staff and with around 70 housing projects in funding, we are a fraction of the size of our peers. Our compact and focussed structure enables us to get close to our clients, speak and visit with them monthly, weekly, sometimes daily.

We seek to act not as typical lender, but as true partner. It is this partnership approach that runs through the DNA of the BLG operation and we will always seek to promote the objectives of our customers, our industry and the wider homebuilder market.

Fixing the UK's broken housing market

To say the UK housing market is broken is beyond obvious, the fix is much more difficult to address. It involves, in our view, a wider partnership approach between the public sector and private homebuilders, funders and other stakeholders.

Fixing the lack of available UK homes needs to start within the public sector, who must release surplus land to facilitate homebuilding. At BLG we have numerous examples of slow, bureaucratic or uncommercial actions by public bodies. Particularly vexing is one of our files which stands 18 inches high, full of negotiations with the MOD, who are holding up a 27-house scheme on a vacant and cleared site, negotiating a covenant where they acknowledge there is nothing payable. This is just one example of many.

Ask any developer, they will tell you, the planning process can be a nightmare. But our Local Authority Planning Officers are, in the main part, a skilled and progressive group that have an important role in delivering high quality, but sensitively promoted development schemes. For too long the construction industry has taken an overly antagonistic approach to planning and a new partnership of understanding is required.

However, like many governmental roles, planning departments have seen cutbacks and are often short staffed with a relatively inexperienced team. The building industry needs to accept it must pay more in the planning process so that the planning system can be better resourced. But if the industry is to pay more, these higher planning fees should be hypothecated to support the planning teams so the industry receives a service standard of excellence.

AT A GLANCE

- Principal lender, founded in 2003
- Headquartered in Woking, Surrey
- A team of 32 property and finance professionals
- Currently funding 1,420 new homes from Edinburgh to Exeter
- Supporting over 100 property developers.

BLG supporting the UK's SME house builders

> "We are committed to growing with our customers to create more of the affordable new housing stock that the UK so desperately needs"

Partnering with house builders throughout the UK

Having cured the land supply and planning process, the homebuilding industry can now step up to the plate and build the 250,000 new homes each year the country so badly needs. Well, not quite. We have a massive skills shortage in the construction industry. Recruitment, apprenticeships and training programmes were hollowed-out during the recession and the industry increasingly relies on overseas construction staff. Thus, we must immediately secure the rights of EU workers already resident in the UK and make clear there will be a transition process to allow the full access to European staff for a substantial transition period after March 2019.

However, skills shortages cannot be satisfied by inward migration alone, regardless of Brexit. A firmer commitment from the industry and the government is needed to train our next generation of construction workers. Construction must no longer be a Cinderella industry.

Embrace new construction methods

Together with upskilling the existing workforce and training the next generation, we need to look at the way we build houses. The UK is too focused on bricks and mortar. Modern modular design and off-site fabrication is widely used across Europe and the world to improve quality and efficiency of homebuilding. In the UK, we have been too slow to adopt these techniques but, to do so, can cut construction times by around 50 per cent. This allows the ability to deliver the same, or better, quality in half the time, but never with a compromise on safety. Opinions will not be changed overnight and this is again an area where central government can help, and at relatively modest cost. This is an education process to bring together smaller regional, local housebuilders with the off-site design and fabrication providers. Banks and lenders also need to play their part to provide better supply chain finance.

Our business is helping you build

Finance generally remains one of the key support areas for the homebuilding industry. At BLG we strive for excellence in our support of our developer customers and to champion the homebuilder sector generally. It is somewhat trite to say that to succeed, and moreover to excel, one needs a high functioning team. But trite or not, it's no less true. Investing in our team not only helps BLG to excel and deliver high quality client service, it is also enormously rewarding. We have developed a team that has the drive, industry knowledge and skill-set that far exceeds the knowledge pool of myself and many of my board room colleagues!

Is housebuilding truly that important?

With high demand on the public purse and the Brexit negotiations, compounded by the call on governmental and civil service time, should the homebuilding sector really demand the highest-level attention? Well yes. Because if we do not, your children and grandchildren will not have a decent home to live in, certainly not an affordable one.

Homebuilding must be a high priority but it need not strain public funding or senior time. Home building should be:

- A private sector business but working in partnership with the public sector.
- A commercial enterprise but made to also fulfil high social standards.
- A means of delivering quality affordable new homes but not at the expense of the environment.

Only a true private/public partnership of equals can achieve this in the volumes of homes our country so desperately needs. At BLG we stand ready to be a full partner in this process.

Parity Trust

S J Davis, Chief Executive, Parity Trust

The mortgage market continues to be under scrutiny from both the media and regulators, as the evidence grows that the market is not working in the interests of all consumers. Parity Trust, exists to address the unmet demands of consumers, many of whom might be termed vulnerable, treating customers as individuals offering products tailored to their needs. Vulnerability in relation to personal finance is no longer limited to one sector of society but encompasses older people, younger people, as well as those in middle age experiencing life-changing circumstances.

Parity Trust is a registered charity and has been in operation for around 18 years. We achieved full Financial Conduct Authority (FCA) regulation in 2010, when we started offering mortgages. Initially these were by collaborating with local authorities to offer home improvement loans (HIL) to owner-occupiers, who were living in substandard conditions according to the Decent Homes Standard policy of 2004. We are now working with approximately 40 local authorities, offering a wide variety of loans for home improvements, including disabled facility grant (DFG) top ups, in order to bring properties up to standard. This involves working with many vulnerable clients which results in vast cost savings to NHS services and resources by keeping individuals living safely in their own homes.

In 2014, we began to offer shared ownership mortgages, initially with specific projects that mainstream lenders deemed too small for internal viability. We work with Community Land Trusts to offer a bespoke product. Our Unique Selling Point for these mortgages is our requirement for a 5% deposit. Most people can afford living costs on a monthly basis, but saving for a deposit to become a homeowner is increasingly the reason the next generation feel excluded. By offering a 5% deposit on a shared ownership property, this barrier to entry is removed. People were able to purchase with as little as £5,000. This means the marginalised are able to access the finance needed. We were the only financial institution offering this level of deposit and, by continuing to do so, hope to bring about systemic change with mainstream lenders to widen the products available on the market.

In 2015, we piloted our shared equity home buy product. We provide a 20% deposit, the client 5%; so the client can access mainstream lenders for the remaining 75% mortgage to buy a property. Unlike the Government's scheme, this is not restricted to new build, so any open market property can be purchased thereby putting choice at the heart of consumers' needs. This 20% deposit requires no monthly repayment for the first five years and can be repaid without penalty during that time.

The Citizen's Advice (CAB) released a report in 2015 citing the level of interest only mortgages that are maturing over the next decade where the owner does not have the capital to repay the loan. CAB found that 3.1 million people have interest only

AT A GLANCE

- Established 1999
- Based in Portsmouth
- Helping those excluded from mainstream finance
- No age restrictions for older borrowers
- Registered Charity
- FCA regulated
- 0% default rate

"To be a provider of affordable loans and management services to people and communities who are marginalised from accessing finance from mainstream lenders"

Shared ownership mortgages provided with Community Land Trusts for affordable housing schemes

mortgages maturing: of these 935,000 have no means to repay the capital. The ramifications on the property market with an influx of forced sales are a concern, but homeowners are being rejected for extension terms with mainstream lenders.

Parity Trust modelled a product to offer an alternative to these homeowners, called Mortgage Extension Product (MEP). This product is affordable and offers another 20 years for clients to repay their mortgage on a bespoke split of interest only and capital repayments ensuring 100% client ownership. A soft launch in 2016 highlighted the need for such a product. Fundraising is currently underway to launch this product nationally later this year.

Parity Trust continues to face challenges with access to finance. We are FCA compliant to offer mortgages and a non-deposit taker. Deposit taking is not required in order to offer mortgages; FCA regulation is. Nevertheless, this continues to be a barrier for us to launch our innovations nationally, despite the documented need. However, we continue to strive to achieve our objectives and look for philanthropic and innovative wholesale lenders to assist in this endeavour.

Parity Trust is a small, friendly organisation that puts the customer first. All financial reviews are undertaken in the client's home. These full financial reviews are free of charge and are beneficial in improving financial literacy, helping clients manage their finances, often by highlighting areas where cost savings could be made. We believe in treating people as individuals not numbers and each client has a named person to speak to throughout the application process. The lack of arrears is attributed to the robust non-sales service provided, placing the needs of the client first. This is reflected by our 0% default rate.

During the past three years, we have upgraded our systems with new technologies to prepare for increased capacity and have broadened our product range. This has all occurred whilst turning our own financial viability around: from losses since inception we can build upon three consecutive surpluses. This is thanks to the diligence and hard work of our team who have all invested in our mission, which is:

> To be a provider of affordable loans and management services to people and communities who are marginalised from accessing finance from mainstream lenders.

And our mantra 'Finance for All'.

The value of our loans goes beyond the number or amount lent, it is about the lives that have been improved and the options we are able to offer people who feel excluded. We humanise the mortgage process and offer products in a bespoke and affordable manner, whilst fully adhering to FCA regulation, thus improving the health and wellbeing of individuals and families.

We continue to be committed to innovate and offer bespoke products, offering suitable individualised loan packages to fulfil clients' essential borrowing needs. By offering such products we can have a positive financial and social impact on society, continue to grow and prove that those on the periphery can be assisted successfully. Ultimately, by causing market disruption we hope to encourage systemic change within the mortgage market so that anyone wishing to access it can do so in an affordable manner.

> 'I thought I would lose my home because I could not get a remortgage, my stress levels are now normal, thank you'

Alcentra

Founded in 2002, Alcentra is now part of the fifth largest asset manager in the world, and a global leader in offering direct loans and funding to smaller companies which have faced difficulties in borrowing from banks who have been forced to limit their lending due to the challenges of tightening regulations and problems with loans they made in the past.

Paul Hatfield is Global Chief Investment Officer and President of Alcentra. He has been with the company since it was founded and has worked in banking and loan markets for more than 30 years

As one of Europe's largest managers of private debt, Alcentra identifies the continuing weakness of these banks as one of the major issues now facing Europe. Regulators are imposing much stricter rules on them, while at the same time, the banks face serious problems caused by the poor quality loans they have made in the past – principally in property and corporate lending. In our view, many of these loans are unlikely ever to be repaid.

Consequently, the banks have to face up to the losses they are making on these bad loans. They are beginning to sell these loans to other investors at substantial discounts to the original value. As a result, European banks are currently somewhat constrained in terms of their lending capacity.

At a time when investors are also hungry for higher returns, this can create attractive opportunities in lending to smaller and medium-sized companies, where funds like Alcentra can fill the gap left by banks who have stepped back from this area. Examples include loans made by Alcentra to Caffè Nero and Mountain Warehouse. There are also opportunities to buy the bad loans which banks have made in the past at significantly lower prices than their full face value. The aim is to recover more value than was originally paid. Such investments do not need to involve taking on any extra undue risk. Alcentra is one of the global leaders in these types of investments with $33.5 billion under management, and has been consistently recognised for its performance and capabilities in the credit market.

Alcentra's strategies are centred on corporate credit: providing funding for companies usually in loan or bond form. The group now has about a fifth of its assets in direct loans to small and medium-sized enterprises (SMEs), with the remainder being in other specialised corporate credit strategies.

What opportunities does the current European banking crisis create for investors?

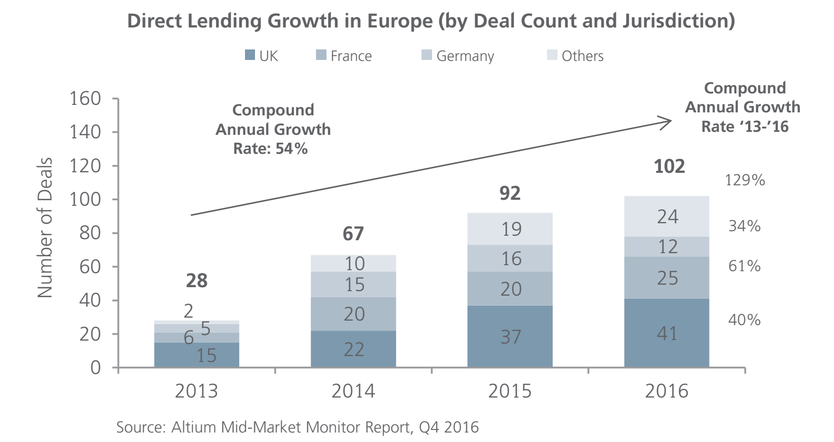
Direct lending opportunities

As noted, banks in Europe are now highly constrained in their lending because of weak profitability and problems resulting from poor lending decisions they made, both before and after the global financial crisis of 2008. They have struggled to resolve these issues and have been disposing of non-core operations, cutting costs and, where possible, issuing new share capital to try to strengthen their financial standing. New European banking regulations are also forcing them to clean up their balance sheets. These regulations also constrain them from lending to smaller and medium-sized companies.

Unfortunately, these constraints are coming at a time when economic growth appears to be strengthening in Europe. SMEs need funding to tap into that growth. Private equity companies also have high levels of capital to put to work, and are looking for

AT A GLANCE

- » Founded in 2002
- » Headquartered in London, with offices in New York and Boston
- » $33.5 billion of assets under management as of the end of June 2017
- » 136 employees, including 64 investment professionals
- » Awarded with the 'Highest Standards' annual rating from 2010 to 2016 by Fitch Ratings



loan funding to support the acquisitions they are making.

Consequently, demand for this kind of funding far outweighs supply and this is likely to continue for at least the medium term.

> "Direct lending is a rapidly growing area in Europe, with the UK accounting for around 40% of total deal count"

Alcentra manages approximately €6 billion in direct lending funds in Europe and has been mandated by the British Business Bank (a government-owned business development bank dedicated to financing smaller businesses), to lend money to these kinds of firms. For the companies involved, this funding can often be provided more rapidly than through a typically bureaucratic bank process and can be tailored to the specific needs of the borrower. These loans rank as top priority in terms of payment to creditors in the event of a default and are secured on the assets of the company. They also benefit from higher returns when interest rates rise.

Direct lending is a rapidly growing area in Europe, with the UK accounting for around 40% of all the loans by number.

Opportunities in bad loans from European banks

The world's central banks have been keeping interest rates at low levels since the financial crisis through a massive programme of bond buying, which has been akin to printing money. This 'Quantitative Easing', as it is called, was aimed at restoring economic growth, but authorities have also been concerned to improve the strength of the banking system as a whole. As such, they have been implementing a significantly enhanced regulatory framework, as well as rigorously testing the banks' capabilities to withstand new stresses, should another financial crisis occur.

All these factors, taken together, mean the banks are having to sell off their bad loans where they do not foresee them being repaid by the original borrower. The major accounting firm, PWC, estimates that there are approximately €2.3 trillion of non-core assets on banks' balance sheets (that's almost equivalent to the GDP of France), close to half of which are highly unlikely ever to be paid back. We believe the balance sheets of Eurozone banks and their ratios of bad loans to their total gross loans are at unsustainable levels.

Central Bank action has further exacerbated these issues through keeping interest rates at historically low levels – forcing investors to look at weaker, riskier credits and/or to seek less liquid investments in order to find the kind of returns they would like to achieve. Consequently, we have seen high levels of very poor quality companies being given capital finance in areas like the European high yield bond market.

Alcentra's longstanding success has been based on the quality and depth of the team, which has unrivalled experience in the European market. It has long-term relationships with banks and private equity houses. These factors have enabled us to source investments not always available to others. Alcentra also has a real advantage in terms of access to information, given its ownership of more than 300 loans across various European funds. The analyst team has evaluated most European loans and bonds issued over the past 15 years, resulting in a large library of targeted European-based companies.

Alcentra can offer the opportunity to earn attractive returns with low potential losses of capital invested, and

Censeo Financial

Mortgage lending this year will exceed £100 million. Censeo Financial is a retail financial services company specialising in arranging mortgages for affordable homes. It was created 10 years ago to provide a mortgage advice service to meet the specific needs of both prospective purchasers and developers of affordable homes.

Sharon Shaw,
Managing Director

After decades of experience with the public and private sectors, Censeo has increased its client base from one housing association to 34. Last year, it helped over a thousand people buy a home of their own in nearly a hundred different developments. At the same time the company has saved housing associations millions of pounds through its innovative approach to retail financial services. Winner of the What Mortgage Specialist Mortgage Adviser of the Year award four years running, Censeo recently won the first National Housing Award for Best Supplier to the Sector.

Following the near collapse of the banking system in 2007, and the subsequent implementation of the Mortgage Market Review, the need to have specialist mortgage advisers became apparent. The lending markets had become considerably more cautious and the affordable home ownership model became increasingly complex, with an increased variety of products and designs being introduced in a bid to make home ownership more accessible to those on moderate incomes.

The team that established Censeo Financial had been involved in the financial services and mortgage industries since the late 1980s. Rupi Hunjan, the founder and Chief Executive Officer, privately funded the company and set out to build a unique proposition for purchasers, providers and lenders using his in-depth knowledge and understanding of the affordable housing sector. Sharon Shaw, previously the Commercial Director for Genesis, is now Censeo's first Managing Director. She brings 27 years' experience to help develop the customer and client experience and prepare the company for significant growth.

> "Building a stakeholder rather than shareholder culture has enabled Censeo to fully engage with public sector housing providers and understand their needs"
>
> Sharon Shaw, Managing Director, Censeo Financial

Satisfying demand, driven by brand

A conscious decision was made to align Censeo's culture with that of its clients, establishing a business-to-business offering. It combines high-performance teamwork with a very clear focus on the needs of its customers, whilst still retaining its character as a retail operation. Success is measured not only by what is delivered, but how it is delivered.

Overcoming the challenges that shaped the Censeo model.

This was achieved by:

- recreating a commercial services proposition that sits within a traditional public sector environment
- adapting to a stakeholder's, rather than a shareholder's, culture
- changing attitudes from the traditional methods of engaging with mortgage brokers
- planning for the fact that cash flow for a start-up during a credit crunch is always difficult
- establishing permanent relationships with housing associations, obtaining business built on confidence and trust.

AT A GLANCE

- Started in 2008
- Advised over 12,000 people
- Market leader in the affordable housing sector
- Multi-award-winning
- Offices in The City

Rupi Hunjan, founder and Chief Executive Officer

> “We will always look at ways of improving what we do for all stakeholders”
>
> Rupi Hunjan, Censeo’s founder and CEO

The Censeo way – building a customer-centric brand

Censeo uses market insight, customer and staff feedback as well as input from a variety of stakeholders to achieve the best customer experience. The company’s staff are employees provided with extensive training and supportive management. Censeo’s mortgage advisers’ purpose is to focus entirely on a seamless service for aspiring home owners giving advice and support on the financial side and providing an understanding of what, precisely, they are buying.

The company began in an office on Regent Street which provided a professional and private environment in which customers could meet an adviser. Last year Censeo moved into the City of London with additional client meeting rooms, enabling up to a hundred customers a week to have a face-to-face meeting with an adviser and leave with a Decision in Principle from a mortgage lender. Each room has a Skype facility for those customers unable to visit the office or contact is made via telephone or Face Time. Censeo’s Client Account Team handles the mortgage submission process, keeps the customer updated, undertakes progression with both lenders and solicitors and provides regular progress reports to the housing provider.

Every Censeo customer is a customer for life. They receive monthly newsletters plus news updates while Censeo staff respond to all relevant social media activity.

Important contact is maintained through its free mortgage health checks, whereby customers are shown the best mortgage products available which can result in extra disposable income and the ability to purchase more shares in their own homes.

The collaborative way is the best way

Early on, Hunjan recognised the integral role that Censeo could play in helping people to get a foot onto the home ownership ladder, to enable affordable housing providers and their funders to meet their sales targets and to make ground-breaking inroads with existing and new to market lenders in the affordable home ownership arena. Censeo’s regular catch-up meetings and organised events bring together its clients and communities to discuss key issues affecting the sector and innovation within the financial services sector. Its regular Newsletter, bi-annual Market Report and its recently launched suite of value-added services all provide early advice and support to business clients: prior to purchasing land; prior to their launching a new development; and during the marketing and sales process through to the provision of valuable data in relation to the mortgage finance and performance of Censeo and the panel solicitors.

Censeo continues to work closely with banks and building societies to develop better and more affordable mortgage products for would-be affordable home owners, including meetings with key senior personnel or through round table sessions with lenders. Censeo simply is the Market Leader in Retail Financial Services for affordable home ownership. Its years of financial and emotional investment was recognised by a recent National Housing Award given for services to the affordable housing sector.

What next?

‘We will always look at ways of improving what we do for all stakeholders.
We recognise that they are used to managing their lives in a frictionless way, through the click of a button (be it shopping, banking or social media) and to complement this Censeo is focusing on using technology and the digital environment to deliver an even better and fulfilling service.’ – Rupi Hunjan, Censeo’s founder and CEO

Jackson Potter

Steve Jackson, Co-founder and Managing Director

Buy to Let (BTL) has been a popular form of investment for many years. Traditionally seen as a low risk, long-term alternative to stock market and pension investment, attractive tax breaks, combined with the security of traditional bricks and mortar, has seen consistent capital growth and a surge in the private landlord sector.

In its basic format, it is a simple vehicle. The investor buys a residential property with a cash deposit of around 25 per cent and a mortgage for the balance. The rental income covers the mortgage payment and the landlord sits back and watches the investment grow in value.

Tax breaks were generous to encourage investors. The interest charges are tax deductible as a business expense at an individual's personal rate of tax. Other allowances such as 'wear and tear' were allowable at 10 per cent per annum too.

Social housing was on the decline and successive governments have seen private landlords investing in BTL as a way of bridging that gap. Despite the financial crisis of 2008, when many investors and banks made huge losses, this sector fought back and indeed flourished as property prices continued to rise.

Landlords could exploit the growth in value by re-financing their portfolios to expand their property holdings. The demand for rental property in London was and still is constant. Our decision to set up an office in The City in summer 2013 has proved highly beneficial – around 65 per cent of our business is now conducted there. Yet, despite this, there could be choppy waters ahead.

AT A GLANCE

- Founded in 1996
- Has nationwide offices in Manchester, Newcastle, Sunderland & City of London
- More than £65m mortgage applications processed in 2016
- Specialists in Buy to Let finance

Two factors affecting the market

Two main factors have caused the BTL market to stall. First the beneficial tax treatment was recently changed. For a higher tax payer, their allowance reduced from 40 per cent to 20 per cent over the next four years. This is a bitter pill to swallow for higher rate tax payers which most London-based landlords are.

This has not only made investment much less lucrative from an income point of view, but has also had a negative impact on the amount of borrowing possible. Lenders have naturally foreseen that landlords will have less spare income from their rental due to the higher tax liability. The regulators have also instructed lenders to react to this new cash flow issue by reducing the loan size available on the rent received. This means it is more difficult for high rate tax payers to finance their property purchase expansion and also from re-financing to fund expansion.

The second major change was the decision to increase stamp duty tax by three per cent for second property ownership. This has hit the BTL market like an earthquake. Prior to the change, stamp duty was £15,000 on a £500,000 BTL purchase. This has now doubled to £30,000.

Brexit

Brexit has also inevitably had some impact but in my view not as much as some believe. Since June 2016, the vote has led to a stagnation in London prices with even some reductions. Paradoxically, this gave landlords an opportunity to go back into the market, viewing the price stalemate as temporary and taking the longer term view.


Our City of London business premises at Warnford Court

Despite uncertainties, it is not all bad news. In the past year, we have seen an industry growth for buying property via a specific property-based limited company. By doing this, it restores many of the income and tax advantages, as income can be taken as dividend at a lower tax rate.

However, the stamp duty tax is not negated. It is also problematic for existing properties as stamp duty would be payable on the transfer from private ownership into a limited company.

The Brexit uncertainty also haltered another major player in the London BTL market: the overseas buyer. Investors from the United Arab Emirates and the Far East have been big supporters of the UK market. However, Brexit wobbles caused many to rethink their strategy, while some Singapore banks withdrew funding altogether.

> "UK mortgage broker sector remains the most sophisticated and advanced in Europe"

A new opportunity

In fact, the 'meltdown' did not happen and, conversely, the decline in Sterling has made property here even more affordable for overseas investors. As a firm we have actively embraced this opportunity. With finance difficult in Singapore and Hong Kong we have seen this as a business opportunity to step in with UK-based finance for both foreign investors and ex-pats.

Jackson Potter has recently established new business relationships with estate agents in Hong Kong and Singapore and are seeing a steady rise in enquiries and applications. In the past year, I've had productive meetings in our London office with Singapore investors and have been invited to visit Singapore and speak at property seminars with these investors and local estate agents.

Issues for the government

An interesting notion is the thought that the extra three per cent Stamp Duty Land Tax could be reduced if foreign buyers were charged it at a higher rate. In the past, the Hong Kong government was charging a 15% tax surcharge above the normal rate to discourage mainland Chinese from buying and inflating prices. Could such a tactic work in the UK?

Many of us in the mortgage and property business think the government has been very heavy handed on the BLT sector. Having encouraged the growth of the market plus seeing many people commit their whole financial wellbeing to the private rental market it seems that landlords are paying the price for their entrepreneurial efforts, in order for the government to fund other areas of expense.

I believe the resilience of the London property investor to keep the show on the road cannot be underestimated. There will likely be a contraction but with options like buying via limited companies and continued low interest rates, I believe that in the long-term the market is here to stay and will continue to provide the very real benefit of quality accommodation for Londoners.

Our future

Given the continuously changing nature of the market, it is ultimately difficult to pinpoint where we will be even two years from now. But in the post-Brexit world, a third office in a location like Singapore could be a viable option for us.

Having been revitalised by the opening of our London office, we have started recruiting again and feel very positive about the future. Given the scarcity of Europe's broker network, the UK independent mortgage broker sector remains the most sophisticated and advanced in Europe. Let's ensure it remains that way.

» EXTRA COST OF STAMP DUTY CHANGES

Property Price Range	Existing residential SDLT rate	Additional property SDLT rate	Property Price	SDLT Pre April 2016	SDLT Post April 2016	Increase Amount
£0–£40,000	0%	0%	£40,000	£0	£0	£0
£40,000–£125,000	0%	3%	£125,000	£0	£3,750	£3,750
£125,000–£250,000	2%	5%	£250,000	£2,500	£10,000	£7,500
£250,000–£925,000	5%	8%	£9,250,000	£36,250	£64,000	£27,750
£925,000–£1,5M	10%	13%	£1,500,000	£93,750	£138,750	£45,000
£1,5M+	12%	15%	£2,000,000	£153,750	£213,750	£60,000

Midlands Asset Finance

Dave and Sue Chapman, Directors

Financial technology is changing the way some people want to do business, making it easier for firms to access finance online. With many High Street banks having culled their branch networks, reducing their dominance across the UK, there are significant opportunities out there for small and medium-sized enterprises (SME) businesses to use the internet to access finance.

As a finance broker with in-depth knowledge of the finance industry across all market sectors, our goal is to support firms looking to access finance either online through our new digital platform Asset Finance Compared, www.assetfinancecompared.co.uk, for smaller transactions up to £100,000, or through our specialist relationship management team within Midlands Asset Finance.

We are giving UK businesses two routes to market. Online or face-to-face.

Asset finance compared

This platform delivers an online quote and a quick credit decision for businesses with an asset finance requirement. Whilst other comparison sites divert the user straight to a funder to tie up a deal once a quote has been provided, our in-house team supports businesses throughout the entire process; from quote, to decision, to paying out a transaction.

Midlands Asset Finance Ltd

Larger transactions from the Asset Finance Compared platform are referred to our specialist relationship management team, comprised of experienced bankers and asset financiers.

Not all businesses want to trade electronically. Call Centres are also out of favour with many banks having moved their smaller business customers into a centralised function.

People still like doing business face-to-face, with someone who is willing to invest time in understanding their business.

Risk assessment isn't effective or accurate if it's based purely around a set of financial accounts; understanding risk is much more than that.

At Midlands Asset Finance, we have an appetite to say 'yes'

We want to understand the story behind the owners/key influencers and the business itself. Information gathering helps us write clear, well-structured credit reports and we provide our credit partners with informed recommendations; key to decision making.

AT A GLANCE

- An independent finance broker business based near Junction 28 of the M1 in Derbyshire (East Midlands)
- Founded in 2009 by Sue and Dave Chapman, both former Royal Bank of Scotland (RBS) senior directors (Real Estate and Lombard Business Finance)
- Team of 21 including one apprentice
- Create easy access to finance for SME businesses operating in all market sectors
- Work with a diverse panel of High Street and Challenger Banks and Alternative Lenders, providing a wide range of flexible financial products mainly to SME businesses
- Asset Finance, Invoice Finance, Commercial Mortgages and Property Development, Unsecured Loans.
- In 2017, joined the Fintech revolution launching a new division, Asset Finance Compared, www.assetfinancecompared.co.uk. An *online* asset finance comparison site that allows customers to get an asset finance quote instantly and a decision in principle

Our skill comes from having a high level of market awareness and a full understanding of banks' risk appetite, policies and regulatory requirements. The financial market is a vibrant sector and, with new players joining, the British banking industry is more diverse than ever. The only constant is change.

Staying ahead of this change is important when delivering appropriate funding options; our role is to discuss the features, benefits and risks of these products so that a customer can make an informed choice.

The market wasn't always as healthy as it is today. Dave and I worked largely with one High Street bank for over 25 years.

We carved out great careers working with RBS. It was an education. We received the very best risk assessment training across all asset types and market sectors. Over the years, we helped a variety of customers overcome many hurdles to achieve their goals; there aren't many scenarios we haven't seen.

Our key objective is to put a customer at the very heart of our business and to explore the market to find a way to say 'yes.' Yes, we can help them make an informed decision on their investment plans.

> "We remember how easy it can be for a bank to say no and how difficult it was to disappoint a business customer with a great plan"
>
> Sue Chapman

Nevertheless, a considerable number of requests for credit are declined each year. Lack of track record, inadequate security and out of date financial information are all detrimental to receiving credit. Start-up businesses fare worse, where a fuller due diligence process isn't cost effective. Sadly, it can be easier for banks to say no and to move on to supporting a business with a more established track record.

Having grown from a team of two to 21, we have faced many challenges, not too dissimilar to those faced by SME businesses.

» We are pleased to have been recognised by Metro Bank receiving their Award for Talent Development 18 months ago.

» Numerous people are studying a Certificate in Business Banking and Conduct (BB&C) through the London Institute of Banking and Finance.

» Several experienced bank managers have been recruited who were previously made redundant. We are focused on developing their skills to ensure we have more people on the ground to see and support SME businesses.

» We have brought in people with no financial experience and trained them to a high standard.

There is always much to do to support UK businesses – whether they are investing in new vehicles, equipment or machinery, or whether they need us to restructure or refinance their existing debt.

Asset finance remains an essential part of the UK's investment strategy and we believe it is crucial that businesses are supported every step of the way to increase their capacity to invest and to grow.

RSC New Homes

David Booth, Chief Executive Officer

Buying a house is the biggest and most important single investment in anyone's life. Ours is a nation where home ownership is an aspiration for the majority of the adult population. Our role at RSC is to help overcome and interpret jargon to create a simple path for our customers. Whilst we appreciate house buying is an exciting prospect for our customers we also recognise that it can be very stressful. Our purpose is to guide our customer through the experience, absorbing the difficult challenges and enhancing the enjoyment of purchasing a new home.

The mortgage market had developed a dubious reputation. Responsible lenders with a long track record of solid lending took a more relaxed and soft approach to anyone taking out a mortgage. As a consequence permissive lending flooded the market and institutions found it difficult to pull back.

As a direct result of problems in the market, mortgage availability went from one extreme to the other with mortgage applicants having to undergo the severest financial scrutiny. Our challenge was to put systems in place which would allow us to work profitably through the new, stringent regime. We knew we had to prove to our business partners and the mortgagee that we could work within the new criteria and create an accurate and legally-compliant process, providing a speedy and efficient service. We had to deliver quality advice to our customers, referred to us by our housebuilder partners and deliver a quality customer to our lender partners. We created a three-pronged advisory service which was incorporated into our marketing material; Tailored Mortgage Advice for a Complex World. The three prongs are:

1. Mortgage desk qualification

This is an affordability test and status check of our customer. In some cases, we would ask for the production of a credit expert report. At this stage, the customers are offered a face-to-face interview or our office based/remote service. Whatever their choice, the next stage is mandatory.

2. Telephone preparation call

Once affordability and credit rating has been successfully scrutinized, our qualified mortgage advisor will conduct a 30 to 60 minute conversation with the potential customer. This is a further information-gathering exercise to check the veracity and consistency of information previously supplied. On successful completion of this stage an appointment time is agreed. At this point no advice or recommendations have been offered to the customer.

3. Face-to-face/ remote advice

The qualified advisor has now put together the options available to the customer and will make recommendations based on the customer`s needs and the constraints

AT A GLANCE

» David Booth established the business on 1 April 2009

» On 1 April 2010 it became a Limited Liability Partnership

» In May 2013, it changed status to a limited company, RSC New Homes Ltd

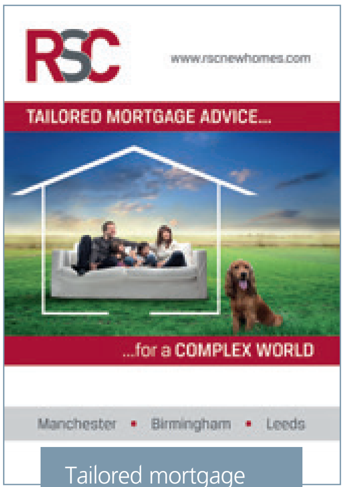
» The company is privately owned by its working directors

» The company has grown from a staff of seven in 2009 to more than 70

» In its formation year it submitted mortgage business to the value of £37.2 million. In 2016 this figure had grown to £750 million

» Offices in Manchester, Birmingham and Leeds

» For each of the past four years RSC New Homes, which is a member of a network owned by the LSL Group, has won the network's Top Mortgage Firm Award, Recognising Excellence



Tailored mortgage advice for a complex world

> "Growth in the use of technology presents a fresh challenge. Our IT proposition must meet the needs and requirements of our customers"

of his/her financial status. When these recommendations are accepted, we proceed with the mortgage application along with any connected protection plans which may be appropriate, alongside the mortgage. We have a duty of care, which we take very seriously, not only to guide the customer through purchase but also provide protection to cover unforeseen eventualities which could put the financial commitment at risk. This will be through life assurance, critical illness and income protection policies.

Written service standards possess the fallibility of over-promising and under-delivering. We knew we had to fulfill all aspects of our written statements. We looked to build a reputation based on the business philosophy of 'Not only here for you today. Here for you for the future.' Three years ago we established a customer retention team and we now have two departments within the business. Many thousands of people that have bought new homes will now benefit from being passed into our customer retention team Private Client Department. When we first transacted business with them, they had been introduced to us and so, although we treated them as a client, their perception was that they were dealing via the introducer source. In 2016 Private Client Department transacted 20% of our turnover.

24 hour access to mortgage case tracking, 365 days of the year

It became clear to us that wherever possible we needed to provide a regional presence. It was true that people prefer to conduct their business with organisations close to home. We did this by opening regional offices.

At the beginning it was important to employ experienced staff. As we grew, however, we adopted a policy of recruiting young people straight from school, college and university. Our aim was to give them a solid grounding in the RSC way; to offer them an attractive career path providing a vision of where, with hard work and commitment, they could be in 10 years. We promised them help to obtain professional qualifications and acquire the principles of good business practice to set them on the road to a successful career. A blueprint for line managers was established, at the heart of which was to make processes simple to understand, and consequently simple to carry out. Job descriptions were simplified. Everybody in the organisation knew their role and understood how their responsibilities fitted into the team pattern.

Growth in the use of technology presents a fresh challenge. Our IT proposition must meet the needs and requirements of our customers. We have to offer all options of how to trade with us. Although personal service has always been, and will always be, at the forefront of RSC's business model, a generation of people are wanting to use technology to transact business. In response to this, in conjunction with one of the largest UK builders, we created a system which will allow our clients 24 hour access to a mortgage tracking system.

By listening to all our customers, empowering line managers, enthusing our staff and adopting new technology, RSC is in a strong position to deliver buyers to the new build market ideally placed to realise their dreams.

LDF

With appetite for investment growth offset by a wariness of large bank lending, SMEs are increasingly opting for alternative methods of business finance. Peter Alderson, Managing Director of specialist SME business lender LDF, feels this is a trend that is set to continue at pace.

Peter Alderson, Managing Director LDF

Over the 30 years in which LDF has been operating, our consistent focus, despite changes in ownership and market, has been providing financial solutions to the SME community. We are one of the largest independent providers in the market, having lent around £400 million to SME businesses in 2016, a figure that is forecast to increase to £500 million this year.

With the business growing quickly, having spread beyond its Chester beginnings to open offices in Glasgow, Southampton, London and, most recently, Manchester, our positioning with clients is based on long-term relationships. This has proved a winning formula to date, with around 75 to 80% of our business coming from repeat clients stretching back many years.

An alternative to banks

LDF isn't looking to replace traditional banks but certainly we see ourselves as a viable alternative to them. Where we differentiate ourselves is through our can do approach and our speed of service, which differs markedly from many major banking providers. From our perspective, big banks are lending less and less to SMEs in the past five years. This is challenging for firms at the smaller end of the market, which can run into problems when faced with high, one-off expenditure such as a VAT or tax bill, or where they need to make fast investment decisions to support a new line of business and delay will lead to them losing that opportunity. LDF is very active in this area with around 50% of what we lend being targeted on this working capital / loan market.

Funding both equipment and working capital requirements has positioned non-bank lenders such as LDF as genuine alternatives to more traditional banks.

SMEs: looking in the right places?

The point of businesses simply looking towards large banks for finance has long passed but the next challenge is ensuring they know specifically where to look elsewhere. Why the lack of knowledge about market options? Research conducted by LDF in 2016 showed many companies don't recognise Bank Holidays because they are often using the day to catch up on running the business.

What we find is that the smallest sized-firms, what I call the 'S' end of SME, the person responsible for finance is, in most cases, also responsible for many other aspects of the business, especially as over three million SMEs are sole traders. This means that time to focus on all available options simply isn't there and that will generally lead them to their own bank as the first and only port of call. A startling statistic from a recent survey is that 51% of business customers who get turned down by a bank don't go anywhere else. This is because, quite frankly, the process is too difficult and time intensive.

AT A GLANCE

- Offers business loans and asset finance to SMEs
- Headquartered in Chester
- Offices in Manchester, Southampton, London and Glasgow
- Leant £400 million to SMEs in 2016
- Employs 220 staff

> "Where we differentiate ourselves is through our can do approach and our speed of service"

Keeping it simple

To address this, LDF has made attempts to simplify the process for SMEs looking to borrow finance both to help them find the right source and to transact in a very efficient way Aside from presenting an image and credentials that prove your company understands the SME challenges and can be trusted, showcasing a simple way to make a transaction is the best way of demonstrating that the company is a viable alternative.

LDF is a company able to cut out the bureaucracy long associated with acquiring finance. There are certainly lots of businesses out there willing to use a company like us, but it's our job to make it easy for them. The UK market needs only to look to the likes of the USA, home to a significant alternative lending market, and Germany's Mittelstand, established to fund the lifeblood of its SME economy, for inspiration as to what can be achieved.

UK lending attitudes

The development of the British Business Bank, first announced in 2012, was definitely a step in the right direction. This created the platform and capacity to help SME-sized companies, so from that perspective, recognising the need and putting it in place was a big tick for government. We are a partner of the British Business Bureau (BBB) who have provided us with a £51 million facility to increase our lending into the SME space.

Historically, the method to encourage lending to SMEs has been to give the big banks ways to fund themselves less expensively by borrowing finance at a cheaper rate through a variety of Government-backed schemes. From my perspective, many of the Bank of England-led services are only available to large banks, and companies such as us who are lending more than £400 million into the market can't have access to such schemes. This is frustrating to LDF and many of our non-bank contemporaries. However, there is definite improvement in the Government's approach to the SME market and a recognition that they are the lifeblood of economic growth which is very encouraging.

The SME finance market will grow

With the past two years undoubtedly demonstrating a vibrant SME market, I can see this continuing over the mid term. While political uncertainty has an effect on the market, all signs over the last 12 months are that SMEs have continued to grow and are retargeting their efforts in a post-Brexit landscape. Our manufacturing clients are rebuilding their businesses through investments in equipment to replace older versions. Significant growth has come from lending to businesses seeking working capital, the demand for which is increasing due to banks being conservative on overdraft facilities.

Our focus for the future is to continue making the lending experience easier for customers. Drawing on technology and the growth in millennials running small businesses (who expect to be able to transact fully online), we have developed our lending hive platform, a system that enables SMEs to get approved online and carry out the full transaction to receipt of funds specifically for a piece of equipment they want to purchase. From a more long-term perspective, we have confidence that the SME lending market will continue to grow with new entrants, more technology-driven solutions and traditional banks continuing to limit capital to this sector.

LDF sees itself playing a big part in this.

Leasing Programmes

Andrew Wyeth, Director

Andrew Wyeth, business equipment financier and founder of Leasing Programmes, says that being a small industry player has afforded the company many advantages when competing against larger competitors but challenges around legislation and lending terms persist.

Ernst Schumacher, the noted economist, summed up his philosophy in his book entitled Small is Beautiful. This is an approach which I support in my business culture. Having started as a junior in a high street bank before progressing to working for various asset finance companies, I established Leasing Programmes more than 25 years ago with the aim of using a personalised approach towards helping businesses across England, Wales and Scotland acquire the necessary equipment.

The advantages of being a smaller player

Our size has been a positive. This is because being a small company has significant advantages, particularly in an area such as equipment finance. For example, it takes approximately the same amount of time to process a £1 million finance agreement as it does for a £5,000 agreement. Our company can compete on smaller transactions with much larger financing operators such as major banks.

Modern technology removes considerable ongoing staff time in maintaining a lending portfolio. It is therefore vital to have high speed access to the internet. We have this in our business location but it is a limiting factor in many parts of the rural West Country. However, having the access gives us a better outreach and makes day-to-day business more accessible.

In dealing with customers and lenders, as well as equipment suppliers, good transport links are also key components. Our Wellington location is close to the main railway at Tiverton Parkway and the M5 is on our doorstep with easy access to the airports at Exeter and Bristol. A good location forms part of Best Practice for visiting and being visited by customers and equipment suppliers. Our views from our offices, over the Tone Valley and distant hills of Exmoor and the Quantocks, add an attraction to staff and business visitors alike.

A growing company

At present, we employ nine people across the business and during the last financial year the company achieved turnover in excess of £2 million. This figure represents a six-fold growth over a 20 year period. Yet, despite the healthy growth figures and having the privilege of a knowledgeable and dedicated team, adding to this growth by recruiting new employees has been a recurrent issue.

While being rurally based reflects the philosophy of keeping things simple and seeking a healthy and unstressed environment, this does, unfortunately, play a factor in our ability to recruit new talent. Small communities do not have the labour pools of large towns and cities.

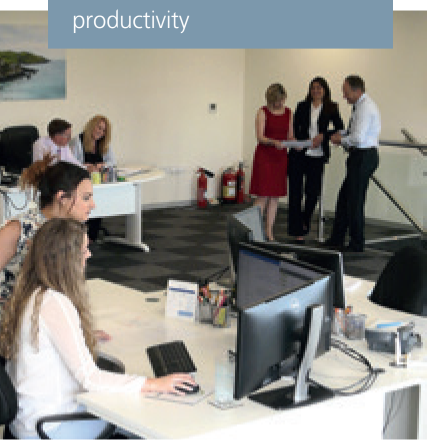
AT A GLANCE

- Established in 1991
- Based in Wellington, Somerset
- Lends money to businesses looking to acquire equipment, offering leasing, loan and hire purchase facilities
- Employs nine people

Beth Atkinson, Sales Director

> "Know your customer"

Teamwork is essential to productivity



Personable employees with both voice charm and high numeracy skills are necessary for telephone contact and sales. We prefer to train people from scratch rather than recruit from other finance businesses.

Legislative challenges

A disadvantage of being small is the loss of economy of scale. The finance industry is much controlled by legislation and its code of conduct is set at a high level. The continuing weight of legislation, particularly affecting employment, requires an identified member of staff to be on hand and versed in all the legislative complexities. Money laundering issues require meeting customers face-to-face. This leads to Know Your Customer (KYC).

Another regulatory example is a need to comply with various accreditation agencies, most notably and recently with the Financial Conduct Authority (FCA). This change came because the Government reacted to a tsunami of events, namely the banking crisis, the PPI scandal, the payday lending frenzy and the emergence of peer-to-peer lending.

The Office of Fair Trading has also relinquished its powers, with the FCA taking responsibility in 2015. However, the FCA could not manage all types of business and introduced a one size fits all accreditation process. It is my opinion that this has not worked, to the point where the Finance & Leasing Association (FLA) had to offer training to the relevant recruited civil servants. This resulted in my business taking 12 months to complete the application process; it cost us a considerable amount of money just to be where we were before – being accredited.

Challenges

The biggest challenge in asset finance is to reduce the risk of such transactions. Keeping ticket sizes small, say under £50,000, reduces the overall risk, so subsequent losses are manageable. If the risk is unsuitable for our business, then we are able to act as a finance broker to larger institutions. These risk controls, KYC and face-to-face procedures are fundamental best practice for a small business. Of course, assessing risk may allow a larger ticket deal occasionally but it is not the company's best-practice approach.

A challenge faced over the years has been sourcing the right type of finance. Initially this was met by modest targets and family funding. Having only family shareholders and keeping overall decision making largely to one person is a clear benefit to keeping things profitable. When balance sheets and a good track record emerged, advances came from block-discounting lenders.

The overlooking of small businesses

With the recent emergence of the British Business Bank, the opportunity to take advantage of government support is out of reach because our company is considered too small to warrant the bank's effort to set up another credit line. This is an instance of small business being neglected and, in my opinion, a clear case for government review.

Our company's trading history also reflects the national picture. The 2007 crisis and subsequent difficult financial years were probably weathered better by our small nature in that we could respond quickly and flexibly to rapidly-changing national monetary policies. Uncertainty in the finance market can be lethal and government best practice should always seek to avoid this.

We experience few of the problems associated with medium to large businesses with their sometimes inflexible practices and potential difficulties with labour relations. Our forward business policy is not explicitly to seek to expand but to expect evolutionary growth as circumstance offers and to generate further sales by networking with customers and at business meetings.

A snap election

Prime Minister Theresa May sought to strengthen her position before negotiations with the EU began

On the 19th April 2017, having repeatedly insisted that she had no intention of calling a snap election, Prime Minister Theresa May sprung a complete surprise when she summoned the press to Downing Street to announce she would seek a Commons vote to go to the country on June 8th 2017.

It was all the more dramatic because the first inkling came only when it was announced that the Prime Minister would make an important statement outside Downing Street.

The announcement, made as Parliament returned from its Easter break, had the force of a thunderclap in Westminster. Quite unexpectedly, MPs and parties were plunged into election mode – with no-one in any doubt that the two thirds Commons majority, required to trigger a dissolution, under the Fixed Term Parliaments Act, would be reached.

The immediate effect was to turn what were now the two remaining Prime Minister's Question Times of the Parliament into *de facto* leader's debates – especially since it was made clear that Theresa May would not take part in the kind of televised debates held in the 2010 and 2015 elections.

On this occasion, her first questioner was the Conservative backbencher, Alberto Costa, who zeroed in on his Party's campaign theme: 'Strong countries need strong economies. Strong countries need strong defences. Strong countries need strong leaders. As the nation prepares to go to the polls, who else in this House, apart from my Right Hon. Friend, can provide the leadership that is needed at this time?'

The Prime Minister did not miss a beat: 'There are three things that a country needs: a strong economy, strong defence and strong, stable leadership. That is what our plans for Brexit and our plans for a stronger Britain will deliver... The Right Hon. Member for Islington North (The Labour Leader, Jeremy Corbyn) would bankrupt our economy and weaken our defences and is simply not fit to lead.'

To Conservative jeers, Mr Corbyn counter-attacked: 'She says that it is about leadership, yet she refuses to defend her record in television debates. It is not hard to see why. The Prime Minister says that we have a stronger economy, yet she cannot explain why people's wages are lower today than they were 10 years ago or why more households are in debt. Six million people are earning less than the living wage, child poverty is up, and pensioner poverty is up.'

The two leaders traded more accusations with Theresa May warning that ordinary working people would face higher taxes and lost jobs under Labour while Mr Corbyn claimed the Prime Minister's priority was 'tax giveaways to the richest corporations while our children's schools are starved of the resources they need to educate our children for the future'.

Brexit emerged as one of the Prime Minister's main campaign themes: 'every vote for the Conservatives will make me stronger when I negotiate for Britain with the European Union. And every vote for the Conservatives will mean we can stick to our plan for a stronger Britain and take the right long-term decisions for a more secure future for this country.'

The SNP's Westminster Leader, Angus Robertson, raised the headline in the *Daily Mail* which called on the Prime Minister to 'Crush the saboteurs' working against her plans for Brexit. He said that struck a dangerous tone in a democratic state: 'so does the Prime Minister agree that political opponents are not "saboteurs"?'

Later that afternoon, the Commons voted to call an early election, by 522 votes to 13.

The Queen's Speech

What a difference. Theresa May and Jeremy Corbyn's final Commons confrontation before the election had seen the Conservatives limbering up for a triumphal campaign which would culminate in the inevitable smashing of their Labour opponents. When the diminished, battered band of Conservative MPs reassembled, minus their parliamentary majority, for the state opening of Parliament on June 21st, they were chastened and uncertain, while euphoria gripped the occupants of the Labour benches.

When they came to speak in the traditional debate on an address thanking Her Majesty for the Queen's Speech – the new Government's legislative programme – the dynamic between the two main figures had changed completely. Mr Corbyn seemed a far more confident, assertive parliamentary performer, relishing the opportunity to throw back the taunts that had been hurled at him during the campaign.

The Queen's Speech announced the government's legislative plan for the coming Parliament

A Government which had warned that he could only gain power in a 'coalition of chaos' with the SNP and the Lib Dems had been forced to negotiate for the support of the Northern Ireland Democratic Unionists ... and as the first debate of this new Parliament began, that support had not been secured. Mr Corbyn could not resist the open goal. To triumphant Labour laughter he noted that 'the latest coalition may already be in some chaos'.

Jeremy Corbyn received a boost in support following the election

'Nothing could emphasise that chaos more than the Queen's Speech we have just heard: a threadbare legislative programme from a Government who have lost their majority and apparently run out of ideas altogether. This would be a thin legislative programme even if it was for one year, but for two years – two years? There is not enough in it to fill up one year.'

That was a reference to the Government's decision to declare a two-year Parliamentary Session – a procedural move intended to ensure ministers could push through vital Brexit legislation in time for the exit date in March 2019. Mr Corbyn mocked the Prime Minister for dropping a series of election promises that had not found favour with the voters.

'It is therefore appropriate to start by welcoming what is not in the speech. First, there is no mention of scrapping the winter fuel allowance for millions of pensioners through means testing. Can the Prime Minister assure us that that Conservative plan has now been withdrawn? Mercifully, neither is there any mention of ditching the triple lock. Pensioners across Britain will be grateful to know whether the Tory election commitment on that has also been binned.'

Also absent from this slimmed down legislative programme were the Government's controversial policy on social care (dubbed the 'dementia tax' by Labour), plans to cut free school meals, and the promised expansion of grammar schools.

On Brexit, Mr Corbyn stuck to Labour's careful positioning in favour of a deal with the EU 'that puts jobs and the economy first'. He called for full access to the single market and a customs arrangement that provided Britain with the 'exact same benefits' as now. And in his final flourish he warned the Prime Minister that Labour were now 'not merely an Opposition; we are a Government in waiting, with a policy programme that enthused and engaged millions of people in this election, many for the first time in their political lives. We are ready to offer real strong and stable leadership in the interests of the many, not the few.'

The Prime Minister attempted to puncture Labour's mood with a barbed welcome for Mr Corbyn's return to the Opposition benches – and she reminded him that the Conservatives still had 56 more Commons seats than Labour. She said her policies were aimed at 'grasping the opportunities for every community in our country to benefit as we leave the European Union; it is about delivering the will of the British people with a Brexit deal that works for all parts of our United Kingdom.' She said the referendum vote to leave the European Union was 'a profound and justified expression that our country often does not work the way it should for millions of ordinary families. This Queen's Speech begins to change that, by putting fairness at the heart of our agenda.'

Grenfell Tower

The fire that destroyed Grenfell Tower, a social housing block in the London Borough of Kensington and Chelsea, seemed to some to crystallise the issues that had driven the 'Corbyn Surge' in the General Election just days earlier.

Accusations about the neglect of social housing tenants, chronic under-investment and official incompetence were flying, even while the pall of smoke still hovered over the capital and the horrific images of the blaze were replayed on TV.

So potent was the symbolism that it became intertwined in the debates on the post-election Queen's Speech - but the Government also committed to keep MPs informed about the aftermath, the efforts to identify casualties in the wreckage of the tower, to re-house and assist those who had lost their homes, and to set up a public inquiry.

So it was that the Communities Secretary, Sajid Javid, came to the Commons on July 3rd to announce £2.5 million had been distributed from the special £5 million fund set up to help the residents. Mr Javid said the public inquiry and the criminal investigation had to be allowed the space to follow the evidence wherever it took them, and everyone should be careful not to prejudice their work. Responding to the Labour MP, David Lammy, who had lost a family friend in the fire, he added that although it was for the judge to determine the scope of the inquiry, he expected it to be 'as broad and wide-ranging as possible'.

Mr Javid also dealt with the key issue of the authorities' inability to say exactly how many people had died: 'There has been much speculation about who was in Grenfell Tower on the night of the fire, and it is vital that we find out. The Director of Public Prosecutions has made it clear that there will be no prosecution of tenants ... who may have been illegally sub-letting their property, ... There may have been people living in flats that were illegally sub-let who had no idea about the true status of their tenancy. Their families want to know if they perished in the fire. These are their sons, their daughters, their brothers and their sisters. They need closure, and that is the least that they deserve.'

Tributes for the Grenfell victims came from across the country

The Government was also taking urgent action to avoid another tragedy in buildings with architectural cladding similar to that which appeared to have been a factor in the Grenfell fire. Mr Javid said the early findings were disturbing: 'So far, all the samples of cladding tested have failed – that is 181 out of 181. ... the priority now is to make those buildings safe.

Where appropriate mitigating measures cannot be implemented quickly, landlords must provide alternative accommodation while the remedial work is carried out.'

The Lib Dem, Jo Swinson, raised suggestions that the fire had been caused by a faulty fridge: 'so will the Government revisit the decision of March last year to dismiss or delay many of the recommendations of the Lynn Faulds Wood review into product recall, which I commissioned [as a Coalition minister] and in particular look at enforcing the regulations.' Sajid Javid said the issue was being addressed.

The Communities Secretary clashed with the Labour MP, Andy Slaughter, who attacked the management record of the local council: 'It is an open secret in West London that the administration in Kensington and Chelsea could not run a bath. That is why the residents of North Ken have had such a raw deal for so long. So when will the Secretary of State put country before Party and send in the commissioners?'

Mr Javid retorted that Slaughter was a local London MP: 'he has an opportunity now to put party politics aside and just do the right thing for his constituents. His constituents are watching him.'

Last rites on the Brexit Bill

David Davis, Secretary of State for Exiting the European Union since July 2016

Back in March, when an election seemed a distant prospect, parliament's main focus was on the European Union (Notification of Withdrawal) Bill. This Bill, which would give Theresa May the authority to begin the UK's divorce from the European Union, was forced on the Government after a Supreme Court ruling that Parliamentary approval was required to begin the process.

Despite fears that the Bill could be watered down or even reshaped to reverse the Referendum verdict, it passed through the Commons unscathed. All attempts to amend, or add, to its 136 words were voted down. Predictions of a major rebellion of up to 50 Conservative Remainers proved unfounded, and only a handful (notably the arch-Europhile former Chancellor, Ken Clark) defied the party whip.

But when it moved on to the House of Lords, where there is no Government majority and a large concentration of pro-EU peers, the Bill was amended twice. One change guaranteed the rights of EU citizens living in the UK, and the second promised Parliament a 'meaningful vote' on the final Brexit deal. That meant the Bill had to return to the Commons because both Houses of Parliament must agree on the final wording of legislation. This is the arcane process known as 'Parliamentary Ping Pong', with each house voting on whether to accept or reject changes made by the other.

When the changes were put to MPs, the Brexit Secretary, David Davis, said they should not be accepted. On the issue of EU citizens, he agreed that they made a vital contribution to the UK. But the issue was that the European Union would not begin talks until the UK had begun the formal process of leaving, so their status could not be confirmed. Securing their status, and that of UK citizens living in the EU, was an early priority for the forthcoming negotiations, he said.

He also rejected the second amendment – giving Parliament a vote on the final Brexit deal – as unnecessary, because the Government had already promised a vote. And he was wary of a hidden agenda behind the push for a 'meaningful vote', warning: 'what we cannot have ... is any suggestion that the votes in either House will overturn the result of the referendum. That is the key point.'

Mr Davis warned that the amendment 'effectively, seeks to prohibit the Prime Minister from walking away from negotiations, even if she thinks the European Union is offering her a bad or very bad deal ... The Government will be undertaking these negotiations and must have the freedom to walk away from a deal that sets out to punish the UK for a decision to leave the EU, as some in Europe have suggested.'

For Labour, the Shadow Brexit Secretary, Sir Keir Starmer, backed both Lords' amendments. He said protecting EU citizens was a matter of principle – but he was challenged by the senior Labour backbencher, Frank Field, who warned: 'if we pass this amendment and give those rights to European citizens here, there will be no incentive whatsoever for other European countries to concede those rights to our citizens.'

Sir Kier retorted that the wording asked Ministers to bring forward proposals within three months, and so did not tie anybody's hands.

Another Labour ex-Minister, Pat McFadden, suggested that, in the event of no deal being agreed, the Government was seeking the authority to default to a trading relationship with the EU, based on the World Trade Organization rules – without a Commons vote. Keir Starmer warned that would be the worst possible outcome, quoting the Confederation of British Industry's view that 'the cost of change is simply too high to even consider it'.

The leading Labour leave campaigner, Gisela Stuart, said the Government should make the status of EU citizens in the UK a priority, but she opposed including the issue in the Bill: 'I shall vote against all the amendments on the simple basis that this Bill has one purpose and one purpose only: to give legal effect to the decision of the people on 23 June ... However, I look to the Secretary of State to give firm assurances that his top and first priority will be the rights of EU citizens.'

Parliament, and the general public, remain divided regarding the relationship that the UK should have with EU

One of the Conservatives' leading backbench Brexiteers, John Baron, said the Commons, in approving the EU referendum in the first place, had made 'a contract with the British people ... if there is a good deal, we will take it, and if there is not, the Prime Minister has made it very clear that we will not accept a bad deal, so we move on, and we move out of the EU.'

The Conservative, Anna Soubry, a strong Remain campaigner, said her Party wanted to honour the vote to Leave: 'now, however, we are talking about the sovereignty of this Parliament and about what would happen in the event that our Prime Minister does not strike a good deal. I trust our Prime Minister ... but let us be under no illusion that if she does not do so, there will be no alternative but WTO tariffs, regulations and rules, and the people in my constituency certainly did not vote for that.'

The debate was held within hours of the announcement by Scotland's First Minister, Nicola Sturgeon, that she would hold a second referendum on Scottish independence. In the Commons, the former First Minister, Alex Salmond, complained that the Government had broken its promise not to trigger the formal process for leaving the EU until there was an agreed 'UK approach' backed by Scotland, and had ignored the SNP compromise proposal to allow Scotland to stay inside the EU Single Market.

And he added: 'there might not be a meaningful vote in this Chamber, but there shall be a meaningful vote in Scotland about protecting our millennium-long history as a European nation.'

When MPs rejected both Lords' amendments, the Bill was sent back for immediate consideration in the House of Lords, where David Davis came to watch his Junior Minister, Lord Bridges, call on Peers to drop their opposition. And while the Liberal Democrat, Lord Oates, did urge Peers to continue defying the Government, support for the amendment melted away, and the attempt to throw it back to MPs was once more rejected, as was the attempt to keep the 'meaningful vote'. The final form of the Bill was settled – and it was sent off for the Royal Assent, un-amended.

Article 50 is triggered

Theresa May meets with European Council President Donald Tusk in Downing Street

The passage of the European Union (Notification of Withdrawal) Act cleared the way for the Prime Minister to act on the Referendum verdict and formally trigger Britain's departure talks with the EU.

She was greeted by cheering Conservative MPs when she announced, on the 29th March, that the process had begun: 'A few minutes ago, in Brussels, the United Kingdom's permanent representative to the EU handed a letter to the President of the European Council on my behalf confirming the Government's decision to invoke Article 50 of the treaty on European Union. The Article 50 process is now under way and, in accordance with the wishes of the British people, the United Kingdom is leaving the European Union.'

She added that she wanted to build a close partnership with the EU: 'We know that we will lose influence over the rules that affect the European economy. We know that UK companies that trade with the EU will have to align with rules agreed by institutions of which we are no longer a part, just as we do in other overseas markets – we accept that. However, we approach these talks constructively, respectfully and in a spirit of sincere co-operation, for it is in the interests of both the United Kingdom and the European Union that we should use this process to deliver our objectives in a fair and orderly manner. ... We will continue to be reliable partners, willing allies and close friends. We want to continue to buy goods and services from the EU, and sell it ours ... Indeed, in an increasingly unstable world, we must continue to forge the closest possible security co-operation to keep our people safe. We face the same global threats from terrorism and extremism.'

Jeremy Corbyn warned against leaving without a trade agreement: 'the Prime Minister says that no deal is better than a bad deal, but the reality is that no deal *is* a bad deal. Less than a year ago, the Treasury estimated that leaving the European Union on World Trade Organization terms would lead to a 7.5% fall in our GDP and a £45 billion loss in tax receipts ... It would be a national failure of historic proportions if the Prime Minister came back from Brussels without having secured protection for jobs and living standards, so we will use every parliamentary opportunity to ensure the Government are held to account at every stage of the negotiations.'

He said the debate had now moved on to what a post-Brexit Britain would be like: 'There are Conservatives who want to use Brexit to turn this country into a low-wage tax haven. Labour is determined to invest in a high-skill, high-tech, high-wage future ... Labour will not give this Government a free hand to use Brexit to attack rights and protections and to cut services, or to create a tax dodger's paradise.'

The SNP's then Westminster Leader, Angus Robertson, accused the Prime Minister of breaking her promise that Article 50 would not be triggered without the agreement of the devolved administrations. He noted that Scotland had voted to remain in the EU: 'On this issue, it is not a United Kingdom, and the Prime Minster needs to respect – respect – the differences across the nations of the United Kingdom. If she does not – if she remains intransigent and if she denies Scotland a choice on our future – she will make Scottish independence inevitable.'

Negotiations on leaving the EU are expected to take several years to complete

The then Lib Dem Leader, Tim Farron, called for a second referendum on the terms of the final deal: 'Today the Prime Minister is not enacting the will of the people; she is at best interpreting that will, and choosing a hard Brexit outside the single market that was never on the ballot paper. This day of all days, the Liberal Democrats will not roll over, as the official Opposition have done ... I am determined to be able to look my children in the eye and say that I did everything to prevent this calamity that the Prime Minister has today chosen ... Surely the Prime Minister will agree with me that the people should have the final say.'

The Westminster Leader of the Northern Ireland DUP, Nigel Dodds, congratulated Theresa May on delivering on the will of the people: 'Is not the fundamental point that this United Kingdom – this Union – is far more important for the political and economic prosperity of all our people than the European Union?'

The veteran Conservative eurosceptic, Sir Bill Cash, hailed what he called an historic day: 'At the very heart of this letter lies the democratic decision of the referendum of UK voters given to them by a sovereign Act of Parliament by six to one in this House, enabling the British people to regain their birthright to govern themselves for which people fought and died over generations? ... Trade and co-operation, yes; European government, no.'

Another Conservative, Jacob Rees-Mogg, quoted the Elizabethan hero Sir Francis Drake: ''There must be a begynnyng of any great matter, but the contenewing unto the end untyll it be thoroughly ffynyshed yeldes the trew glory' ... I wish my Right Hon. Friend good luck and good fortune in her negotiations until she comes to true glory and is welcomed back to this House as a 21st century Gloriana.'

The former Labour Minister, Pat McFadden, was less optimistic: 'There are two kinds of future stemming from the process triggered today. The first is that we spend two years desperately trying to secure the exact same benefits as we have, while gaining control of immigration, which, as Ministers have suggested, may make little difference to the numbers. In which case, people will ask, "What is the point?" Or there is another future where we crash without an agreement, defaulting to WTO rules with all that would mean for industry, agriculture and services. In which case, people will ask, "What is the price?" So which future does she think is the more likely: "what is the point" or "what is the price"?'

A terrorist attack on Parliament

The attack on Westminster was one of several terrorist attacks in the UK during the year

On the afternoon of March 22nd, as MPs were engaged in a routine vote of the Pensions Bill, a man drove his car into pedestrians just outside, killing two people and injuring dozens more, before stabbing to death a police officer who was guarding the gates to the Houses of Parliament, and he was then shot dead himself.

The sitting of the Commons was suspended and MPs were held in their Chamber for several hours, before being escorted away. When they returned the next day, they began with a minute of silence. Then the Speaker opened proceedings by expressing 'our heartfelt condolences to the families and friends of the victims of this outrage. A police officer, PC Keith Palmer, was killed defending us, defending Parliament and defending parliamentary democracy.'

The Prime Minister was heard in silence as she updated MPs: 'Yesterday, an act of terrorism tried to silence our democracy, but today we meet as normal, as generations have done before us and as future generations will continue to do, to deliver a simple message: we are not afraid, and our resolve will never waver in the face of terrorism. We meet here, in the oldest of all Parliaments, because we know that democracy, and the values that it entails, will always prevail.'

She gave an account of the previous day's events. 'A single attacker drove his vehicle at speed into innocent pedestrians who were crossing Westminster Bridge, killing two people and injuring around 40 more. In addition to 12 Britons admitted to hospital, we know that the victims include three French children, two Romanians, four South Koreans, one German, one Pole, one Irish, one Chinese, one Italian, one American and two Greeks, and we are in close contact with the Governments of the countries of all those affected. The injured also included three police officers who were returning from an event to recognise their bravery; two of those three remain in a serious condition.

The attacker then left the vehicle and approached a police officer at Carriage Gates, attacking that officer with a large knife, before he was shot dead by an armed police officer. Tragically, as the House will know, 48-year-old PC Keith Palmer was killed.'

She ended by declaring that the best response to terrorism was to act normally: 'As I speak, millions will be boarding trains and aeroplanes to travel to London and to see for themselves the greatest city on Earth. It is in these actions – millions of acts of normality – that we find the best response to terrorism: a response that denies our enemies their victory, that refuses to let them win, that shows we will never give in; a response driven by that same spirit that drove a husband and father to put himself between us and our attacker, and to pay the ultimate price; a response that says to the men and women who propagate this hate and evil, 'You will not defeat us.' Mr Speaker, let this be the message from this House and this nation today: our values will prevail.'

PC Keith Palmer, who died trying to stop the attacker, was given a full police service funeral, and praised for his heroism

The Labour Leader, Jeremy Corbyn, said people should not allow the voices of hatred to divide or cower them – adding that PC Keith Palmer had given his life defending the public and democracy.

Watching impassively in the crowd of MPs standing at the Bar of the House, in the area across the Chamber facing the Speaker's Chair, was the Foreign Office Minister, Tobias Ellwood. He had tried to save PC Palmer's life by giving him mouth-to-mouth resuscitation. Many MPs took a moment to exchange a word with him as they passed or pat him on the arm. And many of those who spoke over the next hour praised his actions.

Tributes and thanks came from all the Party Leaders – the SNP's Westminster Leader, Angus Robertson, the Liberal Democrats, Tim Farron, and the DUP's, Nigel Dodds.

The Conservative MP, James Cleverly, had served with PC Palmer in the army. His voice cracked as he spoke: 'I would like, with your indulgence, Mr Speaker, to turn for just a moment to PC Keith Palmer, whom I first met 25 years ago, when he was Gunner Keith Palmer at Headquarters Battery, 100 Regiment Royal Artillery. He was a strong, professional public servant, and it was a delight to meet him here again only a few months after being elected. In recognition of the work that he did, and that the other police officers and public servants in the House do, would the Prime Minister consider posthumously recognising his gallantry and sacrifice formally?' Theresa May promised that she would.

President Trump

Nadhim Zahawi MP strongly criticised the Trump administration's travel ban on certain Muslim countries

This year more than most, US politics had a bearing on our own. Not only were many MPs looking across the Atlantic for a trade deal and an enhancement of the 'special relationship', following the decision to leave the EU. But the American people themselves had managed to outdo the British electorate when it came to delivering the most surprising democratic decision of 2016.

As recently as January 2016, a small number of MPs had gathered in Westminster Hall to debate whether or not Donald Trump should be banned from entering the UK altogether. His comments about Muslims, among others, had led to an online petition for him to be considered a 'hate preacher' and therefore banned from British soil. Even those who supported the motion knew there was little chance of such a ban being implemented. But few would have suspected that, just 13 months later, Parliament would be discussing the appropriateness of a state visit from President Donald Trump.

One of the first acts of the new US President was to order a blanket ban on people from a list of Middle Eastern countries travelling to the US. In the Commons, the former Labour Leader, Ed Miliband, and the Conservative, Nadhim Zahawi, joined forces to ask the Speaker for an emergency debate – and it was held that day.

Mr Zahawi, born in Iraq to Kurdish parents, arrived in the UK as a nine-year-old refugee from Saddam Hussein's regime. He is now a British citizen, but because he was born in Iraq, he believed he came under the Trump ban.

He told MPs his place of birth already meant he had been required to go through an interview at the US embassy, to secure the right to travel to America, under rules imposed by President Obama. But the new restrictions were much tougher: 'I learned that ability to travel to the United States – a country that I revere so much for its values, for which I have such great affinity, affection and admiration, and to which I have sent both my sons to university – was to be denied to me. I learned that this great nation had put in place measures that would prevent my family and me from travelling, studying and feeling welcome there. I was concerned about the next time I would see my boys ... my wife and I despaired at the thought that, had one of our sons again been taken as seriously ill as he was last year while at university, we would not be able to go to him when he needed us most.'

The US Government has since clarified that people with British passports will not be affected by the ban, whatever the country of their birth, but Mr Zahawi still thought the ban was 'wholly counterproductive'. He described how it was already being used by pro-Islamic State social media accounts as 'clear evidence that the USA is seeking to destroy Islam. They have even called it the "blessed ban"'.

Ed Miliband said the debate gave the Commons a chance to send President Trump a clear and united view: 'One of the most chilling things ... was that the accounts of what happened to individuals over the weekend sounded like the results of the actions of a tin-pot dictatorship. They did not sound like what we would expect, or hope for, from the United States ... the United States has always been our oldest and closest ally, and some will say that this is not a matter for us as long as our citizens are protected. I profoundly disagree ... Allowing the measure to stand and shrugging our shoulders will amount to complicity with President Trump ... President Trump is a bully, and the only course of action open to us in relation to his bullying is to stand up and be counted.'

Donald Trump's mother was born in the constituency of the SNP MP, Angus MacNeil, who said that as a Hebridean he felt 'utter shame' at the ban. 'It is absolutely disgraceful and shameful. I hope he rescinds and changes the measure – not recasts, but rescinds it.'

President Trump meets with Theresa May in Washington D.C. following his surprise electoral victory

Labour's Yvette Cooper, who chairs the Home Affairs Select Committee, was 'deeply worried' that the Government had already invited the new President to make a state visit to Britain: 'it will be not a normal visit by a Head of Government, but a ceremonial state visit involving our royal family ... instead of it being a celebration of friendship and shared values and a sign of increased co-operation ... It will look like an endorsement of a ban that is so morally wrong and that we should be standing against.'

The Conservative, Sir Simon Burns, disagreed: 'I think it is absolutely right that the British Government continue the work of the Prime Minister to build bridges with President Trump so that we can, through engagement, seek to persuade him and to minimise or reduce the danger of his more outrageous policies ... I believe that very little would be achieved by cancelling a state visit to which the invitation has already been extended and accepted.'

The emergency debate was on a formal motion that MPs had 'considered' Donald Trump's travel ban, so no call for a policy change was voted on.

Acknowledgements

Images in this publication have been reproduced courtesy of the following individuals/organisations:

The Shard l Flickr l Raphaël Chekroun
European Parliament l Flickr l Anil Berkin
Theresa May and Arlene Foster l Flickr l Tiocfaidh ár lá 1916
Philip Hammond lFlickr l Foreign and Commonwealth Office
Article 50 l Flickr l Number 10
David Davis l Tony Harrington
City of London l Flickr l MrT HK
Donald Trumpl Flickr l Gage Skidmore
US Department of Justice l Tony Harrington
Barclays Bankl Flickr l Duncan Rawlinson
The Co-op Bank l Flickr l Canadian Pacific
The Co-op Group HQl Flickr l 10 10
Mark Tuckerl Tony Harrington
Douglas Flint lFlickr l HSBC UK Press Office
Lloyds Bankl Flickr l Jason Mountier
Eric Daniels l Flickr l Financial Times
RBS l Flickr l Mark Ramsay
Paul Pester l Tony Harrington
Mark Carneyl Flickr l Bank of England
FinTechl Flickr l tech in Asia
Accenturel Flickr l JCDecaux Creative Solutions
Chinal Flickr l Joan Campderrós-i-Canas
FCAl Tony Harrington
Cass Business Schooll Flickrl Bank of England
UK banks l Flickr lKiran Parmar
The White House l Flickr l Daniel Zimmermann

Westminster Publications is grateful to Mark D’Arcy and Anthony Harrington for their contributions to this publication.