FINANCING GREEN: FLA RECOMMENDATIONS

Introduction

1. The Finance & Leasing Association (FLA) is the leading trade body for the UK asset, consumer and motor finance providers of leasing and hire purchase. Many of the FLA's members are funding net zero assets or net zero energy.

2. Net zero asset types currently funded by our members include:

    - Anaerobic digestion plants
    - Electric wind turbines
    - Construction, agricultural and industrial (CAI) plant & machinery
    - Recycling equipment (asphalt, bottling and plastics)
    - Refrigeration equipment
    - Commercial vehicles
    - Hydroponics assets
    - Electric crane water treatment plant
    - LED lighting
    - Smart meter implementation
    - Stand-by energy facilities and other measures in commercial and public sector buildings
    - Ground source heating systems
    - Biomass
    - Battery storage
    - Solar arrays and panels
    - Energy efficient boilers
    - Home improvement installations
    - Energy efficient white goods

3. However, this needs a clear road map and an appropriate policy regime that provides stability and removes regulatory obstacles.

4. Members are also examining their lending books with the objective of ensuring that the assets and companies they fund are aligned with the Paris Accord.

5. To assist the Government in achieving its net zero ambitions, this paper sets our key recommendations that will enable our members to continue and increase the funding of green assets and infrastructure.

Recommendations

6. We recommend the following:

   - A clear and consistent approach to green finance
   - The introduction of a Green Finance Wholesale Guarantee
   - The ability to assign Government guarantees where available
   - Further support for electric commercial vehicles including plant & machinery
   - Introducing supportive measures for businesses including capital allowance changes
   - Reform of the Consumer Credit Act

Green finance

7. To achieve the ambitious net zero targets that have been announced, it is imperative that the Government provides clarity to business and consumers about its policies and how they will be delivered. Policies must also be consistently maintained, avoiding frequent twists and turns. Consistency in policy will allow our members to plan, invest and support businesses and consumers appropriately. It is particularly important for the Government to specify the nature of the support it chooses to provide, such as grants, subsidies, tax incentives, guarantees or business feed-in tariffs, and the length of time it will be available.

8. Examples of schemes that have not been allowed to bed in include the changes to “feed-in tariffs” for solar energy which significantly changed the economics for installers of photovoltaic panels, or the “green homes grant” which requires certification from installers who have been reluctant to seek certification in case the scheme should cease.

9. Under the Renewable Heat Incentive (RHI) scheme where there is an Assignment of Rights Contract, funders have been discouraged by not being able to take title to the asset as security and instead being forced to take performance risk on the asset and the customer. This adds costs and complexity for all parties.

10. It is important for the Government to set out clear timeframes for such schemes. RHI expires in March this year. To ensure continued funding, the Government should set out whether the scheme will continue and for how long.

11. The Government should create a policy framework that stimulates the development of a mature green asset funding market. This could be done by establishing business feed-in tariffs and a green finance guarantee scheme for emerging and unproven assets (see below – A Green Finance Guarantee).

12. We also recommend that public sector procurement rules do not undermine the use of leases where these would be the most appropriate finance for green assets.

13. Our members are currently working with several local authorities on the transition to low or zero emission zones. There is an appetite among the membership to do more and the Government can play a role by connecting our members with the authorities who are in receipt of grants to implement these schemes. Furthermore, greater coordination across authorities would be helpful as commercial vehicles may find they face different criteria and charging depending on where they are in the country. We appreciate that the authorities have been empowered to introduce schemes suitable for their areas. However, general criteria provided by the Department for Communities and Local Government would be welcome.

A Green Finance Wholesale Guarantee

14. A government-backed Green Finance Wholesale Guarantee for consumer and business lenders may provide comfort to the lender when they consider the technological and credit risk of lending against an asset. These risks include: the lack of a secondary market, the challenge of pricing the residual value of an asset correctly and the unproven nature of the technology being funded which contributes to a higher frequency of satisfactory quality disputes for which lenders are liable.

15. The guarantee would reduce the cost of funding business and consumer green assets. This would create a level-playing field against non-green assets. It would stimulate the market in financing green as well as helping those who are mandated to acquire a green asset to finance it.

16. As we have noted (2), our members currently fund a range of business assets and green energy infrastructure. Our members are keen to fund more of these assets and new green technology as it is developed, particularly in areas where there is comparatively little use of green technology such as plant and machinery.

17. FLA members currently fund 94% of all new cars purchased by consumers – this has risen from 92% pre-crisis. Captive finance companies finance the acquisition of LEVs produced by their Original Equipment Manufacturer (OEM) parents, and a small but growing number of independent finance companies (including banks) provide finance for the acquisition of used low emission vehicles (LEVs). Finance companies play a critical role in enabling the roll out of LEVs as without the finance, take-up will be significantly lower.

18. The Government has an unprecedented opportunity in the post-pandemic recovery phase to encourage green investment. For this market, a Green Finance Guarantee, that would reduce the risk of lending and consequently lower the cost of finance for ULEVs making them more affordable for lower income consumers. The Government would provide a guarantee of an agreed portion of any finance for ultra-low emission vehicles, to encourage their take-up.

19. We are working with the Green Finance Institute and the Zemo Partnership (formerly the Low Carbon Vehicle Partnership), both of which are co-funded by Government and industry, to produce joined-up solutions which will enable the 2030 targets to be met.

Assignable Guarantees

20. To ensure certainty, we recommend that the Government allows cashflows and guarantees under commercial schemes such as the Renewable Heat Incentive (RHI) scheme to be assignable to a wholesale funder or investor with title to the asset and receiving payment of the grant following assignment even if the asset is not performing and needs repairing or replacing. This will encourage greater financial backing for such schemes.

Support for electric commercial vehicles including plant & machinery

21. Government should provide greater support to enable the adoption of low-emission and electric and hydrogen-based versions of commercial vehicles, construction, agricultural and industrial (CAI) plant & machinery. Private cars meeting the Government's "low emission" criteria receive a grant of 35% of the purchase price. Vans, taxis, and trucks meeting the criteria receive a maximum grant of only 20%. CAI attracts zero. The grants should be at the same level for both private and commercial vehicles and CAI plant.

22. This is especially important for "gig economy" workers including delivery drivers and private hire drivers who provide their own vehicles and will often turn to finance to do this. They are often expected to drive low emission vehicles at considerable cost to them. Were they to acquire a vehicle for private use they would then be able do so at a significantly lower cost.

23. The Government set out a vision for the UK to have one of the best charging infrastructure networks in the world in its Road to Zero strategy, supported by the new Rapid Charging Fund announced in the March 2020 Budget. Data from the International Energy Agency suggests we have made good progress but have fallen short of investing as much as some countries like the Netherlands and Norway in per capita terms and providing lower plug-in grants than those countries.

24. To achieve an earlier phase out date Government may wish to consider bringing forward targets for a rapid charge point network by leveraging speedier installations and defining clearer responsibilities and incentives for the stakeholders involved. This might also include incentivising local government to provide a generous package of benefits to ULEVs displaying green number plates.

Supportive measures for businesses

25. Currently capital allowances and the Annual Investment Allowance cannot be claimed by finance and leasing companies which purchase vehicles and lease them to businesses and consumers. If lenders, including leasing companies, could offset purchases of EVs against their tax position this would enable them to offer much more competitively priced finance/rental payments for ULEVs. Research undertaken by the British Vehicle Rental and Leasing Association (BVRLA) suggests passing on the benefit of capital allowances could lead to customer savings of £20-£30 a month.

26. It would be beneficial if the Office of Zero Emission Vehicles reviewed its list of assets eligible for grants and considered whether that list should be widened.

Reform of the Consumer Credit Act

27. The Consumer Credit Act was originally passed in 1974, in an environment which does not reflect current customer behaviour, sophistication, or access to information. Nor does it reflect the nature of new green assets such as electric vehicles that consist of two assets for finance: the vehicle and the battery, in which the battery might be leased on a different basis to the vehicle as they have different lifespans. Assets such as solar panels and micro-CHP boilers are increasingly likely to be financed and it is not clear whether the current regulatory regime is flexible enough to allow this to take place on a large scale.

About the FLA

The Finance & Leasing Association (FLA) is the leading trade body for the UK asset, consumer and motor finance providers of leasing and hire purchase. In 2020, FLA members provided £113 billion of new finance to UK businesses and households, £37 billion of which helped consumers and businesses buy new and used cars, including over 91% of private car registrations. £86 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £27 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing over a third of the UK investment in machinery, equipment and purchased software in the UK last year.

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