



GREEN FINANCE STRATEGY CALL FOR EVIDENCE

FLA RESPONSE

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. We welcome the opportunity to respond to the Government's green finance strategy call for evidence. We have provided our response to the questions relevant to our members and the sectors they operate in.
3. The approach we have taken in our responses is to consider how the Government's strategy can assist our members in financing all types of assets: cars, HGVs, buses, coach, and other green technologies such as renewable energy, storage & batteries and building infrastructure such as LED lighting.
4. While the focus of the Government's strategy is rightly on financing green, it is important to remember that non-green assets will continue to require funding over the next decade. At some stage during this period the move to green assets may lead to lenders having no secondary market for traditional equipment. We urge the Government to begin discussing this challenge with funders and industry to ensure we are not faced with stranded assets.

Capturing the opportunity

Do you consider the UK's green finance regulatory framework to be world-class?

5. It is imperative that the UK's green finance regulatory framework address outdated rules in other parts of the regulatory landscape which will otherwise delay the adoption of green technologies for homes and small businesses. The Consumer Credit Act (CCA) 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 the current regulatory regime needs to be flexible enough to allow this to take place on a large scale. We therefore welcome the Government's announcement to reform the CCA later this year and will be pressing for this to be addressed, along with other elements of the Act not related to green finance.



Financing the UK's energy security, climate, and environmental objectives

How can the UK support a financial system that leverages private investment to meet the UK's climate and environmental objectives?

What barriers are there to unlocking private investment to support the UK's energy security, climate, and environmental objectives?

6. 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.
7. However, there are risks associated with the funding of new assets: 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. Funder will always price to risk. With a higher cost of funding, the take-up of a new asset is inevitably lower and slower.
8. In the consumer car market FLA members currently fund 94% of all new cars purchased – this has risen from 92% pre-crisis. Captive finance companies finance the acquisition of ultra-low emission vehicles (ULEVs) 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 ULEVs. Finance companies play a critical role in enabling the roll out of LEVs as without the finance, take-up will be significantly lower.
9. 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 that whilst we have made good progress, we have fallen short of investing as much as some countries like the Netherlands and Norway in per capita terms. Unlike these nations, we now no longer provide any kind of plug-in grant.
10. The Government has an unprecedented opportunity in the post-pandemic recovery phase to encourage green investment. Below we set out ways this can be done including the creation of a Green Finance Wholesale Guarantee.
11. We recommend that to achieve an earlier phase out date Government must bring forward targets for a rapid charge point network by leveraging speedier installations and defining clearer responsibilities and incentives for the stakeholders involved. This should also include incentivising local government to provide a generous package of benefits to ULEVs displaying green number plates.



12. A government-backed Green Finance Wholesale Guarantee for consumer and business lenders is essential as the risks are the same regardless of asset class. A guarantee will encourage the adoption of green assets by consumers and businesses, by making them easier and more attractive to acquire using finance or leasing. Such a guarantee would provide comfort to the lender when they consider the technological and credit risk of lending against an asset as discussed above (7). The guarantee would reduce the cost of funding business and consumer 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.
13. For example, the guarantee 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 ULEVs, to encourage their take-up.
14. Furthermore, the guarantee would lead to an increase in finance and an expansion the market for a variety of green assets. This wider and faster take-up would lead to a secondary market and address the residual value risk. This would create a level-playing field between green and non-green assets.
15. We have previously recommended that the guarantee be modelled on the British Business Bank's ENABLE guarantee.
16. With the withdrawal now of both plug-in grants and of support for home charge points, a guarantee of this type has now assumed a central importance, as it is the only remaining way in which the price of ULEVs and other green assets can be supported so that are competitively priced against other assets.
17. 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 ULEVs 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. Other reforms of capital allowances should also be made to support green investment by businesses.

Ensuring broad access to green finance for local authorities, SMEs, and retail customers

How can local authorities support the mobilisation of private and public investment to key sectors and technologies for the UK's climate and environmental objectives, whilst also meeting local priorities? What barriers to this are there



18. Our members are currently working with several local authorities to support the implementation of low or zero emission zones. Our members want to do more to support Local Authorities with this work. We recommend that the Government connect 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 is critical to progress this change quickly.

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 2021, FLA members provided £132 billion of new finance to UK businesses and households, £45 billion of which helped consumers and businesses buy new and used cars, including over 92% of private car registrations. £101 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £31 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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