NET ZERO REVIEW CALL FOR EVIDENCE
FLA RESPONSE

Introduction

1. The Finance & Leasing Association (FLA) is the leading trade body for the UK business finance (leasing and hire purchase), consumer credit and motor finance sectors. Our members play an important role in facilitating the investment by households and businesses in greener products.

2. We welcome the opportunity to respond to the Government's Net Zero Review call for evidence. We have provided our response to the questions relevant to our members and the sectors they operate in.

Overarching Questions

Q2. What challenges and obstacles have you identified to decarbonisation?

3. The principal challenge is the lack of clarity and certainty in the Government's thinking. For example, the motor industry has been working towards the 2030 target to end the sale of petrol and diesel vehicles but there have been suggestions that this might be scaled back. Industry needs an approach that enables long-term planning on a cross-party basis to attract investment in the necessary infrastructure to meet the UK's 2050 Net Zero target.

4. HM Treasury (HMT) is committed to reviewing the Consumer Credit Act (CCA) before the end of 2022. The regulatory framework for consumer credit acts as a barrier to the speedy adoption of green technologies for homes and small businesses (some SME lending is CCA-regulated). This is illustrated with two examples. First, consumers typically need to acquire their electric vehicles as part of a bundle consisting of the vehicle, charge point, installation, insurance and return-to-grid services. The CCA makes financing this through a single contract prohibitively complex. And second, 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, for the same reasons.

5. Added to this, the Section 75 of the CCA creates a lender liability when things go wrong which may be amplified by financing unproven technologies or partner suppliers going out of business. Past mis-selling of solar panels, which gave rise to Financial Ombudsman Service (FOS) claims, has also made lenders averse to participating in this marketplace.

6. For consumer finance providers, the main obstacles are insufficient consumer awareness of greener products and the costs of installing energy efficient products. For example, many consumers are still unclear on what introducing a new heating system (such as an Air Source Heat Pump) entails, what benefits this may derive, and what it might cost to implement this system.

7. Similarly, there are challenges with other green initiatives, such as 'green mortgages' that are not immediately obvious to consumers. For example, some consumers may want a green home loan, but they may restricted due to certain Energy Performance Certificate (EPC) targets set by the Government. These voluntary targets are designed to encourage lenders to improve the average EPC rating of the homes in their lending portfolio to at least 'band C' by 2030. This will incentivise lenders to focus solely on customers whose homes are EPC rated between A to C thus excluding the many residential homes which fall outside of this spectrum. The Government may therefore need to reconsider its existing stance on EPC ratings. More generally, some form of Government green grant, or access to cheaper funding for lenders would be useful. This could help to support consumers that want to take positive action to make their homes more energy efficient.

Q3. What opportunities are there for new/amended measures to stimulate or facilitate the transition to net zero in a way that is pro-growth and/or pro-business?

Low Emission Vehicles

8. FLA members will have a key part to play in supporting the delivery of the Government's ambitious net zero targets. Both businesses and consumers will need access to affordable finance to acquire assets which support this aim. Consistent policy making is required, including a shift away from the changing targets and incentives of the past.

9. FLA members currently fund 85.6% of all new cars purchased by consumers. In the twelve months to September 2022, they provided £49.6billion to help consumers and businesses buy new and used cars. Captive finance companies finance the acquisition of low emission vehicles (LEVs) produced by their OEM parents, and a small but growing number of independent finance companies (including banks) provide finance for the acquisition of used zero emission vehicles (ZEVs). Finance companies play a critical role in enabling the roll out of ZEVs as without the finance, take-up will be significantly lower.

10. We have developed with the Green Finance Institute and the Zemo Partnership, both of which are co-funded by Government and industry, a proposal to establish a Green Finance Wholesale Guarantee Scheme to enable the 2030 target to be met. The Government would provide a guarantee of an agreed portion of any finance for ultra-low emission vehicles, to encourage their take-up.

11. Such proposals would greatly improve financial inclusion in these areas by reducing the risk for lenders of lending to higher risk customers. The reduction in risk could also lower the cost for these customers who may otherwise be unable to consider replacing their vehicle with an environmentally friendly, newer, and more reliable alternative.

Greener Business Assets

12. 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.

13. The British Business Bank (BBB) can play an active role in supporting businesses seeking to reduce their carbon impact and support the transition to net zero. Whether this is via existing schemes (e.g. ENABLE) or a new dedicated scheme focussed solely on green investment the BBB has well-established and recognized products for supporting the delivery of finance.

14. We see opportunities for the Government to use fiscal measures to encourage greener investment by businesses. Under the existing capital allowances regime leasing cannot always be claimed. This distorts the choices businesses have and does not reflect a significant part of the leasing and rental market. This must be addressed by HMT to enable businesses to invest in cleaner plant and machinery.

15. Regrettably, in its review of the EU-derived securitisation regime earlier this year, HMT did not take forward the FLA's recommendation to classify assets as green so for example to make a distinction between low emission vehicles and hybrids to stimulate investment in greener vehicles.

16. The Government's ambitious net zero goals will be particularly challenging for SMEs. These businesses require support to acquire the assets they need to commit to a lower-carbon future, such as microgeneration equipment, zero-emission commercial vehicles, and battery storage.

17. The Government should also ensure that sufficient funding is available to deploy the infrastructure required to help consumers and businesses make the shift to net zero. This includes improving the energy distribution network, supporting the roll-out of fast charging infrastructure, and helping businesses to install micro-generation assets.

Q4. What more could government do to support businesses, consumers and other actors to decarbonise?

18. 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.

19. Consumer incentives to transition to EVs up to this point have largely been targeted at the ‘corporate’ and ‘fleet’ sectors (i.e. business and ‘perk’ vehicle users) via Benefit in Kind (BIK) taxation. While these will undoubtedly help generate supply into the used EV market in future, this contrasts markedly with the retail market. Currently very few incentives exist for ‘retail’ vehicle consumers – who make up the majority of vehicle purchasers and primarily rely on finance for their purchase – to choose an EV, at a time when there is still a considerable technology cost differential between petrol and diesel vehicles and battery EVs. We would therefore urge the Government to offer incentives to retail customers to redress the balance with those benefiting via their employers.

20. Consumer incentives to invest in green products will stimulate demand but must be carefully calibrated to ensure they reach the relevant target market and over the requisite timeframe. Past stop-start schemes have created complexity for both firms and consumers. An important component of incentive mechanisms is the need to publicise them to the appropriate audience.

21. At a more technical level, funders would benefit from guidance on how to accurately measure their indirect value chain carbon emissions (Scope 3). FLA members are required to report greenhouse gas emissions of assets owned by lenders (by way of HP / finance lease where chain of ownership/title is clear). The product and geographical range of business assets makes it impossible to measure mileage/usage of the assets during the life of the rental agreement so that reporting is based on reasonable (but inaccurate) assumptions.

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 91% 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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