FINANCE & LEASING ASSOCIATION (FLA):

BUDGET SUBMISSION

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 independent, non-bank lenders who provide finance to underserved groups or deliver funding in markets where banks may be unwilling or unable to offer finance.

2. This paper sets out the FLA's key priorities ahead of the Chancellor's Budget Statement on 3 March 2021.

Recommendations

3. Our proposals support the Government's objectives of levelling up of the UK's regions, achieving net-zero, and improving financial inclusion for those individuals and businesses that need access to finance.

4. We recommend the following:

   - A clear and consistent approach to green policies
   - The introduction of a consumer motor vehicle "Green Finance Guarantee"
   - A support framework for independent lenders that includes the establishment of an Independent Liquidity Funding Scheme (ILFS)
   - A greater role for the Small Business Commissioner
   - A review of the Consumer Credit Act

Green Finance: A clear and consistent approach

1. To achieve the ambitious net zero targets that have been announced, it is imperative that the Government provides clarity to business, including to funders, about its policies and how they will be delivered. It is also imperative that its policies are then consistently maintained, avoiding frequent twists and turns. Consistency in policy will allow our members to plan, invest and support businesses appropriately. It is particularly important for the Government to specify the nature of the financial support (grants, subsidies, tax incentives, guarantees) it will introduce.

2. 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.

The Motor Market

A Green Finance Guarantee

3. 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.

4. The Government has an unprecedented opportunity in the post-pandemic recovery phase to encourage green investment. We propose this is achieved through 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.

5. We are working with the Green Finance Institute and 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.

Supporting new car purchases

6. The FLA supports the goal of all new cars being electric only by the end of the decade. Whilst this requires policies that incentivise the purchase of electric vehicles, the Government should not penalise the purchase of new petrol fuelled cars. Electric cars are not yet a viable option for everyone because the charging infrastructure is not readily available, there remain relatively few electric vehicle models on the market, and they are relatively expensive. Until the transition to electric vehicles is more advanced it is better that new cars that use the latest technology and emit far less carbon than their predecessors are purchased to replace older, more polluting vehicles.

7. We therefore oppose applying a “carbon levy” on non-electric vehicles. Such a move would increase costs for consumers and have a disproportionate effect on those seeking to buy the cheapest vehicles. We recommend that no additional taxes are applied to new vehicle purchases. Instead, the Government should continue its approach in charging Vehicle Excise Duty at different rates depending on CO2 emissions.

Support Framework for Independent Lenders

8. Independent (non-bank) lenders play an essential role in the consumer, motor and small business finance landscape. Independent lenders support small business across the UK and enable under-served consumer groups to access credit. The

success of independent lenders is also important from a systemic point of view. The failure of or reduced lending by independent firms would affect the stability of the market, the competitiveness of financial services and the choice available to customers of finance products.

9. Independent lenders have limited access to liquidity support, as compared to banks that have access to Term Funding with additional incentives for lending to SMEs (TFSME). Liquidity support may be necessary during times of crisis – the FCA's recent survey on financial resilience highlighted significant differences with respects to the effects on liquidity of the pandemic. For non-bank lenders, who may be reliant on wholesale financing, liquidity support would provide a lifeline when wholesale markets restrict lending criteria.

10. We propose the establishment of an Independent Liquidity Funding Scheme to support these lenders in times of crisis and allow them to maintain help to SMEs and individuals. The scheme would be administered by the Bank of England and be modelled on Term Funding. It would provide rapidly accessible funding at a competitive rate, backed by a Government guarantee with conditions and a rate set an appropriate level for independent funders. This would provide an alternative to wholesale (block) funding and would be charged at a similar rate, subject to the lender meeting conditions.

Supporting the British Business Bank

11. The creation of the British Business Bank (BBB) has helped create a framework for independent lenders to business. We believe the BBB has an integral role to play in addressing market and knowledge gaps for SMEs who wish to access finance.

12. The Government's support schemes including the Coronavirus Business Interruption Loan Scheme (CBILS) have helped to deliver much needed funding to businesses. However, these schemes are temporary, time-limited interventions responding to a specific economic need. Businesses will need ongoing support once these schemes reach an end, so they can provide finance to business across the country looking to acquire the equipment they need to remain competitive and productive.

13. We propose that the best features of the CBILS scheme be retained as part of a revamped asset finance variant of the Enterprise Guarantee (EFG) scheme, to deliver ongoing support. We have been working with the BBB to deliver this.

14. We believe other BBB schemes such as ENABLE have a greater role to play in providing liquidity to lenders who are funding SMEs.

15. Accordingly, we recommend that the BBB is given the funding and support it needs to deploy the appropriate funding to such schemes and has the resource to administer these schemes.

The role of the Small Business Commissioner

16. We have previously recommended the expansion of the remit of the Small Business Commissioner. We welcome the steps that have already been made to increase the powers at the Commissioner's disposal. These will increase business confidence and certainty for smaller businesses.

17. We suggest that the Commissioner's functions go beyond dispute resolution and includes signposting businesses to appropriate sources of help. We also believe the role of the Small Business Commissioner should be further expanded to identify problems areas that SMEs face and be able to recommend policies to address them e.g., dealing with the regulatory burden.

The Consumer Credit Act and forbearance

18. For firms regulated by the FCA, the challenges created by the Covid-19 pandemic have highlighted shortcomings in the Consumer Credit Act (CCA), which underpins the regulatory regime. The Consumer Credit Act was originally passed in 1974, in an environment which does not reflect current customer behaviour, sophistication, or access to information. It also does not address the considerable innovation in credit markets that have taken place since that time including online banking and the emergence of independent lenders.

19. The CCA imposes strict requirements on the information and documentation that must be provided to customers. This has limited firms' flexibility to amend credit agreements for those in financial difficulty. This reduces competition and customer choice, leading to higher costs for customers and businesses.

20. We recommend a complete reform of the way the CCA operates, as part of HM Treasury's review of regulation in the financial services sector.

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 the twelve months to November 2020, FLA members provided £115 billion of new finance to UK businesses and households. Over £87 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. Nearly £28 billion of finance was provided to businesses (including £16 billion to SMEs) and the public sector to support investment in new equipment, representing over a third of UK investment in machinery, equipment and purchased software.

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