



**TREASURY COMMITTEE INQUIRY  
INTO DECARBONISATION AND GREEN FINANCE:  
WRITTEN EVIDENCE BY THE FINANCE & LEASING ASSOCIATION**

**About the FLA**

1. The Finance & Leasing Association (FLA) is the leading trade body for the UK asset, consumer and motor finance sectors. In 2019, FLA members provided £140 billion of new finance to UK businesses and households. Nearly £105 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. Over £35 billion of finance was provided to businesses (including £20 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. FLA member funded over 91% of private new car registrations in 2019.
2. In the three months to June 2020 total new business provided by FLA members was 47% lower than the same period the previous year, at £18.7 billion. Of this, £4.8 billion was provided to businesses, 49% lower than the same period the previous year. This included £2.8 billion to SMEs, 49% less than the same period last year.
3. The remaining £13.9 billion of consumer finance new business represented a 47% fall compared to the same period the previous year. This included £3.9 billion for consumer car finance, 59% lower than the previous year

**Summary**

4. Finance is an important component of greening the economy to meet the net zero emissions target. FLA members will play a critical role in rebuilding the economy post Covid-19 whether through supporting public or private sector investment by businesses or via funding home improvements or low emission vehicles.
5. The pandemic presents an opportunity to stimulate economic growth via support schemes such as a Green Finance Guarantee and a loans or grant framework, review of the British Business Investments (BBI) schemes to ensure independent funders can access and deploy finance and ideas to use the tax system and capital allowances to incentivise greener investment decisions by businesses and households.

## **The FLA's interest in the Inquiry**

6. This submission follows written evidence we gave to the Committee's original inquiry in August 2019.
7. We have responded only to those questions which are relevant to the markets we represent.
8. We would be happy to give oral evidence to the Committee.

## **Response to Questions**

*Should the Treasury be directly funding Green infrastructure as part of its Coronavirus spending package?*

9. The Government should take the opportunity presented by the pandemic to give real impetus to the development of a green infrastructure. FLA members are important enablers of this whether it is via their funding of environmentally-friendly home refurbishments or linked to purchase of greener homes, low to no emission vehicles for consumers to complete more local journeys to work or for the retail supply chain to serve the high street, or the provision of green bus fleets.
10. The green finance market is becoming established with financial structures in place linked to underlying green assets. This could essentially provide opportunities for green/ethical funding lines, with covenants in place that require such funding to be ring-fenced to finance zero emission vehicles. We would like the Government to consider a Green Finance Guarantee, that would reduce the risk of lending under such circumstances in order to achieve a low cost form of finance for cleaner assets, for example business investments in plant and machinery. This type of arrangement could also be used to help make zero emission vehicles more affordable, making ultra-low emission vehicles (ULEVs) accessible to lower income consumers.
11. We would like to see a review of the British Business Investments (BBI) schemes to ensure that independent lenders and funders have better access to finance. Many small businesses and consumers fail to access finance from the major commercial banks. To access finance to fund energy efficient equipment and consumer investment in low to no carbon vehicles and more energy efficient homes, independent lenders play a critical role. Independents are not deposit takers and cannot access capital in the same way a commercial bank can. The BBI was established as part of the British Business Bank to address this issue and could play a greater role than it currently does.
12. Our members are already in discussion with BEIS's Industrial Energy Transformation Fund about the funding of energy efficient manufacturing equipment. The type of government support required in this area will vary according to the size of funder and the asset. The Green Finance Guarantee has

a role to play but in some cases a loan or grant that provides a deposit for the asset would work better.

*Are there any green related policies that the Treasury should change or commence due to the Coronavirus in order to facilitate the transition to meeting Net Zero?*

13. Now is an ideal opportunity to build on existing investment in the housing stock and low emission vehicles (LEVs). The Government has sensibly used the planning system to stimulate investment in the infrastructure, for example charging points in car parks in new housing developments. We would urge the Treasury to offer favourable VAT treatment for charging installations given the greater flexibility it has outside the EU VAT regime.
14. We would encourage the Government to make greater use of fiscal policy to boost demand for LEVs. Consultations in recent years on vehicle tax and vehicle excise duty are steps in the right direction. Take-up of LEVs in the Netherlands has increased at a faster rate to that of the UK in part because of fiscal measures the Dutch Government has introduced which more heavily penalises the use of petrol/diesel vehicles and more strongly incentivises the use of zero carbon vehicles than in the UK.
15. Reforms that more closely align emissions with vehicle tax and reduce tax liabilities in relation to the ownership of zero emission vehicles will help to boost demand. They could be reduced gradually as ULEVs become the cultural norm. The Government will need to carefully review the effectiveness of its fiscal policies and incentives in this area continuously to ensure they are having the desired impact.
16. Capital allowances have an important role in stimulating cleaner, new investments. We would like the Treasury to extend the Annual Investment Allowance £1million limit, with no taper beyond the currently planned end date of 31 December 2020. This would encourage firms to upgrade plant and machinery to take advantage of the newest and more efficient technology as the economy recovers.
17. We would also encourage the Government to continue with initiatives to promote the development of green energy/energy efficient mortgage products, which are currently being led by the Coalition for the Energy Efficiency of Buildings – as established by the Green Finance Institute (GFI). Some of our members are already working closely with the GFI to explore a range of pilot mortgages and other consumer credit products. Further support from the Treasury in this area could help firms to seek more sustainable mortgage lending solutions in the longer term.
18. Whatever Treasury delivers in policy terms, businesses and consumers would benefit greatly if ambitious green incentives were made available for a long period of time, including beyond the term of the current Government. This is reliant on building cross-party support.

*In which ways will the new economy post-Coronavirus allow the Government to change the way it finances meeting the Net Zero Target?*

19. It provides the opportunity to reinvigorate the economy but in a different way. This could include incentivising the creation of jobs in the green economy to replace those lost as a result of the coronavirus. This should be aligned with Government energy policy.

**Finance & Leasing Association**  
**27 August 2020**