



The Rt Hon Kwasi Kwarteng MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ

7 September 2022

Dear Mr Kwarteng,

On behalf of the Finance & Leasing Association (FLA), we should like to congratulate you on your appointment as Chancellor. We valued our engagement with you at BEIS and look forward to working with you at the Treasury.

The FLA represents banks and non-bank lenders who fund a major proportion of consumer spending, including almost all new car purchases, and a high proportion of business investment, particularly by SMEs. This breadth of lending across numerous markets provides invaluable insights on current conditions across the economy and how the problems of low investment and inflationary impacts on households can be addressed. To that end we have attached a short briefing paper that outlines a number of key recommendations.

In relation to boosting business investment, we welcome the Prime Minister's commitment to review corporation tax. This part of the tax regime has a fundamental flaw in that typically capital allowances are not available to support investment that is funded through leasing. This has never made sense and is particularly damaging in the current economic conditions as companies look to expand their business by leasing rather than purchasing new plant and machinery - an approach that enables them to preserve their cash against the threat of economic downturn. It is crucial that you include this in your review as a matter of urgency.

We also welcome the Government's willingness to look at how regulation can be improved and urge you to push forward the Treasury's commitment to reform the Consumer Credit Act. We also believe a review of how the FCA pursues its objectives is needed. We wholly support the regulator's responsibility to secure fairness and competition and look to it to develop its thinking in close partnership with firms. Regulation has over the years become a highly complex mix of principles and rules that add unnecessary cost and risk into the provision of credit. In consequence, firms have become less able to meet the needs of poorer customers who have irregular incomes and legitimate needs for credit to support their quality of life. A consistent focus on outcomes based regulation is now needed. The way in which firms supported millions of customers through the pandemic and now stand ready to provide carefully

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tailored support to households suffering from the cost of living crisis shows that lenders understand how customers should be looked after.

Our industry is also committed to funding investment in the decarbonisation of UK industry, of the cars we drive and the way we heat our homes and other buildings. In a number of areas, the adoption of new technology needs to be accelerated to meet the UK's climate change targets. That depends on the availability of competitively priced finance, which in turn depends on the degree of risk both to those purchasing and those funding green vehicles and machinery. The risk arises in some cases because the technology is untried, and in others because the future resale value, particularly of cars, commercial vehicles and plant, is uncertain in the absence of secondhand markets. This increases the cost of funding. We have developed proposals with the Green Finance Institute for risk sharing with the public sector at a wholesale market level to bring costs down and make decarbonisation more affordable, including for SMEs and for less well-off households who need a car or heating plant.

We look forward to discussing these issues with your Ministerial team to support the Government's goal of economic growth.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Rebecca McNeil', written in a cursive style.

Rebecca McNeil
FLA Chair

A handwritten signature in black ink, appearing to read 'Stephen Haddrill', written in a cursive style.

Stephen Haddrill
FLA Director General