Written evidence submitted by the Finance and Leasing Association (EVP0069)

Introduction

The Finance & Leasing Association (FLA) is the leading trade association for the UK consumer credit, motor finance and asset finance sectors. FLA member companies include banks, the finance subsidiaries of major manufacturers and independent finance firms. They offer credit services to customers from all social groups, via motor finance, credit and store cards, personal loans, point of sale finance, and a number of other consumer credit products, as well as a wide range of leasing and hire purchase services to businesses of all sizes.

In 2020, FLA members provided £113 billion of new finance to UK businesses and households, £39 billion of which helped consumers and businesses buy new and used cars, including over 93% of private new car registrations. £86 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £27 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing over a third of UK investment in machinery, equipment and purchased software in the UK last year.

We welcome the opportunity to comment on the Transport Committee's call for evidence on zero emission vehicles and road pricing.

Key points

- **Credit regulation must be reformed** - it is imperative that legislative reforms are made to the Consumer Credit Act 1974 and Hire Purchase Act 1964 under this Parliament to ensure that finance and leasing products provide the flexibility and suitability to fund the new age of zero emission vehicles.
- **Introduction of a time-limited Green Finance Guarantee to help provide competitive finance and leasing solutions -** state support and incentives must be calibrated to ensure a smooth transition from the use of Internal Combustion Engine (ICE) vehicles to zero emission vehicles while maintaining affordable access to mobility throughout. We propose that a Green Finance Guarantee would provide a mechanism that facilitates access to competitive finance and leasing products for both new and used electric vehicles (EVs) by stabilising fluctuations in residual values.
- **Use of existing or new guarantees to help unlock funding for EV infrastructure -** there are opportunities for asset finance providers to help provide the funding needed to ramp up charge point installations across the UK to the levels needed and fund the use battery market. Government guarantees that reduce risks in these areas could help unlock the funding required.
- **Introduction of a Green Investment Allowance to incentivise charge point growth** – which would enable firms with large fleets of vehicles to claim tax relief against the full range of costs associated with charge point installation, including ground works and energy infrastructure upgrades. This proposal provides a cost effective way to incentivise much needed private sector charge point growth.
- **Road pricing presents an opportunity to simplify and streamline** – but it needs to be right first time and not prevent barriers to mobility. Government must first assess the costs and benefits of all options, including the use of existing fiscal measures.

Accelerating the shift to zero emission vehicles

The feasibility, opportunities, and challenges presented by the acceleration of the ban of the sale of new petrol and diesel vehicles to 2030

There are two clear issues here for our members:

1. **Legislative reform**

- The Consumer Credit Act 1974 (CCA) and the Hire Purchase Act 1964 are the two most significant pieces of legislation that define how vehicle finance should be provided to consumers and set out the rights of consumers and lenders for regulated agreements.
- Both are in urgent need of reform to ensure they are fit for the modern market and enable financial innovations that deliver flexible and affordable finance and leasing products for the vehicles of the future.
- The CCA is inflexible, limiting the options available to lenders in how they fund EVs, creating inequality in terms of the consumer protections provided across finance products and prescribing processes that are often unhelpful to lenders, brokers (dealerships) and consumers.

2. **Affordability of zero emission vehicles and prevention of market failures**

- The acceleration of the transition means that significantly more Government support will be needed over the next nine years to stimulate both demand and supply of zero emission vehicles.
- While there has been much focus on achieving price parity between ICE and EVs, this does not mean that finance price parity will also be achieved.
- Motor finance and leasing products are overwhelmingly 'residual value' ones, where the monthly payment relates to how much the vehicle is predicted to depreciate in value over the life of an agreement. Due to the stability of the ICE vehicle market, as a result of a healthy used car market, residual values are predictable and resilient to fluctuations. This allows finance companies to price risk effectively and offer low cost finance options.
- For EVs, however, residual value fluctuations have been much more severe than for ICE vehicles. The reasons for this include the limited size of the market, the rapid pace of technological change and the undeveloped nature of the used EV market. This means that lenders typically have to set their contractual final residual values considerably lower than for a similarly priced ICE vehicle, which leads to correspondingly higher monthly payments.
- The key objectives to foster a healthy and competitive EV market are:
    - ensuring that EVs become available at prices that customers are willing to pay;
    - enabling a self-sustaining used EV market to develop, and
    - ensuring that used vehicles (both ICE and EV) continue to be available at prices no higher than historic norms, so that mobility continues to be affordable across all segments of society.
- We believe **that a time-limited Green Finance Guarantee** would deliver the pace of change that the Government is seeking and enable the 2030 target to be achieved organically through normal market mechanisms.
- The purpose of a Green Finance Guarantee would be to reduce EV residual value risk sufficiently to allow lenders to set their contractual final residual values at levels that

(a) make the monthly payments competitive against ICE vehicles, (b) reduce balance sheet risk for lenders and (c) reduce negative equity risk for customers. We are working with HM Treasury, Office for Zero Emission Vehicles and the Green Finance Institute to draw up plans to implement a Guarantee.

The actions required by Government and private operators to encourage greater uptake of electric vehicles and the infrastructure required to support them

In our view, the key determining factors behind encouraging greater uptake of electric vehicles are:

- **Operating costs** – ensuring that Government support schemes and taxation are calibrated and optimised to ensure that running costs of EVs (including financing and insuring) are lower than their ICE equivalents. We see that the Government's contribution in subsidising these costs can be gradually phased out where market mechanisms - as a result of larger scale production, improved infrastructure, new technology, efficiencies and enhanced competition - naturally lead to lower running costs with less need for intervention.
- **Improved information –** enabling consumers, businesses and policy makers better access to operating cost information and comparisons between ICE and EVs. This helps to deliver the confidence and trust in Government support schemes and influence choices towards EVs. We are willing to work with Government and other stakeholders such as data and software providers to help contribute to new tools that motor retailers, lenders and brokers can use that provide a clear understanding of operating costs inclusive of motor finance and insurance costs.
- **Promotion of infrastructure development to prevent range anxiety –** the UK charging infrastructure and EV battery capacity must improve to the point that gives car users the confidence that range anxiety is no longer an issue. Of key importance here is ensuring that charge point availability is sufficient enough to give consumers and businesses the confidence that influences them to move to EVs. Increasing access to on-street charging should be a priority for Government as driveway access is quite often difficult to achieve for many consumers. We have also provided further details below on how businesses can be better incentivised to install charge points through a Green Investment Allowance scheme.
- **Supporting the used battery market –** There is likely to be a burgeoning market up to and beyond 2030 relating to batteries that can be reused rather than recycled – particularly since battery life span is likely to exceed the asset it powers. In line with the instability of residual values present for battery operated vehicles the same is likely to exist for batteries sold in isolation. We would be willing to discuss ways in which the Government can act to prevent risk and help facilitate the funding of used batteries.
- **Interoperability and open charging options –** charge points must be universally available to ensure that EVs can access and use all public charge points. There should also be no barriers to payment across the charge point network by introducing open payment charging options. This includes enabling open payments, such as contactless card payments and providing open data access to all service providers, not just the network owner. Closed networks have led to limitations in some EU markets.
- **Regulating the cost of electricity –** Government should consider regulating the cost of electricity at public charge points to ensure consumers and businesses are not treated unfairly where they need to charge their vehicles away from home.

More charge point infrastructure investment required

- Although the £1.3bn of investment from Government to accelerate the roll out of charging infrastructure is welcome, **significantly more investment needs to be leveraged to give the UK's zero emission fleet the charge point accessibility and reliability needed by 2030**.
- Research by the Society of Motor Manufacturers and Traders (SMMT) suggests that almost £17bn will be needed, equating to over 500 new charge points installed each day until 2030 to prevent any barriers to mobility. **The Government can help to provide stability and confidence in the charge point installation market.** Here are the key issues/solutions raised by our members:
    - **Lending risks** – opportunities to fund charge point installations are being stifled by risks that exist in this market. Government and the Competition and Markets Authority (CMA) are taking action to increase competition, with smaller local and regional charge point providers now starting to come into operation. However, these new businesses, who have only just started trading, are deemed too risky to lend to by many of our members.
    - **Government guarantees needed** - The much needed additional private sector investment could be obtained by opening up the criteria and level of match funding relating to the Charging Infrastructure Investment Fund (CIIF). Our asset finance members can provide a key role in helping to deliver the investment funding required to scale up charge point installations. We would be keen to work with Government more closely to explore whether any existing or new finance guarantee schemes could be developed that reduce levels of risk for lenders and make finance more readily available to charge point providers. Such a scheme could be connected to the CIIF.
    - **Green Investment Allowance to help unlock investment** – we fully support proposals set out by the British Vehicle Rental and Leasing Association (BVRLA), asking for the current Annual Investment Allowance (AIA) scheme to be modified to allow businesses to claim 100% of the costs of all charge point equipment and installation costs – including energy grid upgrades, groundworks and installation against their tax bills. Installation costs cannot currently be claimed under the AIA and often discourage businesses with large fleets of vehicles from installing or expanding onsite charge points. This measure alone could lead to a cost effective, grant free way to incentivise more private sector investment in the charging infrastructure and help alleviate pressures on local authority public charging network plans.
    - **Overhaul of planning laws –** the Government has consulted on regulations relating to charge point installations in certain settings, but a fundamental overhaul of planning law is required to ensure that charge points can be installed quickly to meet the growth required. There must also be stability and consistency in terms of the planning process over the next decade to remove risks for installers and funders.

The particular challenges around decarbonising buses and how these should be addressed

- We hold no views on this.

The Government's ambition to phase out the sale of new diesel heavy goods vehicles, including the scope to use hydrogen as an alternative fuel

- Our members support the phase out of new diesel heavy goods vehicles (HGVs) over the long term and in partnership with industry.
- In particular there needs to be an assessment of the infrastructure requirements that would result from decarbonising the HGV fleet - including higher demand for charge points and hydrogen fuelling and the support needed to ensure sufficient capacity was available across the supply chain.
- Our members do agree that hydrogen should be considered and supported as an alternative fuel type.
- Advances in hydrogen technology, the availability and cost of hydrogen fuel and fast refuelling times make hydrogen a viable option - particularly for HGVs and other large vehicles where weight and range make electric a less practical alternative fuel type.
- There are also opportunities for the UK to become a world leader in the development of hydrogen fuel technology. Some of our members have suggested that the Government should set out a more detailed unified plan for hydrogen, encompassing the supply chain, to ensure UK resources are working together to realise this opportunity.
- A large proportion of the UK commercial fleet is financed or leased and therefore we would welcome direct Government engagement on any transition plan to decarbonise HGVs.

<u>Road pricing</u>

The case for introducing some form of road pricing and the economic, fiscal, environmental and social impacts of doing so

- Whilst we view a road pricing scheme to be disruptive and difficult to implement, we understand its need given the transition to net zero.
- Clearly the key issues relate to how the Government approaches designing new policy that governs the scheme and the steps it takes to implement it. In this regard we support principles set out by our colleagues at the British Vehicle Rental and Leasing Association (BVRLA):
    - **Consult early and extensively** – to ensure that the views of all sectors of society are considered and that a broad consensus is achieved.
    - **Keep it simple and easy to administer** – ensuring that vehicle owners fully understand the scheme, that it is flexible to society's needs and that payments are easy to make.
    - **Don't rush it** – other charging schemes such as the London Congestion Charge and Ultra Low Emission Zones (ULEZ) charging did not allow enough time for stakeholders to adjust their systems and processes. Government must also ensure that there is time given for the scheme to be communicated effectively that prevent barriers to use and disruption.
    - **Systems readiness** – ensuring that the digital infrastructure that Government use is up to date, has sufficient security, flexibility and capacity to cope with high volume levels.
    - **Opportunity to streamline** – a new road pricing system would provide an opportunity to consolidate existing tax measures that have evolved into complex and often unfair taxation. The Government should not over lay new measures over existing ones as has been the case when new road tax schemes emerged.

- **National governance is required** – a road pricing scheme must be implemented nationally and uniformly and not devolved as has been the case with ULEZ. This is the only way to ensure the scheme is fair and consistent for all UK motorists.

In terms of policy, key considerations include:

- The merit of using existing fiscal measures to reduce costs for example: modifying fuel duty on petrol and introducing duty on electricity and gas instead of investment in new national toll systems.
- Incentivising zero-carbon choices whilst ensuring that mobility remains affordable.
- Road pricing relating to non-domestic freight.
- The extent to which road pricing continues to be linked to carbon emissions without making the scheme complex for payers.
- Assessing the impact road pricing proposals have on the competitiveness of UK businesses and ensuring they are aligned to incentives towards the usage of clean vehicles.
- Ensuring that any new scheme does not disproportionately impact on any social groups to their detriment.
- The extent to which existing road charging schemes can complement a new road pricing scheme without creating complexity, or whether repealing and replacing existing schemes leads to better outcomes.
- The use of technology including smart towns, cities and roads in facilitating the smooth running of road pricing and communicating how the scheme works.

Which particular road pricing or pay-as-you-drive schemes would be most appropriate for the UK context and the practicalities of implementing such schemes

- The appropriateness of road pricing schemes depends on a number of factors (some of which we have outlined above) which Government first must assess prior to putting forward road pricing options.
- Government would no doubt be looking to tax carbon emitting vehicles more heavily whilst incentivising a continual shift to zero carbon vehicles. Road pricing should serve to integrate all vehicle and road taxation into one system, but also ensure that charges for carbon emitting vehicles are manageable and do not restrict mobility – particularly where public transport options are limited or unreliable.
- For our members that are responsible for taxing their fleets, management of costs and payments are important issues. A monthly road tax payment currently is fixed based on an annual sum due which the keeper will know in advance. This provides some stability and consistency to the liabilities due and enables these to be managed effectively.
- If a road pricing system charged each time a journey was undertaken then these costs are likely to vary and can be more difficult to manage and plan for.
- Cost management will also need to be considered from a consumer perspective, particularly in terms of affordability, payment collection and enforcement as well as how the scheme impacts on mobility behaviours. A network of toll charges across the UK may impact on local economies for example. It would therefore be crucial that where such schemes are introduced, they are done so evenly and equally across the UK.
- Flexibility and innovation in terms of the payment options, IT infrastructure and connections to payers will be as important as the method of charging itself.

The level of public support for road pricing and how the views of the public need to be considered in the development of any road pricing scheme

- It is uncertain what the public's views on road pricing will be, although any charging scheme is likely to be met with scepticism and negativity – as was the case initially with the London congestion charge.
- The expectation from FLA members is that the Government should aim to maintain but not increase taxation – unless this could be justified by a need to spend more on transport infrastructure.
- We would encourage any intentions to implement a road pricing scheme to be communicated to the public early and in a transparent manner. This can be done in a way that links road pricing to the Government's more positively accepted environmental policies and the need to ensure a well maintained transport infrastructure fit for the future.
- We take the view that the more engagement and response to the development of the scheme the better. We would recommend that the Government consider a range of channels to enable this, including the use of a structured questionnaire that is easy to complete and ensures responses can be filtered and segmented by social group.

The lessons to be learned from other countries who are seeking to decarbonise road transport and/or utilise forms of road pricing

- Most congestion based charges have only been implemented locally - in major cities across the world. The introduction of ULEZ in major towns and cities across the UK has led to public confusion and demonstrates the need for any road pricing congestion pricing scheme to be administered centrally and nationally.
- Some countries have made more use of regular toll charges Automatic Number Plate Recognition (ANPR) technology used to register a charge rather than physical toll stations. As noted above - any introduction of toll based charging would need to ensure that tolls were distributed evenly across the UK.

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