Written evidence submitted by the Finance & Leasing Association (FLA)

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 policies which we believe will support economic growth and productivity.

Q1 How much difference can government policy make to economic growth?

3. Government policy has the significant potential to unlock economic growth. Below we make several key proposals which can help achieve this using consumer and business finance as catalysts.

4. We recommend the following:

    - Expansion of the super-deduction policy to include leasing and plant hire
    - 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 review of the Consumer Credit Act

Expanding the super-deduction

5. At the 2021 Budget, the Chancellor of the Exchequer announced a "super-deduction" for expenditure on qualifying plant and machinery assets. The measure hopes to boost investment by providing an allowance of 130% on new plant and machinery investments that would normally qualify for 18% main rate writing down allowance.

6. While this measure has the potential to significantly benefit businesses, the legislation as currently drafted excludes some of the most common ways plant and machinery is used by businesses, including leasing and plant hire. We propose that changes are made to the deduction so that it benefits a much broader range of businesses.

7. Firms acquiring assets which will then be let to customers on a short-term hire basis should be able to access the super-deduction. For many businesses, including SMEs, acquiring plant and machinery via short-term hire firms is often the only realistic way for them to access the expensive specialist equipment they need for only the specific time it is needed. For example, 70% of construction plant & machinery is hired in[1]. The super-deduction provides no incentives for companies to do this.

[1] Construction Plant-Hire Association, 2021

8. The super-deduction should include assets that are leased as well as those acquired by hire purchase and cash. With considerable uncertainty about their future, many businesses will be reluctant to make large capital purchases and will want to hold onto their limited cash reserves. As a result, businesses may choose to lease their plant and machinery. In 2019 there was £904m of leasing new business written for plant and machinery assets. This investment would be ineligible for the super deduction under the current rules.

9. The “super-deduction” has the potential to significantly benefit businesses investing in plant and machinery. With small changes, the measure can have much more significant effects stimulating economic activity, unlocking investment and improving business productivity.

A Green Finance Guarantee

10. FLA members funded more than 93% of all new cars purchased by consumers last year. Captive finance companies fund 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.

11. 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.

12. 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.

Support Framework for Independent Lenders

13. 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.

14. 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.

15. 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.

The Consumer Credit Act – Restructuring Finance - and Forbearance

16. 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 support the considerable innovation in credit markets that have taken place since that time including online banking and the emergence of independent lenders.

17. 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 to swiftly assist those in financial difficulty. This reduces competition, innovation and customer choice, leading to higher costs for customers and businesses.

18. 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. The Financial Conduct Authority has already undertaken all the preparatory work required, as part of its review of the CCA in 2019.

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 2020, FLA members provided £113 billion of new finance to UK businesses and households. Of this total, £37 billion was provided by non-bank lenders.

£86 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. This includes £32 billion of car finance supporting the purchase of over 93% of all private new car registrations. £27 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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