FLA PROPOSALS FOR GROWTH

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.

2. This paper sets out the FLA's key proposals for growth.

3. The UK's finance and leasing sector will play a major role in helping to ensure that businesses and consumers have access to finance. This will enable consumers to meet the current challenges they face. For businesses, they will be able to grow, meet the Government's net zero targets, increase productivity, and create wealth.

Recommendations

4. We recommend that the Government:

- **Reforms the tax system**
  - Ensures that the capital allowances regime is neutral and does not determine the finance used
  - Introduces commercial depreciation to encourage investment
  - Introduces a tax relief for firms who are making a loss to support firms who face challenges outside of their control
  - Reviews the tax system to ensure it encourages business investment and is simplified
- **Achieves net zero**
  - Supports consumers and businesses in meeting the UK's net zero goals in a way which is sustainable and affordable
  - Establish a Green Finance Wholesale Guarantee Scheme
- **Creates a modern regulatory regime**
  - Delivers a modern regulatory regime which gives lenders the freedom to help their customers in the most appropriate way
  - Implement Consumer Credit Act reform
- **Ensuring a diverse, liquid credit market**
  - Establishes an emergency Independent Liquidity Funding Scheme (ILF)
  - Continues its support of British Business Bank schemes such as Recovery Loan Scheme (RLS) and the ENABLE Programme

Reform the tax system

5. To maintain economic momentum during the predicted downturn, it is vital that businesses are encouraged to continue investing. Investment in new plant and

machinery can support business expansion or make businesses more efficient, supporting jobs and encouraging productivity across the UK.

6. 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 invest by leasing or renting their plant and machinery. However, the capital allowances regime does not always support leasing, instead supporting other forms of financing, which may be less appropriate or less affordable for some businesses.

7. There are a variety of policy levers that the Chancellor can use that meet these business requirements whether it is reducing corporation tax and/or providing incentives to invest. Any changes to the capital allowances regime should not determine what finance is used by businesses.

8. The capital allowances regime is complex and can be uncertain. We welcome the Chancellor's recent announcement of the permanent change to the Annual Investment Allowance and urge to make further long-term commitments that give businesses stability and simplicity.

Kick-starting investment: Commercial depreciation

9. The introduction of commercial depreciation would address the exclusion of long-funding leases in the capital allowances regime. It would mean that short-funding leases no longer qualified for capital allowance, however this new system could sit alongside a targeted capital allowances regime that focuses on net zero assets or other high-tech equipment that are costly to finance because of an immature secondary market or uncertainty over the residual value of the asset. However, these assets can be critical for business productivity and the Government's current stated commitment to net zero means businesses are required to acquire such equipment within the next few years.

10. Depreciation accounts for an asset during its life. Commercial depreciation could be linked to the tax treatment of the asset as suggested in the 2018 Office of Tax Simplification report, *Accounting depreciation of capital allowances?* Businesses would determine the depreciation based on the accounting treatment rules: either the Financial Reporting Council or the International Accounting Standards Board.

Ensuring businesses can access equipment: tax credits

11. To ensure that businesses can still invest in vital equipment they require, even if they are making a loss, we recommend the introduction of a tax credit. Given the current cost of energy, inflationary pressures, and the rise in the cost of funds, such a time-limited scheme would assist firms who need to replace equipment. It would also have the added benefit of helping them become more productive, grow their business and depending on the asset help achieve net zero targets.

12. We would welcome the opportunity to discuss this in more detail as careful thought must be given to the time-limited period. We would also recommend that the tax credit is only available for investment purposes by a business.

Capital allowances and leasing

13. To provide a significant boost to businesses seeking to make large investments it is imperative that any new regime allows business to benefit from expenditure on leased or rented assets in all cases. A new approach will be especially beneficial for the construction sector, where 70% of plant is hired in, and in manufacturing and agriculture.

Tax simplification

14. We recommend that HM Treasury review the way the tax system supports business investment and growth. This review should consider all aspects of the tax system which may affect business investment, from the reliefs available, to the barriers to using different types of finance, with a view to suggesting more radical reforms of the system to drive investment. Careful consideration would need to be given to any transition to a more simplified tax system.

Staying on course for net zero

15. FLA members will have a key part to play in supporting the delivery of the Government's ambitious net zero targets. Both businesses and consumers will need access to affordable finance to acquire assets which support this aim. Consistent policy making is required, including a shift away from the changing targets and incentives of the past.

16. FLA members currently fund 94% of all new cars purchased by consumers – this has risen from 92% pre-crisis. In the twelve months to September 2022 , they provided £49.6billion to help consumers and businesses buy new and used cars. Captive finance companies finance the acquisition of LEVs produced by their OEM parents, and a small but growing number of independent finance companies (including banks) provide finance for the acquisition of used zero emission vehicles (ZEVs). Finance companies play a critical role in enabling the roll out of ZEVs as without the finance, take-up will be significantly lower.

17. We are working with the Green Finance Institute and the Zemo Partnership, both of which are co-funded by Government and industry, with a view to producing joined-up solutions and proposals which enable the 2035 (or earlier) targets to be met. This would reduce the risk of lending and consequently lower the cost of finance for ZEVs making them more affordable for lower income consumers.

18. Such proposals would greatly improve financial inclusion in these areas by reducing the risk for lenders of lending to higher risk customers. The reduction in risk could

also lower the cost for these customers who may otherwise be unable to consider replacing their vehicle with an environmentally friendly, newer, and more reliable alternative.

19. The Government's ambitious net zero goals will be particularly challenging for SMEs. These businesses require support to acquire the assets they need to commit to a lower- carbon future, such as microgeneration equipment, zero-emission commercial vehicles, and battery storage.

20. The Government should also ensure that sufficient funding is available to deploy the infrastructure required to help consumers and businesses make the shift to net zero. This includes improving the energy distribution network, supporting the roll-out of fast charging infrastructure, and helping businesses to install micro-generation assets.

Delivering a modern regulatory regime

21. The Government has announced plans to reform the Consumer Credit Act (CCA). Considering the challenges now faced by consumers and businesses the importance of developing a new regime is even more urgent. These plans should remain a priority as a regime that works for customers will increase growth overall.

22. During the Covid-19 pandemic when consumers and businesses faced immediate challenges in paying their bills, lenders stepped up and provided flexible solutions to help their customers. However, the CCA curtailed their ability to take certain action with non-regulated finance (to small businesses) being able to meet regulatory ambitions faster and more effectively.

23. Any Government changes to the regulatory regime should take this into account and be driven by ensuring the lender is able to put the customer first, as will be required under the new Consumer Duty.

24. FLA members will support the Government in the development of a new regulatory regime which is both fit for the future and delivers for customers in the current economic climate and the future.

Ensuring a diverse, liquid credit market

25. Many of the FLA's members are independent, non-bank lenders who provide finance to under-served groups or deliver funding in markets where banks may be unwilling or unable to offer finance.

26. The liquidity of these markets is essential to ensuring that creditworthy borrowers have access to the funds they need in the most appropriate way, be that via a hire purchase agreement, lease, or loan.

27. We have previously proposed that an Independent Liquidity Funding Scheme (ILF) be made available which would allow non-bank funders to continue to service these markets if there is a liquidity squeeze and ensure a level-playing field with the large, retail deposit-taking banks. In the past when such a squeeze occurs, the Bank of England has provided term funding for deposit taking banks to channel finance to SMEs. However, this has proven to be an inefficient mechanism and smaller businesses have faced challenges seeking finance. An ILF would serve the same function as term funding for an important part of the market that does not benefit from the Bank's scheme. We strongly urge the Government to have such a scheme ready for independents.

28. The British Business Bank (BBB) will also play a major role in providing support to the finance and leasing sector (RLS and ENABLE Programme) and would be able to administer the ILF.

29. Our members have welcomed phase 3 of RLS, however there are concerns over the workability of the rules governing funding in Northern Ireland. We appreciate this is outside the BBB's control. We urge the Government to find a path through the issues that the Northern Ireland Protocol has created and establish a simplified system for funding assets.

About the FLA
In 2021, members of the Finance & Leasing Association (FLA) provided £132 billion of new finance to UK businesses and households, £45 billion of which helped consumers and businesses buy new and used cars, including 92% of private new car registrations.

£101 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £31 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.

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