TheCityUK's policy ideas for the Chancellor's Mansion House speech

The Chancellor's Mansion House speech is a key event in the calendar for the financial and related professional services industry and is watched closely by both domestic and international investors.

It is a unique opportunity for the newly appointed Chancellor Rachel Reeves to set out how industry and government can work together to deliver for communities and businesses in every region and nation of the country. Explaining the government's vision for financial and related professional services at Mansion House would also give our industry the certainty of policy approach it needs to invest in the UK across the course of a Parliament.

On behalf of our members, we are, therefore, engaging with HM Treasury to set out five key policy areas for strong partnership between the government and industry to deliver on shared priorities, particularly delivering inclusive growth across every part of the UK.

- **Partnering with industry to create the conditions that will drive more investment into UK companies**, delivering economic growth, job creation, and investment opportunities for people right across the country.

- **Boosting growth through investment and regulatory stability,** by ensuring a stable, proportionate, and predictable regulatory environment to attract more investment and capital.

- **Delivering a coherent, stable, and predictable tax regime** with a clear roadmap for tax policy over the next parliament, giving businesses and international investors the certainty they need to invest across the UK.

- **Empowering regions through devolution**, ensuring that metro mayors can strategically manage critical policy areas – from skills to the development of economic clusters and delivery of major infrastructure projects – and grow their regional economies.

- **Leading the net zero transition** by setting out long-term policy with a clear narrative and delivery roadmap, positioning Britain as a global leader in clean and renewable energy.

1) Partnering with industry to create the conditions to drive more investment into UK companies

The UK's reputation as a leading international financial centre is underpinned by its high but proportionate regulatory standards, alongside political and macro-economic stability. However, there is growing concern that the public, politicians and regulators have developed an approach to risk that is compromising investment that is needed to both fund business growth across the UK, and support good saving outcomes for people across the UK. There is too great an emphasis on trying to regulate risk out of the financial system, and too little priority given to the critical role that proportionate and informed risk-taking plays in delivering long-term investment and retirement returns for individuals, as well as funding economic growth and adaptation.

We hope that the Chancellor will use their Mansion House Speech to set out a strategic and coherent plan to drive investment and economic growth which could be transformative for the economy and citizens.

The strategy needs to recognise that the UK does not have the level of long-term savings and investments (whether in private pensions and other investment products, or state funds) necessary to meet pensions, care, health and other societal needs, creating a huge risk for our economy and burden for future generations.

In addition, we recommend that the government:

- Ensure that the UK has a stable, proportionate and predictable but agile regulatory environment. This should include swiftly implementing all aspects of the Financial Services and Markets Act 2023 and delivering a Smarter Regulatory Framework tailored to the UK.

- Provide appropriate scrutiny of how the regulators exercise their now very broad powers to deliver their statutory objectives and functions, including their new secondary competitiveness and growth objective.

- Work with regulators and industry to ensure that the metrics the regulators will be judged against in terms of their secondary competitiveness and growth objective are refined over time to remain relevant; and develop a framework to track the competitiveness of the UK regulatory environment against other international financial centres.

2) Boosting growth through investment and regulatory stability

It should be a priority for government to examine how to make British equity investment more attractive to the institutions that manage the investments of savers, and current and future pensioners. **However, the industry is clear that this should focus on incentives and ensuring an environment that facilitates strong UK market performance, rather than mandates.** Asset managers must have the flexibility to invest in a way that maximises the best outcomes for savers and pensioners – as directed by their fiduciary duty – and the UK should not undermine its status as an open international financial centre.

Britain has one of the world’s strongest start-up cultures, which produces a pipeline of growth companies, some of which will eventually seek a public equity market listing. However, many smaller and medium-sized companies find that the growth funding journey is highly disjointed and scale-up capital is often more readily available from overseas investors.

Government policy should be holistic and provide the right framework for companies to move from start-up to scale-up, onto growth exchanges and ultimately the listed markets. We believe that policy could also be reformed to better support more British businesses to list at home. This outcome would bring significant benefits to the country in terms of economic growth, jobs, tax receipts and investment opportunities for citizens to build their long-term savings and wealth.

We hope that the Chancellor will use their Mansion House Speech to set out a plan to incentivise greater UK investment in shares in UK companies, which would bolster the economy, boost jobs, boost market liquidity for businesses seeking growth capital, and deliver better returns to UK savers. This plan should include consideration of how incentive schemes operate between markets, remove barriers to the smooth passage of companies from growth to main markets, and extend the Enterprise Investment Scheme (EIS) from start-up to scale-up markets.

In addition, we recommend that the government:

- Review the future of stamp duty on trading in UK equities, to make UK equities more attractive to investors. This is a direct tax on liquidity and investing in UK equities, which places the UK at a competitive disadvantage.

- Work with industry and regulators to modernise the UK's capital markets. Swiftly implement the upcoming recommendations of the Digitisation Taskforce, including any necessary primary legislation, to develop a modern digital framework for share ownership that aligns with, and then leapfrogs, other international financial centres. Issue a pound sterling digital gilt via the Debt Management Office, to set a clear pathway for the issuance of digital bonds, encouraging investment and catalysing further industry participation and innovation.

- Work with industry to continue to develop and deliver policy to attract greater UK investment in shares in UK companies. This should consider both Defined Benefit (DB) and Defined Contribution (DC) pension pools of capital and complete the work of the Bank of England's Productive Finance Working Group by stimulating more take-up of the Long-Term Asset Fund (LTAF) by DC pension funds. This should also include a comprehensive review of the ISA regime to consider what public policy goals it is striving to achieve and how it can be streamlined to deliver on this.

- Design targeted incentives for institutional investors/DC funds to put money to work at each stage of the company growth funding continuum (venture capital, private equity, quoted and listed equity).

In consultation with industry, Lord Harrington's Review of Foreign Direct Investment (FDI) set out how government can improve the experience of international investors considering investment in the UK. This includes raising the profile of investment across government; establishing a 'concierge' service for investors with the tools, authority, and flexibility to negotiate deals with business; and marrying international and local investors to leverage local insight and provide confidence to foreign investors.

We hope that the Chancellor will use their Mansion House Speech to launch a bold new investment attraction strategy which will allow the country to stay ahead of competitors and capture a larger share of global investment flows, using the ideas in Lord Harrington's report.

3) Delivering a coherent, stable, and predictable tax regime

Taxation is a crucial factor for businesses and international investors when considering where to locate their operations and investments. Creating an internationally competitive tax regime will enable our industry to further contribute to financing Britain's future, bringing greater investment into the economy, helping businesses find the capital they need and financing people's goals and retirement needs.

We hope that the Chancellor will use their Mansion House Speech to set out how you will deliver a coherent, stable and predictable tax regime with a clear roadmap for tax policy, giving businesses and international investors a clear and confident view of the tax implications for investments in the UK.

Three areas require attention from government.

a) Vat: The current VAT regime for financial services has not materially changed in half a century. It is not fit for purpose and undermines the attractiveness of the UK as an international financial centre. A proactive review of VAT policy would reduce the uncertainty already arising from changes implemented following Brexit and provide an opportunity to deliver a long-overdue revision of the regime to better align it with the broader objectives of supporting economic growth.

b) The surcharge: The bank Corporation Tax surcharge is a key component of the UK's internationally uncompetitive rate of tax for banks. Whilst we welcomed the government's recent decision to cut the surcharge from 8% to 3%, the simultaneous rise in Corporation Tax to 25% meant that the combined rate of tax on banks increased from 27% to 28%.

c) The levy: The bank levy is essentially a tax on a bank's UK balance sheet, meaning that banks choosing to locate certain activities in the UK face an associated levy, compared to other countries where there is no such cost. The level of tax paid by a typical bank is set to decrease in each of our major European competitors as the EU phases out its equivalent of the bank levy (the Single Resolution Fund) across this year. By the end of 2024, the total tax rate for a typical bank in the UK is projected to be 45.5%, notably higher than in Frankfurt (38.5%) and Amsterdam (37.2%), and significantly higher than both Dublin and New York at 27.9%. This will lead to the UK becoming a less competitive financial centre in which to invest and conduct banking business.

4) Empowering regions through devolution

We appreciate the progress made in recent years to create more combined authorities and metro mayoralties.

We believe that now is the time to deliver greater consistency in the devolution of powers offered to different parts of the country. This would create a clearer climate in which business can thrive and invest to support regional growth. Currently, major businesses in Manchester and Birmingham benefit from direct engagement with their local metro mayors on key issues such as skills policy and trade promotion. Other areas do not have such access and this imbalance is neither ideal nor sustainable.

We hope that the Chancellor will use their Mansion House Speech to reflect on the experience of devolution and the role of strong civic leadership across the regions and nations of our country in delivering growth for all our communities.

In addition, we would recommend that the government:

- Move away from multiple funding pots and competitive bidding processes in favour of a single financial settlement for an area, using the recent deeper devolution deals for the West Midlands, Greater Manchester and North East as a starting point.

- Consider how metro mayors can take strategic responsibility for major infrastructure projects to overcome obstacles to delivery, such as delays in the planning system.

- Strengthen the current English devolution settlement by creating a new Leadership Academy, bringing in the best expertise from leaders around the world, and from business to support political leaders and their staff in personal and policy development.

5) Leading the net zero transition

Our industry plays an important role in enabling the transition to net zero through its provision of capital, investment, professional advice and insurance. We support the UK's ambition to become the world's first net-zero-aligned financial centre. Further action is now required to create the right policy and regulatory environment to attract much more investment into the UK economy. This includes taking practical steps to ensure that new projects can get timely planning approval and be connected to the wider energy grid within a commercially viable timescale. Both challenges have been identified as key obstacles to taking forward new initiatives that are critical to reaching our targets.

We hope that the Chancellor will use their Mansion House Speech to set out a long-term policy approach for the net zero transition, with a clear narrative to provide the right conditions to attract the scale of private investment needed to finance Britain's shift towards a sustainable future.

In addition, we would recommend that the government:

- Produce detailed policy delivery plans and roadmaps to attract and incentivise investment, providing clear signals to the market and driving action across the economy. This should include tax incentives, such as R&D credits or tax wrappers for long-term investments, to capitalise on the UK's financial services competitive advantage in innovation and accelerate the net-zero transition.

- Work with the private sector to build investment roadmaps to create specific, quantifiable, and actionable implementation plans for sectors across the economy to make the UK an internationally attractive destination for green investment.

- Advocate for interoperability on sustainability disclosures and reporting standards. This will enable the UK to build on its strengths to deliver green and sustainable investments.

The financial and related professional services industry is an engine for growth for the wider economy and is well placed to help the government to deliver on its priorities. When our industry thrives, so do other businesses, communities and economies across the nations and regions of the UK.

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