TheCityUK

TheCityUK's submission to the comprehensive spending review 2025

Background

We are the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth.

The financial and related professional services industry is a strategic national asset for the UK and plays a vital role in our country's economy:

- The industry contributes 12% of the UK's total economic output and employs over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations.
- It pays more corporation tax than any other industry.
- The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance.
- It is Britain's largest net exporting industry and a key tool of soft power and influence.
- It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

Our members are therefore essential in delivering the government's overarching mission to kickstart economic growth across every region and nation of the UK.

We are encouraged by steps ministers have taken to use their powers and authority to stimulate growth. For example, The Chancellor's comments, made during her speech at Mansion House, that Britain needs to begin to regulate for growth, were most welcome, as was the Prime Minister's letter to economic regulators asking them to produce new ideas to encourage growth. We are keen to work collaboratively to make this vision a reality.

We believe that the comprehensive spending review is an important opportunity to align the taxpayer money that government spends with the national mission to deliver inclusive growth, including by creating the right conditions to grow private sector investment. The discretionary spend delivered by government can be used not only to deliver valuable public services, but to also to stimulate growth.

Due to the uniquely broad reach of our industry, there are several departments across Westminster where we believe a strong partnership can be built with our members to deliver growth and we have emphasised these in our submission.

Departmental recommendations

1) HM Treasury
- Creating a competitive tax regime to secure international investment.
- Examining the VAT regime on financial services, the banking surcharge, banking levy and stamp duty regime.
- Enabling investors to access readily investable projects at scale and pace.

2) Foreign, Commonwealth and Development Office
- Ensuring government is financed to deliver a bold new investment attraction strategy.
- Delivering an offshore "team UK" approach to investment attraction.
- Protecting and enhancing international development work with the private sector.

3) Home Office
- Enabling short-term business mobility.
- Supporting local talent with funds from the Immigration Skills Charge.

4) Ministry of Justice
- Delivering additional investment into the courts system.

5) Ministry of Housing, Communities and Local Government
- Funding a new Leadership Academy for regional leaders.
- Considering how metro mayors can take strategic responsibility for infrastructure.

6) Department of Education
- Delivering further devolution of skills policy.

7) Department for Energy Security and Net Zero
- Ensuring the department has funding to deliver on key policy measures.
- Developing the National Wealth Fund and supporting the Finance Market Review.
- Setting out a comprehensive strategy for net zero and nurturing strategic industries.

8) Department for Work and Pensions
- Ensuring an evidence-based approach to provide security in later life for people across the country.

9) Department for Business and Trade
- Working with devolved leaders to promote trade and investment internationally.

10) Department for Science, Innovation and Technology
- Delivering the AI opportunities plan and the Technology Adoption Review.
- Nurturing skills for the future.
- Additional research and development (R&D) investment incentives to support services companies.

11) Cabinet Office
- Examining the predictability and efficiency of our regulatory environment as a key component of our competitiveness.

12) Department for Environment, Food and Rural Affairs
- Continuing to support nature finance.

13) Ministry of Defence
- Charting a predictable trajectory towards the 2.5% of GDP target on defence spending.

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HM Treasury

We are encouraged by the efforts that the government is taking to attract greater investment in the economy, both from investors at home and around the world. To deliver investment on the scale required to kickstart economic growth, the spending review must ensure that the UK is an attractive place for major firms to base themselves. It is therefore very important that commitments to capital expenditure are not de-prioritised in favour of current spending. Investable projects need to be brought forward so that investors can fund them. They can be for infrastructure, housing, or energy but they need be fully accessible to, and investable for, institutions. We consider this an obvious complementary aspect of the planning and pensions reforms the government is working through.

Taxation is a crucial factor for business owners and leaders when considering where to locate their operations and investments. Closely examining the ways in which government raises and spends money through a comprehensive spending review is also the perfect opportunity to consider how our tax regime appears to international and domestic investors.

There are three components of a truly competitive tax regime: tax rate, tax predictability and tax simplification. We **recommend** that the spending review examines the way in which government taxes our industry against these pillars, with the aim of delivering a competitive regime which stimulates growth as far as possible. One important component of this is work which clearly models and demonstrates which taxes are likely to add revenue and which may reduce it in the short, medium and long-term. Without research and modelling of this sort we are more likely to see inconsistencies and a reduction in tax stability and predictability.

There are four key areas of taxation relating to our industry which we believe should be priorities for government attention. We **recommend** that these are examined as part of the spending review.

1) **VAT**: A proactive review of VAT policy is needed to reduce the uncertainty already arising from changes implemented following Brexit, and to deliver a long-overdue revision of the regime to better align it with the broader objective of supporting economic growth. 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.

2) **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 previous government's 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%.

3) **The levy**: The bank levy is essentially a tax on a bank's UK balance sheet, meaning that banks must consider this extra cost when deciding whether to locate certain activities in the UK or elsewhere. The level of tax paid by a typical bank is decreasing

in each of our major European competitors as the EU phases out its equivalent of the bank levy (the Single Resolution Fund). At the end of 2024, the total tax rate for a typical bank in the UK was 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%. If not addressed by the government, this will lead to the UK becoming a less competitive financial centre in which to invest and conduct banking business.

4) **Stamp duty:** The government should consider the future of stamp duty on trading of all UK equities, which makes UK equities more expensive and less attractive than non-UK equities. This is a direct tax on liquidity which places the UK at a competitive disadvantage.

Foreign, Commonwealth and Development Office

In recent decades, the UK has captured a large share of global services investment. However, its international lead in this area is under serious challenge, and tens of billions of pounds in additional investment will be required over the coming decade to meet the global demands of the transition to net zero and to improve social infrastructure. Our industry stands ready to provide solutions to this difficult challenge. At the same time, we welcome the government's emphasis on economic diplomacy and relations with our major international trading partners – this work is essential to Britain's position as a global financial centre.

We **recommend** that the spending review is used to ensure that government is financed to deliver 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.

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 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. We **recommend** that delivering this plan at pace is prioritised in the spending review with a particular focus on developing an offshore 'Team UK' approach, where domestic investors, universities, regional mayors, investment cluster leads and regulators work together to take investment opportunities to external markets.

We further **recommend** that government prioritises the implementation of its plans for the Office for Investment to fulfil this role alongside other institutions such as the National Wealth Fund.

More broadly, we have a track record of working with emerging markets, through the establishment of international financial centres, development of inclusive finance, creation of FinTech ecosystems, as well as support for green and sustainable finance and meeting net-zero agendas.

We see our role as including supporting the UK's broader foreign policy agenda and acting as a strong private sector partner. Most recently, we have been working with Foreign, Commonwealth and Development Office to support the economic recovery and reconstruction of Ukraine through the City-Ukraine Hub initiative, develop an international financial and business centre in Vietnam, deliver a national Fintech strategy and international financial centre in Nigeria, and assess the feasibility for the establishment of an international financial centre in Oman.

We **recommend** that the spending review protects and enhances this international development work as a key tool of soft power and economic diplomacy.

Home Office

Of all the departments across Westminster, the Home Office is one of the most influential in driving economic growth given its control over a key aspect of production – businesses' access to global talent. This should be considered closely as part of the overall spending review given the wider impact it has on economic activity, growth and therefore the government's discretionary spending envelope.

We published 'Financing Britain's Future'[1] last year which sets out how the ability to mobilise global talent is critical for our industry, enabling businesses to tap into essential skills and spur the innovation necessary to maintain the UK's status as a world-class international financial centre. Following on from this report, we **recommend** that the spending review supports businesses to innovate and grow by enabling short-term business mobility and supporting local talent development by using the funds from the Immigration Skills Charge.

Ministry of Justice

When it comes to kickstarting growth, the UK's legal service sector is part of the solution. This sector supports employment and economic growth across the country, employing around 368,000 people and contributing 1.6% of gross value added (GVA) – more than the automotive industry. UK legal services are also strong contributors to services net exports.

Preserving the UK's status as a global legal centre therefore goes hand in hand with securing the country's future economic success and this should be recognised in the spending review. The international commercial success of the UK's legal sector is dependent on the effective and efficient functioning of the UK's wider domestic legal system.

We welcome the government's clear statements on the importance of respecting the rule of law and international law. In addition, we **recommend** that the spending review delivers additional investment in the justice system and continues to improve access to justice for all, including by upgrading the physical and digital infrastructure of the courts, tackling backlogs and adequately funding legal aid services for citizens

[1] TheCityUK, 'Financing Britain's Future', (July 2024), available at: https://www.thecityuk.com/our-work/financing-britains-future-thecityuks-strategy-for-the-next-government/

Ministry of Housing, Communities and Local Government

Strong civic leadership is vital to delivering inclusive growth across Britain. We fully support the Prime Minister's intervention to require metro mayors to produce detailed plans for economic growth and the steps set out in the white paper on devolution to deliver more consistent powers to appropriate authorities across England. This will create a clearer climate in which business can thrive and invest to support regional growth.

We recommend that spending review is truly comprehensive and considers how further devolution will impact on what central government delivers and how our economy evolves. For example, as devolved authorities develop, there will also be a need to invest in and support greater civic leadership through organisational and skills development, as well as improving the sharing of knowledge. We therefore **recommend** that the spending review funds the creation of 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.

We were pleased with steps announced in the Budget to move away from multiple funding pots and competitive bidding processes in favour of a single financial settlement for an area. We **recommend** that the spending review also considers how metro mayors can take strategic responsibility for major infrastructure projects to overcome obstacles to delivery.

We are strong supporters of the government's work to reform planning and address the UK housing shortage. This is a topic also of commercial interest to many of our investing institutions, and we **recommend** that government use housing expenditure, including for social and affordable homes, in ways that enable further private investment to be crowded-in via co-investment alongside government funding vehicles.

Department of Education

We commend the government's intention to support the growth of regional financial centres across Britain. Our members are already delivering on this vision with major investments in towns and cities across the country. Key to the future growth of these centres is access to talent and ensuring those leaving further and higher education in every local area are equipped with the skills that large employers in our industry require.

We therefore **recommend** that the spending review delivers further devolution of education policy and funding to Mayoral Combined Authorities in future English devolution deals, with the long-term aspiration of local leaders taking a greater role in oversight of education at all phases so this can be better integrated with Local Skills Improvement Plans.

Department for Energy Security and Net Zero

Our industry plays an important role in enabling the transition to net zero through its provision of capital investment, lending, professional advice services and insurance. We are pleased that the government is taking steps to set out its vision of how Britain can achieve clean power by 2030 and provide more certainty for investors.

Financial and related professional services will be vital in achieving this goal and the spending review is good opportunity to build a genuine partnership between government and our industry to do so.

Different technologies and infrastructure require different types of support depending on their maturity. Government support through blended finance solutions, price stabilisation mechanisms and first loss positions can play a key role in attracting private finance. We **recommend** that the government use the spending review to ensure that the Department for Energy Security and Net Zero has sufficient funding to deliver the policy measures and financing mechanisms to meet the UK's legally binding target of net zero by 2050 and support low carbon and climate technologies that are critical to the UK's clean energy transition.

Public finance institutions can play a key role in de-risking and scaling private investment. We welcomed the establishment of the National Wealth Fund (NWF) and GB Energy (GBE). The NWF will play a critical role in catalysing investment into clean technologies and supporting delivery of the government's new Industrial Strategy. We **recommend** that government ensure the NWF is provided with sufficient capital and resourced with the right skills and capabilities to enable it to play a more catalytic role than its predecessor (the UK Investment Bank) and deliver more effective public-private partnership. This will be necessary to crowd in private capital at the pace and scale required. We **encourage** the government to move swiftly in establishing the framework of investment principles and strategic priorities for the NWF, to enable it to start delivering as soon as possible.

Government must work with the UK's public finance institutions and our industry to utilise private sector expertise to co-create innovative blended finance solutions that will be effective in de-risking and scaling low carbon investments. We welcomed the establishment of the Net Zero Blended Finance Project. This forum provides an example of government working with industry to improve capacity and learn from private sector experience to identify innovative solutions. We **recommend** that this model be replicated more widely to facilitate greater collaboration and information sharing between the public and private sectors on key aspects of the net zero agenda.

We **recommend** that, alongside the spending review, the government set out a clear and comprehensive strategy for the UK's transition to net zero. This must be accompanied by an economy-wide national transition plan and sector-specific strategies and policy instruments to support delivery of the UK's net zero transition. This would provide a clear signal to the market and reduce uncertainty, incentivising investment and driving action across the economy.

Alongside this, we **recommend** that the government ensure that sufficient funding is provided to DESNZ and HMT to implement the recommendations of the Transition Finance Market Review (TFMR) in collaboration with the private sector. The global market opportunity for UK companies supporting the transition is estimated to be more than £1 trillion by 2030. The TFMR identified a major opportunity for the UK to lead the growth of transition finance, drawing on the strengths of our financial and related professional services industry. Swift action is needed to seize this opportunity.

We **recommend** that the spending review also sets out how government will nurture industries in which the UK has, or could have, a competitive advantage. This includes industries such as CCUS, low carbon hydrogen, tidal and wind power (both offshore and onshore), battery and hydrogen storage and sustainable aviation fuel. These industries are crucial to the UK's net zero transition and have the potential to deliver green growth. Government must further support the scaling up of these technologies and consider how tax incentives (such as R&D credits or tax wrappers for long-term investments) could be used to increase investor appetite for low carbon and transitional investment.

Department for Work and Pensions

The UK has one of the largest pension industries worldwide - with total investments of £4.0trn at the end of 2020 – and this capital can therefore have a huge influence on whether the country achieves the levels of the economic growth government and industry would like to see.

We represent a broad range of actors in the pensions landscape and therefore has a unique view of the impact that proposed pension reforms will have on our industry and individual savers across the country. We commend the Department for Work and Pensions for the progress it has made to date on the Pensions Investment Review. The publication of the interim report was a significant positive development in the ambition to reshape workplace pensions and address the longer-term public policy challenges that arise from an ageing population.

We also welcomed the Chancellor's commitment, made during her recent speech at Mansion House speech, to create pension 'mega funds' to boost growth in the UK economy. We have consistently called for greater consolidation of pensions to improve outcomes for pension savers across the country and help boost investment and inclusive growth in the UK economy.

Ahead of the next phase of the review, we would like to highlight the importance of considering Auto-Enrolment (AE) contribution levels in providing pension adequacy. While we appreciate the sensitivities for the government in addressing such an issue, we believe that setting out a clear roadmap for increasing contributions will be pivotal in achieving better pension adequacy, increased returns for savers and, alongside other reforms, drive additional investment in UK assets.

As the UK faces substantial investment gaps in areas key to the future success of the UK economy, the government needs to adopt coherent, stable, and consistent policy that appropriately connects improvements in the UK's pension system and outcomes with industrial strategy. Redirecting even a small proportion of pension capital into UK public equities could have a multiplier effect on UK growth but the key will be to adopt measures that do not mandate but rather incentivise investment.

Given the long-term policy challenge these reforms are seeking to address, we **recommend** that the spending review considers the importance of this department in ensuring an evidence-based approach is taken to provide security in later life for individuals up and down the country and support the government's number one mission.

Department for Business and Trade

Half the exports generated by our industry originate outside London, providing employment and growth across the regions and nations. Equally, the international investment attracted by the industry enables innovation in strategic sectors such as green infrastructure, life sciences and digital technologies. These sectors are vital for creating future jobs and developing cutting-edge products and services, from digital payments and healthcare to electric vehicles, to meet people's needs and should be considered as part of a long-term spending review.

We **recommend** that the spending review ensures that the Department for Business and Trade work with leaders in devolved and regional government to promote UK trade and investment internationally. Specifically, central government should seek to map examples of international best practice in attracting investment and share these findings with stakeholders and policymakers across the country.

For example, in Sweden, a code of conduct agreement among the national investment agency and the 15 regions was established to better communicate on opportunities and encourage exchange of information. In France, the national investment agency, Business France, has created a "marketplace" of investment projects and shares information weekly with its regional partners. The aim is to organise joint efforts to respond efficiently to foreign investors' demands and needs, and to increase chances to win projects.

Department for Science, Innovation and Technology

Positioning the UK at the forefront of technology and innovation policy is vital to maintaining the UK's competitiveness as an international financial centre and maximising the role that our members can play on delivering the government's mission to kickstart economic growth.

The new AI Opportunities Action Plan is a welcome signal that the government is committed to taking the necessary steps to secure UK leadership in artificial intelligence (AI). This Action Plan recognised the critical role these technologies have in delivering all the government's five missions. We therefore **recommend** that the government use the spending review to ensure that the Department for Science, Innovation and Technology (DSIT) has the necessary funding to ensure an efficient and timely implementation of this plan.

Beyond AI, many other technologies are having a transformative impact on the financial and related professional services industry. We **recommend** that the government carefully considers the findings of the Technology Adoption Review to allocate a sufficient budget to foster the long-term adoption of key technologies across the industry. For example, it is essential that the government prioritises funding for the Quantum Strategy and continues to create international collaborations for research and commercialisation.

Alongside establishing appropriate and clear guidelines for the application of technologies to deliver good outcomes, the government must nurture skills and talent for the future, particularly by supporting the dynamic work of the Financial Services Skills Commission. This will ensure the UK has a high-skilled population that can meet our economy's changing skills needs in line with technological advancements. We **recommend** that the DSIT continues to reskill and upskill the population to future-proof the talent pool while educating the public about emerging technologies and the opportunities they present.

Homegrown technology will bolster future technology adoption and innovation across the UK by fostering a self-sustaining ecosystem of innovation. The government must create the conditions to nurture innovative home-grown companies throughout their growth journey, leveraging the UK's world-leading research ecosystem and supporting UK university spinouts, start-ups and scale-ups. Therefore, we **recommend** that government announces additional R&D investment incentives to support services companies. For example, continued funding and grants for technology R&D through initiatives like Innovate UK can foster technology innovation and adoption, particularly for small and medium sized enterprises that may struggle to invest in AI capabilities on their own.

Cabinet Office

We are pleased that the Cabinet Office has been tasked with ensuring that the whole government machine is aligned with the mission to deliver economic growth.

We are keen to support the government, through the spending review, to consider how to ensure that the UK has a stable, proportionate and predictable but agile regulatory environment. Positive steps have already been made in this direction and the spending review is a further opportunity to build on them.

We **recommend** that Cabinet Office particularly looks at the predictability and efficiency of our regulatory environment as a key component of our competitiveness. Speedy regulator decisions on applications to invest capital, appointment of new leaders, starting new businesses, or creating new products are important factors for companies considering where to locate business activities and investments.

Department for Environment, Food and Rural Affairs

The work of DEFRA to protect Britain's natural environment is also critical to the government's mission to deliver economic growth, and we hope this is recognised in the spending review. Research led by Green Finance Institute has found that damage to the natural environment could lead to an estimated 12% reduction to GDP – larger than the hit to GDP from the global financial crisis or Covid-19.[2] While the Financial Stability Board has said that the financial damage of climate shocks (such as droughts, floods, fires or storms) could cause a pullback in lending and downturn in investor confidence.

Both adaptation and mitigation are required to respond to the impacts of climate change. With climate related events becoming more common, it is essential that climate adaptation is brought to the foreground of government policymaking alongside mitigation.[3] It is therefore important that the government continues to prioritise funding for DEFRA to design and implement policy measures and programmes to support nature restoration and climate adaptation.

We **recommend** that this spending is protected and that the department engages across government, and with financial and related professional services, to investigate how we support nature restoration, unlock the potential of carbon and nature markets, build UK capacity for resilience to climate change and progress climate adaptation at the pace required.

Ministry of Defence

The government's commitment to increasing the defence budget has cross-party support. Stable, long-term public funding commitments are vital if the government wishes to leverage private finance to further deepen and strengthen the UK defence industrial base.

This requires charting the trajectory predictably towards the 2.5% of GDP spending target, and the path of equipment and infrastructure spending within this envelope. We **recommend** that the spending review is used to set out this trajectory.

[2] Green Finance Institute, 'Assessing the materiality of nature-related financial risks for the UK', (April 2024), available here: https://www.eci.ox.ac.uk/news/nature-degradation-could-cause-12-loss-uk-gdp

[3] Financial Sustainability Boad, ' Assessment of climate-related vulnerability: analytical framework and toolkit', (January 2025), available here: https://www.fsb.org/uploads/P160125.pdf