TheCityUK

Rt Hon Rachel Reeves MP
Chancellor of the Exchequer
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Dear Chancellor

TheCityUK representation to the 2024 Budget and spending review

Your Budget on 30 October will be an historic moment for Britain. Not only will it be the first Budget delivered by a woman in the 800-year history of the Chancellorship, but it is also an important opportunity to re-tilt our economy towards inclusive growth, particularly when combined with a comprehensive spending review.

As you have noted yourself, the financial and related professional services industry is the 'jewel in the crown of the UK economy'. Our industry is a strategic national asset that already makes a significant contribution to inclusive growth and financial stability. It plays a central role in critical areas such as financing scale-up firms to create the technologies of the future; driving economic growth across the regions and nations; delivering vital infrastructure and enabling the transition to net zero through its provision of investment capital, lending, professional advice and insurance.

We have been impressed by the new government's early commitment to building a strong collaborative relationship with business. We hope you will continue to prioritise this strong collaboration between the financial and related professional services industry, government and regulators to foster an environment that enables our industry to make an even greater contribution in these critical areas.

This representation sets out a programme of activity that we hope you will take forward to achieve this. It reflects the recommendations set out in Financing Britain's Future: TheCityUK's strategy for inclusive growth, which we recently shared with all MPs.

Our headline recommendations for government

- **Partner with industry to create the conditions that will attract more investment into UK companies and infrastructure**, delivering economic growth, innovation, job creation, and investment opportunities for citizens, savers and pensioners right across the country.
- **Boost investment and growth** by ensuring a stable, proportionate, and predictable policy and regulatory environment to attract more investment capital.
- **Deliver a coherent, stable, and internationally competitive 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.
- **Empower 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.
- **Lead the net-zero transition** by setting out long-term policy with clear sector transition roadmaps, to facilitate investment in business transition across the economy, and positioning Britain as a global leader in clean and renewable energy.

1) Aligning policy and regulation to support inclusive growth

a) Create an investment and growth culture

The UK's reputation as a leading international financial centre is underpinned by its high regulatory standards. However, there is growing concern that the public, politicians and regulators have developed an aversion to risk and investment. There is too great an emphasis on regulating to eliminate risk from the financial system, and too little priority given to the critical role that proportionate and informed risk-taking plays in delivering long-term investment capital and returns, security and growth.

The government should work closely with regulators and industry to create an environment that further stimulates growth and investment. Policy and regulation must be designed and implemented with careful consideration of risk and growth trade-offs. Embracing some degree of risk is necessary to stimulate investment in innovation and sustainable economic growth, and to deliver good long-term saving and pension returns for people across the country. Similarly, it is important for government and parliament to hold the regulators to account when they do not meet their obligations to support economic growth.

TheCityUK therefore **recommends** that you use the Budget to:

- **Develop a strategic plan to drive investment and economic growth** which could be transformative for the economy, citizens and financial resilience. The strategy needs to recognise that the UK does not have the level of long-term savings and investments (whether in private pensions and savings or state funds) necessary to meet retirement, care, health and other societal needs, creating a burden for future generations.
- **Provide appropriate scrutiny of how the regulators deliver their statutory objectives and functions.** Appropriate scrutiny and accountability will help to ensure the UK maintains high standards that support its competitiveness, while informing where regulatory adaptation and operational enhancements are needed to ensure the efficiency and competitiveness of the regulatory environment in a dynamic and competitive global market.

In addition, we **recommend** that your spending review considers how to 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, tailoring rules to the UK where the benefits of change would exceed the costs. It should also include ensuring coherence across the different financial and related professional services regulators to support investment and economic growth.

It is also vital that the government set out plans to work with regulators and industry to ensure that the metrics the regulators are judged against, in terms of their secondary competitiveness and growth objective, are refined over time to remain relevant. Effective reporting will help the government and other stakeholders assess the impact and efficiency of our regulatory environment. The predictability and efficiency of our regulatory environment is 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.

b) Revitalising capital markets to better serve savers and companies

Capital markets should serve the nation by putting the UK's savings and pension capital to work, funding UK companies and infrastructure. This creates a virtuous circle – creating wealth and delivering returns to savers across the UK, and helping UK companies to grow, innovate, adapt and compete internationally.

It is very encouraging that the new government recognises that these markets have not been fulfilling their potential and are already examining how to make British equity investment more attractive to the institutions that manage the investments of savers, and current and future pensioners. The review, led by the Minister for Pensions, should focus on incentives and enablers, rather than mandates. Asset managers must have the flexibility to invest in a way that maximises outcomes for savers and pensioners – as directed by their fiduciary duty.

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. Unfortunately, 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. This was acknowledged by the start-up review you undertook in opposition, to which TheCityUK contributed.

Government policy needs to 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. It should also better support more British businesses to list and sell shares at home. This outcome would bring significant benefits to the country in terms of economic growth, jobs, tax receipts and investment opportunities for citizens.

TheCityUK therefore **recommends** that you use the Budget to:

- **Deliver policies to better support the journey of companies from start-up to scale-up to maturity.** The government's approach 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.
- **Design targeted incentives for institutional investors and pension funds to put money to work at each stage of the company growth funding journey** (venture capital, private equity, quoted and listed equity). The multiplier effect on economic growth of even small changes in allocation of institutional capital to UK listed and quoted equities would be significant.
- **Commit to implementing the whole range of existing reforms at pace**, including the Secondary Capital Raising Review.
- **Increase the future flow of assets into pensions by gradually increasing the level of pension contributions under automatic enrolment** from today's 8% of a band of earnings to 12% of all earnings starting in the mid-2020s and finishing in the early 2030s. This action will also significantly increase the volume of saving in UK shares and other growth assets.

In addition, we **recommend** a comprehensive review of the ISA regime, to consider the public policy goals it should support, and how the regime can best be focused and streamlined to make ISAs more accessible, understandable and attractive to individual savers. As part of this review, government should simplify the overall ISA regime and seek to make it more attractive to invest in British equities.

The government should facilitate the use of open data and AI solutions, to help more citizens, savers and pensioners invest with confidence and benefit from the returns that investing in equities can deliver. There is increasing evidence that the existing framework has been very effective at ensuring a small number of people received strong advice. However, if we to are ensure that growth is inclusive and that more people are able to invest with confidence and reap the benefits of investing, more consideration should be given to changing the boundary between advice and guidance

c) Driving growth through technology and innovation

Positioning the UK at the forefront of technology and innovation policy is vital to maintaining the UK's competitiveness as an international financial centre. The government should adopt a proportionate approach which regulates based on outcomes, not the technology used. This will deliver effective and proportionate protection for consumers and financial stability without impeding the pace of innovation, investment and development.

Alongside establishing appropriate and clear guidelines for 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.

TheCityUK therefore **recommends** that you use the Budget to:

- **Deliver a modern digital infrastructure for share ownership.** Accelerate and implement the final 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 jurisdictions.
- **Issue a pound sterling digital gilt** via the Debt Management Office, to signal the UK is a hub for securities tokenisation, encourage investment and catalyse further industry participation and innovation.
- **Publish clear strategies for technologies that are key to securing the UK's future economic resilience**. A government strategy is needed to enhance innovation in open banking and open finance to help small businesses better access credit and grow export opportunities for FinTechs. The government should also deliver an updated AI strategy and ensure that future AI legislation and policy is proportionate, assessing the risk of these technologies in the context of specific uses and applications, and the positive impacts they can deliver.
- **Encourage innovation by initiating plans to develop clusters for technologies such as AI across the UK and assigning additional research funding for universities**. Creating a fertile ground for collaboration between academia, industry and startups is essential to support innovation, attract investment, retain innovative businesses in the UK, and drive economic growth across the country.
- **Announce your intention to reskill and upskill the population** to future proof the talent pool, while educating the public about emerging technologies and the opportunities they present.

d) Supporting legal services – a unique asset for Britain

The UK's legal services sector plays a crucial role in supporting economic growth, with its reputation as a global centre for justice and the rule of law underpinning our status as a world-leading financial centre. Our legal system, and the English law principles that underpin it, is a key foundation upon which commerce and industry is based. The global success of the UK's financial services industry is reinforced by its laws and regulations, and the lawyers and judges who implement them.

The 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 consistently generate a trade surplus, helping to offset the UK's trade in goods deficit. Net exports of UK legal services stood at £5.7bn in 2022, an increase of 7.5% on 2021. In the decade, net UK exports of legal services have risen by more than 60%. Britain is also a leading hub for legal services innovation with a vibrant LawTech industry. Preserving the UK's status as a global legal centre therefore goes hand in hand with securing the country's future economic success. It is important also to recognise that 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.

TheCityUK welcomes the government's clear statements on the importance of respecting the rule of law and international law. In addition, TheCityUK **recommends** that you use the Budget and spending review to deliver additional investment in the justice system and to continue 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.

2) Unlocking investment across the UK

a) Building a competitive tax system

Taxation is a crucial factor for business owners and leaders, 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 to grow in the UK, and financing people's goals and retirement needs. Failing to do so will have a chilling impact on investment into our country.

There are three components of a truly competitive tax regime: tax rate, tax predictability and tax simplification and we are pleased by Labour's commitment to deliver a tax roadmap for business, which has the potential to give businesses and international investors a clear and confident view of the tax implications for business operations and investments in the UK. Stability and predictability in rates of taxation is hugely important for a country seeking to increase rates of international and domestic investment.

Taxation formed a key part of the general election campaign, and we understand that the government will be keen to swiftly implement your party's commitments on issues such as reform of the non-domiciled tax regime and carried interest.

Our industry is keen to support the government in implementing its commitments on tax in ways which raise revenues while maintaining the internationally competitiveness of the UK. We appreciated Labour's willingness to engage with industry on these issues while in opposition, and we strongly encourage you to continue to consult with industry ahead of your first Budget and throughout the spending review. TheCityUK's Tax Group of industry experts is well placed to offer constructive and frank feedback to your officials and ministers in a confidential setting. We are already engaging with your team on the call for evidence on carried interest, and would be happy to engage on any other issues that would be helpful.

We also reiterate some keys areas that our industry believes are priorities that require government attention. We **recommend** that these are examined as part of your spending review.

- **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 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 objectives of supporting economic growth.
- **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%.
- **The levy**: The bank levy is essentially a tax on a bank's UK balance sheet, meaning that banks have to 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 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%. 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.

- **Stamp duty:** The new government should consider the future of stamp duty on trading of 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

b) Attracting foreign investment

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 additional investment will be required over the coming decade to meet the demands of the transition to net zero and to improve social infrastructure.

We hope that you will use your Budget to announce 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 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 **recommend** that the Harrington Review form the basis of the new investment attraction strategy and that the government:

- **Actively work with our industry to enhance the UK's attractiveness as a destination and global hub for international investment,** by developing a detailed investment narrative setting out the strategic sectors in which the government will seek to crowd in domestic and international investment.
- **Develop 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.
- **Work with the private sector to refine the form, timing and extent of investment screening controls**, to ensure that they focus on transactions that pose national security risks and provide a smoother environment for most investments that do not pose such risks.

c) Public-private finance

Public-private finance models can provide a vehicle to fund the delivery of major policy priorities. Governments around the world are pursuing large-scale public-private finance initiatives which are successfully attracting investment both nationally and internationally – such as the US Inflation Reduction Act and the EU Green Deal.

Closer to home, the UK government should work effectively with private investors to de-risk and increase the flow of productive investment across a range of sectors in the UK, including renewable energy, housing, health and infrastructure. A combination of the right financial structures and enablers could mobilise significant private investment. We welcome the establishment of the National Wealth Fund and the recent report by the National Wealth Fund Taskforce but believe it is important that public bodies are effective in crowding-in private capital rather than inadvertently crowding it out.

We **recommend** that the government use the Budget to draw on the expertise of the UK financial and professional services industry to address barriers to attracting private investment, and co-create blended finance solutions that will be effective in improving investor confidence and crowding in private capital.

d) Deeper devolution

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.

There should be greater consistency in the devolution of powers offered to different parts of the country including devolving more powers to metro mayors. 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. 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.

In recent years, Budgets have driven forward the devolution agenda and we **recommend** that you will build on this in October by:

- **Continuing to roll out the metro mayor and combined authority model to all English regions that want it**, while simultaneously devolving greater powers for existing Mayoral Combined Authorities and striving for as much consistency as possible in the powers awarded under devolution deals.
- **Strengthening 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.
- **Deliver 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.

In addition, we **recommend** that you use the spending review to 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. The spending review should also consider how metro mayors can take strategic responsibility for major infrastructure projects to overcome obstacles to delivery.

3) Delivering growth through trade

Rising economic protectionism and regulatory fragmentation mean the global business environment is increasingly complex and uncertain. The government should advocate for the benefits of international trade and investment to contribute to inclusive economic growth at home. The Swiss Mutual Recognition Agreement (MRA) provides a good template to build upon.

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.

Similarly, the ability to mobilise global talent is also 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.

We **recommend** that you use your Budget to advocate for export-led growth by:

- **Refreshing the UK's trade strategy and work with our industry to deploy the full range of trade policy instruments**, including Digital Economy Agreements, FinTech bridges, and Mutual Recognition Agreements, to boost trade, investment and reduce regulatory frictions.
- **Ensuring that financial regulatory dialogues with key markets, such as the US, EU, Switzerland, Singapore and Japan, focus on delivering stability and growth** in the global economy by improving transparency, industry engagement and external reporting on deliverables.
- **Support 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.

In addition, we **recommend** that your spending review ensures that HM Treasury and 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.

4) Supporting the transition to a sustainable future

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. The Budget should build on the Green Finance Strategy published in March 2023 to support the ambition for the UK to become the world's first net-zero-aligned financial centre, and to capitalise on our inherent strengths, making the UK an even more attractive market and leading global centre for green finance.

The new government must also act quickly in response to the increased level of international competition for green investment, by providing clear policy and market signals to attract investment in Britain's future and transition to net zero. As well as creating the right policy and regulatory environment to attract investment, the government needs to ensure that vital investments can be delivered and realised swiftly on the ground, which is why we welcome the practical steps being taken to modernise Britain's planning regime.

There is a huge opportunity to harness our industry's potential to scale up and attract capital to finance the net zero transition and enable green innovation and growth. With the right conditions, green finance could be scaled further and faster. Deeper partnership, coordination and cooperation across government and industry is needed. Neither government nor industry can deliver the transition to net zero alone.

The Budget, and indeed your upcoming Mansion House address, are key events which investors from around the world will analyse closely to understand the economic policies the government will be pursuing in the coming years. We therefore **recommend** that you use these opportunities to:

- **Set out a long-term policy approach for the net zero transition, with a consistent policy narrative and delivery plan** that provides the right conditions to attract the scale of private investment needed to finance Britain's shift towards a sustainable future.
- **Confirm that the National Wealth Fund will be designed and delivered in partnership with the UK's public finance institutions and financial and professional services industries.** The government should make good use of private sector expertise to co-create blended finance solutions that will be effective in de-risking and scaling low carbon investments, and to explore

ways of creating new, secondary liquid markets in the area of renewable energy infrastructure, so as to enable a wider range of investors to fund illiquid assets.

We **recommend** that you build on these steps in your spending review by creating detailed policy delivery plans and sector-specific strategies 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.

Government must work with the private sector to build on current investment roadmaps to create specific, quantifiable, and actionable sector-specific strategies. This should be accompanied by a capital raising plan that sets out investment requirements across sectors and regions by different pools of capital (e.g. from venture capital and private equity for early and mid-stage investment in new climate solutions, to pension and insurance funds for longer-term investment grade projects) to 2035. The capital raising plan should outline how government plans to raise the public and private capital that is required and include mechanisms to monitor, report, and verify progress in meeting the capital raising requirements

Conclusion

The financial and related professional services industry is an engine for growth for the wider economy and is well placed to help the government deliver on the Prime Minister's missions – particular those on economic growth and making Britain a clean energy superpower. We would be very happy to provide further information on any of our proposals if this would be helpful.

Yours sincerely

Chief Executive I TheCityUK