UK FINANCE SUBMISSION TO SPRING BUDGET 2023

EXECUTIVE SUMMARY

February 2023

In advance of the Spring Budget, we have submitted a range of ideas that we believe will help grow the economy, level up the country and ensure support is given to those who need it in a challenging economic environment. We recognise that with inflationary pressures and rising energy and food bills, it is a challenging time for households and businesses up and down the country. The banking and finance sector is committed to playing a key role in supporting its customers and will continue to do so.

1. Delivering a High Growth Economy

Levelling up

Financial services are an engine for growth and prosperity across the UK. Touching almost every aspect of the economy and society, the industry is playing a critical role in delivering levelling up in regions around the country. As one of the country's largest employers, the industry provides highly paid, highly skilled jobs for more than 2.2 million people, with around two-thirds of these roles based outside of London. We believe that with the right targeted reforms, financial services can play an even bigger role in levelling up and facilitating regional growth, from boosting investment in SMEs to creating even more well-paid jobs across the country.

Key policy asks

- create highly paid, highly productive jobs across the UK by giving employers greater flexibility in spending their Apprenticeship Levy contributions
- support small business growth by reforming regulations on MREL and capital concentration to allow greater competition in the banking sector
- develop people's skills by working with the industry to help support improved adult numeracy
- drive regional investment by giving private sector investment a greater role in future devolution deals

Prudential regulation

We welcome the announcement made in December 2022 that the government intends to consult on a series of near-term reforms to the UK's ringfencing regime. The current ringfencing regime puts the UK at a disadvantage internationally, as well as trapping liquidity and inhibiting competition in the banking sector.

We also continue to recommend minimum requirement for own funds and eligible liabilities (MREL) reform. The framework is a significant barrier to growth for many banks coming into the scope of MREL.

We welcome the Bank of England's continued focus on the simpler regime which we have called for over many years. The threshold has been increased from £15 billion to £20 billion – we continue to believe a higher £25 billion, or the proposed £35 billion threshold for ring-fencing would not generate incremental systemic risk.

Key policy asks

- The government should move forward with ringfencing reforms as quickly as possible, including prioritising changes that can be made more swiftly in secondary legislation.
- Alongside increasing the ring-fencing thresholds, the overall regulatory regime should be streamlined by linking the ringfencing and MREL thresholds by using the same core deposits metric. Reforming MREL could unlock up to £62 billion of new investment, which would support more lending to more SMEs up and down the country.
- The PRA should accelerate the development of the simpler firms' regime so it can be implemented contemporaneously with the introduction of Basel 3.1 on 1 January 2025.

Taxation

In the current economic climate, we recognise the government must take difficult decisions on taxation. We welcomed the reconfirmation in November 2022 that the changes to the bank corporation tax surcharge will proceed as previously announced. This was important in terms of the international competitiveness of the UK's banking and finance sector.

Key policy ask

- To further support the UK's international competitiveness, we recommend that HM Treasury set out a tax roadmap, which would include plans to remove the bank corporation tax surcharge and bank levy.

2. Supporting Consumers and Businesses

The banking and finance sector takes very seriously its role in supporting customers as households and businesses deal with the impact of high inflation and the increase in the cost of energy.

The mortgage market

Although arrears across mortgages and unsecured credit currently remain low, the industry recognises the key role that it plays in supporting borrowers facing increased costs due to inflation, rising energy bills or higher monthly mortgage payments. We have been working closely with HM Treasury and the FCA to ensure the mortgage market works well, in particular for those facing financial difficulty. We welcome the changes being made in respect of Support for Mortgage Interest (SMI), which will enable those in receipt of benefits to remain in their house and avoid repossession. Although housing benefit is set to be increased in April 2023, Local Housing Allowance (LHA) rates have been frozen since 2020.

Key policy ask

- review the current Local Housing Allowance (LHA) rates as set by the Valuation Office Agency which are used to calculate housing benefit for tenants renting from private landlords. Around 1.7 million households rely on LHA to pay private rent.

Free-to-use debt advice funding

For those individuals who are struggling with their finances, it is vitally important they have an early discussion with their creditors and, where appropriate, are signposted to free-to-use debt advice organisations for independent and impartial guidance. Lenders currently fund the free debt advice sector with £99 million through an industry levy.

Key policy ask

- other non-financial creditors, such as those in the energy sector, should contribute to the costs of providing this free debt advice service for customers.

Support for SMEs

Banks continue to work closely with their business customers in a challenging economic climate. Lenders are actively supporting SMEs to manage price inflation and ongoing economic uncertainty.

Key policy asks

- longer term certainty from the government about support for energy costs and wider reform of the energy markets would help alleviate one of the key contributors to financial challenge reported by business.
- HMRC should extend time to pay arrangements where creditors, such as lenders, are providing forbearance as much as is practical to help struggling businesses.

3. Transitioning to net zero

The banking and finance sector is playing an active role in supporting efforts to meet the government's goal of the UK reaching net zero carbon emissions by 2050. We support the government's aim to make the UK the world's leading net zero-aligned financial centre. To support this, we believe there needs to be a robust policy plan specifically for the financial services sector and we are looking forward to the Green Finance Strategy update.

Greening the housing stock

As part of meeting the UK's net zero ambition, greening the UK housing stock will be key as 14 per cent of our carbon emissions currently come from heating homes. Last year we released a report Net Zero Homes: Time for a Reset[1] which sets out the scale of the challenge alongside recommendations for how we can create an environment that supports the long-term greening of the UK's housing stock in a fair and manageable way.

Key policy asks

- improve energy efficiency in social housing
- support vulnerable people with the costs of energy efficiency improvements
- use Stamp Duty to incentivise retrofitting
- provide grants and subsidies to upskill tradespeople.
- introduce a new temporary concession to allow landlords to offset the cost of energy efficiency improvements needed to achieve an EPC C rating against tax.

1 https://www.ukfinance.org.uk/system/files/2022-10/Net%20Zero%20Homes%20Report%202022.pdf

4. Reducing Economic Crime

Protecting customers is at the heart of the banking and finance sector. Fraud is now the most prevalent crime in England and Wales, accounting for 41 per cent of all crimes in the year to June 2022. More than £609.8 million was stolen through fraud and scams in the first half of 2022, with authorised push payment (APP) fraud comprising £249.1 million of the total.

Authorised push payment fraud

A more joined-up approach is needed from policymakers, regulators and industries to tackle fraud at source. Industry data shows that 70 per cent of authorised push payment fraud is enabled by online platforms. That rises to 96 per cent for investment and romance scams and 98 per cent of purchase scams. The inclusion of fraudulent advertising in the Online Safety Bill provides welcome recognition that other sectors have an important role to play in combatting fraud. A means to ensure financial accountability on the part of platforms, internet service providers and telecommunications sectors is needed to create aligned incentives and shared accountability for fraud prevention and reduction.

Key policy asks

- Allow firms to slow a small number of high value payments where fraud is suspected
- Allow firms to trace funds after the first payment and legally enable repatriation of funds through the chain of subsequent payments.
- Enable data sharing across sectors to sectors to identify scammers and mules
- Increase law enforcement capacity and capabilities to capture and stop criminals
- While work in this area progresses, we believe the timescales imposed on the PSR in the Financial Services and Markets Bill to implement a reimbursement framework should be extended

5. Enabling Digital Innovation

The financial services sector is becoming increasingly digitised with innovative products and services providing more choice for consumers. Through developing Open Banking, an effective regime for New Digital Assets and Money, the FMI sandbox and the Payment Services Regulations, we support the government's objective for the UK to be the home of a well-regulated and technologically advanced financial system.

Key policy asks

- The government should be clear if, when and how it will legislate to set out the long-term regulatory framework for open banking.
- The FMI Sandbox should be rolled out as soon as is feasible.