UK FINANCE SUBMISSION TO AUTUMN STATEMENT 2023

SUMMARY

October 2023

In advance of the Autumn Statement, we have submitted a range of ideas that we believe support the government's aims of growing the economy, alongside ensuring support is given to those who need it in this challenging economic environment. We recognise that it is currently a difficult time for households and businesses up and down the country. The banking and finance sector is committed to playing a key role in supporting all its customers.

1. Delivering a pro-growth framework

Growth is essential for businesses and people across the country. We believe the financial services industry has a central role to play in driving sustainable and inclusive growth.

We strongly welcome the Financial Services and Markets Act, which is an important piece of legislation that gives the UK an opportunity to create a more competitive financial services sector post-Brexit, while preserving high regulatory standards tailored to our needs.

Financial services regulators now have a secondary objective to promote economic growth and international competitiveness, signaling that the UK is open to the world and giving businesses the confidence to invest. We believe regulators must embed the new secondary competitiveness objective into their approach effectively and they should measure and report the overall burden of regulation and costs imposed on firms.

In the current economic climate, we recognise the government must take difficult decisions on taxation. Taxation is an important factor in the attractiveness of the UK as a place in which to start and grow banking business. The bank levy, in particular, will become a significant point of difference between the UK and Europe from 2024, as Single Resolution Fund contributions are expected to be suspended, or greatly reduced.

We believe that removing the bank surcharge and bank levy should be the government's long-term ambition. As an interim measure we recommend that the government publishes a tax roadmap for financial services as well as setting out the timetable for progress on the review of the financial services VAT exemptions.

2. Improving access to finance, especially for SMEs

The banking and finance sector takes very seriously its role in supporting businesses up and down the country. We want to ensure that high potential companies have the right incentives to launch in the UK and remain here. While the UK is world-leading for business start-ups, we have been less successful in creating an equally effective scale-up environment.

Banks and lenders have the capacity and willingness to support UK SMEs in accessing finance. Credit to SMEs continues to flow at around £5 billion gross per month and this lending comes from an SME finance market that is more diverse than ever.

Banks and lenders provide more than simply access to finance. They provide a significant range of support schemes, including mentoring, networking and investment readiness programmes.

We also believe the right incentives must be in place for companies seeking to incubate their growth here in the UK. We strongly support the extension of incentives such as the Enterprise Investment Scheme (EIS) and other venture capital schemes backed by the government which play an important role in helping new businesses to raise finance. More long-term certainty on these schemes is essential and will help to build confidence in the investment ecosystem.

3. Unlocking new growth and investment opportunities from the UK's capital markets

The government is making important improvements to our capital markets regime. At present, UK companies raise less capital at every funding stage compared to US firms and have a lower five-year survival rate than in other major European countries.

We believe there is more that could be done to achieve a high growth environment and outlined a number of initiatives in our report earlier this year on building stronger capital markets. Our suggestions include requiring domestic companies to repay public subsidies that they have received if they subsequently list outside of the UK, creating greater incentives to stay and grow in the UK, alongside extension of our EIS and tax credit system.

On retail investing, we are keen to work collaboratively with HM Treasury and HM Revenue & Customs to continue to improve financial education and the ISA regime. As part of this we recommend reviewing the 0.5 per cent share purchase stamp duty and the ISA framework to incentivise investment in UK equities, combined with financial education to empower people to become confident investors and take greater ownership of their financial futures.

4. Revitalising our housing market

Home ownership provides people with long-term financial security and increases their stake in the economy, yet home ownership rates are declining. We should consider ways we can help first-time buyers bridge the deposit gap, such as through a review of the Lifetime ISA scheme, by increasing the annual cap that can be deposited (in line with inflation as a minimum) and amending the early access penalty to 20 per cent rather than the current 25 per cent.

Around 1.7 million households rely on Local Housing Allowance (LHA) to pay private rent. LHA has been frozen since 2020, using rent data collected prior to the pandemic during 2018-19. We believe LHA rates should be unfrozen and uprated to take account of current rental rates, which have since increased significantly.

We want all homes, whether rented or owned, to be warm, safe and affordable, and this means enabling both homeowners and landlords to make sure their properties are energy efficient and can help to meet our net zero ambition. In a report published last year, Net Zero Homes: Time for a Reset, we suggested some simple interventions which would help to facilitate this.

Upfront installation costs are a barrier for almost half (45 per cent) of the public, with a quarter perceiving the running costs of a low-carbon heating system to be too high for them to afford or not providing enough cost savings to be economic. Financial incentives will encourage consumers to implement energy efficient measures to retrofit homes. These could take a variety of forms, for example, employer-based salary sacrifice schemes could help people contribute to green home improvements in the same way they access other workplace benefits.

Vulnerable customers will of course require assistance with this to ensure they are not left behind in the transition. As part of this, the government should prioritise public funding to improve energy efficiency in social housing.

Long-term, the government should consider how we can use the Stamp Duty regime to incentivise green home improvements, potentially through a rebate system. In the interim, grants and subsidies will be needed to upskill the many thousands of tradespeople we need to deliver these improvements.

5. Seizing the opportunities of net zero

Government leadership and clarity is needed to promote a just and orderly managed transition across all sectors, recognising the need to prioritise real decarbonisation in line with the objectives of the Paris Agreement, economic stability and energy security.

Capital is available to support net zero but a lack of both investible projects and confidence is holding back this transition, as the failure to secure offshore wind projects in the latest energy auction showed.

The government should track public and private financial flows, so we know where private finance is being leveraged. It must also progress existing commitments in the 2023 Green Finance Strategy, including consulting and engaging meaningfully with the private sector to ensure that measures are proportionate and achieve their stated objectives.

The government should adjust how public subsidy and blended finance are used in financing programmes, for example, by introducing two step tariffs for infrastructure projects – and increasing public funders risk-taking capacity, such as by expanding the UK Infrastructure Bank's loan books.

To boost investor confidence, the government must provide sector by sector net zero investment roadmaps, which set out policy, spending and regulatory interventions in detail. This should include a comprehensive plan on how to green the UK's housing stock.