UK FINANCE SUBMISSION TO SPRING BUDGET 2024

FEBRUARY 2024

In advance of the Spring Budget, we have submitted a range of ideas to HM Treasury.

The financial services sector has a critical role to play in driving economic growth and investment and these measures would help the UK achieve continued growth and prosperity.

1. Encouraging business and retail investment

- The government should launch a public campaign alongside the NatWest share offer akin to the "tell Sid" campaign in the 1980s to encourage public interest in our capital markets. Additionally, reduce or remove the 0.5% share purchase stamp duty to incentivise investment in UK equities, and introduce widespread, accessible financial education.
- HM Treasury, via the Debt Management Office, should issue a digital gilt within the Financial Market Infrastructure Sandbox.
- Review the MREL requirements so cliff-edge thresholds for smaller banks having to raise bail-in funds are moderated, aligning them with the scale of risk. Additionally, we recommend a holistic review of the regulatory regime for non-systemic firms, including a detailed assessment on the impact of capital requirements.
- The Prudential Regulation Authority should maintain the SME supporting factor, or at least provide a transition period mirroring the output floor transition period for larger banks as it implements Basel 3.1 in the UK. In addition, the proposed increased risk weight applying to unconditionally cancellable commitments should be removed.
- Replace the Recovery Loan Scheme, which is due to expire at the end of June 2024, with a new Growth Loan Scheme.
- We call on the Government to accept all recommendations of the Prompt Payment & Cash Flow Review and implement measures at pace, including with primary legislation where necessary.
- We recommend that the government publishes a tax roadmap for financial services detailing when the bank corporation tax surcharge will be reduced, to encourage UK investment from international financial services providers. We also recommend undertaking a review of the VAT regime as it applies to financial services.

2. Enable a thriving housing market for homeowners and renters

- Amend the Lifetime ISA scheme: increase the annual cap that can be deposited (in line with inflation as a minimum) and amend the early access penalty to 20% rather than the current 25%. Remove the withdrawal penalty, provided the funds are re-deposited to the LISA within the financial year they are withdrawn; this will enable savers to use those funds for unexpected costs (e.g., replacing a domestic appliance).
- Additionally, the limit on property purchase values should be increased in line with the annual House Price Index. For shared ownership purchases using a LISA, the cap should be aligned with the value/proportion of the property being purchased, as opposed to the total value of the property.
- Make the first-time buyer stamp duty threshold of £425,000 permanent. Ensure that the Stamp Duty thresholds are reviewed annually in line with the House Price Index to enhance fairness across the housing market.
- Reintroduce a scheme such as Help to Buy (equity loan) for first time buyers, but in a more targeted way to account for regional variations in property value.
- Expand and accelerate the roll out of the First Homes scheme, and initiate a review of the consumer experience of Shared Ownership, using the work of Social Finance backed by Lloyds Banking Group and Leeds Building Society and a number of shared ownership providers as a blueprint.

3. Forge a pathway to net zero by 2050, aligned with a just transition

- 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.
- Create a government advisory service to provide homeowners with free, independent retrofitting advice and provide certainty for firms involved in retrofitting with long-term public policies.

UK Finance Spring Budget Full Submission

1. Encouraging business and retail investment

UK Finance welcomed the measures announced at Autumn Statement 2023, but there is opportunity to go even further. An ambitious transformation of the investment ecosystem in the UK will provide a stronger foundation for both growing and established companies. There are opportunities across retail investment, the small and medium sized companies which are an engine for growth, and the largest businesses operating in our economy.

Retail investment

UK households invest far less in equities than many international counterparts. UK households typically hold only 11% of their financial assets in equity, compared to 36% in the USA and 23% in France. This is a significant pool of untapped potential capital that, if unlocked, would bring huge benefits to both individuals and the wider economy and businesses.

While the reforms in Autumn Statement 2023 to evolve the ISA regime were welcome, officials need to work with providers to ensure these changes can be properly implemented. The government should explore introducing a 'British ISA' focused on UK domestic equities to offer an easily accessible, trusted vehicle to incentivise investment in UK equities for individuals.

The government's proposed retail offer of NatWest shares in the 2023 Autumn Statement will help promote a UK investment culture that fosters ownership and engagement in public markets. This is a pivotal moment to review the attractiveness of the overall investment environment for individuals.

- **Recommendation 1: The government should launch a public campaign alongside the NatWest share offer akin to the "tell Sid" campaign in the 1980s to encourage public interest in our capital markets. Additionally, reduce or remove the 0.5% share purchase stamp duty to incentivise investment in UK equities, and introduce widespread, accessible financial education to empower people to become confident investors and take greater ownership of their financial futures.**

The issuance of a sterling-denominated digital gilt will be a meaningful next step in the UK's work to safeguard and enhance its position as a leading global financial centre and complements the work already underway with the Asset Management Taskforce. The digital bond market globally remains in its infancy. We have a unique opportunity for the UK to move ahead of other competing jurisdictions.

- **Recommendation 2: HM Treasury, via the Debt Management Office, should issue a digital gilt within the Financial Market Infrastructure Sandbox.**

SME finance

Ensuring high potential, early-stage companies can access the finance they need to grow is vital to our economy.

Banks and lenders have the capacity and willingness to support UK SMEs in accessing finance. Our most recent figures showed £65 billion of gross lending (defined with respect to loans excluding overdrafts) to SMEs in 2022, the highest since comparable records began in 2012 (except 2020 owing to Covid), and credit to SMEs continues to flow at around £5 billion gross per month.

However, excessive capital requirements directly reduce bank lending and contribute to UK investment rates being much lower than the OECD average, which presents a barrier to the growth ambitions we all share. These requirements have the greatest impact on smaller banks, non-bank lenders and fintechs, who spur competition and lend to SMEs and businesses outside London.

- **Recommendation 3: Review the MREL requirements so cliff-edge thresholds for smaller banks having to raise bail-in funds are moderated, aligning them with the scale of risk. By enabling smaller banks to grow their activities more smoothly competition would be boosted to the benefit of consumers and the flow of lending to small businesses increased. Additionally, we recommend a holistic review of the regulatory regime for non-systemic firms, including a detailed assessment on the impact of capital requirements.**
- **Recommendation 4: The Prudential Regulation Authority should maintain the SME supporting factor, or at least provide a transition period mirroring the output floor transition period for larger**

banks as it implements Basel 3.1 in the UK. In addition, the proposed increased risk weight applying to unconditionally cancellable commitments should be removed. This will prevent credit becoming more expensive and less available for SMEs, that in turn would impact growth.

For many SMEs, access to support such as tax incentives (e.g., R&D Tax Credits) and the outgoing Recovery Loan Scheme (RLS) are critical to business success. However, many businesses either report that accessing these services can be time consuming with unpredictable outcomes or – in the case of the RLS – expire without a successor scheme in place. The government should review its support for SMEs to ensure it is having the intended impact.

- **Recommendation 5: Replace the Recovery Loan Scheme, which is due to expire at the end of June 2024, with a new Growth Loan Scheme.**

In the current operating environment, cashflow is critical to survival for SMEs and late payments continue to be an issue. When an invoice takes an extended period to be cleared by clients, this can have a detrimental impact on smaller companies' ability to balance their books. The government's action to improve late payments with conditional government procurement are welcome but further action is needed to alleviate this problem more widely.

- **Recommendation 6: We call on the Government to accept all recommendations of the Prompt Payment & Cash Flow Review and implement measures at pace, including with primary legislation where necessary.**

Overall competitiveness for larger businesses

While the reduction of the bank corporation tax surcharge from 8% to 3% in April 2023 was welcome, UK banks continue to pay a higher rate of tax on their profits than other UK corporates. Analysis undertaken by PwC for UK Finance includes projected tax levels for a typical corporate and investment bank in the UK relative to other global financial centres. The analysis forecasts that, from this year, London will have a notably higher total tax rate (TTR) compared to other competitor jurisdictions. The London TTR could be as much as 7 percentage points higher than Frankfurt, the location with the second highest projected TTR (38.5 per cent). Only when the bank levy and bank corporation tax surcharge are excluded (39 per cent) can the London total tax rate be brought within touching distance of Frankfurt.

Projected Total Tax Rate (TTR) for a model corporate and investment bank in 2024[1]

London	New York	Frankfurt*	Dublin*	Amsterdam*
45.5%	27.9%	38.5%	32.4%	37.2%

**The TTR for these nations are expected to reduce when the European Single Resolution Fund reaches its target level in 2024.*

The VAT regime as it applies to financial services is in urgent need of modernisation and reform to support the growth of a dynamic and competitive UK financial services sector. The industry currently grapples with significant legal uncertainty as well as the ongoing challenge of applying 50-year old exemptions to today's operating environment.

Even well-established provisions are subject to sudden and unanticipated change, the VAT exemption for the intermediation of bank accounts was withdrawn this year without consultation for example. A review of VAT to ensure it is suited to a dynamic and competitive financial services sector is crucial.

- **Recommendation 7: We recommend that the government publishes a tax roadmap for financial services detailing when the bank corporation tax surcharge will be reduced, to encourage UK investment from international financial services providers. We also recommend undertaking a review of the VAT regime as it applies to financial services.**

[1] PwC, 2023, Total Tax Contribution of the UK banking sector

2. Enable a thriving housing market for homeowners and renters

In the UK, over 8.5m people have a residential mortgage provided by the financial services sector[2]. A further 2m borrowers provide much needed homes for the rental market, through buy to let mortgages.

We believe there are opportunities to create a housing market that serves different communities fairly and equally. Despite the positive numbers of mortgage holders, ownership rates are declining. In 2022, house prices paid by first-time buyers were 16 times higher than in 1982, while earnings had only increased seven times as much[3].

Existing schemes, such as the Lifetime ISA, provide opportunities and incentives to save towards homeownership, but require further amendments to reflect changes in house prices and the economic realities faced by first-time buyers.

- **Recommendation 8: Amend the Lifetime ISA scheme: Increase the annual cap that can be deposited (in line with inflation as a minimum) and amend the early access penalty to 20% rather than the current 25%. Remove the withdrawal penalty, provided the funds are re-deposited to the LISA within the financial year they are withdrawn; this will enable savers to use those funds for unexpected costs (e.g., replacing a domestic appliance).**
- **Additionally, the limit on property purchase values should be increased in line with the annual House Price Index. For shared ownership purchases using a LISA, the cap should be aligned with the value/proportion of the property being purchased, as opposed to the total value of the property. 6**

Affordability is a key factor for any prospective homeowner or mover, as are the associated costs with buying and moving, including solicitors' fees, property surveys and Stamp Duty Land Tax - which can be one of the largest costs when buying a new home. Currently, first-time buyers enjoy a nil stamp duty tax band when purchasing a property below a price of £425,000. This threshold is temporary and is due to revert back to £300,000 on 1st April 2025, and we ask that this nil rate band (of up to £425,000) for first-time buyers is made permanent.

- **Recommendation 9: Make the first-time buyer stamp duty threshold of £425,000 permanent. Ensure that the Stamp Duty thresholds are reviewed annually in line with the House Price Index to enhance fairness across the housing market.**

Many first-time buyers find it difficult to save for a deposit so they value the flexibility of schemes such as Help to Buy (equity loan). The last Help to Buy scheme (which closed in May 2023) helped 328,346 people to enter the housing market for the first time4. As house prices continue to rise, we urge the government to provide further similar government backed and supported schemes targeted at the first-time buyers[4]. Any scheme should take into account regional house price variances, to ensure first-time buyers purchasing in cities such as London, Bristol, Birmingham and Manchester are not disadvantaged. This will help fill the gap left behind by the withdrawal of Help to Buy.

- **Recommendation 10: Reintroduce a scheme such as Help to Buy (equity loan) for first time buyers, but in a more targeted way to account for regional variations in property value.**
- **Expand and accelerate the roll out of the First Homes scheme, and initiate a review of the consumer experience of Shared Ownership, using the work of Social Finance backed by Lloyds Banking Group and Leeds Building Society and a number of shared ownership providers as a blueprint, to ensure this long-established tenure continues to grow in popularity, remains fit for purpose and fulfils its potential to enable more homeowners on to the property market.**

We understand a number of other trade associations and our members are also suggesting reforms to the LISA and Help to Buy initiatives, and we would be happy to work with them and government to explore this further, convening where helpful.

2 UK Finance, 2023, UK Finance Mortgage Data.

3 Leeds Building Society, 2023, A place to call home

4 Department for Levelling, Housing & Communities, 2023, Help to Buy: equity loan scheme: data to 31 May 2023

3. Forge a pathway to net zero by 2050, aligned with a just transition

UK Finance and our members recognise the critical importance of maintaining progress towards the UK's Net Zero targets particularly given the encouraging progress made with international counterparts at the recent COP28 summit.

Our focus is on two major priorities: mobilising capital to support climate ambitions and opportunities, while ensuring a just transition that considers vulnerable people and communities.

Capital is available to support the net zero transition but a lack of both investible projects and confidence is holding it back. The government can help unlock this. Government leadership and clarity is needed to promote a just, orderly and managed transition across all sectors, recognising the need to prioritise real-world decarbonisation. Last year, we published a paper, Mobilising Capital for the Net Zero Transition[5] which suggests a series of recommendations to this effect.

We recommend that the government should provide improved sector-by-sector financing roadmaps which set out specific policy, spending and regulatory interventions to incentivise private investment and lending. These should cover major economic and industrial sectors on top of existing technology-specific plans. The roadmaps should also precisely cost the investment gaps and offer a coherent set of incentives that the Government will put in place, including by looking at innovative tax measures to support the transition, or by better utilising blended finance tools for adequate risk sharing between the public and the private sector. Building long-term confidence in investment prospects is also key, which necessitates transparency and certainty.

- **Recommendation 11: 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.**

A key part of the government's strategy should include a comprehensive plan on how to green the UK's housing stock. The scale of the challenge in greening housing and the associated opportunity is enormous, so there is a need for prioritisation and focus.

An inclusive transition should allow people from across the economic spectrum to make their homes warm and green affordably. In a high-inflation environment where living standards and spare cash are being squeezed this is even more important.

We estimate it will cost UK homes approaching £300 billion to reach the required Energy Performance Certificate (EPC) ratings, so there are significant risks if this is not properly planned. The predominance of lower EPC ratings is across poorer regions in the UK and we need to act thoughtfully to ensure that we do not make this worse.

In our report published in 2022, Net Zero Homes: Time for a reset we suggested simple interventions which would help to facilitate this[6]. 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. The government must bridge this value-action gap if decarbonisation ambitions are to be successful. As part of enabling a just transition, 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. Other tax measures, including salary sacrifice schemes for employees completing retrofit works, should also be considered where they have had a demonstrable positive effect in other sectors (e.g. salary sacrifice for EV take-up).

In the interim, grants and subsidies are needed to upskill the many thousands of tradespeople needed to deliver these improvements. Homeowners will need independent advice from a trusted source to limit the emergence of rogue traders and ensure improvements are fit for purpose.

- **Recommendation 12: Create a government advisory service to provide homeowners with free, independent retrofitting advice and provide certainty for firms involved in retrofitting with long-term public policies.**

[5] UK Finance, 2023, Mobilising Capital for the Net Zero Transition

[6] UK Finance, 2022, Net Zero Homes: Time for a Reset