TheCityUK

TheCityUK representation to the 2023 Autumn Statement

TheCityUK is pleased to set out our representation to the Chancellor ahead of his 2023 Autumn Statement.

The financial and related professional services (FRPS) industry is a vital facilitator of investment and growth across the UK economy. The industry contributes 12% of the UK's total economic output and employs nearly 2.5 million people, with two thirds of these jobs outside London. It is the UK's largest net exporting industry and generates a trade surplus exceeding that of all other net exporting industries combined, making it the most successful exporter of its kind anywhere in the world. It is also Britain's largest taxpayer and makes a substantive difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and protect and manage risk.

Our industry also plays a vital enabling role in allowing Britain to achieve our national objectives – from delivering regional development, to supporting a just transition, to delivering export-led growth. We are eager to work with the government to ensure we can continue to contribute to the UK's success, both today and in the future.

This submission sets out a package of changes which should be made through the Autumn Statement to deepen our partnership. These are primarily based around the policy areas you identified as priorities during your Spring Budget. The areas it will cover are as follows:

1. How the UK should respond to the challenges created by the US Inflation Reduction Act
2. Capital markets reform
3. Strengthening the UK's short-term mobility system
4. Creating a competitive tax regime
5. Boosting international trade in services
6. Devolution and regional growth

1) How the UK should respond to the challenges created by the US Inflation Reduction Act

At the Spring Budget you expressed your intention to use the Autumn Statement to set out the government's plans to tackle the challenges created by the USA's Inflation Reduction Act. We strongly welcome this intention and are keen to contribute to this debate.

a) Context

The FRPS industry is responsible for capital allocation and has a critical role to play in financing and driving the net-zero transition. Last year, in our '[Enabling the net zero transition'](#) report with PwC, we called for the government to provide targeted subsidies and market guidance to incentivise and de-risk long-term investment into green infrastructure and technology.

This is exactly the approach that the US has adopted. The Inflation Reduction Act (IRA) unveiled $369bn of subsidies for US green infrastructure projects. Our members advise that the IRA is channelling more investment towards the US. The EU has responded by launching its own green industrial strategy.

The UK must show similar ambition and we therefore welcomed the Update to the Green Finance Strategy and the government's intention to create the world's first net zero aligned financial centre. The Autumn Statement should build on this work, and the UK's inherent strengths, to create an even more attractive market for green investment. We call on the government to take forward action in three key areas: long-term policy, long-term certainty and nurturing competitive advantage.

b) Long-term policy

Over recent years, the government has been a global leader in rising to the challenge of climate change. It has been proactive in producing strategies and plans for net zero including the Ten Point Plan, Net Zero Strategy, and Powering Up Britain, and in the process setting a high-level of ambition and significant delivery.

We recommend that you use the Autumn Statement to go further by:

- Bringing together these disparate strategies under a clear and coherent narrative for the net zero transition, accompanied by detailed delivery plans to incentivise investment and provide clear signals to the markets and drive action across the economy.
- Working with the private sector to build on its investment roadmaps, released as part of the Green Finance Strategy, to create specific, quantifiable, and actionable implementation plans for sectors across the economy, particularly in high-emissions industries.
- Developing and communicating detailed timelines for how the UK plans to reduce its reliance on fossil-fuel energy, helping firms understand the attractiveness of projects and allocate capital.

c) Long-term certainty

Meeting the UK's 2050 net zero target will require investments in technologies and infrastructure projects at varying levels of maturity and attractiveness. These investments are often capital intensive and have long returns on investment, presenting a relatively high risk for many private investors. To attract private finance, the government needs to offer the right signals to the market to provide certainty for investors, laying out clearly the incentives to invest in the UK. Given that capital is highly mobile, Britain otherwise risks losing investments to more attractive destinations.

We recommend that you use the Autumn Statement to consider how to make best use of the tax regime, which is often short-term in focus and has been subject to frequent change, by:

- Ensuring businesses that offer green and sustainable finance in the UK should be subject to a tax regime which is internationally competitive and provides long-term certainty in tax rates, policy making, and administration.
- Reviewing and expanding the scope of investment reliefs such as the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trust (VCT)

relief to scale up investment in key net zero industries, especially nascent low carbon energy and infrastructure.
- Adjusting and broadening the R&D regime, which is still geared towards investments in manufacturing over services, to support the development of technology for the net zero transition.
- Delivering a clear, stable and predictable tax system, which is a key part of international attractiveness.

d) Nurturing competitive advantage
The UK is well positioned to build on its strengths in financial and related professional services - including strong financial markets, access to a skilled workforce, rule of law, and a competitive regulatory environment - to foster green growth.

The UK must use these solid foundations to introduce policy and incentives to nurture industries in which it has, or could have, competitive advantage. This includes industries such as carbon capture, carbon use and storage (CCUS), green hydrogen, tidal and wind power, battery and hydrogen storage, and sustainable aviation fuel. In doing so, the UK can progress the net zero transition while creating jobs, driving regional growth, and securing greater energy security.

We recommend that you use the Autumn Statement to support these industries by:

- Creating a specific government unit to focus on net zero planning and delivery.
- Committing to delivering projects at pace, coordinating regulation and delivery such as manufacturing and installation, and dealing with bottlenecks by driving policy and delivery alignment across departments and at multiple levels of government.
- Supporting this with planning reform, upgrading grid capacity and a focusing on improving green skills to reflect workforce needs.
- Crowding in private investment into projects, some of which are high-risk for investors, supported by public investment (such as blended finance) or subsidies, accompanied by effective and proportionate regulation and reporting standards to de-risk and scale-up low carbon investments.

e) Conclusion
Green and sustainable finance is now a major investment area, and leaders around the world are recognising this and supporting industry to attract investment into green technologies and renewable energy. The government must act now to respond to the increased level of international competition, providing the right policy and signals to the market to provide long-term certainty for investors, nurture competitive advantage and drive the net zero transition. Private finance stands ready to invest if the government can provide the right parameters and incentives to do so.

2) Capital markets reform

At the Spring Budget you set out your intention to unlock productive investment from defined contribution pension funds, and to make UK-based exchanges – including the London Stock Exchange, AIM and Aquis Exchange – even more attractive places to list. TheCityUK publicly welcomed the progress made on these issues, and others, at your recent Mansion House Speech.

If the UK is to deliver sustained economic growth it needs higher levels of public equity investment. UK public equity markets matter because they deliver capital in service of people's financial ambitions and resilience, underpinning the jobs, pensions, investments and savings of UK citizens. They finance economic growth responsibly, they will be a core enabler of net zero and, crucially, they underpin the financial resilience of the UK economy.

UK listed companies employ an estimated 6.3 million people in the UK (17% of the working age population) and have combined revenues of approximately £2 trillion. The vital role of public equity markets in economic resilience was clear during the pandemic. TheCityUK and our members have been developing policies to build on this strong position and create an environment which encourages further investment. TheCityUK's Capital Markets Group has submitted a detailed policy paper with specific recommendations which we hope you will consider as part of your Autumn Statement.

At this stage, we would like to draw your intention to four of the emerging ideas from this work and recommend that you use the Autumn Statement to:

- Establish a single point of engagement for companies considering listing on UK exchanges to ensure there is strategic, structured and coordinated engagement across government for those companies identified as having high growth potential.
- Retool our growth exchanges so they can access the data, research, and liquidity they need to support growth companies to transition between markets smoothly. This should include extending tax incentives, removal of frictions in transferring between different parts of the market, fostering competition, and addressing regulatory barriers which have had the unintended consequence of restricting liquidity for smaller companies. We also recommend that government publicly clarify that quoted companies on these growth exchanges are in scope of the Mansion House compact.
- Improve incentives to invest in UK equities, in particular: (i) increase incentives for capital allocation to UK public equities (the multiplier effect on growth of even small changes in allocation would be significant); and (ii) remove stamp duty on trading, as this is a direct tax on liquidity which places the UK at a competitive disadvantage.
- Reduce disincentives to invest in listed equities. We believe that this should consider the ways required to measure and report normal volatility, and the consequent asset and liability matching protocols that are needed to balance such volatility.

Vibrant, competitive UK public equity markets will require sustained action from all stakeholders to support capital flows and liquidity to UK listed businesses of all sizes. TheCityUK stands ready to engage with HM Treasury and other stakeholders to deliver on this important agenda.

As noted, the most detailed summary of our industry's views is in TheCityUK's Capital Markets Group policy paper, and we look forward to continuing to engage with you and your officials on this vital agenda.

3) Strengthening the UK's short-term mobility system

The Spring Budget included action to improve short term business mobility by expanding the range of short-term business activities that can be carried out by those on short-term business visas. It also included a commitment to review the Shortage Occupation List more regularly and consider enhanced provisions under certain trade deals.

TheCityUK strongly welcomed these commitments because access to the world's best talent is mission-critical for our members. It is essential for the UK to remain a global hub for industry expertise and that it continues to produce the best and most innovative products and services.

a) Context

UK-based FRPS businesses often use short-term mobility routes to bring workers from international offices to the UK to support UK-based teams on short-term projects. Examples include asking:

i. International managers to meet new clients and customers in the UK
ii. Subject matter experts to train UK employees to use a new product
iii. Market experts to train UK employees on how to export services to their jurisdiction
iv. Technical experts (e.g. software engineers) to visit the UK for a short training course
v. Employees who moved to the EU to support EU customers and clients to get training and support from their UK office

Using short-term business mobility routes is not an alternative to hiring people in the UK. Short-term business workers do not become UK-based workers and do not compete with domestic talent; they remain overseas workers and only carry out short, targeted projects before returning home.

b) Issues in the current system

Businesses in the FRPS industry find the UK's short-term mobility system challenging for several reasons.

i. The volume of applications has risen sharply since Brexit because employees coming from the EU for short UK projects now need a visa. The system is struggling with the additional applications which create higher costs as businesses are forced to immigration services providers to manage extra applications.
ii. Businesses need to service clients immediately, but it can take six weeks to process an intra-company visa. Before applying, businesses need to do internal checks. It can therefore take 12 weeks to get a visa that enables one day's work.
iii. The Senior or Specialist Worker route is too limited. Employees of a UK-based business cannot get a visa unless they have worked at their company for over one year (or earn more than £73,900 per annum). Many employees - including junior employees on work rotations, interns and employees from lower-cost jurisdictions - do not qualify and this disadvantages the UK operation in terms of accessing specific skills and being part of global talent programmes.
iv. There are arbitrary distinctions between the activities that are permitted by different visas which make it very difficult for firms to know which visa to apply for. For example, a business visitor visa allows the holder to meet clients but does not let them work with colleagues to prepare for the meeting, nor do any immediate follow-up.
v. Business visas can also be unnecessarily restrictive, for example, permitting managers to come to the UK to train their team by *telling* them how to book a trade, but not allowing them to *show* them how to do it. Furthermore, the permitted activities in the business visitor route do not specifically include email correspondence and under the permitted

activities in the Senior or Specialist Worker route, any email correspondence is limited to correspondence on internal projects with UK employees of the same corporate group.

c) Solutions

The Autumn Statement is a useful opportunity to resolve the frictions outlined above by refining the short-term global mobility stream through Intra-Corporate Transfer reform that would allow businesses which have a Senior or Specialist Worker sponsor licence with the Home Office to support overseas employees to enter the UK for short-term productive activity without a work visa. This reform would ensure that the UK keeps control of who enters the country – using the controls associated with sponsorship – while enabling the flexibility of visa-free entry.

To achieve this, we recommend that you use the Autumn Statement to:

- Require applicants to hold a Senior or Specialist Worker Certificate of Sponsorship by the UK sponsor, enabling them to perform productive work for up to six months. This will ensure that there is sufficient oversight and control of the sponsored worker and the work they are undertaking.
- Ensure that sponsor notifications are made on departure, so that the applicant enters the UK without applying for a visa prior to departure.

Regarding the government's commitment to expand the range of permitted visa-free short-term business activities, the industry has emphasised its preference for a positive list approach - where all permitted activities are explicitly listed - to reduce ambiguity and highlight compliance.
For more information about these policy recommendations, please consult 'Global talent mobility: Ensuring UK competitiveness', jointly published by TheCityUK, the City of London Corporation and EY.

d) Conclusion

These important changes would make the UK a more attractive hub for global talent and help to realise the government's ambition of being a global hub for innovation. It will enable UK-based financial and related professional services businesses to leverage their global talent networks to produce even more globally attractive products and services, bringing more high-skilled jobs, skills development, and sustainable investment to the UK.

4) Creating a competitive tax system

TheCityUK would like to see a **clear, stable and predictable tax regime.** We welcome the government's commitment to building long-term, sustainable economic growth. To help achieve this, the government should provide a predictable road map for the UK's tax policy over the next 4-5 years, which gives business and international investors a clear view on the tax implications of investments in the UK.

Taxation is a key factor that business and international investors consider when comparing jurisdictions to locate their business operations and investments. Creating an internationally competitive tax regime for financial services will enable our industry to contribute to boosting the UK's overall tax revenue and delivering long-term economic growth.

a) Provide greater certainty and predictability

A good tax regime is built on the four pillars: rates, taxable base, administration and policy making. The quality of a country's tax system encompasses more than the final output of tax policy; it is also important to consider the way in which tax policy is approached. Frequent, short-term changes to tax policies and rates sends signals of instability and complexity to investors and financial services firms. If each of the four pillars were to be improved, including the approach to policy making, this would play to the UK's strengths in innovation and sustainability, and contribute to improved economic growth, levelling up and increase the potential total tax take over the longer term.

We recommend that the Autumn Statement should be used to:

- Initiate and publish the promised reviews of VAT treatment for financial services, and of the funds regime through tax and regulation. These reviews should include an impact assessment on the UK's international competitiveness.
- Consider 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 to accelerate the net-zero transition.
- Review and expand the scope of investment reliefs such as the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trust (VCT) relief to scale up capital for growth businesses, such as less mature low carbon energy generating technologies and infrastructure.
- Allow retail investors to invest in Long-Term Asset Funds (LTAF) through an ISA to boost to infrastructure assets.
- Review the UK's tax regime for intangible assets, which is uncompetitive compared to Luxembourg and the Netherlands. To help attract overseas companies to re-domicile in the UK, overseas companies should have the ability to move a business to the UK and obtain tax depreciation on a wider range of intangible assets (beyond R&D technologies), based on the market value of the relevant assets coming into the UK.

b) International competitiveness of the UK's tax regime for banks

The current UK tax regime for banks is not competitive with New York, Dublin, Frankfurt, Amsterdam, the UAE and Singapore. The UK's total tax for banks was 45.3%, notably higher than New York at 27.4% and Dublin at 32.1%. This gap between the UK and other jurisdictions is projected to increase in 2024, even with the reduction of the Bank surcharge to 3%.

A key component of the UK's internationally uncompetitive effective rate of tax relates to the UK's Bank Levy. The Bank Levy is essentially a tax on a bank's UK balance sheet, meaning that banks choosing to locate certain activities in the UK face an associated levy, compared to choosing other locations where there is no such cost. This discrepancy reduces the UK's competitiveness, particularly with the EU, which is due to phase out its equivalent of the Bank Levy (the Single Resolution Fund) from the end of 2023, further undermining our tax competitiveness and attractiveness versus the EU. It will continue to discourage international banks from growing their balance sheets in the UK and serves as a drag on growth.

We recommend that you use the Autumn Statement to:

- Reconsider the uncompetitive overall effective tax rate on banks in the UK, as this is detrimental to the growth of the UK economy.

- Review and ultimately phase out the bank levy as it is a key element of the UK's internationally uncompetitive effective tax rate.
- Encourage international banks to invest the money that would have been paid into the Bank Levy into driving their digital and green transition initiatives instead would improve the UK's international competitiveness.

Beyond the Autumn Statement itself, we recommend and hope that the government will continue to be a strong advocate for our industry in OECD Pillars 1 and 2 global tax reforms to ensure that the compliance burden is reduced. Existing rules should be streamlined, and any new rules should have a clear policy objective and their scope should be clear and proportionate as a global consensus on their implementation is crucial.

c) Conclusion

The Autumn Statement is a perfect opportunity to deliver a clear, predictable and internationally competitive tax regime for the financial and related professional services industry. An internationally competitive tax regime would boost overall tax revenue in the long term and enable our industry to contribute to sustainable economic growth.

5) Boosting international trade in services

The UK as an International Financial Centre (IFC) has formidable strengths, with our industry generating a trade surplus exceeding that of all other net exporting UK industries combined.

a) Supporting Global Britain

To build on our status as an IFC we believe the government should set an ambitious target for the UK to regain its position as the world's leading international finance centre within the next five years.

Our International Strategy sets out in detail how this five-year vision can be achieved.

To begin this journey, we recommend you use the Autumn Statement to:

- Equip the UK's global diplomatic network with deeper understanding of how global financial markets operate, to deliver effective and sophisticated investment messages to key global investors drawing on the skills development training developed by industry and educational experts in partnership with TheCityUK.
- Take up the recommendations from TheCityUK's report 'Driving UK growth: Capturing future international investment in a rapidly changing world' to ensure the UK continues to attract international investors.
- Support the long-term reconstruction and recovery efforts of Ukraine by announcing measures to assist the Ukrainian government in redeveloping the Kyiv International Financial Centre so it can successfully attract private sector investment.
- Actively engage with the Financial Services and related Professional Services industry on the form, timing and depth of screening controls for outbound investment to avoid unintended consequences, especially for key sectors like green finance and risk management.

b) Engaging with other markets
The Autumn Statement is an important opportunity to signal the UK's commitment to engage with important markets around the world.

We therefore recommend that you use the statement to signal the government's commitment to:

- Ensure that the UK-Switzerland FTA works hand in glove with the MRA, to maximise the opportunities via the financial services chapter as well as the cross-cutting and enabling areas in the FTA such as mobility, mutual recognition of professional qualifications and data and digital services.
- Engage with EU counterparts to successfully advocate against EU Agency for Cybersecurity's proposal on EU cloud sovereignty, which, if introduced would require cloud service providers (CSPs) to be independent of non-EU laws.
- Put bilateral financial regulatory dialogues with markets such as the USA, EU, Singapore and Japan on a more robust footing by improving transparency, industry engagement and by adopting a more outcomes focussed approach to promote stability and growth in the global economy.
- Encourage dialogue with China on issues of global importance such as green finance, through the resumption of the UK-China Joint Economic and Trade Committee (JETCO) and bilateral Economic and Financial Dialogue (EFD).
- Secure the continuation of the World Trade Organisation (WTO) Moratorium on customs duties on electronic transmissions which, if not renewed at the 13th WTO Ministerial Conference (MC13) in February 2024, will expire on 31 March 2024.

6) Devolution and regional growth

TheCityUK has long advocated for greater devolution to all parts of the UK, particularly the English regions. We were therefore pleased that your Spring Budget confirmed the expansion of the Metro Mayor model to many more parts of England, as called for in our 'Enabling Growth Across the UK 2022' report.

a) Deeper devolution
The Deeper Devolution Deals you recently announced for the West Midlands and Greater Manchester reflect several long-standing TheCityUK positions such as further devolution of education funding and an increased role for regional leaders in trade promotion. In particular, we welcome the acknowledgement that a single funding settlement for a region is a more effective policy driver than competitive bidding pots. We hope that over time the government will develop this model for more of the UK.

While we welcome the increased level of devolution currently being offered to some English regions, we continue to believe that wherever possible there should be greater consistency in the powers offered to each area, to create a clearer climate in which business can thrive. Currently, a major business operating in Manchester can engage with their local mayor on key issues such as skills policy and trade promotion, in a way which a major business operating in Sheffield cannot. We do not believe this is optimal or even sustainable in the long term.

As devolved authorities grow and develop there will be a need to invest in and support great civic leadership through organisational and personal development, as well as the sharing of knowledge and best practice.

We recommend that you use the Autumn Statement to:

- Continue to roll out the metro mayor and combined authority model to all English regions that want it, whilst simultaneously devolving greater powers for existing mayoral combined authorities.
- Strive for as much consistency as possible in the powers awarded under devolution deals.
- Strengthen 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.

b) Supporting infrastructure

The ability to communicate and to travel between locations remained a key barrier to maximising productivity. Effective digital and transport infrastructure enhance the connectivity of thriving regional hubs, supporting growth across the entire financial and related professional services ecosystem. Improvement to infrastructure to make them more carbon neutral and sustainable also support the UK's move towards net-zero and create new investable opportunities to aid growth across the country.

Ensuring that the machinery of government is distributed across the country is another way in which the state can support and engage growing businesses. Your department has led by example in opening the new HM Treasury Economic Campus in Darlington. We hope this is a trend which will continue.

We recommend that you use the Autumn Statement to:

- Ensure that the the Department for Business and Trade works with leaders in devolved and regional government to map examples of international best practice in attracting investment and share these findings with stakeholders across the country.
- Create a national portal to match investment opportunities with the UK's network of consulates and embassies, and its use by both parties should form part of future MOUs and trade deals.
- Ensure that regional and devolved leaders are fully engaged in the government's strategy for reaching net-zero and that industry hubs around the country are well placed to take advantage of economic opportunities arising from new industries and innovations.
- Build on the success of the government's Economic Campus in Darlington as well as moves by a number of key regulators to open bases in key UK towns and cities and identify further opportunities for senior civil service roles to be based outside the capital.

c) Skills

The ability to attract talented individuals remains a critical driver for our industry. In every region and nation of the country, productivity in FRPS is higher than productivity in the overall economy. TheCityUK believes that a place-based strategy is required to support local skills needs. We have previously called for greater employer voice in mapping and planning for local skills needs. We supported the proposals for the national rollout of local skills plans in the recent Skills Bills and the further devolution of post-16 education resources and career advice responsibilities in the recent Deeper Devolution Deals for some areas.

We believe that local and regional policymakers and business leaders are best placed to identify the skills that are needed in their areas, particularly when they have clusters in niche areas of industry such as specific forms of FinTech. These political actors are best able to engage with local schools and university hubs to ensure that young people can access these skills at the earliest possible opportunity.

The operation of the Apprenticeship Levy continues to be a challenge for our members, with a strong feeling that better outcomes could be achieved with a more flexible system.

We recommend that you use the Autumn Statement to:

- Include the 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.
- Reform the apprenticeship levy system in line with TheCityUK's published five-point plan, to ensure that it is more flexible and can better meet the challenges of tomorrow.
- Require metro mayors to bring together as wide an employer network as possible to ensure that Local Skills Improvement Plans reflect the voices of all parts of the economy. You should also ensure that these Local Skills Improvement Plans and the wider educational landscape are fully aligned with their own combined authority's plans for growth.

Conclusion

The FRPS industry is an engine for growth for the rest of the economy and is well-placed to help the government deliver on its priorities. When our industry thrives, so do communities and economies across the nations and regions of the UK.

We would be very happy to provide further information on any of our proposals if this would be helpful.