

PUBLICFIRST 

Banking for Britain

The role of financial
services in levelling up



FINANCIAL
MARKETS
&
SERVICES

A report for the APPG for
Financial Markets and Services,
chaired by Bim Afolami MP

PUBLICFIRST

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The APPG on Financial Markets and Services is an informal, cross-party interest and educational group. It was established in March 2003 to provide Parliamentarians with a unique forum for briefings and constructive debate on issues relating to the wholesale financial sector with senior city practitioners, advisors, economists and academics.

About this research

This report was produced by Public First on behalf of the All-Party Parliamentary Group (APPG) on Financial Markets and Services.

We are grateful to UK Finance for its supporting role, as well as to the Officers of the APPG and members of its Industry Advisory Group, who sponsored the project and provided invaluable input.

We would also especially like to thank all those individuals and organisations who so generously offered us their time and expertise as the report was developed.

Methodology

To gather evidence for this report, Public First and UK Finance arranged four industry roundtables, based in different cities around the UK, held a detailed written consultation, and conducted numerous interviews with relevant experts.

In total, more than 70 different organisations, based in 21 towns and cities across the UK, contributed to our work.

Public First also conducted a nationally representative poll of 2,000 people between 26th and 28th July 2022 and held three online focus groups with adults from social grades B, C1 and C2 in Glasgow, Newcastle and Birmingham.

Author



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Foreword

Foreword

Levelling up has been a key catchphrase in our politics since the Conservative's landslide victory of December 2019. At its core, it means trying to ensure that government policy tries to ensure that we bring out the talent in every individual, every household, every business or potential business, and every community all over the country. This talent is spread evenly, but opportunities to progress are not.

Many people interpret this challenge through the prism of public spending and arguments about redistribution. Now public spending definitely has a role in this. Yet allocating public spending slightly differently will not be sufficient to change what is primarily a need for economic regeneration and rejuvenation in every corner of the UK; led by the private sector.

For the private sector to lead it will need financial services to play their part. Financial services are not just the jewel in the crown of the British economy, but they are critical to the effective working of the "real" economy. To the business owner, financial services provides the insurance necessary for the office building, the equity required to fund the expansion into new markets, the overdraft to manage the cashflow during a tough month. Financial services are crucial.

Yet in the Government's White Paper on Levelling Up, although financial capital was cited as one of the six essential capitals (human, intangible, financial, physical, social and institutional) that must come together for places to thrive and grow, the paper did not specify how the Government sees the role of the financial services sector. The point of this report is to fill that gap.

Conducting the research for the report has been a great opportunity to speak to people involved in financial services around the country and to see at first hand the positive impact that the industry makes to places across the UK.

I am grateful to the dozens of senior figures within financial services, business and charity leaders, policy thinkers and government officials who contributed to our inquiry, as well as to the MPs and Peers from all parties who engaged with it.

The process has left me more certain than ever that financial services are already playing a critical role in levelling up and that the mission to spread opportunity will only succeed if government and the industry now work together to take this even further.

Bim Afolami MP

Chair of the the All-Party
Parliamentary Group on
Financial Markets and Services





Introduction

Levelling up is now a central theme of British politics.

The new Prime Minister has made clear his “cast-iron commitment to levelling up” and promised to deliver the promise of the Government’s 2019 manifesto to “level up every part of the United Kingdom”.¹

The Opposition have also begun to set out their own plans, arguing that ‘real’ levelling up should go even further and faster than is currently envisaged.

Local politicians – particularly the Metro Mayors, elected by a combined 10 million people in 2021 – have given towns and cities outside the capital an increasingly influential voice in public life.

But there has been an important gap in the debate so far: the contribution of financial services.

Despite the industry being the UK’s largest taxpayer, one of its largest employers and contributing around 10% of its total economic output, there has been relatively little analysis of the role it might play in levelling up. There was little reference to financial services in the 332-page Levelling Up White Paper, whilst levelling up hardly features in the Treasury’s revised vision for the industry.²

The APPG for Financial Markets and Services commissioned this report to fill that gap.

Through a series of roundtables in cities around the country, an industry consultation and interviews with experts, as well as polling and focus groups conducted with the public, we have attempted to explore the crucial role that financial services already play in levelling up and make specific recommendations for how this could be taken further.

As this report shows, financial services boost the economic prosperity, life chances and wellbeing of communities right across the UK, touching every aspect of people’s lives. The challenge now for both government and the industry itself is to build on this success.

As the new government seeks to set out its own distinctive approach to Levelling Up, with a particular focus on the role of the private sector, we hope this report acts as a blueprint for how financial services can play its full role in delivering growth and supporting communities around the country.

¹ Hansard (2022) [Prime Ministers Questions](#); Conservative Party (2019) [Conservative Party Manifesto](#)
² Department for Levelling Up, Housing and Communities (2022) [Levelling Up the United Kingdom](#); HM Treasury (2021) [A New Vision for Financial Services](#)

What do we mean by levelling up?

The meaning of 'levelling up' has been much debated. In this report we have used the Government White Paper's definition, also reflected in the Levelling Up Bill now in Parliament, which is to close the gaps in outcomes between different regions of the UK.

More specifically we have considered how financial services can contribute to the following objectives, around which the Government has arranged its own plans:

- boost productivity, pay, jobs and living standards by growing the private sector, especially in those places where they are lagging;
- spread opportunities and improve public services, especially in those places where they are weakest;
- restore a sense of community, local pride and belonging, especially in those places where they have been lost; and
- empower local leaders and communities, especially in those places lacking local agency.



Executive summary

“And when I think of finance ... finance is intertwined with every business, every person, every household.”

Mechanic, Newcastle

“You think about Canary Wharf ... you think of the stock market ... and everything seems to centre around London. So, when you hear that two thirds of jobs (in financial services) are outside London, then yeah, I’m as surprised as everybody else, I think.”

Retired aviation manager, Newcastle

The UK’s financial services industry touches almost every aspect of our economy and society.

This means it has a uniquely important role to play in levelling up and boosting growth across the whole UK.

Financial services are already having a significant impact across each of the ‘missions’ identified in the Government’s Levelling Up White Paper, which are now set to be enshrined in legislation.

As a major employer, the industry provides highly paid, highly skilled jobs for more than 2.2 million people across the country, with around two-thirds of these roles based outside of London.³

These jobs are found not just in the internationally significant finance hubs that have emerged in recent years, such as Birmingham, Belfast and Glasgow, but also in places that are central to the levelling up agenda.

From Stockton to Swansea, dozens of smaller towns and cities have thousands of people employed by the industry, with over half of the population knowing someone who has worked in financial services, or worked in it themselves.

As an investor and lender, financial services fuel the growth of regional economies by providing tens of billions of pounds in investment.

This supports businesses and infrastructure development around the country – from tech start-ups in Manchester looking to scale up, to huge new green energy projects in Teesside that are essential for delivering Net Zero.

And as a trusted provider of finance and other services, financial institutions sit at the heart of local communities, making them more resilient and dynamic.

This is seen both through their physical presence on the high street but also in the work they do to support the financially vulnerable, develop people’s skills and invest in the social infrastructure of towns and cities.

At a time when businesses and households face a tough economic climate, this role matters more than ever.

Financial services provide a powerful example of why any successful efforts to level up different regions relies on the whole of the UK economy growing simultaneously. Only through the industry’s continued strength in London and other major hubs can it play its full role elsewhere.

Polling for this report shows that the public are aware of the critical role financial services play. 93% of people describe the industry as important or very important for the national economy, ahead of almost every other part of the private sector. 81% believe this means financial services have an important or very important role to play in levelling up.

But the public also want the industry to go further.

73% think financial services are too concentrated in London and 79% believe the jobs and investment it provides should be better spread around the whole country.

People want the industry to focus on investing more in companies outside of London, ensuring a better spread of well-paid roles across the country and doing more to invest in small and medium sized businesses.

These are similar themes to those raised by the industry itself through the extensive consultation carried out for this report.

Those who contributed identified significant opportunities to expand the industry’s impact – boosting growth and unlocking new investment, opening up the opportunities it offers to a broader range of people and improving the way it supports communities.

In response, this report sets out detailed recommendations for how this can be achieved, centred around four themes:

- **Stronger collaboration across the industry** – which would support the growth of financial services hubs, open up the industry to new talent, and expand its reach into communities;
- **More effective regulation** – which would boost competition, reduce the gaps between investors and those who need finance and allow all parts of the industry to contribute as much as possible;
- **Better use of investment** – which would unlock significant new resources for levelling up, ensure existing investment is more efficiently targeted and boost public-private partnership; and
- **Empowering local leadership** – which would enable the industry and local politicians to work together more effectively at a regional level.

Together, it provides a blueprint for how financial services can play its full role in levelling up every part of the UK and deliver growth in a way that benefits all its communities.

Summary of recommendations

This report makes recommendations across each of the missions set out in the Levelling Up White Paper. In summary, these set out how financial services can contribute to levelling up by:

Boosting productivity, pay, jobs and living standards

1. The Government should directly incentivise financial firms and others to create and relocate senior roles outside of London, particularly as part of new plans for Investment Zones.
2. The Government should develop a cross-departmental strategy for how remote working can boost economic growth and support levelling up, in financial services and the wider economy.
3. The financial services industry should invest in building the capacity of financial services hubs around the country through better structures for regional collaboration, advice and advocacy.
4. The Financial Services and Markets Bill should be amended so that the new secondary regulatory objective for financial regulators is explicitly focused on delivering growth for all regions of the UK.
5. The Government should expand the remit of the Office for Investment to focus on how to unlock greater volumes of domestic growth capital, particularly from pension funds, to support levelling up.
6. The Prudential Regulation Authority should reform rules around capital concentration to enable the growth of UK only challenger banks and incentivise the spread of lending across the UK.
7. The Government should rationalise the structure of its development funds to create a simplified hierarchy of local, regional and national funds.

Spreading opportunities

8. Companies in the financial services industry should delegate a greater proportion of personnel decisions to regional offices, in order to retain and cultivate local talent.
9. The Government should use its review of the Apprenticeship Levy to build greater flexibility into the system and give businesses greater discretion over how funds can be used.
10. The Department for Education and local government should integrate financial education into the new Multiply adult numeracy programme.

Restoring a sense of community, local pride and belonging

11. The Banking Hub programme should use the rollout of banking hubs to pilot how a wider range of services can be delivered through bank branches, including public services and advice for communities.
12. The FCA, Treasury and the financial services industry should jointly work on proposals that will help fill the gap in affordable finance, by growing the community lending sector and incentivizing mainstream lenders to provide alternatives to high-cost credit.
13. The Government should use its forthcoming review of the Consumer Credit Act to develop new standards for how financial products are described, rooting this in language that is accessible to those with weak financial literacy.

Empowering local leaders and communities

14. The Government should make future devolution deals and the Government funding associated with them formally contingent on securing private sector investment.
15. The financial services industry should create a secondment scheme in partnership with local government, enabling the movement of staff between firms, Combined Authorities and other government bodies, to share expertise on financing and investment.
16. The financial services industry should explore the creation of a new scheme which pools anonymised data on financial transactions and investment with data from the Treasury and other government bodies to create insights into the economy for local leaders and policy makers.

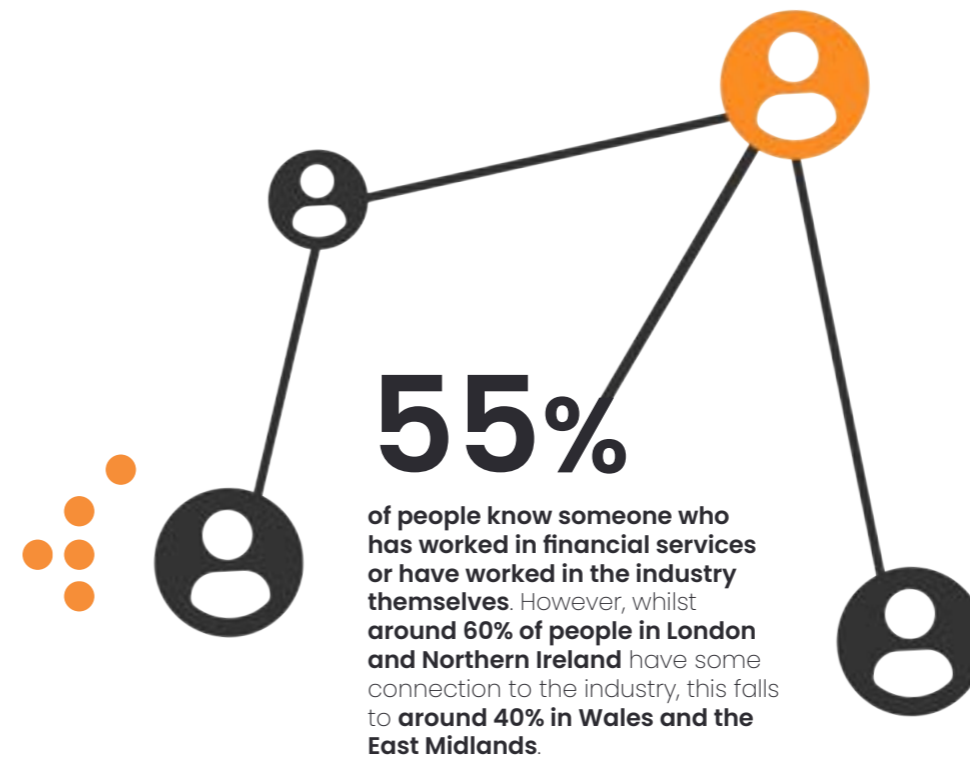
The public's views on financial services and levelling up

This report is the first to have looked in depth at public perceptions of the role of financial services in levelling up. The findings from our polling are referred to in detail throughout this report, including support for specific policy recommendations.

Overall, we found that across every region of the UK, the public see financial services as making a critical contribution to the economy and having an important role to play in levelling up.

The industry is principally seen through its role in creating economic growth through jobs and investment. Although all parts of the UK recognise the industry's importance, there is also a strong appetite for it to have further impact outside of London and the South East.

Our polling found that:



believe that financial services have an important or very important role to play in levelling up.

81%

93%

believe that financial services are important or very important for the UK economy. The industry is seen as the fourth most important for the economy overall, behind healthcare, education and utilities.

78%

believe financial services are important or very important for the economy of their region specifically. Northern Ireland was the region where financial services were seen as most important (92% important or very important) with Wales the region where it was seen as least important (72%).

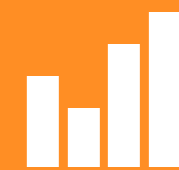
62%

of people think that all parts of the country benefit from the UK's financial services industry. However, 73% think financial services are too concentrated in London and 79% think the jobs and investment it provides should be better spread around the whole country. Those in the regions furthest from London, such as Scotland, the North East and Northern Ireland, were the most likely to think the industry was too concentrated there.

Of the Government's missions for levelling up, financial services were seen as having the most potential to help **boost rates of pay, employment and productivity (38%), boost the level of private investment in the economy in regions outside London and the South East (35%) and improve the quality of education and training in schools and colleges (25%).**

The issues people most wanted the industry to focus on to support levelling up were **investing more in companies outside of London (30%), ensuring a better spread of well-paid roles across the country (26%) and investing more in small and medium sized businesses (26%).**

The main benefits for the economy from financial services are seen as **providing direct employment (46%), providing financial products to ordinary people (41%) and directly investing in businesses (41%).**



How financial services support levelling up

Financial services already play a hugely wide-ranging role in supporting levelling up, with the potential for them to contribute even more through the right mix of regulation, government policy and action from industry.

This section sets out the findings of our research in detail – showing how financial services support each of the government's four objectives for levelling up, which are to:

- boost productivity, pay, jobs and living standards by growing the private sector, especially in those places where they are lagging;
- spread opportunities and improve public services, especially in those places where they are weakest;
- restore a sense of community, local pride and belonging, especially in those places where they have been lost; and
- empower local leaders and communities, especially in those places lacking local agency.

In each part of it we summarise the current work going on in the sector to contribute to this objective, explore how this could be taken further and give practical recommendations for doing so.



Boosting
productivity,
pay, jobs and
living standards

Financial services have a key role to play in supporting the Government's vision of creating a high skill, high wage economy across the UK.

The industry already makes a significant contributor to the UK economy as a direct employer – creating well-paid, highly productive jobs in towns and cities around the country.

But it has an even greater influence through its provision of financial capital – identified in the Levelling Up White Paper as one of the six 'capitals' necessary for any area to be successful – for businesses across the economy and investment in the digital and physical infrastructure that they rely on.⁴

Creating high skilled employment around the UK



Current situation

Around two-thirds of the 2.2 million jobs in financial services are based outside of London, with certain sub-sectors employing an even higher proportion of their workers outside the capital.⁵ Of the 51,000 people employed by building societies, for example, 95% are based outside of London.⁶

These roles make a significant contribution to boosting productivity and earnings around the country. In every region, jobs in financial services are on average more productive and attract higher annual media earnings than those in other sectors.⁷

The strong regional presence of financial services has historic roots. Banks and building societies such as Provident Financial Group and Yorkshire Building Society in Yorkshire, have been intimately involved in the development of their local economies, in some cases for hundreds of years.

More recently, national and international firms have created more roles outside of London – either by relocating existing roles out of the capital, as in the case of HSBC's decision to move 1,000 staff and the headquarters of its UK ring-fenced operations to Birmingham,⁸ or by choosing to grow operations in the regions, as in PWC's creation of a new Assurance Centre in Bradford, which has created over 225 increasingly high skilled jobs in the city.⁹

"After COVID you return to the office and there's constant construction going on. You know, there's several big buildings getting built in the city centre ... and that district at the front end of town is very finance driven. If it's not a bank, it'll be an insurance company, or something similar. But I have seen, you know, Virgin Money, Barclays, RBS – they've got a big corporate office there as well. So, it's all the big players out there. HSBC as well."

Payroll manager, Glasgow

"I've got a friend who is a customer service advisor in the new Barclays building in town, which is incredible. It's got a gym, it's got a rooftop bar. And she didn't have any qualifications before ... and I would say she is the Joe Bloggs. She worked in WH Smiths, she then had a child and left her job and she's gone straight into this great customer service job."

Teacher, Glasgow

4 DLUHC (2022)

5 TCUK (2022)

6 Building Societies Association (2022) Response to consultation for this report

7 TCUK (2022)

8 Greater Birmingham Chambers of Commerce (2019) [HSBC move generated £540m for region](#)

9 PWC (2019) [Bradford: making the right move](#)

These major relocations and investments by large firms are especially important for building financial services hubs around the country, since their scale provides the critical mass that encourages other firms to invest and allows the industry to engage fully with local partners.

For example, Barclays' opening of a major campus in Glasgow prompted the university and others to tailor their course offer to reflect the needs of the financial services sector. The cumulative effect has been to create a thriving local ecosystem for financial services, with deeper pools of human, financial and intangible capital – exactly as envisaged by the Levelling Up White Paper.

New technologies have also created opportunities beyond London – for example in the fintech clusters now found in regions such as South Wales and the North East,¹⁰ or in Leeds's growing role as a centre for green finance.¹¹

Collectively, this has led to the development of significant financial hubs across the UK, often with their own distinctive specialisms, such as asset management in Edinburgh or maritime insurance in Liverpool.

There are now 10 cities outside London with over 19,000 people working in financial and related professional services – several of which could be seen as delivering on the Levelling Up White Paper's goal to have a 'globally competitive' city in every region of the UK.¹²

But the industry's presence is also felt far beyond these hubs. Our research found that over half of the population (55%) knew someone who worked in the industry, or had worked in it themselves. This reflects the fact that there are 494 constituencies, or 76% of the total number, with more than 1,000 local people employed in financial or related services, with 21 towns and cities in the UK having more than 10,000 people employed in the industry.¹³ From Stockton to Swansea, Halifax to Wolverhampton, this includes many towns and cities which are a central focus of the Levelling Up agenda.



21 towns and cities in the UK have more than 10,000 people employed in the industry



Case study: HSBC's move to Birmingham

This involved £200 million of investment in a city centre office and the relocation of around 1,000 roles. In total, about 3,700 employees now work in the Birmingham head office. Employment across the West Midlands region now stands at approximately 4,000 employees.

By 2019, the move was estimated to have generated £540 million of wealth for the West Midlands, through the direct impact of HSBC's operations and its supply chain. Of this, nearly £390 million was generated directly by the Birmingham head office and the bank's other operations across the West Midlands. This represented some 8% of the GVA generated by the region's financial services sector as a whole.

At the same time, nearly £33 million worth of GVA in Birmingham and nearly £100 million worth of GVA elsewhere in the region will have been generated by (i) the spin-off benefits to suppliers of goods and services and (ii) the impact of expenditure by HSBC UK's employees at shops, pubs, cafes and restaurants.

The move has acted as a catalyst for significant growth of the region's financial services sector, with over 25 other firms also investing in new or expanded operations locally.

This includes Deutsche Bank's creation of 1000 new roles in Birmingham and Goldman Sachs moving its engineering division to the city, on the back of its growing strength in digital services.

The total GVA generated by financial services in the region is now set to double to £50bn by 2030.

It has also led to other benefits for the local community, for example through partnerships with the University of Birmingham aimed at improving local people's digital skills and the creation of an accelerator programme for SMEs focused on climate innovation.

10 Kalifa, R (2021) *Kalifa Review of UK Fintech*
11 University of Leeds (2021) *New £10m research centre for greener global finance*
12 TCUK (2022) ; DLUHC (2022)
13 TCUK (2022)

»» Going further

There is significant potential to expand the presence of financial services in the regions and contribute even more to levelling up.

London continues to dominate the industry in terms of where both firms and the most senior roles are based. 49% of the 1000 largest financial services firms are based in the capital, compared to just 2% in Wales, and over 70% of financial services jobs there are made up of the three most senior occupations, compared to less than half of roles in the North East.¹⁴ This means that many people within the industry still face a glass ceiling in progressing their career away from London.

Recent research has found that 43% of firms in the sector currently plan to increase their regional headcount but action from the Government and the industry itself on several issues is needed to help accelerate this trend.¹⁵

This would have strong public support, with 79% of respondents to our poll believing that jobs and investment in the industry should be better spread around the country, and 73% feeling that the industry is currently too concentrated in London.

“Growing up, I would never have thought ‘let’s move to the big smoke and work in finance’... But I think if there was a bank based here then maybe I would have thought about it.”

Senior Manager, Newcastle

The Government has a fundamentally important role in providing the right incentives for firms to shift senior roles and significant operations to the financial services hubs that are growing around the country.

Part of this is about leading by example, with the opening of the Treasury’s Economic Hub in Darlington and a new Financial Conduct Authority (FCA) office in Leeds providing positive signals to the private sector that the government is committed to move its own operations outside London. Investment in the transport connections and other services that businesses require is also crucial. Extending Northern Powerhouse Rail will be critical to the growth of Bradford and Leeds as financial hubs, for example.



49% of the 1000 largest financial services firms are based in the capital, compared to just 2% in Wales

¹⁴ Financial Services Skills Commission (2021) *Skills for future success*; Financial Services Skills Taskforce (2020) *Financial Services Skills Taskforce Final Report*
¹⁵ FSSC (2021)

But the evidence suggests that to really shift behaviour, direct financial incentives are required. The willingness of local authorities in Belfast to help subsidise training costs for new employees in financial services was a key part of Citi’s decision to create a major new office there, for example. Whether through tax relief, simplified regulation or co-investment, helping to bridge the initial costs of operations is critical in determining whether financial services firms can make the business case for creating relocating senior roles or creating new ones away from existing headquarters.

“We could have put these jobs in lots of cities around the world ... a lot of your decision comes down to their marginal cost and small financial incentives make a big difference.”

Senior Manager, Global bank

To boost levelling up, the Government should therefore directly incentivise financial services firms to invest in operations outside of London – including through its plans to create new ‘Investment Zones’ across the country. Making financial services a key part of future Investment Zones in relevant areas would have the benefit of both creating highly skilled, highly paid jobs in the area but also boosting the local area’s ability to attract further private investment, by shortening the distance to potential investors. This makes it more likely that Investment Zones will have the right combination of human and financial capital necessary to succeed in the long term.

Recommendation 1

The Government should directly incentivise financial firms and others to create and relocate senior roles outside of London, particularly as part of new plans for Investment Zones.

Alongside growing the presence of financial services in cities around the country, there is a huge opportunity for remote or hybrid working to change the economic geography of the sector, with one recent study suggesting that financial services had the highest potential for remote work of any industry.¹⁶

An industry wide shift towards more remote or hybrid working could have a significant impact on levelling up, with the evidence of the pandemic showing that areas with more remote working are more likely to see higher levels of local spending – helping to revive local economies.¹⁷

Several firms are already embracing this trend. For example, Nationwide has repurposed office space in Sheffield and Wakefield which was previously used as a call centre into a hub that employees from across the business can use flexibly.¹⁸

“Even before Covid, our new office was designed for hybrid working, which has helped us create opportunities across a much wider area. Our employees are now able to work across Scotland, with some coming from as far away as the Highlands.”

Senior Manager, Scottish bank

To really seize the opportunities of remote working, however, greater leadership is needed from the Government through a cross-departmental strategy for how remote working can support levelling up, rather than overheat property markets in rural and coastal areas. This should bring together issues such as the rollout of digital infrastructure, the provision of office space and employee rights. The Irish government’s strategy for remote work provides a model for this.¹⁹

Recommendation 2

The Government should develop a cross-departmental strategy for how remote working can boost economic growth and support levelling up, in financial services and the wider economy.

There is also much more that the financial services itself could do to encourage the development of financial services hubs.

Our research found a huge amount of activity happening across the country, but it was noticeable that this was better coordinated in some places – for example in Scotland, through the work of Scottish Financial Enterprise – than in others.

16 McKinsey Global Institute (2020) *What's next for remote work: An analysis of 2,000 tasks, 800 jobs, and nine countries*
17 Demos (2021) *Post Pandemic Places*
18 Nationwide (2022) Response to consultation for this report
19 Irish Government (2021) *Making Remote Work: National Remote Work Strategy*

In places where networks were weaker, this could lead to substantial amounts of duplicated effort and confusion. For example, education partners in Leeds told us they often struggled to know which part of the industry to engage with or could be bombarded with a range of similar initiatives. A lack of cross-sector representation in the regions also makes it harder for start-ups and SMEs to connect with each other, and for those not operating in an area to gain an insight into the merits of expanding there.

There is a striking contrast between the deep capacity of networks and industry coordinating bodies based around the City of London and those found in other cities. In many ways the centralisation of financial services around London mirrors that seen in government and other industries that have most to do on levelling up.

“The main challenge (in moving operations to a new area) is getting started. Who do you talk to? That’s why having ‘gateway’ organisations, like Scottish Financial Enterprise, is so important. There isn’t a playbook for working in a new area but the industry could be much better at sharing experiences.”

Partner, Financial services firm

To address this, the industry should build on TheCityUK’s network of regional Chairs by investing in developing the capacity of cross-sector representation in financial services hubs around the country. This could include the creation of full-time roles which can genuinely drive this forward.

Other sectors, such as tech, show how collaboration can grow the overall size of an industry within a region, even whilst competition within it remains strong. One contributor to our research, for example, contrasted the way that fintech firms in Manchester work together much better than the rest of the financial services sector locally.

Enabling local financial services companies to come together so they can work together on common challenges, such as skills, provide advice and support to SMEs in the industry and be jointly represented in local decision making, especially at a time of increased political devolution, would allow the industry as a whole to take a more pro-active role in delivering levelling up.

Recommendation 3

The financial services industry should invest in building the capacity of financial services hubs around the country through better structures for regional collaboration, advice and advocacy.

Delivering investment and support for businesses across the UK

Current situation

As the Levelling Up White Paper identifies, historically uneven levels of public and private investment have contributed significantly to the gaps seen between different regions of the UK.

The financial services industry therefore has a key role to play in supporting levelling up by helping to reverse these trends and ensuring private sector investment reaches those who need it, wherever they are located.

By combining deep capital pools with a range of business models for delivering investment, from centuries old building societies to cutting edge fintechs, the sector is taking concerted action to do this.

Several major lenders have established dedicated channels for investing in businesses that can traditionally struggle to access finance, such as SMEs and businesses led by women or minorities.

This includes HSBC's £15 billion SME fund, of which £12 billion will be invested outside of London, and NatWest's £2 billion fund for investment in female led businesses.

Challenger banks and fintechs have also played a valuable role in creating new routes for businesses to find investment, which has been especially valuable to those outside London.

The online platform Funding Circle, for example, has provided £10 billion of lending since 2010, which is over-represented in the top 10% most deprived Local Authorities, as well as the regions which have the Levelling Up White Paper largest investment gaps – the East Midlands, Yorkshire and the Humber, and the West Midlands.²⁰



Case study: NatWest's use of regional boards

With 19 million customers, NatWest is one of the UK's largest banks, but it is now taking a deliberately local approach to how it operates.

It has created seven regional boards, each covering different regions of the country, which bring together senior leaders from across the business to engage with key stakeholders from the financial sector, business community, government and civil society.

Each board is charged with tailoring the implementation of NatWest's national strategy for local needs and providing actionable plans to support local communities.

They are also able to review the impact the business is having on each region in the round – for example in delivering greater levels of investment through a £6 billion fund designed to help SMEs scale, £4 billion of which is ringfenced for companies outside the capital.

The small but growing presence of Community Development Finance Institutions (CDFIs) is also improving access to finance in areas that are the most 'left behind'. By focusing on those who have been turned down for lending elsewhere, CDFIs are twice as likely as mainstream banks to lend to businesses in the 35% most deprived areas. This is particularly beneficial for under-represented groups, with female-led and BAME-led businesses significantly over-represented in lending by CDFIs in recent years.²¹

Capital markets also play a crucial role in providing equity investment to regional economies. Recent years have seen increasing levels of investment in fast growing companies outside of London – which attracted £8.1 billion of venture capital investment in 2021 alone, more than double the level in 2019.²²

This has been particularly important for the financing of major infrastructure initiatives that will reduce regional disparities in connectivity and productivity, such as the rollout of gigabit broadband, new housing and upgrades to transport. In future, it will also be critical in supporting the transition towards Net Zero. Work to retrofit an estimated 29 million existing homes that need to reduce their carbon emissions, for example, will require financing the retrofit industry to scale up to ten times its current size.²³

Taking a place-based approach to investment is key to reducing barriers which can deter investors – such as obstacles around planning and procurement – and making effective use of public funding to crowd in private money.

This includes attracting and facilitating Foreign Direct Investment (FDI), with the 72% increase in FDI across the North over the last five years attributed to the way the idea of the Northern Powerhouse has made the region more attractive to foreign investors.²⁴



Fast growing companies outside of London attracted £8.1 billion of venture capital investment in 2021 alone – more than double the level in 2019

21 Responsible Finance (2022) Response to consultation for this report
 22 KPMG (2022) Response to consultation for this report
 23 Green Finance Institute (2021) *Tooling up the Green Homes Industry: Financing the Retrofit Supply Chain*
 24 Northern Powerhouse Partnership (2022) *Internationalisation of the North Powerhouse*

Going further

However, significant gaps remain in the availability of finance in different regions, holding back regional growth.

According to the British Business Bank, the UK has regional debt gaps of between £2-3 billion in regular bank lending and £0.9 billion in private debt each year.²⁵ Gaps in equity investment are even more pronounced, with firms outside of the capital around 50% less likely to secure this, even after accounting for a range of factors which affect investment decisions.²⁶

These gaps affect certain types of businesses in particular, with 42% of small business owners believing credit availability is poor or quite poor and businesses led by people from ethnic minorities – who are almost twice as likely to feel discouraged from approaching a bank to meet a financing need.²⁷

This is something the public are intuitively aware of. Our polling found that people were twice as likely to say investment is unfairly distributed across the UK (39%) as fairly distributed. This feeling was particularly strong in regions outside London, with 51% of people in Yorkshire and 47% of people in the North West saying investment is unfairly distributed, compared to only 28% in London.

“I think we get left behind a bit with investment. You do see some of it, but I just get the impression that we don't really get a big enough slice of the cake compared to other cities maybe like Leeds, Birmingham, Manchester ... I just get the feeling we don't really get as much as we could do.”

Retired Aviation Manager, Newcastle

Closing these gaps would have a huge impact on levelling up, with one recent report estimating that targeted support for SMEs could unlock £140bn of additional GVA growth by 2030 – equivalent to creating around 3.2m new jobs across the UK.²⁸

The Government's Levelling Up White Paper suggests some potential solutions to this problem, such as encouraging Local Government Pension Fund Schemes to increase their level of local investment and growing the BBB's Regional Angels programme. But it also explicitly acknowledges that there is much more to do and proposes that unlocking capital for SMEs as a particular focus for the Levelling Up Advisory Council.²⁹

25 DLUHC (2022)
 26 Department for Business, Enterprise and Industrial Strategy (2019) *Equity Finance and the UK Regions Understanding Regional Variations in the Supply and Demand of Equity and Growth Finance for Business*
 27 Federation of Small Businesses (2018) *Going For Growth Helping Small Firms Flourish Through Access To Finance*; NatWest (2022) *Time To Change: A Blueprint For Advancing The UK's Ethnic Minority Businesses*
 28 NatWest (2021) *A springboard to recovery: Building back better together*
 29 DLUHC (2022)

As the Government considers further action, there is a significant opportunity for the financial services industry to unlock significant new amounts of investment to support levelling up, if the Government can help provide the right incentives for it to do so.

The first element of this is ensuring regulation fully supports the levelling up mission. The Levelling Up White Paper has set out plans to 'rewire' Whitehall behind levelling up; this should include financial regulators and other relevant bodies too.

A simple step would be to amend the Financial Markets and Services Bill – which currently proposes to make growth and international competitiveness a secondary objective for the Prudential Regulation Authority (PRA) and FCA so that it more explicitly supports levelling up.³⁰

An explicit reference within the legislation to ensuring that the growth that it aims for benefits all regions and nations of the UK would hardwire consideration of regional imbalances into regulatory decisions and ensure these helped address them.

An example of how this could make a difference can be seen with the new class of Long-Term Asset Funds (LTAF), which have now been authorised by the FCA.

By providing investors, such as pension funds, with a vehicle for investing in long-term illiquid assets, these could play an important role in increasing investment in infrastructure projects, Net Zero initiatives and other activity that promotes regional growth. However, the FCA fully integrating levelling up into plans for LTAFs – for example, by linking them to Investment Zones – would help to ensure that they do so. Similarly, opening LTAFs up to retail investors, a proposal the FCA is currently consulting on, would also help boost levelling up by allowing more people to invest directly in projects which support it.

Recommendation 4

The Financial Services and Markets Bill should be amended so that the new secondary regulatory objective for financial regulators is explicitly focused on delivering growth for all regions of the UK.



Our polling found that people were twice as likely to say investment is unfairly distributed across the UK (39%) as fairly distributed

30 HMG (2022) *Financial Services and Markets Bill* (accessed 22/10 when at Committee Stage in the House of Commons)

Alongside better alignment, successfully levelling up will require a significant expansion in the volume of capital being actively used to support growth across the country. The UK has sufficient financial firepower to do this – its pension funds alone hold around £3 trillion of assets – but there is a long-standing challenge around ensuring it is used more productively.³¹

“The problem is less one of finance ... more one of information and knowledge. Enough money is available but it’s not reaching the right places.”

Financial services expert

The Government has set out welcome plans to unlock greater investment, including through its proposed reforms to Solvency II regulations and the pensions regulatory charge cap to incentivise pension funds to have a greater focus on performance.

However, these will need sustained focus to genuinely change industry behaviour and practical delivery support if they are to unlock the full potential of the UK’s capital markets.

“I wouldn’t have a problem with this (pension funds being encouraged to invest more in housing). You know, thinking about kids now that trying to get on the property ladder, it’s horrendous for them, even if they’re, they’re in good jobs. So, if money is invested in housing, and then it’s passed on with affordable prices, then I don’t have a problem.”

Retired Teacher, Birmingham

31 Office for National Statistics (2022) *Funded occupational pension schemes in the UK: October to December 2021*

One solution would be to expand the remit of the Office for Investment (Ofi) – which has helped attract significant new Foreign Direct Investment into the UK – so that it also focused on how to boost investment from assets under management in the UK.

Working across departments with the full backing of No10 and the Treasury, as it has done with foreign investors, an expanded Ofi could help to land top-tier deals with domestic investors for projects which support levelling up, as well as pressing for further changes to policy and regulation which unlock further investment.

With the right set up, including skills drawn from the private sector, this would only require a small team of officials, charged with looking exclusively at how to boost the use of domestic growth capital and then practically supporting the delivery of this. To ensure this work has an appropriate focus on levelling up, this team could be integrated into plans for the Ofi to establish a presence in each part of the UK – with officials working directly to support Combined Authorities and other devolved bodies.

Recommendation 5

The Government should expand the remit of the Office for Investment to focus on how to unlock greater volumes of domestic growth capital, particularly from pension funds, to support levelling up.

Delivering levelling up will require not just more investment but also greater competition within the banking sector, so that this is better able to reach businesses and others across the whole country.

The UK's banking sector has a much weaker regional presence than that seen in other, comparable economies. This compounds the "liability of distance" in which increased physical distance between businesses and potential investors undermines investor confidence.³² With over 80% of equity investments made by investors with offices within two hours travel time of the company they are investing in, a financial services sector concentrated in London means that businesses in the South East have an obvious advantage over others when it comes to accessing finance.³³

Further action is therefore needed to give businesses across the UK a greater range of financing options. This could include expanding the impact of regional mutuals, Community Development Finance Institutions and other place-based lenders, who have a deep understanding of specific communities, and specialist banks which target particular types of underserved businesses, such as SMEs. It also means boosting the role of fintechs, who can use technology to cut through physical barriers by finding innovative ways to reach customers digitally.

One barrier currently holding back fintechs and challenger banks are requirements around capital concentration – which effectively penalise banks that lend only in the UK by applying an additional capital charge to them. Reforming these rules so that banks were required to spread their lending across the UK, rather than internationally, would not only allow greater competition from challenger banks but incentivise them to actively support levelling up.

32 Mayer and Collier (2020) *Reforming the UK financial system to promote regional development in post-COVID Britain*

33 British Business Bank (2021) *Regions and Nations Tracker: Small Business Finance Markets 2021*

Recommendation 6

The Prudential Regulation Authority should reform rules around capital concentration to enable the growth of UK only challenger banks and incentivise the spread of lending across the UK.

Finally, there is a need to ensure that public-private partnership is used as effectively as possible to channel investment into levelling up.

The Government's development banks have already made a substantial impact on levelling up. The British Business Bank's Northern Powerhouse Investment Fund, for example, has used £332 million of public money to make over 1300 investments in fast growing SMEs in the North of England and leveraged an additional extra £489m in private sector finance.³⁴

Going forward, their investments will need to have sufficient risk appetite to genuinely crowd investment into places and projects which are just on the cusp of viability for the private sector. This is likely to mean a greater focus on high growth companies and projects and the small cities and towns which have most struggled to attract investment, rather than competing with the private sector to finance relatively low risk investments in large cities.

It is also important to ensure these funds have a clear focus and are as easy for the private sector to navigate as possible. Currently, however, development funds reflect the patchwork way they have been established, with regional programmes such as the Midlands Engine Investment Fund or Cornwall and Isles of Scilly Fund following the priorities and terminologies of previous governments rather than a coherent structure for investment.

Over time, the Government should seek to rationalise and restructure these investment funds around consistent and easily understandable geographies. Moving towards a simplified hierarchy of local, regional and national development funds – such as those used in Germany – would make it easier for investors to understand how to navigate the landscape and connect with opportunities, as well as strengthening links with local government as power is increasingly devolved out of Whitehall.

Recommendation 7

The Government should rationalise the structure of its development funds to create a simplified hierarchy of local, regional and national funds.

34 British Business Bank (2022) Response to consultation for this report



Spreading opportunities

Roles in financial and related professional services make up approximately one in every 14 jobs in the UK, with the sector employing a population roughly equivalent to that of Birmingham, Glasgow and Edinburgh combined.³⁵

This includes a hugely varied range of jobs, including some of the most highly skilled and most productive roles in the economy, from which many people progress into other fast-growing industries, such as technology.

As a result, the industry has an important role to play in developing the skills of the future economy and spreading opportunities, as well as helping existing workers to keep learning and developing.

With financial institutions being a fundamental part of people's day to day lives and a source of trusted advice, the sector also has a unique position in helping to spread opportunity and boost skills beyond its own workforce.

Improving access to the industry for people from all regions and all backgrounds

Current situation

Financial services have long been one of the largest graduate recruiters in the economy, hiring around 20% of all graduates entering the UK labour market each year.³⁶

Recently, pathways into the industry have become more diverse. The sector now takes on around 17% of new apprentices each year in England and Wales – a significant increase from the early 2000s, when the number of apprenticeships it offered had fallen to almost zero.³⁷

Finding the right talent is, however, a growing challenge. Changes to the skills the industry needs – especially those linked to data and technology – as well as increasing competition from other parts of the economy that also demand them – such as fast-growing companies in the tech sector – mean it faces significant skills gaps, which are only likely to grow over time.



The sector now takes on around 17% of new apprentices each year in England and Wales

³⁵ TCUK (2022)

³⁶ ibid

³⁷ FSSC (2021); Money Marketing (2012) *Financial services apprenticeships rocket 200%*

This 'war for talent' is compounded by relatively weak understanding of what a modern career in the industry has to offer. As might be expected, our polling found that roles in financial services were seen as offering good salaries (57%) and job security (51%), but people were much less likely to think they offered good work life balance (33%), a sense of purpose (31%) or interesting work (31%). This poses a particular challenge as these factors are seen as increasingly important by young people.

There is also a large gap in understanding about how to get started in financial services. We found that people saw roles in the industry as attractive – with 79% of respondents saying they would be happy if a family member chose a career in the sector – but less than half of them (48%) thought it was easy to access information about how to enter it.

"It's not really something you hear people saying, you know ... (people say) 'I want to be a plumber, I want to be a doctor or a nurser or a teacher' ... but you rarely hear people say 'I want to work in finance' or 'I want to be an insurance broker'. It's almost like something where you don't know how people got into that field or where ... you don't know what the steps are to getting a job like that."

Social worker, Glasgow

In response, firms from across the sector are taking pro-active steps to build a pipeline of talent, with a particular focus on areas of the country and communities for whom opportunities have been limited.

This includes a range of partnership work with education providers, such as Danske Bank's creation of a degree apprenticeship programme with Ulster University,³⁸ or Santander's partnership with the new MK:U university, which will specialise in digital skills.³⁹

Others have created their own innovative ways to reach young people who would not normally have considered a career in financial services, for example HSBC's traineeship programme, which has now supported 500 people to access job opportunities at the firm.⁴⁰



79% of respondents saying they would be happy if a family member chose a career in the sector

38 Danske Bank (2022) Response to consultation for this report
39 Santander (2022) Response to consultation for this report
40 HSBC (2022) Response to consultation for this report

Going further

Tackling the skills gaps facing financial services is crucial if the industry is to play its full role in levelling up, since they have a disproportionately large effect on regions outside of London and the South East.

Firms in Northern Ireland and Scotland are around twice as likely to report skills shortage vacancies compared to the South East, and small and medium size firms, which employ a larger proportion of the financial services workforce in the regions, are almost twice as likely to report losing business as a result of skills gaps.⁴¹

These skills shortages represent a significant barrier to the development of financial services hubs outside of towns and cities where the industry is already well-established – limiting its potential to support levelling up in these places.

Though there is scope for significantly better coordination at a national level, building on the work of the Financial Services Skills Commission, there is also a need for action at a regional level to make people more aware of the opportunities in financial services in their area.

Our polling showed that the public see opportunities in the industry as being dominated by London. 61% of respondents outside of the capital, and a majority of respondents in all regions, thinking that it would be more difficult to find a financial services job in their area than in London.

"I've got two boys ... it would be great if they have the opportunity in the North East to do that (to work in financial services) because right now, I don't believe that they do and they'd have to move away, wouldn't they?"

Care Manager, Newcastle

"I've had some of my cousin's move from Birmingham, and from Sheffield, to London, because they're young, they've got their whole careers ahead of them, and they believe the need to start off in London. I think there's this mentality where people think you've got to go to London, then you rise faster, you get your dream job. And then once you're ready to settle down, then you can move out of the city and come back".

Trainee Nurse, Birmingham

41 FSSC (2021)

This confirmed the feedback we heard through our consultation: industry representatives spoke about the challenges of attracting talent in the regions, even in relatively large financial hubs such as Leeds, due to the perception that the best opportunities were in London.

"We have great opportunities in the city but find many young people leave for university and don't coming back, because they don't know what's on offer here, and assume they need to go to London."

Local Government officer

Other studies have also found evidence that London based headquarters may not be aware of regional skills challenges, suggesting they may not be able to solve them from afar.

One solution to this would be to give regional offices of national firms' greater agency in hiring and other HR decisions, rather than these being determined solely in head offices, which tend to be based in London.

Delegating a greater responsibility to local offices on HR – for example, allowing them to make 20% of personnel decisions without undue influence from the head office – would enable them to use their proximity to local labour markets to cultivate and bring in talent. This is especially important in recruiting more young people from underrepresented communities, given the way those on the ground are better placed to develop partnerships and reach them directly.

Recommendation 8

Companies in the financial services industry should delegate a greater proportion of personnel decisions to regional offices, in order to retain and cultivate local talent.



61% of respondents outside of the capital think that it would be more difficult to find a financial services job in their area than in London

Retaining talent and reskilling people across the country



Current situation

Increases in life expectancy and retirement age mean that around 80% of the people who will work in financial services in 2030 are already employed within it today.⁴² This means that solving skills gaps facing the industry relies even more on retaining talent and reskilling employees than attracting new ones.

Retention is a growing challenge, with one recent report finding that 2 in 5 of those working in financial services did not think they would be working in the sector in the next five years.⁴³

Highly skilled employees, particularly those with technology and digital skills, are fiercely fought over by firms within the industry and by those from other sectors. With a smaller pool of people holding these skills outside London and the South East, keeping hold of them is particularly important for growing financial services hubs and the industry's contribution to levelling up. This is compounded by the sense that people need to move to London to advance their careers and because the most senior or exciting jobs are found there.

"Retaining people at a middle management level is my biggest challenge. Keeping our top talent in the North is difficult when people feel they need to go to our national HQ to get ahead in their career."

Regional manager, Major UK bank

Other employees are facing significant disruption from automation. This is predicted to affect financial services more than any other industry over the next 20 years, with a net loss of 137,000 jobs by 2040.⁴⁴

This is particularly important for levelling up, since regions outside London have a higher proportion of lower skilled workers, whose roles are most likely to be affected. Analysis shows that whilst only 12% of workers in London have a qualification at Level 2 (GCSE or equivalent) or below, this rises to over 20% in every other region of England, and to 29% in the North East.⁴⁵

For these areas, disruption in the industry presents opportunities as well as threats. Nationally, 450,000 new jobs are forecast to be created in financial services by 2040, many of which could open up new highly skilled roles in regions outside London and the South East.⁴⁶ But to seize these benefits, employers will need to take a proactive approach to forecasting their changing skills needs and reskilling their workers as a result.

Several firms are taking a leading role in this work, for example Lloyd's Banking Group, who have invested heavily in a programme to develop the future skills of its employees, alongside the digital transformation of its business.⁴⁷

42 ibid
43 Multiverse (2022) *The future of financial services*
44 FSSC (2021)
45 DHLUC (2022)
46 DHLUC (2022)
47 ibid

»» Going further

As the FSSC have pointed out, managing the disruption facing financial services will require a culture shift within the industry, so that it focuses more on training and reskilling its existing workforce.

This has traditionally attracted less attention than new recruitment, with recent data showing that training spend per employee in financial services is lower than the average for all sectors. A large proportion of this spending is also focused on compliance rather than personal development.⁴⁸

Investing more in staff development is strongly in employers' own interest. A poll of financial services workers found that two-thirds of them said they would be more likely to stay in the industry if they were offered retraining.⁴⁹

To reverse this trend, we need to create stronger incentives to invest in retraining and to reduce barriers which prevent this.

A consistent theme in our consultation was the way that the current design of the apprenticeship levy could limit the flexibility firms had to use this to invest in their staff. Though there has been a welcome increase in the number of apprenticeship starts within the industry since the levy was introduced, a large proportion of the funds it raises continue to go unspent by the sector.

A number of firms across the sector have taken action to get better value out of their levy contributions, for example through HSBC and Lloyd's innovative approach of pooling a proportion of these with the West Midlands Combined Authority to support training in SMEs.⁵⁰

However, more fundamental reform of how the levy can be used is needed to ensure it supports the kind of mid-career training which is particularly important for levelling up. This means allowing it to be used for a much wider range of training and giving firms more flexibility in how this is delivered.

The Government should therefore use its current review of the Apprenticeship Levy to build greater flexibility into the system, giving businesses greater discretion over the time funding can be used in, their ability to transfer funding to others and the nature of programmes that can be funded.

Recommendation 9

The Government should use its review of the Apprenticeship Levy to build greater flexibility into the system and give businesses greater discretion over how funds can be used.

48 (FSST, 2020)
49 Multiverse (2022)
50 WMCA (2019) **Big banks are first to contribute to the WMCA's Apprenticeship Levy Transfer Fund**

Improving financial skills and boosting human capital

L Current Situation

Whether it's through helping them to manage spending, plan for retirement or apply for a loan to start or business, millions of people rely on the financial services industry for advice and support – putting it in a unique position to help them develop their skills and confidence.

This is particularly important for levelling up given the large disparities in skills levels across different regions.

People are significantly less likely to have qualifications above Level 3 (A-Level or equivalent) in regions outside of London, with ex-industrial towns, coastal communities and deprived urban areas the worst performing of all.⁵¹

Financial services firms already invest heavily in delivering financial education, improving numeracy and basic skills training.

This includes individual initiatives, such as Barclays' LifeSkills programme, as well as the wider funding the industry provides to the Money and Pensions Service through the financial services levy, which enables the provision of debt advice to the most vulnerable.

The industry also plays an important role in providing support for businesses. This includes advice for small business owners, accelerator programmes for tech start-ups and other high-growth companies, and dedicated help for groups who face particular challenges, such as female entrepreneurs or those from ethnic minorities.

This work is often localised and tailored to the needs of specific regions and communities, for example through NatWest's network of Enterprise Hubs, which offer support to entrepreneurs, or KPMG's partnership with universities in Nottingham and Leeds on business innovation hubs.⁵²

51 DLUHC (2022)
52 KPMG (2021) **KPMG launches programme of university partnerships**



Case study: Barclays' LifeSkills programme

Launched in 2013, LifeSkills is now the UK's largest employability programme.

The free programme is aimed at helping people to develop the skills, confidence and connections they need to enter the world of work.

It provides free lesson plans, modules and interactive tools for educators to use directly with young people and adult learners. It also supports independent learners and families by offering access to online tools and resources.

These focus on a wide range of core skills, including building knowledge and confidence about money, communication, CV writing and interview skills.

The programme has now reached 15 million people across the UK and engaged with 90% of schools, 79% of FE colleges and 87% of Universities. Training has also been delivered in partnership with JobCentres and prisons to support adult learners furthest from the labour market.

LifeSkills has also worked with 1,000 employer partners in the UK to directly placed 5,000 individuals into roles.

Going further

As we head into a period of intense economic challenge, there is more need than ever to provide people with trusted financial education and advice.

Though financial education has often been focused on helping young people develop good habits with money, the experts we spoke to also talked about the importance of delivering it to adults.

Adults are most likely to benefit when this is easy to access, grounded in real-life financial decisions and delivered close to the time when they are making them.

There is also a strong link between numeracy and financial capability, underlining the importance of improving basic maths skills.

The Government's commitment to fund 'Multiply', a new £560m adult numeracy programme, therefore represents an ideal opportunity to deliver a step change in improving financial education for adults.⁵³

This could have a significant impact on levelling up, given that standards of numeracy around the UK vary widely, with people in London and the South East significantly ahead of those in other regions when it comes to confidence with numbers.⁵⁴

As the Department for Education and local government bodies work on how Multiply will be designed and delivered, they should ensure financial education is integrated as a core element of the programme.

The financial services industry should also support these efforts by signposting customers towards the programme and aligning their own skills initiatives with it, to maximise the benefits of the programme.

Recommendation 10

The Department for Education and local government should integrate financial education into the new Multiply adult numeracy programme.

53 DfE (2022) *Multiply: funding available to improve adult numeracy skills*
54 National Numeracy (2022) *UK Numeracy Index*



Restoring a sense of community, local pride, and belonging

Alongside more traditional measures of prosperity, the Government's plans for Levelling Up have also had a strong focus on the social and physical fabric of communities.

The Levelling Up White Paper built upon a growing body of evidence that shows why this not only matters for people's pride in place, but also business activity and private sector investment.

Financial services are deeply interwoven into the fabric of communities, both through the physical presence of financial institutions and through the community activity they enable.

This includes direct support for the most vulnerable in society, as well as those who support them in a range of different ways.

Supporting community life



Current situation

Banks and other financial institutions have long stood at the heart of community life.

Despite changes to the way that people bank, our polling found that people still hugely value their physical presence on the high street. 81% told us that having a local bank branch on their nearest high street was important or very important – putting their role well above other community amenities, such as pubs and behind only pharmacies (91%), supermarkets (87%) and post offices (87%).

This reflects the importance of bank branches as a hub for the local economy – both in providing access to cash, which millions of people still rely on, and as a trusted source of advice for customers and businesses.

In many areas it may also be linked to the architecturally significant buildings that banks occupy. Previous research for Historic England has shown the importance of historic buildings as drivers of civic pride, and the importance they have for levelling up.⁵⁵ When banks disappear from these places, their loss will be particularly keenly felt.

Overall, bank branch coverage has declined more in local authorities that are more deprived and in regions, such as the East Midlands, which are a focus for levelling up. Without access to bank facilities and the services these offer businesses and consumers, efforts to regenerate these areas are less likely to succeed.⁵⁶

55 Public First (2022) *Heritage and Civic Pride: Voices From Levelling Up Country*
56 FCA (2019) *When bank closures bite: the picture across the UK*

In response, the financial services industry as a whole has made a strong commitment to maintaining the presence of bank branches in communities through its bank hubs programme - which aims to provide a hub of shared banking services in any community that is independently assessed to require one.

Individual banks have also launched their own initiatives to update the role of the local bank branch. For example, Santander's Work Café pilot in Leeds offers free co-working desks and meeting rooms, whilst Newcastle Building Society has opened community branches partnered with libraries and GP surgeries.⁵⁷

Beyond their physical presence, banks also support community in a range of other ways.

Financial services have enabled the dormant assets scheme - using the funds in dormant bank accounts to unlock almost £900m for good causes.

These include funding allocated to Fair 4 All Finance, which has helped to provide over 150,000 financially vulnerable people with affordable credit, and to Big Society Capital, Access and other organisations, who have helped to grow the volume of social investment for social enterprises eight-fold in the last decade. This has had a particular impact on 'left behind' areas with, for example, 43% of social investment deals going gone to Levelling Up Priority 1 Areas.⁵⁸

The dormant assets scheme complements a much wider range of philanthropy giving from the sector, for example NatWest's provision of over £3.3 million in grants in for young people in 2020 alone through its long-standing work with the Prince's Trust.⁵⁹ This is also matched by the personal efforts of employees, who are encouraged to give back to the communities they work in. For example, Yorkshire Building Society's volunteering programme entitles staff to 31 hours paid leave each year to take part in voluntary or charitable activities in their local community.⁶⁰



81% told us that having a local bank branch on their nearest high street was important or very important – behind only pharmacies (91%), supermarkets (87%) and post offices (87%)



Case study: Yorkshire Building Society and Citizens Advice bank branch initiative

In 2021, Yorkshire Building Society (YBS) launched an innovative pilot scheme with Citizens Advice to provide free, face-to-face, independent advice to members of the public across a range of issues, including financial wellbeing.

Citizens Advice advisers are available in branches for confidential appointments with all members of the public.

The scheme was initially made available in six branches but has since been extended to a further 12 locations across Yorkshire and the North West.

By October 2022, the partnership has supported over 1800 people – around 35% of whom were not YBS customers.

The project is helping Citizens Advice increase its reach, with almost two-thirds of those taking up the service being new to Citizens Advice, and people over 65 twice as likely to use it compared to wider Citizens Advice services.

The scheme is having a particular impact on those seeking support with benefits and tax credits - the most common issue discussed in appointments - with advice given at appointments able to, if acted on, leave participants on average nearly £6,000 better off.

57 BSA (2022)
58 Community Enterprise Growth Plan
59 NatWest (2022) Response to consultation for this report
60 Yorkshire Building Society (2022) Volunteering

» Going further

Despite these efforts, the industry still faces challenges in assuring the public about its commitment to communities.

Our polling found that a majority of people (51%) felt that banks and other financial services are now less focused on serving their community than they once were, with less than half this number (20%) disagreeing.

Other research has shown that these views are likely to vary significantly by institution, with building societies much more likely to be seen as an important part of the community than big banks.⁶¹

"I think even though they (financial services firms) are putting up all these big buildings with loads more jobs ... the city centre is filled with more and more homeless people, and more and more people who do have drug and alcohol addictions. So, they need to help (the city) regenerate, they need to help these people"

Teacher, Glasgow

"I do understand why they're closing branches because they're not cost effective ... but I think that's what's broken down the community link and that some (banks) have forgotten that there is a social responsibility."

Senior Manager, Newcastle

Correcting this impression is strongly in the industry's own interest since, as with companies across the economy, a strong majority (76%) of consumers prefer to do business with organisations that support the communities in which they operate.⁶²

Part of the challenge is to better publicise the work the industry does now. On philanthropy, for example, our polling found only a small proportion of the public (19%) were aware of the way banks support community projects and charities in their community; well below the levels seen for supermarkets (53%) and other institutions such as the lottery (39%).

There is also a need to show banks' increasing digital focus does not have to come at the expense of a commitment to communities. Work undertaken during the pandemic was a good example of this, such as Mastercard's role in the 'Nobody in the Dark' initiative, an emergency campaign which helped more than 1.5 million people to access debt advice and get support with accessing services online.⁶³

But as the most tangible representation of financial services' presence in communities, the role of bank branches remains critically important.

As firms consider plans for their branches and banking hubs continue to be rolled out, ensuring branches remain at the heart of community life and draw people to the high street is the best way for the industry to support levelling up by boosting local pride and a sense of place.

In particular, there is an opportunity to reimagine the role of the bank branch as a place where people can find trusted advice of all kinds. The banking hubs programme can act as a trailblazer here by piloting how bank branches can deliver a wide range of services, in partnership with charities and local government.

Recommendation 11

The Banking Hub programme should use the rollout of banking hubs to pilot how a wider range of services can be delivered through bank branches, including public services and advice for communities.



Only a small proportion of the public (19%) were aware of the way banks support community projects and charities in their community

61 BSA (2022)
62 Building Societies Association (2019) *Reinvigorating Communities*
63 *Nobody in the Dark*

Supporting financial inclusion



Current situation

Financial services also have an important role in supporting some of the most vulnerable people in our communities.

17.5 million people are estimated to be in financially vulnerable circumstances, with the number who have low financial resilience increasing by 30% during the pandemic.⁶⁴ 12 million people in the UK are estimated to be unable to pay an unexpected bill of £300, such as to fix a broken-down washing machine, whilst 46% are estimated to have not saved any money in the past two years.⁶⁵

Financial vulnerability is concentrated in communities which have been 'left behind' in a range of ways, with many areas that have the highest proportion of 'unbanked' adults – such as Lancashire, East Yorkshire and Northern Lincolnshire.⁶⁶

By helping people get back into employment or training, or simply support their families, access to affordable finance is fundamentally important for delivering levelling up in these communities.

However, around 11 million people who need affordable credit have little or no access to it, meaning they have to turn elsewhere. Around 3 million were estimated to have been forced to turn to high-cost credit providers in 2019, with 2.4 million experiencing problem debt as of January 2021.⁶⁷

Supporting greater financial inclusion is an issue that the industry has been engaged in for some time.

Since 2016, high street banks have significantly increased access to banking by providing 7.2 million new basic bank accounts.⁶⁸ Individual banks have also launched a range of initiatives to support those who are acutely vulnerable, for example through HSBC's provision of 2,500 bank accounts for people without a fixed address, and 1,500 accounts for survivors of modern slavery.⁶⁹

Alternative providers such as credit unions, Community Finance Development Institutions (CDFIs) and other community finance organisations also play a critical role in filling the gap between many people's financial needs and their access to credit.

This often involves lending very small amounts of money to help people out of a negative spiral of decline, with 79% of the customers supported by Fair 4 All Finance and its network of community finance providers borrowing less than £1,000 – less than is typically available via high street banks.⁷⁰

Community finance providers are particularly well placed to support levelling up, given the reach they have into the communities that have been 'left behind'. More than 50% of customers supported by Fair4All Finance investment live in the most deprived 20% of areas, with the charity having a particular presence in places such as Blackpool, Hull and Liverpool.⁷¹



Case study: Bradford District Credit Union

The only credit union in the UK run in conjunction with a local council, Bradford District Credit Union was started in 1993.

It offers low-cost loans and savings to financially vulnerable people in and around Bradford, who might otherwise be forced to turn to loan sharks and other high interest forms of credit.

The union is now used by over 9000 people, trebling in size since 2015, and holds £7.5m in savings.

Its partnership with the council also gives it a unique opportunity to engage residents and help them access other services.

For example, recognising high levels of school absence and child poverty in the area, it has now created a school uniform saving scheme for single parents.

A food saving scheme has also been set up, which combines sustainable, low-cost food markets with easy saving of £1 for each visit into the Credit Union. This gives people access to healthy food and reduces dependency on food banks whilst also encouraging them to save regularly.

Bradford Council has also funded a Financial Inclusion Officer, who is employed by the Bradford Credit Union to provide workshops and information to help people learn to budget, save, and borrow safely and ethically.

64 Fair 4 All Finance (2022) *Dormant Assets Consultation*
65 Deloitte (2021) *Growth Through Financial Inclusion: A Roadmap for UK Banks*; Social Market Foundation (2019) *Win & Save Exploring the potential of a lottery savings scheme in the UK*
66 Financial Conduct Authority (2021) *Financial Lives 2020 survey: the impact of coronavirus*
67 Step Change (2021) *Stormy weather: The impact of the Covid-19 pandemic on financial difficulty in January 2021*
68 HM Treasury (2021) *Basic bank accounts: July 2019 to June 2020*
69 HSBC (2022) *Response to consultation for this report*
70 Fair 4 All Finance (2022) *Response to consultation for this report*
71 *ibid*

» Going further

Given the economic shocks forecast to hit households, there is a pressing need to boost levels of financial inclusion further. Without this, efforts to level up will be damaged as those who are financially vulnerable fall further behind.

“Banking’s all over your life ... you pay your bills, you invest, you put your savings there. And people do tend to have quite long relationships with their banks, don’t they? So when you’re struggling, I think your bank should be there to help you.”

Care Manager, Newcastle

“I’ve only recently started using a credit union ... but when you’re a member, you’re able to borrow money at lower interest rates. Lower than the bank. It might not be a large sum. But I think it’s just handy to have for emergencies.”

Trainee Nurse, Birmingham

Creating new routes to provide people with access to affordable credit is especially important, in the context of a significant contraction in supply over recent years, which was accelerated by the pandemic.⁷²

The current pilot of a No Interest Loan Scheme by Fair 4 All Finance, backed by the Treasury and J.P. Morgan Chase and each of the Devolved Administrations has been set up to provide one solution to this problem. So far it has seen encouraging signs of success, with 94% of repayments being made by participants, despite 87% of them having poor or very poor credit scores.⁷³

However, addressing the issue will require broader action. Firstly, to grow the community lending market, which is currently held back by a range of regulatory and other barriers, such as access to capital and consumer awareness, and secondly, to provide the right conditions for mainstream lenders to move back into the sub-prime lending market, so that there are more alternatives to high-cost credit at significant scale.

Achieving both goals will require better partnership between all parts of the industry, so that it can collectively help people find the lending that they need, as well as support from the Government to provide the right incentives for providers to offer it.

The FCA’s Woolard review has called for discussions between the Government, the FCA and lenders and others from across the financial services industry about how to fill the gap in affordable lending.

Previous schemes such as Flood Re, the Film and TV Restart scheme and the Future Fund show the potential for financial services and government to work innovatively together to address gaps in market provision and boost customer inclusion.

Finding solutions to this problem would be especially impactful for levelling up given the way financial vulnerability is concentrated in certain communities.

Recommendation 12

The FCA, Treasury and the financial services industry should jointly work on proposals that will help fill the gap in affordable finance, by growing the community lending sector and incentivizing mainstream lenders to provide alternatives to high-cost credit.

Finally, there is a need for the industry as a whole to ensure its products are as inclusive as possible and reflect the relatively weak financial literacy of most adults, especially in some parts of the country.

The technical jargon, acronyms and abbreviations involved in financial products can be confusing for even the most determined and literate customer. Given that 7.1 million people in England are described as having ‘very poor literacy skills, language is likely to be a significant barrier to financial inclusion, especially in parts of the country where basic skills are weakest.⁷⁴

The Government has recently committed to reform the Consumer Credit Act, which regulates credit card purchases and personal loans, by simplify rules for customers and enable the FCA to take forward a more responsive regime.⁷⁵

As part of this, ensuring that relevant financial products are described in terms that are accessible to those with weak financial literacy would be a useful step towards helping vulnerable consumers.

Recommendation 13

Government should use its forthcoming review of the Consumer Credit Act to develop new standards for how financial products are described, rooting this in language that is accessible to those with weak financial literacy.

72 Woolard, C (2021) *The Woolard Review – A review of change and innovation in the unsecured credit market*
73 Fair 4 All Finance (2022) *Learning from our No Interest Loan Scheme proof of concept*

74 National Literacy Trust (2022) *Adult Literacy*
75 HM Treasury (2022) UK commits to reform of the Consumer Credit Act



Empowering local leaders and communities

Of all its plans for Levelling Up, the Government's commitment to devolve greater powers to Mayoral Combined Authorities and counties represents perhaps the most significant policy change over the long term.

Greater devolution has the potential to make a significant difference to the success of the UK's regions, by enabling local leaders to make decisions that fully reflect the needs of their area, allowing innovative new policy approaches to be trialled and creating clearer lines of accountability.

But to be successful, local leaders need to be equipped with the right powers, have the appropriate capacity and skills to use them effectively and work in partnership with others to deliver.

As power shifts out of Westminster, the financial services industry is well placed to help ensure local leaders are able to make the most of it.

Empowering local leaders to deliver growth



Current situation

Strong local leadership plays a key role in influencing the investment decisions of financial services firms and others.

Conversely, confusing structures of local government in some parts of the country can act as a significant deterrent – making it harder for firms to know who they need to talk to, and undermining the kind of stable, long-term partnerships that investors need.

In England, we can see the influence that the elected Mayors of Combined Authorities are already having in growing the impact of financial services outside of London.

In the West Midlands, Andy Street and the Combined Authority have played a crucial role in encouraging Goldman Sachs to follow HSBC and others in opening an office in Birmingham, as well as agreeing a £4 billion partnership with Legal and General for new housing and urban regeneration.⁷⁶

⁷⁶ Guardian (2021) 'We've signed Ronaldo': could other banks follow Goldman Sachs to Birmingham? ; Legal and General (2022) Levelling Up in the West Midlands

"I think it's (Birmingham) definitely on the up ... though I do think it looks a mess at the moment because of HS2 ... and obviously, a lot of the big companies must be ploughing money in there ... and obviously, the finance for that's come in from somewhere. But I think the vision for Birmingham is looking good. And I think probably if my parents came back on this earth in five years' time, they wouldn't recognise any of it. I think it has changed incredibly."

Retired teacher, Birmingham

Similarly, Ben Houchen's leadership has been an important factor in securing public-private investment in the Tees Valley Combined Authority and its growing strength in green jobs. This includes the proposed Dogger Bank offshore wind farm, the largest of its kind in the world, which was financed through a consortium of 29 banks providing £5.5 billion in financing and support, with NatWest acting as the lead arranger.⁷⁷

In Northern Ireland and Scotland, local leaders have been able to go further by using their devolved powers and control of funding over policy issues, such as skills and transport, to create an attractive environment for financial services firms to invest in.

Citi, for example, cite the ability of authorities in Northern Ireland to co-ordinate and co-invest in training, deliver frequent and straightforward transport connectivity, excellent IT infrastructure and provide proactive political support as key to their decision to grow their presence in Belfast.⁷⁸ This has in turn helped catalyse a thriving financial services sector in the city, with wider benefits for the local and national economy.⁷⁹

72% of people supported giving local areas greater decision-making powers and more control over funding – such as allowing areas to increase spending on skills linked to jobs in financial services (79%)

77 NatWest (2021) *Dogger Bank: Financing the world's largest offshore wind farm*
78 Citi (2022) *Response to consultation for this report*
79 Financial Times (2021) *Belfast's booming financial services rise above political unrest*

Going further

These experiences underline the importance of the Government pressing ahead with its plans to offer a devolution settlement to every part of England that wants one by 2030.

Greater local control over issues that influence investment – from the efficiency of local transport connections to digital infrastructure and the skills base of the local population – will allow local leaders to unlock new investment and attract new jobs to their area. Expanding the number of Combined Authorities or empowering other areas through new County Deals will also create a simpler interface for investors as they look to explore new opportunities in each region.

"The precise combination of (our) investments differs. However, there are common factors, of which the most important is empowered and visionary local government."

Major pension fund – consultation response

The polling for this report suggests the public are strongly in favour of further devolution to unlock growth in financial services. It found that 72% of people supported giving local areas greater decision-making powers and more control over funding, with particular support for powers linked to skills and training – such as allowing areas to increase spending on skills linked to jobs in financial services (79%). There was also interest in fiscal devolution, with majorities in favour of giving areas the ability to reduce corporation tax (60%) and business rates (50%).

As more power is devolved from Whitehall, it is important that there is a greater emphasis on how local leaders use it to secure new investment.

Current devolution settlements include funding to help stimulate economic growth, with progress reviewed by the Treasury over time. However, the goals local areas are working towards or the amount of private investment they are seeking to raise can remain opaque for investors seeking to understand what devolution means in different areas.

The Levelling Up White Paper included a commitment to encouraging more coordination of the private sector by local leaders. Making devolution deals contingent on crowding in minimum levels of private sector funding and highlighting which local challenges this should focus on would help achieve this by sending stronger signals to financial services firms and other investors, as well as local industry, about the role they can play in each area.

Recommendation 14

The Government should make future devolution deals contingent on securing private sector investment and ensure these deals set out a clear role for how financial services and other industries can support them.

Working in partnership with local government

Current situation

Given the way that financial services touches every part of the economy and society, the industry is well placed to help support local leaders.

A number of firms are already doing this, using their convening power to bring stakeholders together around shared local challenges. For example, Barclays' Thriving Local Economies initiative has brought together local government, businesses, charities and community groups in four pilot areas across the UK to better understand their needs and support them as they recover from the impacts of the pandemic.⁸⁰

Others are using their expertise to support local government in setting its priorities, as in Tees Valley, where KPMG is working with the Combined Authority and South Tees Development Corporation on a strategy for how the transition to a low carbon economy can help regenerate the area.⁸¹

There is significant scope to build on this existing collaboration. Our research highlighted that the attitudes and capabilities of local government varies significantly. These inconsistencies risk undermining efforts to level up, as some areas forge ahead, whilst others lag behind.

Our polling also found the public are keen to see more of this kind of work. 76% of those surveyed said they supported the industry working more closely with local government and local leaders, as part of its broader role in levelling up.



Case study: Mastercard's use of data

Mastercard has a track record of using the data it holds to support government decision making.

This includes providing the Treasury and Office for National Statistics with insights during the pandemic to understand the impact it was having on issues such as spending and economic activity.

The company has also worked with councils in Hull, Belfast and other local authorities to help them understand how Covid-19 was affecting local retail spending and inform their recovery planning.

Mastercard has also now launched its Inclusive Growth Score tool in the UK.

This blends open-source data with a proprietary layer of insights, based on Mastercard's aggregated and anonymised transaction data, across 21 socioeconomic measures related to Place, Economy and Community – giving a comparative social and economic profile of every neighbourhood in the UK at a postcode level.

This data provides policy makers, investors and others with a clear, simple view of how different places are performing – enabling them to uncover and prioritise opportunities for regional regeneration, build a case for specific investments, and track and measure the impact of policy interventions over time.

80 Barclays (2020) *Rebuilding Thriving Local Economies*

81 Tees Valley Combined Authority (2017) *Tees Valley Takes The Next Steps To A Low Carbon Future*

»» Going further

For financial services, there is a particular opportunity to help support local government in mobilising greater flows of private finance into their area. Several respondents to our consultation identified the need to develop a better pipeline of 'bankable' and 'spade ready' projects the industry can invest in, as well as an understanding of the vehicles local government and others can use to finance them.

This is particularly relevant to the transition towards a Net Zero economy, which will require a huge deployment of capital, with the investment needed forecast to rise from £10 billion in 2020 to £50 billion over the next decade. The alignment of investors behind Net Zero means this capital is available but research has highlighted how this will struggle to be deployed without boosting financing capacity and expertise at a local level.⁸²

To maximise the amount of investment that can support levelling up, the financial services industry should therefore take a more hands-on approach, by formally sharing its expertise and personnel with local government.

Initiatives such as the Scale Up Institute's Driving Economic Growth programme and the Massachusetts Institute of Technology's Regional Economic Accelerator programme, provide models for how private sector insight can help local leaders improve the economies of their area.⁸³

An industry wide secondment scheme which allowed staff to move between financial services and local government and vice versa, alongside relevant training and development, would help to build links across the two sectors as well as boosting their respective expertise – creating better conditions for investment in future.

Recommendation 15

The financial services industry should create a secondment scheme in partnership with local government, enabling the movement of staff between firms, Combined Authorities and other government bodies to share expertise on financing and investment.

82 Place-based Climate Action Network (2022) [Unlocking The Missing Middle: How Local Finance Hubs Can Supercharge Green Investment](#)
83 Scale Up Institute (2017) [Annual Scaleup Review 2017](#); MIT REAP (2021) [UK Focus](#)

There is also huge potential for the industry to use of the data it holds to support local economic development.

Pooling data on financial transactions, investment, and other business activity with publicly held data could generate new insights about the performance of local areas, which local government and others can use to inform their planning. Visa's recent *Talk of the Towns* project – which combined proprietary Visa payments data with other datasets to analyse the state of the UK's towns – and work by Mastercard to support local policymakers gives an insight into what is possible.⁸⁴

Moves by the industry to share the data it holds should be accompanied by the opening up of more data held by the Treasury and other government bodies, which can give investors and others better insights into how they can best support levelling up through their own activities.

Clearly, this data needs to be used carefully and responsibly. But our polling found strong support for an initiative of this kind: 65% of those we surveyed supporting the idea that the industry should share data about trends in the economy to help government make better policy decisions.

Recommendation 16

The financial services industry should explore the creation of a new scheme which pools anonymised data on financial transactions and investment with data from the Treasury and other government bodies, to create insights into the economy for local leaders and policy makers.

84 Social Market Foundation and Visa (2022) [Let's Talk About Towns: Building a Better Understanding of Town Vitality](#)

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