

Rt Hon Rachel Reeves MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Dear Chancellor,

How building societies and credit unions can support the Government's growth agenda

I wanted to write to you ahead of the Budget to outline how our sector plans to support the Government's growth agenda and help you to meet your commitment to doubling the size of the mutual and co-operative economy. We understand that this will be a challenging budget, which is why the things we propose here do not need Government funding.

All our members have a strong regional presence; we represent 7 of the largest credit unions as well as all 42 building societies which have their headquarters outside London. As regional businesses they are key players in supporting regional economies through employment, supporting the housing market and encouraging people to save, and supporting local communities and high streets. Collectively they are currently helping around 26 million members to save and/or buy a home of their own.

Branches - increasing access to finance and boosting financial inclusion

As customer owned businesses building societies and credit unions are committed to the communities they serve. As banks close branches, building societies are keeping branches open, and in some cases opening new branches. Our members currently operate around 1,300 branches across the UK, holding a 28% share of all branches, which is increasing as banks close branches.

With the ongoing debate around access to financial services on the high street, we believe that building society and credit union branches have a key role to play as a vital addition to banking hubs and ask you to explicitly recognise this by requiring banks that are withdrawing from the high street to include funding the roll out of universal auto-teller machines among the options which must be considered, where these can be installed in existing and new building society and credit union branches. Funding should include the costs of installation plus an appropriate service charge levied by the branch provider for space rental and support from branch staff. This would be levied on the banks so there is no charge to the taxpayer, but as a more cost-effective alternative to banking hubs it has the potential to be rolled out more quickly and sustainably, boosting access to financial services, particularly for the most vulnerable, as well as for SMEs.

Housing – boosting supply and home ownership, building resilience

We support the recently announced planning reforms. In implementing these, we must remember that we need a range of properties across all tenures, and successful affordable housing schemes should not be dismissed in favour of social rent. Our members provide mortgages totalling over £385 billion (24% of total mortgage balances outstanding in the UK). But building societies do not simply lend money for mortgages, they play a key role in diversifying the supply chain and increasing the routes to building more homes. For example, collectively, self and custom builders are the equivalent of a top 5 builder. The vast majority of lenders in this space come from the building society sector. Additionally, some building societies lend directly to SME housebuilders and housing associations, supporting the development of affordable housing schemes.

We have outlined below some simple changes the Government could make to help us ensure more homes are built and adapted for Net Zero:

- **Ensuring proportionate regulation** - building societies have a strong track record of providing innovative solutions for first-time buyers but are currently limited by the mortgage rules. Our [first-time buyer report](#), highlighted that since the financial crisis, the balance between financial stability and supporting first-time buyers has swung too far towards a stricter regulatory environment with a negative impact on the social benefits of higher levels of homeownership.
- **Supporting energy efficient homes** – we welcome the Government’s commitment to Net Zero and building societies want to help their members improve the efficiency of their homes, but we urgently need clarity about the strategy to deliver a decarbonised housing stock to allow consumers and businesses to plan to meet Net Zero.

Savings - supporting financial inclusion & resilience

Building societies hold over £385 billion of retail savings (19% of all cash savings in the UK) and support people to save, and build their financial resilience. 14 million people have less than £100 in savings¹ – and 9 million people have no savings at all. This has an impact on people’s mental health and wellbeing. There is also more than £250 billion in accounts that do not pay any interest.

This is why we launched UK Savings Week. The campaign has two goals: firstly, to create 2 million new regular savers by 2030 (in line with the MaPS strategy) and to encourage people to move £50 billion from 0% accounts by 2030 (in line with the recent FCA campaign).

Looking forward, there is potential to meet individual, corporate and national interests through offering workplace savings schemes which have been proven to help people to become more financially resilient. The Government should help to open up this market by reducing regulatory barriers to opt-out schemes and exploring requiring employers with over 250 employees to offer workplace savings schemes through payroll deduction.

We think there is also potential to encourage saving for home ownership through simplifying the tax regime, details of how this might be achieved are annexed.

Improve growth via better regulation

Building societies are supporting the economy, through encouraging people to save and build their financial resilience and buy a home of their own. These activities can be enabled through regularly updated legislation and proportionate regulation to support the sector’s growth.

¹ <https://maps.org.uk/en/media-centre/press-releases/2022/one-in-six-uk-adults-have-no-savings#>

Examples include the updates to the Building Societies Act and the PRA's Strong and Simple framework. The Government has committed to doubling the size of the cooperative and mutual economy. The diversity this brings to markets, including financial services, supports not only resilience but also innovation and competition.

Given the urgent need to get the UK economy growing and the Government's focus on house building and access to cash, our sector stands ready to support you in delivering the growth agenda.

Yours sincerely

Robin Fieth
Chief Executive

Appendix

Helping First Time Buyers

Help to Buy ISAs (HTB ISA) and Lifetime ISAs (LISA) have already helped hundreds of thousands of first-time buyers on to the property ladder, by giving a 25% boost to their savings when they buy their first home. In certain circumstances these schemes can penalise first-time buyers, and two critical changes are needed.

Reduce the Lifetime ISA withdrawal penalty to stop taking savers own savings

Reducing the LISA penalty withdrawal fee from 25% to 20% would allow savers to retain all of their own savings, whilst forfeiting the Government bonus if they buy a property above the scheme threshold or if they need to access their savings, which may be necessary due to the effects of the rising cost-of-living. This change was introduced on a temporary basis during the Covid pandemic (6 March 2020 – 5 April 2021) and provided much needed support to consumers in difficult times. The BSA urge the Chancellor to re-introduce this on a permanent basis, ensuring the spirit of these savings schemes, which is to encourage young people to start saving to buy their first home, remains intact.

To receive the bonus the property purchased must be within the price thresholds set in the scheme rules. But if LISA account holders buy a property which is above the thresholds, they must pay a penalty payment of 25% of the total savings pot. This means they not only lose all of the Government bonus, but a chunk of their own savings too.

For somebody who has saved £4,000 a year for five years in a LISA, the penalty for using their savings towards buying a house above the £450,000 threshold would be all the Government bonus of £5,000, plus an extra £1,250 of their own savings.

Increase and equalise Lifetime ISA and Help-to-Buy ISA property price thresholds and review these every year

The Lifetime ISA and Help-to-Buy ISA property price thresholds should be equalised, increased and reviewed every year. Despite a near 30% increase in house prices since LISAs were introduced, the thresholds on both schemes have remained unchanged. This is preventing some first-time buyers' from buying a home within the price limits.

The BSA are calling on the Government to equalise the thresholds in the two schemes and increase it to £550,000 across all regions. This reflects most of the growth in house prices since the schemes were launched. Once this change has been introduced, it is important that the thresholds continue to be reviewed on an annual basis to ensure they remain in step with house price changes.

The Personal Savings Allowance

The Personal Savings Allowance helped to simplify savings by removing an estimated 95% of savers from paying tax on their interest when it was introduced. The rise in interest rates in recent years has meant that more savers will be eligible to pay tax on their savings. Whereas a basic rate taxpayer could have had around £75,000 in the best paying instant access account when the PSA was introduced, the equivalent figure today is now about £20,000. We believe that raising the Personal Saving Allowance would help to incentivise saving.