

London risks being ‘incubator’ of firms that quit UK, warns City

A dearth of new listings is not just an issue for the stock exchange but a ‘strategic growth problem’, John Healey has been warned

Dame Julia Anne Hoggett, chief executive of the London Stock Exchange

Jill Treanor, City Editor
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John Healey has been warned that Britain risks becoming an “incubator nation” that creates companies but loses them to other countries, unless he takes urgent action to introduce tax incentives and revive the London stock market.

The chancellor has been told that the current wave of takeovers of companies on the London Stock Exchange is “not business as usual” and raises concerns that they are not being replaced by new companies through initial public offerings.

The warnings are contained in a document drawn up by the Capital Markets Industry Taskforce (Cmit), chaired by the LSE chief executive Dame Julia Hoggett, which has been submitted to Healey as he draws up his budget this month. Cmit is a cross-body lobby group endorsed by the previous government.

A dearth of new listings on the LSE is not just an issue for the exchange but a “strategic growth problem” and one that will worsen unless moves are made to encourage more investment in London-listed companies, the document says.

It cites the loss of Cambridge-based Arm Holdings in 2023 as an example of what to avoid in the future. Arm had been listed on the LSE until it was bought by the Japanese conglomerate SoftBank and floated in New York.

Cmit said that the “shrinking” of the London market was a deterrent to companies choosing Britain as a place to list shares. “The UK is at a serious risk of becoming forever an incubator nation, exporting its greatest companies just at the point they become globally consequential,” the document is understood to say.

It suggests three broad ideas for the chancellor that are intended to be low cost and avoid concerns that pension schemes will be forced to invest in UK shares.

First, it acknowledges that stamp duty – levied at 0.5 per cent on share deals – brings in £3bn a year, so abolishing it entirely may not be palatable for the chancellor. But it suggests abolishing it for pension funds and individual savings accounts (ISAs).

Secondly, it sets out ideas to create inheritance tax relief on pensions invested in the UK over a 15-year period.

Thirdly, it calls for a tax credit of 10 per cent on dividends required by pension funds, in a modified form of the dividend tax credit abolished by Gordon Brown in 1997. The document is understood to show that such a move would mobilise as much as £125bn of equity by 2042 at an annual cost to the Treasury of up to £742m over the same period.

It is estimated these three measures together would mobilise £161bn of capital by 2042 and cost up to £1.28bn annually over the next 15 years.

Mark Austin, a partner at the law firm Latham and Watkins and a member of Cmit, confirmed the document existed and said the ideas were intended to “be helpful and mobilise long-term domestic capital into UK companies, while respecting a fiscally constrained environment and keeping cost capped, design choices voluntary and fiduciary duties intact”.

A number of big takeovers have already been announced this year, including for the FTSE companies Beazley and Schroders, which have both left the stock market. The total value of bids for listed companies so far this year is at least £70bn.

Some fund managers are concerned that investors are suffering from “deal fatigue”. Ian Hewett, investment director at Aberdeen, said: “Companies leave the stock market so regularly now that bids that once would have prompted vigorous debate can pass with relatively little discussion.” He is particularly concerned about a £1bn bid for Gamma Communications.

Writing in The Sunday Times this weekend, Andrea Rossi, chief executive of FTSE 100 financial firm M&G, describes the “decline of London’s stock market” as “a problem for Britain”.

One idea he puts forward is to require companies that receive taxpayer support through grants or subsidies to be listed in London. Referring to the prime minister’s pledge for regional prosperity, he said: “If we want growth in every postcode, thriving UK public markets should be at the heart of that ambition.”

The Treasury declined to comment on budget speculation but said: “As we set out in the budget in 2025, we continue to evaluate stamp taxes on shares to ensure the UK is positioned well for the future. Keeping taxes under review is normal practice.”