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BRIEFING

Invest 2035: The UK's Modern Industrial Strategy
22 October 2024

Publisher:	Department for Business & Trade (DBT)	**Policy Area:**	National UK Economic Strategy
Read full document:	Here	**Who's impacted:**	All Members
Deadline:	24 November 2024	**How big is the impact:**	Large
Feedback invited by:	21 November 2024	**Good news/bad news/TBD:**	Good

30 Second Summary

On 14 October 2024, the DBT published a green paper entitled *Invest 2035: The UK's Modern Industrial Strategy*. It introduces the idea of a 10-year plan to initiate the growth of 8 UK industrial sectors. Each of these 8 sectors will get its own dedicated Sector Plan (which will be broken further into subsectors). Across all Sector Plans, Government has identified 6 barriers that need to be unblocked in order to encourage growth.

8 "growth-driving" UK sectors:

1. Advanced Manufacturing
2. Clean Energy Industries
3. Creative Industries
4. Defence
5. Digital and Technologies
6. Financial Services
7. Life Sciences
8. Professional and Business Services

6 barriers need to be addressed:

1. People and skills
2. Innovation
3. Energy and infrastructure
4. Regulatory environment
5. Crowding in investment
6. International partnerships and trade

Each Sector Plan will be "place-specific" and *revolve around cities, clusters and strategic industrial sites* (to be identified).

To execute on the above, Government will statutorily install a new independent body called the Industrial Strategy Council (ISC) and has designated an interim council in the meantime (called the Industrial Strategy *Advisory* Council).

Government will be holding numerous workshops and roundtables between now and Spiring 2025 (i.e. beyond the consultation deadline of 24 November). In Spring 2025, the full Industrial Strategy will be published including the 8 Sector Plans along with the multi-year Spending Review.

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ADE Comment

- *Positive*:
    - Net Zero underpins the entire strategy across all sectors and barriers.
    - The timespan of 10 years feels attainable and sensible.
    - The 8 chosen sectors seem well thought out, although it's to be seen how companies that span more than one sector will be treated/categorised. Some ADE members could easily fall into one or more sectors.
    - The strategy calls for investment in data-specialised businesses, under the "Innovation" barrier to growth.
    - All of the major findings from the Summary of Responses from the 2023 Call for Evidence on Industrial Electrification were included in the description of barriers under "Energy and infrastructure" and Government reiterates its commitment to unlocking barriers to industrial electrification. Read the ADE briefing on the summary of responses here.
    - The plan is explicitly focused on city regions and clusters, via a "place-based approach to policy."
        - ⇒ Government is working with local partners to identify the sectoral clusters that exist across the UK, both emerging and established.
        - ⇒ This work will build on the Innovation Clusters Map published by the Department for Science, Innovation, and Technology in February 2024.
        - ⇒ When defining clusters, the Government will need to strike a balance between alignment with existing administrative and policy structures, and not imposing arbitrary restrictions.

- *Negative:*
    - In their discussion of Energy and Infrastructure, there was no mention of:
        - ⇒ The 6 industrial clusters;
        - ⇒ Zonal pricing / Review of Electricity Market Arrangements;
        - ⇒ Heat networks / district heating; or
        - ⇒ Flexibility / demand side response.
    - No direct mention of the Strategic Spatial Energy Plan (SSEP), the Centralised Strategic Network Plan (CSNP) or the Regional Energy Strategic Plan (RESP), which are all "whole system" plans.
        - ⇒ While all 3 plans (SSEP, CSNP and RESP) will presumably operate within this Industrial Strategy, we're concerned with Government efficiency and execution of so many layers of plans.
            - Short-term RESP pathways are also 5 – 10 years.
        - ⇒ Indeed the 8 Sectoral Plans will each be broken out into subsectors, we also have Clean Power 2030, Local Area Energy Plans (LAEPs) and this Industrial Strategy introduces new Local Growth Plans (also 10-year plans).

- *Other thoughts/questions:*
    - Government will explore whether and how to de-risk, reduce development timescales, and accelerate growth in *strategic* industrial sites through planning reforms and other policies.
        - ⇒ Similar to "designated" projects within the connections queue, we'll want to see what sort of methodology will be applied to selecting "strategic" industrial sites. The consultation does not expound on this.
    - As said in our RESP Consultation Response, a consistent concern for ADE members is that the volume of opportunities to provide input (on RESPs, Industrial Strategy or otherwise) is overwhelming and planning reforms are quite fractured. We encourage Government to streamline future working groups as much as possible and be mindful that consultations (or other ways of providing input) are packaged to stakeholders in a way that minimises the time and resource needed.

Context & Executive Summary

- This new Industrial Strategy is seen as central to the Growth Mission of this Government. Growth needs to be supportive of Net Zero, regional growth, and economic security and resilience.
- With this strategy, Government wants to:
    - "Kickstart a decade of national renewal";
    - Achieve long-term sustainable growth;
    - Shape and support markets, rather than respond to markets;
    - Instil certainty and confidence so that businesses can plan ahead;
    - Capture a greater share of internationally mobile investment in strategic sectors; and
    - Spur domestic businesses to boost their investment and scale up their growth.
- This new Industrial Strategy will channel support to 8 prioritised "growth-driving" sectors, via Sector Plans which will be published Spring 2024, aligned with the multi-year Spending Review. There will also be subsectors within these 8:
    1. Advanced Manufacturing
    2. Clean Energy Industries
    3. Creative Industries
    4. Defence
    5. Digital and Technologies
    6. Financial Services
    7. Life Sciences
    8. Professional and Business Services
- The Industrial Strategy will concentrate efforts on places with the greatest potential for these 8 growth sectors: City regions; High-potential clusters; and Strategic industrial sites.
- This Industrial Strategy seeks to address the past 15 years where the UK has seen:
    - Persistently low levels of investment;
    - Underperformance of city regions (outside of London);

  - Weak / lagging adoption of new technologies, ideas and processes; and
  - Slow market "dynamism" (moving labour/capital from less productive firms to more productive firms over time).
- The Net Zero objectives for the Industrial Strategy will be to:
  - Capture the growth opportunities of the Clean Energy Mission and Net Zero transition;
  - Identify and support Clean Energy industrial sectors with the greatest growth potential; and
  - Align sector plans with Net Zero and environmental objectives.
- Government will establish a statutory and independent Industrial Strategy Council (ISC) that will engage on a myriad of issues "that are barriers to investment, like skills, recruitment of international talent, data, R&D, technology adoption, access to finance, competition, regulation, energy prices, grid connections, infrastructure, and planning."
- The Industrial Strategy's Sector Plans and business environment interventions will be designed and implemented in lockstep with local and devolved leaders.
  - The Strategy will give Mayors in England the tools to grow their economies and develop ambitious 10-year Local Growth Plans.
  - The Government will work in partnership with devolved governments.

Government's Methodology in Choosing the 8 Growth Driving Sectors

- Future work will determine the subsectors within the 8 sectors, using evidence collected from this consultation as well as further evidence-gathering.
- At the moment, there is no single agreed analytical methodology to identify highest growth potential sectors due to measurement challenges. Therefore, identifying the 8 sectors was based on a combination of evidence and judgements.
- The initial analysis considered the characteristics/needs of existing and emerging sectors to identify:
  - *Current strengths*: The UK's highest productivity and most internationally competitive sectors
  - *Emerging strengths*: Sectors in which the UK could feasibly develop a comparative advantage.
- Then Government used a multi-indicator assessment to identify UK subsector strengths:
  - *Output growth:* The size and growth rate of the subsector.
  - *Productivity:* To see where opportunities are to boost national productivity.
  - *International position:* To see where the UK is, or could be, relative to other countries, including comparative advantage in tradeable sectors.
- This approach was used to identify potential growth subsectors in existing sectors. The selection of subsectors should be regarded as indicative and not the final key subsectors:
  - Where necessary, different metrics were used for emerging subsectors and technologies, as these are less well captured by traditional SIC sector data.

  - To mitigate data challenges, evidence was triangulated from academic evidence, market intelligence, industry reports, and relevant datasets.
- These subsectors were then aggregated to identify the 8 growth-driving sectors (as listed above).
- Next steps
  - In the next stage of development of the Industrial Strategy, the Government will design ambitious and targeted Sector Plans for each of the 8 growth-driving sectors in partnership with business, devolved governments, regions, experts, and other stakeholders, through bespoke arrangements tailored to each sector.
  - Government will prioritise subsectors within these 8 sectors that meet its objectives and where there is evidence that policy can address barriers to growth.
  - Government will also consider the overlap and interdependencies across the sectors.
  - To that end, value chain analysis is being progressed, to identify subsectors within:
    - ⇒ *'Foundational' sectors*: which provide critical inputs and infrastructure to 8 sectors.
    - ⇒ *Technologies*: which are a critical or emerging part of a sector's value chain.

Brief Description of the 8 Sectors

<u>(1) Advanced Manufacturing</u>

- Critical for the Clean Energy Mission, Net Zero and digital transformation.
- To achieving the Clean Energy Mission, it is estimated that additional capital investment averaging £50-60 billion per year is needed through the late-2020s and 2030s, across the whole economy.
- UK manufacturers produce many of the essential goods, parts, and components needed e.g. EV battery capacity (56GWh planned) and producing around half of the world's large civil aircraft wings.
- The UK is entering a major investment cycle, where the Net Zero and digital transformations present considerable opportunities for UK manufacturing investment.

<u>(2) Clean Energy Industries</u>

- Clean energy industries are a major driver of global growth, with over 90% of global GDP now covered by Net Zero targets.
- There is rapid growth in global demand for low-carbon products, with McKinsey estimating a global market opportunity of £1 trillion for British businesses in the period to 2030.
  - An additional £50-60 billion of capital investment will be required each year through the late 2020s and 2030s to achieve Net Zero ambitions.
- Barriers often cited include high capital investment requirements, significant international competition, and skills shortages.
- More can be done to build resilient supply chains and the manufacturing base to secure the jobs that accompany them.

  - Germany has almost twice as many renewable jobs per capita as the UK; Sweden almost three times; Denmark almost four times as many.

<u>(3) Creative Industries</u>

- According to UN Trade and Development, the UK is the third largest creative services exporter behind the US and Ireland, worth USD$87 billion in 2022.

<u>(4) Defence</u>

- Government will set out the pathway to spending 2.5% of GDP on defence.
- Government defence spending supports around 434,000 jobs across the UK i.e. 1 in 60 UK jobs.
- The Government's manifesto committed to "bringing forward a Defence Industrial Strategy aligning our security and economic priorities."

<u>(5) Digital and Technologies</u>

- Digital and technology businesses have been responsible for transformative shifts in productivity in recent years. The most valuable businesses in the world are digital and technology companies, 8 of the top 10 by market capitalisation.
- The UK is the third country in the world (alongside the US and China) to have a tech ecosystem valued at over USD$1 trillion. In 2023, UK start-ups raised the most venture capital in Europe, more than France and Germany (who hold second and third place respectively) combined.
- To deliver growth in this sector the Government will focus on a range of technologies and their commercialisation, with a portfolio approach that backs smaller, less proven, and more disruptive businesses alongside larger, well-established businesses in existing sectors.

<u>(6) Financial Services</u>

- The sector will play a core role in providing the tens of billions needed to finance the Net Zero transition. The Government will partner with the financial services sector to pivot to export to new and growing markets, make the UK the location of choice for green business to finance the Net Zero transition, and take advantage of trends in digitisation.

<u>(7) Life Sciences</u>

- The UK is home to 4 of the top 10 global universities for life sciences and medicine and holds the expertise of the NHS.

<u>(8) Professional and Business Services</u>

- The UK's professional and business services operate with a comparative advantage in a market with global demand of USD$1.9 trillion. The bulk of sector performance is driven by a relatively small number of firms, mainly concentrated in London and the South-East.

6 Barriers to Unblock to Encourage a "Pro-Business Environment"

- Government policy will be guided by four principles:
  1. Building long term stability;

2. Using the power of strategic government;
3. A commitment to free and fair trade;
4. Easing the investor journey.

- This Strategy will consider the effectiveness of both crosscutting polices and more targeted solutions.
    - Addressing sector-specific and cross-cutting challenges together will spur long-term growth and will hopefully overcome the coordination issues.

(1) People and skills

- The UK has a lack of technical skills, such as in electrical, mechanical, and welding trades, key to the Advanced Manufacturing and Clean Energy sectors.
- In the coming months, Government will set out a detailed plan to support getting people back into work in the *Get Britain Working White Paper*.
- The Industrial Strategy Council will work in partnership with Skills England, the Migration Advisory Committee, the Department for Work and Pensions, Mayors, and wider government as part of a new framework to support a coherent approach to skills, migration, and labour market policy.

(2) Innovation

- Collaboration between the public sector, businesses, and researchers is critical to maximising the benefits of data for the economy. The Industrial Strategy could include:
    - Using public sector data as a driver of growth.
    - Empowering individuals and businesses with their data (smart data schemes).
    - Improving data maturity in business.

(3) Energy and infrastructure

- Energy
    - Access to cheap and reliable energy is an influential determinant of business competitiveness and an important consideration for internationally mobile investment.
    - Businesses have told Government that it needs to improve the electrification of industrial sites and bring parity with other low carbon fuels, allowing them to choose the right decarbonisation option for them.
        - ⇒ Government is considering reform of wholesale electricity markets and is also planning further engagement with stakeholders as it looks to act on the specific issue of industrial electricity prices.
        - ⇒ Businesses also see the lack of timely grid connections as a significant barrier to investment.
    - By investing in and owning clean power generation assets, Great British Energy will provide demand certainty to enable supply chains to invest.
    - The Clean Energy Mission Control, alongside planning reforms to speed up infrastructure development, will play a vital role in accelerating the transformation of the electricity network.

- Planning, infrastructure and transport
    - In July 2024, the Chancellor of the Exchequer announced plans to update relevant National Policy Statements within 12 months.
    - In the same month, the Planning and Infrastructure Bill was announced in the King's Speech to unlock more housing and infrastructure across the country.
    - Government is developing a 10-year Infrastructure Strategy, which will be aligned with the Industrial Strategy.

(4) Regulatory environment

- Competition and consumer policy, including subsidy control, is an important lever.
    - Government will be consulting on a draft of the next Strategic Steer to the Competition and Markets Authority (CMA) from the Business and Trade Secretary to seek stakeholders' views on competition regulation priorities.
- Government will identify where new regulatory frameworks can assist in the development of new technologies and allow for new products to be more effectively regulated and approved. For example, establishing the Regulatory Innovation Office.
- Government is looking at regulation which impacts the whole economy, including regulation that relates to planning and infrastructure, the energy transition, transport, and childcare.

(5) Crowding in investment

- The Industrial Strategy is considering a range of policy areas, including: mobilising capital to ensure businesses have sufficient access to finance; and using procurement policy to deliver value for money while supporting growth.
- In line with recommendations from the National Wealth Fund Taskforce, Government is creating the National Wealth Fund to unlock billions of pounds in private investment.
- Future corporate tax policy needs to be predictable, stable, clear and friendly.

(6) International partnerships and trade

- In support of the Industrial Strategy, Government will enhance the UK's already existing international bilateral relationships.
- Government will set out its separate Trade Strategy, aligned with the Industrial Strategy.

"Place-based" Approach to Policy: Cities, Clusters & Strategic Industrial Sites

- A core objective of the Industrial Strategy is unleashing the full potential of UK cities and regions, recognising the enormous untapped potential outside London and its surrounding areas.
- Within sectors, businesses co-locate in clusters to take advantage of economies of scale, talent pipelines, land, supply chain and knowledge spillovers.
- Therefore, the Industrial Strategy will concentrate efforts on places with the greatest potential for the growth sectors: city regions; high-potential clusters; and strategic industrial sites.

- Examples of what could be sector / city regions across the country: Advanced Manufacturing in Broughton and Newport, Greater Manchester, the West Midlands, the Northeast, and South Yorkshire; Clean Energy Industries in Aberdeen and Derby; Digital Industries in Bristol and Northern Ireland; Financial Services in Edinburgh, Leeds, and London; and Life Sciences in Cambridge and the Liverpool City Region.
- Methodology for identifying high-potential clusters
    - In addition to the responses received from this consultation, Government is working with local partners to bring together qualitative and quantitative evidence to identify and understand the sectoral clusters that exist across the UK, both emerging and established.
    - This work will build on the Innovation Clusters Map published by the Department for Science, Innovation, and Technology in February 2024.
- Strategic industrial sites
    - Government will explore how the Industrial Strategy can identify, select, and intervene in industrial sites across the UK.
- Local Growth Plans
    - Locally owned, 10-year strategies will set out how Mayoral Combined Authorities (MCAs) will use their devolved powers and funding to drive growth in their region. They will identify wider business environment priorities and provide a framework to unlock private investment.
    - Alongside this, the Industrial Strategy will be a 'lens' for informing recommendations for New Towns locations, creating new large-scale settlements in places where high housing demand constrains the growth of high-potential clusters.
    - The Government will work in partnership with the devolved governments.

The Industrial Strategy Council (ISC)

- Government will establish a statutory, independent, and evidence-led Industrial Strategy Council (ISC), reporting to the Business and Trade Secretary and the Chancellor of the Exchequer.
- The ISC will:
    - Monitor progress and impact in the 8 sectors and their relevant policies;
    - Undertake analysis to improve evidence base to include in reports and advice;
    - Feed into policy development through public reports, ministerial commissions and private discussion papers; and
    - Make recommendations, focusing on the 8 growth-driving sectors and fostering the pro-business environment.
- Government will legislate to establish this statutory body as soon as parliamentary time allows.
    - In the meantime, to ensure that the Industrial Strategy is developed with independent expert advice, Government is introducing an interim *Industrial Strategy Advisory Council*.
    - The Advisory Council will be chaired by Clare Barclay, CEO of Microsoft UK.

  - Further members will be confirmed in due course, drawn from across business, academia and trade unions to provide a broad range of skills and expertise.
- Government is developing a Business Partnership Framework to underpin the design and implementation of the Industrial Strategy and wider policies.
- The Framework could include:
  - A new approach to business engagement, setting out best practice and simplifying routes to engagement.
  - A new business 'academy' for Government, with a targeted learning and development offer, underpinned by a standards framework setting expectations for all business-facing civil servants from entry to expert level.
  - A new approach to secondments, to support civil servants to spend up to a year in business to increase their experience and understanding of the issues businesses face, to bring back to Government and improve policy development.
  - A data-led approach to gathering timely analysis, insights, and intelligence from business and wider sources, and sharing these widely across Government.

Full List of Consultation Questions

Q1. How should the UK government identify the most important subsectors for delivering our objectives?

Q2. How should the UK government account for emerging sectors and technologies for which conventional data sources are less appropriate?

Q3. How should the UK government incorporate foundational sectors and value chains into this analysis?

Q4. What are the most important subsectors and technologies that the UK government should focus on and why?

Q5. What are the UK's strengths and capabilities in these sub sectors?

Q6. What are the key enablers and barriers to growth in these sub sectors and how could the UK government address them?

Q7. What are the most significant barriers to investment? Do they vary across the growth-driving sectors? What evidence can you share to illustrate this?

Q8. Where you identified barriers in response to Question 7 which relate to people and skills (including issues such as delivery of employment support, careers, and skills provision), what UK government policy solutions could best address these?

Q9. What more could be done to achieve a step change in employer investment in training in the growth-driving sectors?

Q10. Where you identified barriers in response to Question 7 which relate to RDI and technology adoption and diffusion, what UK government policy solutions could best address these?

Q11. What are the barriers to R&D commercialisation that the UK government should be considering?

Q12. How can the UK government best use data to support the delivery of the Industrial Strategy?

Q13. What challenges or barriers to sharing or accessing data could the UK government remove to help improve business operations and decision making?

Q14. Where you identified barriers in response to Question 7 which relate to planning, infrastructure, and transport, what UK government policy solutions could best address these in addition to existing reforms? How can this best support regional growth?

Q15. How can investment into infrastructure support the Industrial Strategy? What can the UK government do to better support this and facilitate co-investment? How does this differ across infrastructure classes?

Q16. What are the barriers to competitive industrial activity and increased electrification, beyond those set out in response to the UK government's recent Call for Evidence on industrial electrification?

Q17. What examples of international best practice to support businesses on energy, for example Purchase Power Agreements, would you recommend to increase investment and growth?

Q18. Where you identified barriers in response to Question 7 which relate to competition, what evidence can you share to illustrate their impact and what solutions could best address them?

Q19. How can regulatory and competition institutions best drive market dynamism to boost economic activity and growth?

Q20. Do you have suggestions on where regulation can be reformed or introduced to encourage growth and innovation, including addressing any barriers you identified in Question 7?

Q21. What are the main factors that influence businesses' investment decisions? Do these differ for the growth-driving sectors and based on the nature of the investment (e.g. buildings, machinery & equipment, vehicles, software, RDI, workforce skills) and types of firms (large, small, domestic, international, across different regions)?

Q22. What are the main barriers faced by companies who are seeking finance to scale up in the UK or by investors who are seeking to deploy capital, and do those barriers vary for the growth-driving sectors? How can addressing these barriers enable more global players in the UK?

Q23. The UK government currently seeks to support growth through a range of financial instruments including grants, loans, guarantees and equity. Are there additional instruments of which you have experience in other jurisdictions, which could encourage strategic investment?

Q24. How can international partnerships (government-to-government or government-to-business) support the Industrial Strategy?

Q25. Which international markets do you see as the greatest opportunity for the growth-driving sectors and how does it differ by sector?

Q26. Do you agree with this characterisation of clusters? Are there any additional characteristics of dimensions of cluster definition and strength we should consider, such as the difference between services clusters and manufacturing clusters?

Q27. What public and private sector interventions are needed to make strategic industrial sites 'investment-ready'? How should we determine which sites across the UK are most critical for unlocking this investment?

Q28. How should the Industrial Strategy accelerate growth in city regions and clusters of growth sectors across the UK through Local Growth Plans and other policy mechanisms?

Q29. How should the Industrial Strategy align with Devolved Government economic strategies and support the sectoral strengths of Scotland, Wales, and Northern Ireland?

Q30. How can the Industrial Strategy Council best support the UK government to deliver and monitor the Industrial Strategy?

Q31. How should the Industrial Strategy Council interact with key non-government institutions and organisations?

Q32. How can the UK government improve the interface between the Industrial Strategy Council and government, business, local leaders and trade unions?

Q33. How could the analytical framework (e.g. identifying intermediate outcomes) for the Industrial Strategy be strengthened?

Q34. What are the key risks and assumptions we should embed in the logical model underpinning the Theory of Change?

Q35. How would you monitor and evaluate the Industrial Strategy, including metrics?

Q36. Is there any additional information you would like to provide?

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