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TheCityUK submission to the 'Invest 2035: the UK's modern industrial strategy' Green Paper

November 2024

Executive summary

The Industrial Strategy (IS) represents a critical opportunity to reset, refocus and re-energise the national approach to investment and growth across key sectors and critical infrastructure, planning reform, net zero transition, the opportunities and threats from technology, the role of government public finance institutions and upgrading the UK's business environment.

While the UK remains an attractive place to do business, rival economies are also bolstering their offering and the government must take into account geopolitical developments, including the outcome of the recent US elections and the EU's efforts on economic reform. This increased competition means that the government must take urgent steps to boost the UK's competitiveness and resilience, including through an integrated and coordinated approach to the IS and Trade and Investment Strategy (and other policy areas) as we set out later in this submission. This submission addresses the relationship of financial and professional business services to the IS both as vertical sector components and as crucial horizontal 'enablers' across other sectors. Our industry's sectors are inextricably linked to the funding and delivery of the entire IS programme.

We believe the IS should be built on the following components:

- **Clarity and predictability of approach and long-term policy direction**: The IS must deliver a strongly coordinated government approach to ensure the predictability and coherence of proportionate economic policy and regulation that the UK needs. Previous industrial strategies and related reforms have been subject to frequent change and ineffective cross-government coordination, which creates uncertainty and lack of confidence, thereby deterring investment.

- **A clear UK investment strategy and narrative:** Set out the strategic direction and a consistent government narrative on investment priorities and policies. Provide clarity and consistency on major projects - for example transition financing to achieve the UK's net-zero targets - and how the government will crowd-in domestic and international private investment.

- **Proactive, coordinated support for investors**: Deliver a well understood, effective and easy-to-navigate menu of support for investors, agile and flexible enough to facilitate tailored investment incentives. This must be underpinned by a clear and consistent approach throughout the investment cycle.

- **Governance and oversight of delivery:** The government must establish a robust and transparent structure and set of progress metrics that operate across government departments and agencies, through which the IS can be consistently governed, coordinated, monitored and adapted as necessary.

- **Structures for stakeholder engagement**: Building a close operational working partnership between the government, industry, financial and economic regulators and national and regional stakeholders is crucial to harnessing a highly impactful collective effort to deliver the IS and its intended impacts.

Our key recommendations to help underpin these components are summarised below:

i. **Sectoral approach:** The government should establish Sectoral Working Groups (SWG) to help deliver the sector plans, bringing together private and public sector expertise to ensure in-depth understanding of key financing challenges faced by each sector, and how to address them effectively, as outlined below in the Life Sciences example.

ii. **Place and clusters:** The government's approach to national and regional policy should ensure policymakers at every level can take meaningful actions to contribute to the development of sectoral clusters at locations across the UK.

iii. **Industry engagement:** To build government and wider public sector institutional capacity, the government should establish Subject Expert Groups (SEG) as part of the IS architecture, to ensure close operational partnership working between the public and private sector. This can be complemented by secondments and exchanges between government, regulators and industry.

iv. **Embed regulators in the IS structure:** Financial and wider economic regulators will play a key role in the IS and must be embedded as part of its delivery structure.

v. **Policy and regulatory pipeline:** Relevant government departments and regulators should create an IS 'Policy and Regulatory Initiatives Grid', detailing relevant initiatives. This will enable a focus on designing and implementing policy and regulation with a balanced consideration of prioritisation and the risk and reward trade-offs for growth.

vi. **Governance:** The government's Growth Mission Board should work with the Industrial Strategy Council to review and publish the progress, implementation and impacts of IS initiatives, including prioritisation of and interactions between projects, as well as regular reviews of policies for improving the UK's business and investment environment.

vii. **Scaling up of public-private finance:** There are several actions necessary to mobilise greater private investment and restore confidence in the market:
   - Consolidating – or at a minimum, streamlining – the government's public finance offering ensuring a clear focus for, and boundaries between, the various institutions.
   - Implementing clear and predictable governance structures and arrangements for public-private finance models.
   - Establishing a cross-government unit to promote and enable public-private finance.
   - Addressing key issues including blockages in the planning system and connection to the energy grid.

- Building skills and capacity in government departments and local authorities.
- Digital sharing of projects through a database of the pipeline of investable projects, including investment structures and deal precedents to help expedite projects.

viii. **Revitalise the UK's growth markets:** Prioritise completing the regulatory and market reforms already in progress, including investment research and reforms to the UK pension system. TheCityUK Capital Markets Group will set out strategic enablers to revitalise UK growth markets and support the growth of British businesses.

ix. **An investor concierge or 'Single Window Investment Agency' service:** Fully implement an investor 'single window' and create clear docking points across national and local government ensuring international and domestic investors can navigate the UK framework, including seamlessly engaging with local government.

x. **Upgrading the UK's business environment:** We set out several recommendations across tax, infrastructure, skills and other key elements that we believe must be addressed. Coordination across national and local government is critical to developing, implementing and evaluating policies to ensure that they support and reinforce each other and avoid unintended consequences.

xi. **Financial services and related professional services:** This submission includes several recommendations to bolster the growth of the financial services and related professional services sectors. We believe progressing these will help unlock the sectors' ability to contribute to economic growth across the UK and thereby the success of the IS.

xii. **Invest 2035 key opportunities:** The government's prospectus sets out three opportunities which align with the UK's strengths and which it aims to capitalise on to attract investment. The annex sets out how our industry can contribute to these.

1. Introduction

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes 12% of the UK's total economic output and employs over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry.

The industry plays a vital role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, lending, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

TheCityUK recognises the importance of the government's IS to drive inclusive growth and address major policy and economic challenges, including the net zero transition. Any strategy focused on growth across the UK depends on the economy's strengths in services, which account for around 80% of the UK's economic output.

Given our industry's significant contribution to the UK economy, it is positive to see both financial services and professional business services identified among the key growth-driving sectors within the IS. It will be vital that policies to support our industry touch the thriving financial and related professional services hubs in every part of the UK, where twenty-one towns and cities each have over 10,000 people in employment in our industry.

TheCityUK welcomes the government's commitment to aligning the IS with its Trade Strategy. This recognises that industrial and trade strategies are two sides of the same coin. An enhanced trade and investment strategy must be underpinned by domestic policies that enable the UK to compete globally and export its goods and services.

Our industry contributes significantly to UK exports, as illustrated in TheCityUK's 'Exporting from across Britain 2023' report. This shows that financial and related professional services exports from across Britain grew by 3.1% in the year 2021 (latest available data). Industry exports reached £134.7bn – approximately £25 in every £100 of export income. Nearly half (47%) of that contribution originated outside London, with the South East, Scotland and the North West making the largest export contributions at 10.7%, 6.8%, and 6.6%, respectively.

We believe there is considerable headroom for growth in international markets and the government can play a key role in facilitating this growth, including by helping to promote the UK-based offering with key public and private sector entities in international markets. TheCityUK has submitted a paper to the government setting out what our industry wants from a government trade and investment strategy. Key components (these are expanded upon in the annex where we set out our industry's role in the three key opportunities outlined in the government's 'Invest 2035 Prospectus') include:

- **Broadening the trade policy toolkit to cater to UK strengths:** The UK should consider all trade policy tools that can be used with specific markets to boost exports and attract investment.

- **Adopting a proactive stance on commercial diplomacy in regional growth corridors**: The UK should be more proactive on international trade policy issues that impact British businesses in the increasingly important centres of growth in Asia, the Middle East and Africa.

The UK faces a competitiveness, productivity and growth challenge, significantly exacerbated by very low investment over recent decades. Our industry can play a pivotal role in helping the government to unleash and steer investment to address this challenge. This submission focuses on our industry's enabling role in driving the IS and economic growth.

2. The government's approach to a modern Industrial Strategy

The government must set the IS on the right path from its inception. This means setting the right foundations and sequencing its approach, working in partnership with businesses and other stakeholders to deliver the right conditions for investment and inclusive economic growth.

2.1 Sectoral approach

The government's approach to identifying key growth-driving sectors is an essential element of the IS. It is widely acknowledged that official sectoral data, based on Standard Industrial Classification (SIC) codes, do not fully capture the breadth of the current economic landscape, with particular gaps in emerging, high growth sectors; nor the depth of some sectors, with limited sub-sector data availability. As a result, the IS should consider using, with appropriate caution, alternative data to complement SIC-based data.

A key outcome of more specific sectoral analysis is that government resources can be more effectively prioritised to ensure that the strategy is delivered with targeted interventions and appropriate monitoring and evaluation processes. This requires the establishment of sectoral working groups, staffed and supported by sector experts.

In particular, the government's sectoral approach must consider how businesses in each growth-driving sector can start, grow, and scale-up in the UK. We recommend the government's sectoral working groups gain an in-depth understanding of key financing challenges. This will help inform other sector-specific policy initiatives and ensure they target impediments to investment and growth and complement the existing and ongoing programme of developing the UK's capital markets.

For example, in 2021 the then government established a Life Sciences Scale-up Taskforce – an industry-led, expert group made up of Life Sciences venture capitalists, institutional investors, and financial and Life Sciences trade associations. This rightly reflected the fact that innovation in life sciences is often a long-term, capital-intensive process. It requires long-term investment – over multiple funding rounds, linked to scientific progress – to finance growth while weathering early R&D setbacks. There is currently a shortage of growth capital at the later stages and crossover rounds of financing. Promising UK companies therefore often look to other countries – primarily the US – when raising funds to reach their potential, and subsequently relocate operations to be closer to investors. This discourages UK life science companies from scaling up in the UK and means that financial returns, intellectual property, jobs and other benefits are often accrued by overseas investors and jurisdictions.

In the context of the Life Sciences sector, the task force found the UK's lack of long-term capital had three main causes:

- Low levels of institutional investment in UK growth capital markets due to a lack of incentive, knowledge and opportunities to allocate money towards private life science companies and funds that support the sector.
- Scarcity of human capital to support scale-up. This includes a shortage of UK-based specialist investors experienced in growth-stage commitments, low awareness of the life sciences sector and access to expertise within institutional investors, and a shortage of UK-based life science business leaders needed to scale-up companies.
- Limited successes on UK public markets. The UK's public equity markets could be made more attractive for life science companies as a market to list.

Cleantech is another sector that will need a targeted approach. It is key to delivering the government's net-zero objectives. Cleantech companies will need high levels of capital and support during start up and scale up phases of development and growth. The solution will need to vary according to the type of technology and growth phase, but there are common themes:

- Clear, credible and consistent policy / regulatory signals to encourage innovators and investors to enter cleantech markets.
- Climate-aligned fiscal and other support measures from the public sector including grants, R&D incentives, entrepreneurship programs in universities, mentorship and incubation support.
- Better commercialisation of innovation including measures to de-risk private investment.

The government also needs to consider the role of public procurement as a strategic tool and potential testbed for innovation. It could better use its buying power by developing a more accessible and streamlined approach to public procurement involving innovative firms at the scaleup stage and drive public sector efficiencies through tech adoption. In Hong Kong, for example, the government has built an online platform, called Smart Government Innovation Lab, for service providers to list solutions and user departments to list problem statements. The platform then matches them.

2.2. The role of place and clusters

Adopting a sectoral and sub-sectoral approach to driving growth reveals a clear clustering dynamic and underscores the importance of place-based opportunities and support for growth.

TheCityUK has a long-standing programme of work on financial and related professional business services clusters across the UK, including important centres such as Birmingham, Bristol, Leeds, Liverpool, Manchester and Sheffield in England; Cardiff in Wales; Belfast in Northern Ireland; and Edinburgh and Glasgow in Scotland in addition to London, the world's leading international financial and related professional services hub.

The strengths in each region and nation, combined with supportive government policy, should enable the UK to maintain its position as a global industry leader. Our policy recommendations provide a template for how government – whether based in Westminster, the nations, or the English regions – can build a strong partnership with our industry to maximise inclusive growth.

Our ideas in the areas of devolution, people, skills, growth and planning reform[1] are practical and deliverable and would make a real difference to individuals and businesses in every part of our country.

[1] TheCityUK, 'Enabling growth across the UK 2024' See pages 7-15 for further detail on these recommendations, available at https://www.thecityuk.com/media/sapbwnqv/enabling-growth-across-the-uk-2024-uk-based-financial-and-related-professional-services.pdf

The government should incentivise more place-based investment to stimulate job creation and economic opportunities in specific parts of the country. For example, the US Inflation Reduction Act (IRA) includes clean energy provisions that have been designed to create good quality jobs in places that need them. The UK should learn from the US and introduce incentives for investment in specific technologies in specific areas of the country, to support a just net-zero transition across the UK.

The government must support the delivery of place-based investment by investing in the supporting infrastructure that is needed in specific places. Improving transport links between the UK's key manufacturing and import/export sites (which are essential for maximising the benefits of carbon capture, utilisation and storage (CCUS) and hydrogen for example) is a key priority. This will give greater long-term certainty to projects in specific parts of the country, and thereby boost investment. Focus must also be placed on low-cost, often last-mile, transport network interventions which can lower freight costs, expedite journey times, and increase access to the workforce.

2.3 Partnerships, institutions and governance

The government states that 'at its core, Industrial Strategy is rooted in building institutional capacity to develop and deliver effective economic policy'. We believe our industry can play a leading role by working in partnership with the government and other stakeholders to build the UK's institutional capacity.

Engagement with industry must be multilayered and, where possible, make use of existing groups or structures, for example the Professional and Business Services Council.

- We recommend the government establish Subject Expert Groups (SEG) as part of the IS architecture. These would enable a structured approach to considering critical, foundational issues which will help set a positive direction for the IS. This approach has been successfully used by the Prudential Regulation Authority (PRA), which established SEGs in conjunction with the Association of British Insurers (ABI) to gather a broad range of information and options for the development of new supervisory measures for Solvency UK reforms.
- Our industry is open to exploring the potential for secondments and exchanges to help the government develop its institutional capacity and contribute to building capacity and understanding of new perspectives required to deliver the strategy. TheCityUK would welcome the opportunity to discuss these initiatives in more detail.

SEGs, SWGs, secondments and exchanges would help to inform the government's overall approach to developing new policies and regulations and provide a feedback loop for investor sentiment and perception – which are critical, particularly in an international investor context, to unlocking investment.

We welcome the government's mission-led approach and appointment of joint Ministers across departments. This will be important to delivering the enhanced government coordination necessary to deliver the IS.

We believe this approach should extend to financial and economic regulators and recommend that the Industrial Strategy Council works with relevant government

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departments and regulators to create an Industrial Strategy 'Policy and Regulatory Initiatives Grid'. This could be modelled akin to the Financial Services Regulatory Initiatives Grid developed by the Financial Services Regulatory Initiatives Forum, which has been successful in setting out the regulatory pipeline so that the financial services industry and other stakeholders can understand – and plan for – the timing of the initiatives that may have a significant operational impact on them.

Creating this grid would help to provide certainty and confidence that the UK's future policy and regulatory environment will be focused on enhancing competition, innovation and growth, spur domestic investment, and encourage foreign firms to locate in the UK and trading partners to place trust in the UK's policy and regulatory regime. Importantly, having a consolidated grid would enable policymakers, regulators and industry to consider the aggregate impact on, for example, UK competitiveness, as well as the contribution of specific initiatives, whether individually or taken together, to advance the progress of the IS.

The role of the Industrial Strategy Council (ISC)

The ISC will be created as a statutory independent body. This needs to be seen as an important signal of the focus on longevity and consistency in implementing the IS. The ISC must play a key role in assisting the government in sequencing and connecting the actions necessary to set the right foundations for the IS. The ISC must be appropriately resourced and expert to manage its substantial remit in covering all eight growth-driving sectors as part of its proposed functions.

In addition to its functions as set out in the Green Paper, we recommend that the ISC play a leading role as a repository of government and market practice across investment structures and deal precedents, ensuring that these are shared to help build capacity and expertise across government, regulators and investors. In the short-term, identifying practical outputs that the ISC can deliver will help it to build a close working relationship with market participants.

We set out below our industry's perspective on its role, based on the key functions of the ISC as set out in the Green Paper:

Monitor and measure progress on growth-driving sectors and policies

A key role of the ISC will be to determine a set of metrics for measuring the IS's progress, including progress on key growth-driving sectors and policies. The previous iteration of the ISC, chaired by Andy Haldane, worked with stakeholders to identify empirical metrics underpinned by a theoretical model of the drivers of growth. These were then calibrated against the key elements of the previous government's industrial strategy to provide a methodology for measuring success.

These remain, in broad terms, the right metrics and TheCityUK recommends the ISC retain them, while adding metrics which reflect the new IS's key elements and outcomes. For example, measuring the impact of the IS in terms of inclusive growth could include measures of economic progress across often marginalised groups, whether defined by class, race, gender, sexuality, religion, geography or another relevant category.

The long-term nature of the IS means that meaningful measures of progress will take time to show results, and it is unlikely that the government will be able to ascribe an outcome, when measured, to any one specific policy action. However, we believe it is vital to recognise the importance of a robust framework for measuring progress. This includes consideration of key performance indicators (KPIs) and any possible international benchmarks which can help inform the government's progress against key metrics as compared to international peers and benchmarks.

Undertake analysis to improve the evidence base to include in its reports and advice
This analysis should be informed by an expedited assessment of the possible data gaps that would enable enhanced measurement of the IS and assist policy development and implementation. The Bank of England undertakes a monthly survey of Chief Financial Officers from small, medium and large UK businesses. The Decision Maker Panel (DMP) outputs are used to monitor developments in the economy and track businesses' views and enable better measurement of the impact of uncertainty on business decisions. We believe this kind of evidence is key to understanding key issues that can help inform the ISC's programme of analysis, with a focus on factors that might inhibit investment. However, there is evidence that suggests some of these sorts of surveys are becoming more challenging to conduct and the IS should seek to use innovative and creative approaches to the identification and addressing of data gaps. Again, this could be drawn from best practice internationally or from the private sector.

Policy development through public reports, ministerial commissions, and private discussion papers
This programme of work should focus on widely understood obstacles to the success of previous industrial strategies, such as how to bolster coordination between government departments and key stakeholders to tackle inconsistencies and policy variations that can lead to uncertainty and ultimately erode the IS's intended outcomes.

In short, we urge the ISC to adopt a de-politicised and objective approach – which draws heavily on industry experience – to appraising the government's decision-making and considering its prioritisation including assessment of its ability to balance the trade-offs between legitimate, but potentially competing, objectives. For example, the ISC, with input from SEG and SWG as outlined in this submission, could inform the relative prioritisation of government and economic regulators' actions and their contribution to the IS and growth more broadly.

The ISC should be empowered to commission work from government departments and bodies. For example, the National Audit Office has already launched a study to examine whether the Department for Business and Trade (DBT) is well-positioned to secure impact from its support for priority industry sectors, including how it works with other departments and delivery partners to do so. This is a model that could be usefully followed.

3. Enabling investment to support economic growth

Creating the right environment to stimulate investment (public and private, domestic and foreign direct investment (FDI)) is crucial to delivering inclusive growth, higher productivity,

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adaptation to climate change, and resilience (including of individuals and households) in the UK economy.

Policymakers and stakeholders need to understand how the financial system works to channel capital from those who would benefit from investing it to those who can use it to bring about growth for shared benefit. They also need to understand the frictions – including economic and non-financial frictions – that undermine the financial system's ability to do this effectively.

By any measure[2], the level of investment in the UK is lower than it should be. The UK has had the lowest level of investment in the G7 for 24 of the last 30 years.[3] However, it is important to note that investment decisions are not straightforward financial decisions solely determined by a company's ability to access capital for investment. Contextual issues such as the perceived level of government support for the investment decision and the broader political climate are also important.

A Bank of England survey[4] that collected data on business investment and financing decisions showed that "underinvestment is likely due to a mix of financial and real economic obstacles. In fact, around half of the businesses that underinvested experienced both real economy and financial obstacles to investment". For example, financial obstacles (a greater barrier for small businesses) included a high cost of finance, lack of access to finance or financial market pressures for short-term returns. Real economic obstacles included uncertainty about the future economic environment, inertia and concerns about investment due to experience of lower rates of return on existing investment.

The survey concluded that encouraging greater productive investment required a combination of economic and financial policies. This is important in the context of the IS as it reinforces the role that uncertainty about the future economic environment, as well as the underpinning business environment, has on businesses' appetite to take on risk and invest.

The government needs to use its levers effectively to provide predictability from a policy and regulatory perspective, including how the government sets its own 'risk appetite', for example through the remit it sets the financial regulators. The ambition and courage needed to deliver long-term growth requires a degree of risk tolerance and this must form a core element of the political will necessary to deliver the IS.

The government's IS must focus on designing and implementing policy and regulation with a balanced consideration of the risk and reward trade-offs for growth. While policy and regulation are based on achieving a set of desired outcomes - for example, protecting against harm - they can have significant unintended consequences. For example, policies intended to make pensions 'safer' contributed to halving the holdings in stocks and shares

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[2] Bennett Institute, 'Investment in the UK: Longer term trends', (November 2023), available at https://www.bennettinstitute.cam.ac.uk/wp-content/uploads/2023/11/Investment-in-the-UK_Longer-term-trends.pdf

[3] IPPR, 'Rock bottom: low investment in the UK economy', (June 2024), available at: https://ippr-org.files.svdcdn.com/production/Downloads/Rock_bottom_June24_2024-06-18-081624_arsv.pdf

[4] Bank of England, 'Quarterly Bulletin: 2017 Q1', (2017), available at: Quarterly Bulletin 2017 Q1

by UK consumers over the past twenty years and reducing pension fund long-term investment in UK equities.

Decisive, collective action is needed to challenge the current culture of risk aversion and 'safetyism' that discourages investment in productive assets such as infrastructure. This also raises the question of understanding how investment decisions are made, including the inter-relationship between the expected costs, the expected rate of return and the overall objectives of the investor. The government's approach to attracting investment must demonstrate a sophisticated understanding of investment decision-making.

3.1 Crowding-in investment

The success of the IS will largely be predicated on the government's ability to crowd-in investment from domestic and international sources. This means the government needs to build and apply a robust understanding of key factors that encourage and de-risk investment at scale – across all forms of private investment and broader public investment through investment funds. This understanding must be at the heart of developing investment propositions and prospectuses that reflect the needs and risk profiles of various pools of capital, in the context of the new public finance architecture and the government's overall investment ambitions.

This includes the remits and actions of the government's co-investment institutions, and how they interact with local and regional investment plans (for example transport, hospitals and universities). The structures and personnel put in place need to connect with, and account for, the different systems and plans that both government departments and devolved leaders have in place to support growth (for example different priorities for growing local skills needs) and enable investors and entrepreneurs to navigate these with ease.

To help the development of propositions for strategic investment projects and sites, we recommend that the Office for Investment conduct early market-testing of the government's investment propositions. This could draw on the advice of financial and related professional services representatives across relevant disciplines (e.g. financing, structuring, contracting and risk management, including commercial insurance) and include international businesses as well as local market experts. Early assessment of this kind could play an invaluable role in helping structure the right 'capital stack' for projects, optimising the mix of funding across government grant funding, full or partial guarantees, public and private debt and equity components.

Public-private finance and the role of government development/investment funds

The government needs to work effectively and accountably with private investors to de-risk and increase the flow of productive investment across a range of sectors. A combination of the right financial structures and enablers could mobilise significant private investment (and broader public investment through investment funds) for public-private policy priorities across the UK. Collaboration among industry, government, regulators and key stakeholders will be vital in overcoming existing investment constraints from the private sector. Collaboration within government is also extremely important: an obvious example would be to consider the ongoing pensions reforms alongside the broader drive to increase investment through the IS.

The current UK landscape of public finance institutions is fragmented, which reduces efficiencies of scale and means that the mandates of different entities are overlapping and confusing. The Transition Finance Market Review[5] recommended some streamlining to improve coherence and effectiveness. We believe the government should consider this at a minimum and could go further by consolidating some currently separate entities.

There is a range of models for delivering public-private finance that cater to different financing needs, from funding for major infrastructure projects to early-stage investment in frontier technologies. Different models and instruments are suited to different sectors and projects and the government's approach to public-private finance must recognise this, as it did during the LIFTS consultation.

For example, the National Wealth Fund (NWF) and GB Energy will be key vehicles to help de-risk infrastructure projects, particularly for nascent technologies, as well as to support the creation of green jobs and investment in skills. The Transition Finance Market Review identified the lack of commercial viability as the most significant barrier to scaling finance for climate transition investment. Long-term policy certainty and the targeted application of blended finance solutions were identified as key catalysts for de-risking and unlocking private sector investment.

Enablers to support the scaling up of public-private finance, mobilise greater private investment, and restore confidence in the market need to include:

- Consolidating – or at a minimum, streamlining – the government's offering and as part of that reviewing the role, approach and risk appetite of UK public finance institutions to deliver policy measures, incentives and investment vehicles that cater to different approaches, pools of capital and risk tolerances.
- Clear and transparent explanations of the role of different public finance institutions, the boundaries between them, how they will work together (where necessary), and how they engage with other national and/or local agencies to secure the wider support businesses may need, for example, on visas and planning.
- Implementing clear and predictable governance structures and arrangements for public-private finance models. This includes respecting the need for political and policy stability in the remits and operation of public finance institutions as investors assess these (and reputational risk) as risk factors when co-investing.
- A focus on minimising change and uncertainty in the broader political and regulatory environment, which increases risk and the cost of finance and reduces expected returns for private investors.
- Establishment of a cross-government unit to promote and enable public-private finance.
- Addressing key issues including blockages in the planning system and connection to the energy grid as well as skill-building in these fields in government departments and local authorities.

[5] Transition Finance Market Review (TFMR), 'Scaling Transition Finance: Findings of the Transition Finance Market Review' (October 2024), available at: https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/Scaling-Transition-Finance-Report.pdf

- Building a database of the pipeline of investable projects with attractive returns for the various pools of capital, clarity on what level and type of capital investment is needed and transparent details of the stage reached in individual projects.
- Maximising the use of digital technologies to share information with interested parties, including investment structures and deal precedents to help expedite projects.

3.2 Mobilising investment throughout a company's growth journey

The role of the UK's capital markets
The UK's capital markets will play a key role in achieving the government's ambitions for the IS. The markets support the UK's entrepreneurs and businesses by connecting them with investors to provide crucial funding to support their growth.

UK businesses need funding at every stage of their development. Funding can come from several sources. The most common options for businesses looking to raise money include bank lending, bonds, equity via public markets and private equity. Other forms of finance include asset finance, business angel investment, insurance company and pension fund lending, crowdfunding and private placements.

To enable UK capital markets to perform their economic role effectively government, industry and regulators must work in partnership to ensure the UK's policy, legislative and regulatory environment attracts and facilitates the flow of capital to businesses to enable growth, particularly in priority sectors and to support business transition to net zero. The UK ecosystem needs to support the smooth transition from start-up to scale-up, from private to public capital markets, and from growth to main public equity markets.

As businesses grow, their importance to the UK economy increases, as do their governance and capital needs. Each stage of the growth journey is important, but vibrant public growth markets are crucial to maximising the growth potential of the UK's 5.6 million small and medium businesses. Without government recognition and support, these markets are in danger of withering, which would result in the loss of an important option for business growth finance.

Vibrant public main markets, which are home to more than 1000 companies, are crucial to supporting the UK's largest businesses and keeping them and the many jobs they provide (both directly and through their supply chains) in the UK. The government must work in partnership with the industry to ensure these markets and UK businesses thrive and are internationally competitive.

There is still much to do, but the government must prioritise completing the regulatory and market reforms already in progress including investment research, digitisation, prospectus reforms, the Private Intermittent Securities and Capital Exchange System (PISCES) and reforms to the UK pension system. These reforms remain vital to creating the conditions for a vibrant domestic supply of capital to support UK businesses and economic growth.

The Mansion House Compact was an important step forward in encouraging pension fund investment in equities on a voluntary basis. TheCityUK supports further incentivisation to invest in the UK but does not support mandating investment in UK assets, which could negatively impact the UK's reputation and attractiveness as an open international financial centre with strong governance.

Government policy must recognise that the UK is a global centre for financial services and investment. While the government seeks to encourage UK investment in the UK, it must also take care to maintain the international reputation, openness and competitiveness of the UK financial industry and economy.

Further steps are needed to encourage, enable and support many more people across the UK to invest in equities to support their medium to long-term financial resilience. Action is needed to boost individual ('retail') investment across the UK generally and in UK assets. The FCA's Advice Guidance Boundary Review must contribute to this objective and to improving standards of financial literacy.

There are several ways that the government could incentivise and enable greater investment in UK-listed equities, including:

- **Preferential dividend tax treatment for certain categories of UK assets (subject to criteria):** This could range from an additional dividend allowance for individuals, to reinstating an imputation system for dividends paid by UK-listed companies (in certain target sectors, or meeting certain criteria, for example aligned with UK industrial strategy) with repayable tax credits.
- **Tax reliefs for qualifying assets:** For example, extending business relief to investors holding shares in certain UK growth sectors may allow asset managers to develop and market portfolios of assets with attractive growth/returns characteristics.
- **Reducing the disincentives to invest in listed equities,** including consideration of the ways required to measure and report normal volatility, and the consequent asset and liability matching protocols that are needed to balance such volatility. The government should also consider how to address disincentives to pension providers and participants being a first mover in what is currently a very risk-averse pension system.
- **Consider removing, or at least tapering, tax disincentives across all UK equities to incentivise greater UK institutional and retail investment into UK equities.** The UK is an outlier in applying this tax. For example, in the US stamp duty is not payable, and an Australian pension fund buying an Australian equity does not pay the equivalent of stamp duty. By imposing the tax on UK equities only, the government is making UK equities less attractive and poorer value than those of other jurisdictions.
- **Consistent regulatory guidance across the pension fund and institutional investment landscape:** For example, in COBS 21.3.1 (2)(c) investors were told to limit illiquid holdings to 20-35% of a qualified investor scheme fund structure. We note that the FCA published a letter which intimated accelerating fund managers' exit from holdings of listed small and mid-cap stocks through fear of regulatory action.
- **Investment research:** The government needs to consider factors in the wider ecosystem that impact pension and institutional investment, such as the availability

of quality research on companies and assets (as set out in Rachel Kent's Investment Research Review, July 2023).

TheCityUK Capital Markets Group will set out ten strategic enablers to revitalise UK growth markets and support economic growth, which we will share with the Department for Business and Trade, HM Treasury and other key stakeholders.

Investment in the UK's defence sector – one of the eight 'verticals' identified in the IS - is of particular importance given the cross-party support for the goal of defence spending reaching 2.5% of GDP. Government needs to consider how to address blockages which prevent defence sector investment, for example the application of ESG criteria which are drawn more broadly than is required to address climate transition.

Digitalisation of capital markets

The government, as outlined in the IS Green Paper, has committed to 'take advantage of trends in digitalisation to attract the firms of the future and increase productivity across the economy'. This drive should include financial services, which is a technology-driven sector. The digitalisation of capital markets has the potential to unlock the growth of capital markets and their role as an enabler to the wider economy, as well as fostering the creation and expansion of new FinTech companies. The more widespread the digitalisation effort across the financial sector, the more efficient, dynamic and competitive the capital markets will be, and the more likely it is in the longer term that the UK will support a successful digital transition and retain its position as a leading global financial centre.

Specifically, the government should:

- Deliver a modern digital infrastructure for share ownership by publishing and implementing the final recommendations of the Digitisation Taskforce, including any necessary primary legislation, to develop a modern digital framework for share ownership that aligns with and improves upon that of other major jurisdictions worldwide.
- Swiftly implement plans to pilot a digital gilt, to signal the UK is a hub for securities tokenisation, encourage investment and catalyse further industry participation and innovation. The Chancellor's recent announcement of a government pilot to deliver a Digital Gilt Instrument (DIGIT) is a positive first step, but given the increase in sovereign issuances elsewhere, the need for swift action to implement such announcements is urgent.

4. Upgrading the UK's business environment

The IS Green Paper recognises the importance of 'horizontal' policies that set the basic conditions for doing business in the UK. We set out below several areas we believe can be enhanced in the interest of delivering the IS with maximum efficiency. Above all, there needs to be a strategic approach to developing, implementing and evaluating policies to ensure that they support and reinforce each other and avoid unintended consequences. Immigration policy is a recent, critical example: it can so easily impede growth-driving sectors from recruiting the skills they need.

4.1 A competitive tax system

Tax is a key factor that investors consider when comparing jurisdictions to locate their business operations and investments. Ensuring the UK's tax regime is internationally competitive is therefore crucial to delivering long-term UK economic growth. Specific recommendations on tax for financial services and banks can be found in the financial services section (section 5) of this submission.

A good tax regime is not only about tax rates. It is also a matter of how tax policy is approached. Frequent, short-term changes to tax policies and rates send signals of instability, unpredictability and complexity to investors, which deters investment and ultimately growth. We welcome the government's new Corporate Tax Roadmap, which gives clear commitments on key areas of business taxation such as corporation tax, capital allowances and R&D reliefs for the duration of this Parliament.

However, it is not just the headline rates of corporation tax which impact the decisions of investors. Taxation must also be seen in the round. The government must pursue ways of simplifying the tax system and reducing the burden and cost for businesses to comply with the rules. The UK tax regime must also remain attractive for people at the top of their profession so that the UK continues to attract investment, keeps its homegrown talent, and continues to attract the best international talent. The alternative would be negative for economic growth and overall tax receipts.

We welcomed the government's decision in the Budget to maintain 50% Business Property Relief on Alternative Investment Market (AIM) shares and to initially exempt PISCES transactions from Stamp Duty. These two measures will be key to ensuring that small and medium-sized businesses with growth potential can access the capital they require to scale in the UK. We encourage the government to clarify that these reliefs will be maintained over a longer period, to give companies and investors the certainty required to commit their capital to the UK.

4.2 Economic regulation

The UK needs to have a stable and predictable environment for economic regulation i.e. regulation influencing how businesses operate and compete, including their pricing, entry, investment, and product decisions. This is a vital foundation for ensuring the long-term competitiveness and success of the UK's economy. Regulatory policy needs to be effectively and proportionately balanced to deliver an environment which is neither 'over-regulated' nor 'under-regulated', but proportionately regulated (i.e. taking the least intrusive option consistent with the objectives).

Although we support the principle of regulatory independence (i.e. the independence of regulators in taking day-to-day regulatory decisions), the government should be responsible for setting the overall policy, with regulators delivering in line with policy. We would like to see more alignment of UK regulators with government policy that supports the UK's economic growth, and more coherence between regulators that positively supports investment and growth.

We recommend the government provides guidance to the UK's economic regulators to help them successfully balance their objectives in line with long-term policy objectives for the IS. We also encourage both the government and Parliament to acknowledge that effective regulation and delivery of long-term growth must involve a greater degree of risk tolerance.

To support economic growth and drive international competitiveness UK regulators, policy makers and Parliament will need to adopt a coordinated growth mindset and accept a certain degree of risk and uncertainty in the system to allow for innovation and economic growth by encouraging and enabling new investment.

As they take forward their activities, government and regulatory agencies will need to be focused on long-term regulatory outcomes and removing inhibitors to investment. Many of the investors considering investment in the UK may have operations across various regulated sectors and regulators, and anecdotal evidence suggests that their perception of UK economic regulation could be enhanced.

4.3 Corporate governance

The importance of the UK's corporate governance regime in ensuring market stability, predictability and investor trust is well established. TheCityUK recognises the role of good corporate governance in ensuring that the UK remains an internationally attractive and domestically competitive place for businesses to operate.

While good corporate governance standards play a part in ensuring investor confidence in a particular market, overly prescriptive standards and excessively onerous disclosure burdens can decrease the attractiveness of a market as a business and investment environment. We therefore welcome the proportionate and balanced approach that has been taken on corporate reporting by the Financial Reporting Council. Simplifying the regulatory landscape, reducing compliance burdens, and promoting clarity for market participants are vital to ensuring the continued competitiveness and attractiveness of the UK capital market.

4.4 Access to world-class skills and talent

Skills are one of the key components of a successful financial services sector, which has become increasingly reliant on highly skilled employees over time. Seventy three per cent of roles in financial services are now highly skilled compared with 52% 20 years ago[6]. Firms have struggled to get the skills and talent they need to compete, and the industry has come together to form the Financial Services Skills Commission (Commission), which produces research, tools and opportunities to collaborate on building the skills needed for a growing and competitive industry which is future-ready.

HM Treasury has recognised the Commission's work and the significance of skills as one of the five pillars of growth in its Financial Services Growth and Competitiveness Strategy call for evidence. TheCityUK supports the Commission's work, and we recommend the IS takes full note of its response to this consultation.

[6] Financial Services Skills Commission, 'People and Technology', (November 2023), available at: financialservicesskills.org/people-technology/

Domestic skills development
The UK must invest in its domestic talent pool, including by improving secondary education, particularly in STEM subjects and financial literacy. The UK's next generation must be at the forefront of technology – including green and digital technology – and finance to ensure that the UK is seen as the preeminent global talent hub for the world's most important businesses.

Technology adoption is reshaping the skills needs of key growth sectors. The government should accentuate policies for lifelong learning to reskill and upskill the population to develop and future-proof the UK's long-term domestic talent pipeline in a diverse and representative workforce.

Reform of the Apprenticeship Levy
We believe that there is now huge scope to improve the impact of the Apprenticeship Levy through greater flexibility. We welcomed the previous government's announcement in March 2024 that firms will now be able to transfer a much greater percentage of their levy funds to small businesses and charities, something we had called for in our 'Enabling growth across the UK 2023' report. We welcomed the government's pledge to transition to a broader Growth and Skills Levy as we believe this will better equip the industry to re-skill employees for the jobs of the future, particularly those associated with technology and the green transition. Greater flexibility, for example in the length of time given to complete courses and spend funds, and in the use of new techniques such as blended learning, as well as different qualifications, will radically improve the levy's impact on the lives and opportunities of individual apprentices and on the growth and productivity of UK businesses.

Access to international talent
The UK must continue to attract the best global talent. The UK needs an effective, efficient and adaptable visa regime that encourages and enables highly skilled people to locate here. This is not just a matter of ensuring that UK-based businesses can, over the long run, recruit their personnel from as wide a pool as possible. It is also a day-to-day competitive issue for businesses supplying services when they need to bring together a designated project team of international talent.

If the team can be assembled in the UK, the business will likely come to the UK. If visa restrictions prevent the team from being brought together in the UK, it may be assembled elsewhere (perhaps Luxembourg or Singapore), and the associated business will go there. Services are not a commodity, to be supplied from existing stock. A service supplier must meet a customer's demand with a package of the right advice and the right team to deliver it, at the right time. The ability to source the necessary talent quickly is therefore critical.

As the industry becomes increasingly reliant on technology, there is a growing demand for specialised digital talent—ranging from software engineers to data scientists and cybersecurity experts. A country with a flexible and competitive visa system can attract and retain top global talent and innovation, bridge talent gaps, promotes knowledge exchange, and drives the technological advancements necessary for long-term economic growth and global leadership. We would also urge government to identify where current approvals processes could be streamlined, for instance with lower entry barriers placed on the FCA's Senior Manager Regime for candidates already operating and approved in countries with similarly high standard regulators.

The role of professional bodies

Professional bodies support the attainment of core skills of the specific profession, for example the Chartered Banker Institute and CISI, two of the founding members of the Chartered Body Alliance. Such bodies support research into the skills needed to meet future challenges and should play a key role in delivering the skills development required by the key growth-driving sectors in the IS.

4.5 Planning

The UK's antiquated planning system is a key barrier to investment in the UK and needs to be recognised as a factor undermining the government's central mission to kickstart economic growth. New investment requires development projects that are ready to make use of capital and can be delivered quickly, sustainably and consistently. The complexity and lack of predictability in the current planning system, and significant delays in decision-making, are acting as disincentives to investment and undermining the benefits that investment can deliver. To deliver investment and drive growth, the government must address current barriers and restore trust and confidence in the UK's planning system.

The success of any future planning system will depend on delivering reforms in the following areas:

- **Resource:** Local planning authorities are under-resourced and unable to manage the number and increasing complexities of planning applications.
- **Predictability:** A lack of consistency between (and within) local planning authorities is a key issue with the current planning system.
- **Efficiency:** To make the UK more attractive to investors and facilitate investment decisions, the planning process needs to prioritise efficiency and timely decisions.

Effective digital and transport infrastructure will enhance the connectivity of thriving regional hubs, helping to bring about greater growth across all industries, not just financial and related professional services. Implementation of low carbon and sustainability improvements to infrastructure will also be integral to the UK's move towards net zero and create new investable opportunities to boost growth across the country.

The government should analyse how key infrastructure projects can be expedited where appropriate, within the planning system. It should also determine what additional powers metro mayors could be awarded to help them drive crucial projects in their area. This should include enabling best use to be made of the incentives available through Investment and Enterprise Zones and Freeports, and Development Corporations. Where it is decided that additional powers will allow mayors and others to move projects forward, these powers should be as consistent as possible between authorities to provide clarity to businesses and investors.

4.6 Infrastructure

Infrastructure remains a key driver of future growth and investment. Continued investment, not just in major inter-city infrastructure projects like HS2, but also in intra-city and regional projects that link key hubs for our industry, is also vital to the overall UK offer.

The UK's digital infrastructure must keep pace with rapid technological advances. The rise of generative AI has marked an inflection point in the demand for data centres in the UK. Likewise, while the UK is currently a leader in early quantum developments, major investment in quantum infrastructure is needed to maintain this global position in the commercialisation phase. Investment in digital infrastructure alongside government intervention to support data centre planning, is key.

Data and digital technologies that support innovation and growth

Embracing technology and innovation is central to the continued international competitiveness of the UK's growth sectors and to their contribution as an enabler across the UK economy. Our industry is effectively a digital industry, given the fundamental role that technology and data play, and this needs to be reflected in the IS. The government has a facilitative role to play in ensuring that firms can adapt and harness the full potential of these technologies. Further detail on this can be found in the annex, where we discuss the industry's perspective on the advent of artificial intelligence, digitalisation and increased automation.

5. Financial services

The UK's position as a major international financial centre is a key national asset and provides an engine for growth, innovation, jobs and productivity across the economy. The UK is the leading net exporter of financial services across the world and maintains a globally leading share of several financial markets. For example, it has 14% of the global total of cross-border bank lending. London is a centre for foreign banks, with around 170 foreign banks or branches across the city.

We welcomed the Chancellor's recent Mansion House speech and the government's intention to publish a pro-growth, pro-competitiveness long-term strategy for the industry. This is critical to ensuring the UK's competitive position as a world-leading international financial centre. We will respond to the HM Treasury call for evidence to help inform this strategy.

In the context of the IS, we suggest the government includes a focus on the activities that are necessary for capital allocation for growth – a key enabling role of the financial services sector. For example, the AFME 'Capital Markets Union: Key Performance Indicators' report[7] tracks the development of the UK's capital markets, including a cross-border finance indicator that seeks to quantify the integration of UK capital markets activities with the rest of the world.

[7] AFME, 'Capital Markets in the UK: Key Performance Indicators', (April 2024), available at AFME UK Key Performance Indicators 2023 - 11042024.pdf

The full engagement of UK financial regulators in delivering the IS will be crucial, given their wider scope and powers following the UK's exit from the European Union and the ongoing development of the UK's Smarter Regulatory Framework.

This includes a focus on the supervision of financial services firms, where there are concerns that UK regulators are de facto 'gold-plating' standards and negatively impacting proportionality through, for example, 'Dear CEO' letters. The difficulty of navigating a multiplicity of sources of regulators' rules, guidance and legislation can lead to unintended complexity, enhancing risk aversion among firms and undermining their ability to serve customers across the economy.

However, for financial services to continue to play its foundational role in economic growth, improvements in the UK's regulatory regime must be matched by the government and agencies across the UK creating an open, stable and welcoming business environment. As we noted earlier in the submission, there are a range of frictions – including economic and non-financial – that impact the availability of capital.

We believe several key factors contribute to the growth potential of the UK-based financial services sector – the most important being growth across the wider economy. However, there are specific actions the government can take to set the right conditions for increasing domestic and international capacity to allocate capital and resources to the UK, thereby contributing to economic growth. We will build on these in our response to HM Treasury's call for evidence.

Our key financial services recommendations for the government cover both domestic and international policy priorities.

In the domestic field:

- **Ensure that the UK has a stable, proportionate and predictable but agile regulatory environment**, with a clear focus on swiftly implementing all aspects of the Financial Services and Markets Act 2023; delivering a Smarter Regulatory Framework tailored to the UK; and ensuring coherence between the different financial services regulators acting to facilitate investment and economic growth.

- **Provide appropriate scrutiny of how the regulators deliver their statutory objectives and functions, including their new secondary competitiveness and growth objectives.** With the predictability and efficiency of the UK's regulatory environment a key component of its competitiveness, speedy regulator decisions on applications to invest capital, appoint new key personnel, start new businesses, or create new products are crucial factors for companies considering where to locate business activities and investments.

- **Work with regulators and industry to ensure that the regulators' metrics to measure the delivery of their secondary objectives on competitiveness and growth are steadily refined to remain relevant; and a framework is developed to track the competitiveness of the UK regulatory environment against those of other**

international financial centres. Effective reporting, scrutiny and accountability will help to ensure the UK maintains exacting standards that contribute to its competitiveness and incorporate assessment processes to indicate where regulatory adaptation and operational enhancements are needed to boost regulatory efficiency and competitiveness.

- **Initiate and publish the promised review of VAT treatment for financial services**, including an assessment of the impact of the VAT regime on the UK's international competitiveness.

- **Reconsider the uncompetitive overall effective tax rate on banks in the UK**, to bolster economic growth. **Phase out the bank levy and the surcharge**, which are key elements of the UK's internationally uncompetitive total tax rate for banks.

- **Scale up green finance further and faster** by collaborating across government and industry to build on the Green Finance Strategy published in March 2023, to support the ambition for the UK to become the world's first net-zero-aligned financial centre.

- **Work with the grain of developments in technology and information** – seeking international standards and alignment in the regulation of technologies such as AI and digital assets; adopting a proportionate approach towards regulation to protect consumers and ensure financial stability without impeding the pace of innovation, investment and development; and ensuring the population can meet the changing skills needs in line with technological advances.

- **Build on the strength of UK's international wholesale markets** which provide transparent financial markets where market participants can manage price risk, access deep liquidity and price the world's most important commodities and financial instruments, whilst simultaneously having access to clearing and risk management services that contribute to global financial stability and security. The UK's industrial strategy should leverage this world-leading financial market infrastructure to support domestic and international transition to net zero and make Britain an international leader in clean energy.

And internationally:

- **Promote greater cross-border provision of financial services,** both into and from within the UK, to provide more efficient access to capital and lower costs for businesses.

- **Ensure financial regulatory dialogues with key markets** such as the US, EU, Switzerland, Singapore, and Japan focus on delivering stability and growth in the global economy by improving transparency, industry engagement and accessible public reporting on deliverables.

- **Increase and deepen partnerships with emerging international financial centres** in the Middle East, ASEAN, and Africa to promote the UK as a partner of choice and increase trade and investment flows.

- **Understand and act on our industry's EU concerns:** Actively engage with our industry to understand its priorities for the TCA review and the challenges faced within the EU-UK relationship for financial and related professional services. Advocate with EU institutions and Member State counterparts for an ambitious and wide-ranging review of the TCA in 2026 which seeks to improve the agreement in mutually beneficial ways.

6. Related professional services

TheCityUK defines related professional services as legal, accounting and management consulting services. Our analysis shows that the value of UK-based financial and related professional services exports increased by 56% between 2016 and 2023. Financial services (finance activities plus insurance) accounted for 62% of this increase, and related professional services (legal, accounting and management consulting services) accounted for 38% of the increase. We recognise a range of broader services sectors are vital to the UK economy and support the focus on high-growth, high value-added services sectors through the IS.

Professional Business Services Council (PBSC)

TheCityUK is a member of the PBSC, and we are contributing to its representations to the Department for Business and Trade on the development of a revised Professional Business Services Sector Plan.

Legal services

As outlined in our latest Legal Services report (to be published on 10 December), the sector makes a significant contribution to employment and economic growth across the country. In 2022 it employed around 368,000 people across the UK and in 2023 it contributed 1.6% of UK gross value added (GVA) and a trade surplus of £.7.6bn.

The UK's legal system is a key foundation upon which commerce and industry are based, helping businesses and consumers buy and sell goods and services across the economy. English law and the UK's courts provide a trusted legal framework which is used by global businesses for major international business transactions. The UK is a leading global centre for legal services and dispute resolution. It is also a leading hub for legal services innovation, with a vibrant and growing LawTech industry.

The international success of the UK's financial services industry is underpinned by the UK's laws and regulations, and the lawyers and judges who contribute to implementing them. The UK's reputation internationally as a global centre for justice and the rule of law is a national asset and fundamental to the UK's status as one of the world's leading international financial centres. Maintaining the UK's pre-eminent status as a global legal centre goes hand in hand with securing the country's future economic success.

Yet, the international commercial success of the UK's legal sector is dependent on the continued functioning of the UK's wider domestic legal system. **To maintain this UK leading position internationally and to help the legal sector grow, the government's new industrial strategy needs to include:**

- Additional investment into improving the domestic justice system, including upgrading the courts' physical and digital infrastructure, tackling case backlogs and adequately funding legal aid services for citizens.
- Restoring the UK's reputation for the rule of law and respect for international law and the promotion of UK legal services internationally as part of an integrated trade strategy.
- Recognition that English law is a national asset with global influence and export value. Maintaining this position requires improving the UK's legislative process (including better pre-legislative scrutiny and consultation) and, particularly in commercial law, which is often used internationally, an appropriate balance between regulation and the development of English case law through the courts.

TheCityUK

Annex: Responding to key opportunities in 'Invest 2035'

The government's prospectus sets out three opportunities which align with the UK's strengths and on which it aims to capitalise to attract investment. We set out below how our industry can contribute to these:

1. Supporting the UK's transition to net zero

The government must deliver an IS that capitalises on the UK's commitment to deliver net zero by 2050, focusing on the UK's areas of competitive advantage in this area. It must support the transition of hard-to-abate and high-emitting industries to a low carbon future and send clear signals to allow the private sector to take well-informed and confident actions that are consistent with the net-zero transition and will increase investment in the UK.

Government action is required to make the UK an attractive destination for private green investment that will be crucial to meeting the UK's 2050 net-zero targets, given the significant scale of investment required and the UK's constrained public finances.

Long-term policy for the net-zero transition in the UK

The government must provide a coherent and comprehensive overarching strategy for the net-zero transition, accompanied by an economy-wide national transition plan. This would provide a clear signal to the market and reduce uncertainty, incentivising investment and stimulating action across the economy.

Government must work with the private sector to build on current investment roadmaps to create specific, quantifiable and actionable sector-specific strategies. Sector-specific strategies should be accompanied by a capital raising plan that sets out investment requirements across sectors and regions by different pools of capital to 2035. The capital raising plan should include mechanisms to monitor, report and verify progress in meeting the capital raising requirements.

To support the implementation of a national delivery plan, the government should introduce policy measures to address systemic issues that are acting as obstacles to the transition to net zero, such as grid capacity and speed of connection, planning delays, improving green skills, and supply chain constraints for net zero infrastructure.

To coordinate the delivery of the UK's net-zero transition and maintain ambition across departments, the government should establish a specific net-zero government unit. This unit would be responsible for net-zero planning and provide strategic oversight and direction for efficient and effective delivery across government departments to a clear timeline.

Policy measures and incentives to mitigate and share investment risks in a way that will attract private investment at the scale required

To deliver an IS and net-zero policies that work for the wider economy, the government must work with industry to understand current barriers and disincentives and develop policy measures that will mobilise private finance at scale, particularly to key IS sectors.

Collaboration with the UK's public finance institutions and our industry (as outlined in section 2.1) will be crucial, particularly for developing financing mechanisms and tools in the NWF framework to act as effective catalysts for attracting private capital.

Government should also consider how tax incentives (such as R&D credits or tax wrappers for long-term investments) could be used to capitalise on the UK's financial services competitive advantage and increase investor appetite for low carbon and transitional investments.

We welcomed the commissioning of the Transition Finance Market Review in January 2024. The financial and related professional services industry plays a crucial role in the provision of transition finance, both domestically and internationally. We encourage the government to respond to the findings of the Transition Finance Market Review on creating a dynamic and effective transition finance ecosystem in the UK.

Nurture industries in which the UK has a competitive advantage
The UK is well positioned to build on its strengths in financial and related professional services to foster green growth. In terms of growth and financial performance over the past decade, the listed part of the global green economy has been second only to the technology sector[8].

The government should use this solid footing to introduce policy measures and incentives to nurture industries in which the UK has, or could have, a competitive advantage. This includes industries such as carbon capture, utilisation and storage (CCUS), low carbon hydrogen, tidal and wind power (both offshore and onshore), battery and hydrogen storage, and sustainable aviation fuel.

The government should support the scaling up of these industries by developing technology roadmaps with public policy advocacy and private sector buy-in. The roadmaps should be designed to identify key factors favouring the delivery of projects at pace and to tackle obstacles such as bottlenecks in supply chains. Where necessary, there should be specific policy measures to help these industries by addressing systemic barriers to the net zero transition, such as grid connectivity and planning delays.

2. The advent of artificial intelligence, digitalisation and increased automation

Embracing technology and innovation is key to the continued international competitiveness of the UK's growth sectors and the wider economy. Our industry is effectively a digital industry, given the fundamental role that technology and data play, and this needs to be reflected in the IS. The government has a facilitative role to play in ensuring that firms can adapt and harness the full potential of these technologies.

Supporting growth through pro-innovation regulation
The government should pursue a proportionate approach to regulating emerging technologies. A conscious balance between policy and regulation is key to protecting consumers and safeguarding stability, while prioritising safety and fair competition, without

[8] London Stock Exchange Group, 'Investing in the green economy Growing in a fractured landscape', (July 2015), available at: [Investing in the green economy 2024: Growing in a fractured landscape | LSEG]

impeding the pace of innovation and application. The UK's pro-innovation, sectoral approach to regulating AI is welcome and creates a strong foundation for leading growth sectors to harness the full potential of these technologies.

Managing systemic risks will be key, with responsibilities appropriately allocated between AI providers and deployers. Lessons should be learnt from, for instance, the cloud services market, where the division of specific responsibilities is proving crucial for effective risk management and compliance.

Continued coordination between different regulators, both domestic and international, is essential to facilitate an aligned and coherent approach to cross-sectional and cross-border issues such as copyright and intellectual property. Through the AI Safety Institute, the UK has positioned itself as a key international interlocutor on AI safety and standards. The government should leverage this position to deliver a global governance framework for these technologies that avoids unnecessary burdens for businesses, whilst protecting citizens and maintaining their trust.

The government has signalled a non-statutory, 'regulation-by-application' approach to regulating quantum technologies, to be led by sectoral regulators. We welcome this. According to research by McKinsey, quantum computing could potentially generate up to $2 trillion in value across four key industries including finance by 2035.[9] Financial services firms are already leaders of this evolution. To position the UK at the forefront of commercialising quantum computing the government should remain committed to the UK Quantum Strategy.

A data-enabled economy

Data is a vital asset to firms and underpins their ability to innovate. The Data (Use and Access) (DUA) Bill is a key opportunity to enable firms to harness the power of data for economic growth. Consultation with industry is vital for ensuring that the legislation is correctly positioned for growth, whilst maintaining the high levels of personal data protection that currently apply.

We recommend the government convene a business advisory group to help track the ongoing development of the Bill.

The government should prioritise the DUA Bill and explore initiatives to promote the use of smart data and Open Finance, which has the potential to help improve consumer experiences and create more sources of credit for UK SMEs and export opportunities for UK FinTechs in key growth markets. To encourage investment in innovation, new product development and growth, we suggest that a sustainable commercial model underpins Open Finance. This will create the right environment to establish a long-term market that flourishes sustainably, with innovations brought about by industry, rather than relying solely on a regulatory mandate as the driver for market development.

[9] McKinsey, 'Quantum Technology Monitor', (April 2024), available at: mckinsey.com/~/media/mckinsey/business functions/mckinsey digital/our insights/steady progress in approaching the quantum advantage/quantum-technology-monitor-april-2024.pdf

Cross-border data flows are critically important for many financial and professional services, with over 85% of exports being delivered digitally. Having the right regime can contribute to significant export growth across the UK, given that around 50% of our industry's exports are generated outside London in regional centres. The government should champion this by refining UK data policies, agreeing on new bilateral and multilateral digital partnerships and backing plurilateral initiatives such as those led by G7 and OECD. The UK should optimise international data flows where it can, removing digital frictions wherever possible and avoiding creating new digital trade barriers. The government should also prioritise the extension of EU data adequacy, which sunsets in June 2025.

Fostering Innovation and Growth

It is also vital that the government creates the conditions to nurture innovative home-grown businesses throughout their growth journey, from university spinouts and other start-ups to scaling up in the UK. The government should make it a priority to assess how R&D investment incentives can be adapted to incentivise services businesses. For example, continued funding and grants for AI R&D through initiatives like Innovate UK can foster AI innovation, particularly for SMEs that may struggle to invest in AI capabilities on their own.

3. The changing patterns of demand and demographics

TheCityUK has submitted a paper to the government setting out what our industry wants from a government trade and investment strategy. This submission should be read together with that paper, the key components of which include:

Marrying trade and industrial policy to boost investment and exports

- Articulating the strengths of the UK investment environment and explaining to international investors the proactive steps being taken to enable the green transition and facilitate innovation in new technologies.
- Implementing a tax and regulatory environment that supports business.
- Using R&D systems to incentivise innovation in services sectors (as well as manufacturing).
- Recognising the importance of English law and UK legal services as an 'export commodity'.
- Promoting the UK's talent offer to businesses and how the UK is adapting to new trends, such as the demand for cross-border remote working.
- Demonstrating that the investment environment is being considered when drafting legislation e.g. by ensuring that draft bills, before they are laid before Parliament, will not unnecessarily deter investment due to unintended consequences.
- Ensuring foreign investment/national security screening and merger control regimes are effective and deliver high-quality and reasonably predictable regulatory outcomes.
- Ensuring real involvement of support for, and coordination with, the devolved regions and nations in future trade promotion efforts to present a UK-wide offer that leans into local specialisms and strengths.

Broadening the trade policy toolkit to cater to UK strengths

The UK should consider all trade policy tools– from digital economy agreements to regulatory dialogues – that can be used to complement or in the absence of free trade agreements with specific markets to boost exports and attract investment. In making assessments about the prioritisation of markets and trade policy tools, the most relevant criteria should be:

1. Potential to deliver commercial value and/or market access.
2. Political capital and institutional resources required to deliver commercial benefits.
3. Potential to impact on existing trade arrangements that deliver commercial value.

Adopting a proactive stance on commercial diplomacy in regional growth corridors
The UK should be more proactive on international trade policy issues that impact British businesses in the increasingly important centres of growth in Asia, the Middle East, and Africa. This requires:

- Policymakers and the industry to think more creatively about how to market and provide UK-based capabilities to capitalise on the commercial opportunities arising in these 'growth corridors'.
- Understanding how multinational UK-based financial and related professional services businesses operate in the modern, digitally enabled economy. With trade and investment value chains spanning multiple markets, the UK may in many cases be an important enabler of trade and investment flows between other markets. This should encourage the government to recognise that repatriated profits of overseas subsidiaries and digitally delivered services provide significant growth benefits to the UK economy and should be more actively supported through various trade promotion programmes and policies.
- Adapting to the growing regionalisation of supply chains for goods. Given that there are virtually no economic activities that do not require services to enable or deliver other products, trade strategy should consider how UK-based service providers participate in and facilitate the cross-border integration of supply chains and investment in these high-growth regions.