London Chamber of Commerce and Industry submission to the Invest 2035 strategy

November 2024

The London Chamber of Commerce and Industry (LCCI) is the capital's largest independent business advocacy organisation, representing the interests of over 9,500 businesses. As a champion of London's global status as a premier destination for trade, investment, and business growth, LCCI works tirelessly to address the key challenges facing businesses. Through proactive engagement with policymakers, stakeholders, and local communities, we aim to ensure that London's businesses—and, by extension, the UK economy—thrive. This submission reflects our commitment to raising awareness of these challenges and providing actionable policy recommendations that support sustainable growth, innovation, and long-term resilience.

1. **How should the Government identify the most important subsectors for delivering our objectives?**

To effectively identify priority subsectors, the Government could enhance its engagement with industry representatives, multi-sector associations, and chambers of commerce while strengthening communication with local business communities. A multi-layered approach would ensure a well-informed strategy that reflects national economic objectives and regional business needs. Key steps might include:

Leveraging Insights from Chambers of Commerce: Business-representative organisations, like Chambers of Commerce and Industry, provide consolidated views of national economic trends and broader sectoral priorities. At the same time, local and regional chambers' strength lies in their deep-rooted understanding of local economic dynamics and direct relationships with businesses. With such diverse inputs, chambers are well-positioned to ensure government policies align with overarching national objectives and the distinct needs of varied regions. Existing government structures should be effectively utilised to engage with chambers of commerce, ensuring their insights are integrated into policy development and implementation.

Partnering with Regional Chambers of Commerce: As vital local anchors, regional chambers such as the LCCI maintain direct, ongoing business connections within their communities. The chambers bring a nuanced understanding of local industry dynamics, workforce trends, and infrastructure needs, allowing them to highlight subsectors driving growth in their specific areas. Through these close relationships with businesses, regional chambers provide real-time insights into practical challenges and emerging opportunities that may otherwise be overlooked at the national level. This engagement can include hosting a regional cabinet meeting and engaging with key ministers responsible for economic development.

Permanent Data Exchange and Collaboration: Regular coordination with the business associations could create a reliable flow of information, including data on workforce demands, infrastructure requirements, and emerging subsector trends. The involvement of business-representative organisations can help consolidate and analyse this data for strategic insights, while regional actors can provide on-the-ground intelligence about shifting market conditions. To enhance this collaboration, initiatives such as hosting regional cabinet meetings and engaging key ministers responsible for economic development could ensure a more structured and impactful dialogue between government and regional chambers.

By creating a consultative mechanism to define priority subsectors, drawing on inputs from industry associations, chambers of commerce, and local businesses, the Government can align sectoral priorities with national objectives and regional strengths. Structured consultations and ongoing data exchange would allow for real-time adjustments, ensuring sustainable growth across the UK.

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

The Government needs timely and accurate insights from the business community to keep pace with rapid changes in the business landscape and effectively support emerging sectors. A comprehensive survey network would provide a real-time connection with businesses nationwide, utilising the established networks of business leaders, industry associations, and chambers of commerce. Such a network would enable the Government to gather data and insights on emerging trends, technology adoption, and sector-specific challenges directly from industry sources, enhancing the responsiveness and adaptability of the Industrial Strategy.

Leveraging Chambers Networks: Chambers of commerce have extensive networks across local business communities and are well-positioned to facilitate accurate, wide-reaching surveys. By collaborating with chambers, the Government could ensure survey reach and responsiveness, obtaining insights that reflect local and national economic dynamics. Additionally, international chambers and multinational initiatives could provide valuable perspectives on global trends, allowing the Government to benchmark the UK’s progress against that of other leading economies.

Engaging with Business Leaders: Industry leaders, through their established networks, can provide valuable quantitative and qualitative data on real-time trends and evolving needs across various sectors. These insights are beneficial for filling gaps where conventional data sources may fall behind, particularly in fast-growing areas such as digital innovation, clean energy, and advanced manufacturing.

Creating an Adaptive, Real-Time Data Pipeline: A survey network focused on emerging technologies and sectors would allow the Government to receive continuous updates on critical issues such as skills shortages, technology adoption rates, and infrastructure needs. Leveraging both domestic and international sources, this direct feedback loop could significantly improve the Government’s ability to forecast and adjust policy initiatives, making the Industrial Strategy more responsive to the changing landscape.

To effectively address the challenges posed by emerging sectors and technologies, the Government should consider utilising the established networks of chambers of commerce, industry associations, and business leaders. This collaborative effort would yield timely and pertinent insights into the evolving business landscape. By embracing this strategy, the Government would be better equipped to adapt its policies in alignment with the needs of emerging sectors, thereby ensuring that the Industrial Strategy remains responsive to ongoing changes.

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

While traditional foundational sectors like manufacturing, logistics, and infrastructure remain essential, industries such as finance, fintech, MedTech, aviation, and creative industries have also emerged as critical pillars of the UK economy, acting as foundational sectors themselves. These sectors experience high growth and provide vital support to a wide range of other industries. For example, the financial sector offers essential funding, investment, and risk management services crucial for expanding sectors like medtech and aviation. Similarly, creative industries drive innovation, produce globally sought-after content, and fuel economic activities ranging from digital marketing to product design.

Identifying Key Value Chain Components: To ensure the continued success and resilience of these interconnected sectors, the Government could collaborate with industry leaders and sector associations to identify critical components within value chains that, if strengthened, would drive efficiency, reduce costs, and promote sustainability. For instance, improving digital logistics can enhance the efficiency of both the aviation and medtech sectors by streamlining the delivery of critical components. Likewise, resource-efficient construction methods can support infrastructure growth, vital for fintech hubs and creative industry clusters.

Promoting Cross-Sector Innovation: Foundational sectors frequently intersect with high-growth areas such as digital technology, sustainable energy, and healthcare. Encouraging innovation in digital logistics, AI-powered manufacturing, and low-carbon infrastructure can strengthen foundational industries while enabling the scalability of key growth-driving sectors. Advancing cross-sector innovation enhances competitiveness and ensures alignment with broader sustainability goals across value chains. To achieve this, the Government could implement targeted campaigns, increase funding opportunities, and introduce tax incentives to encourage collaboration and drive transformative innovation.

Leveraging Chambers Networks: Chambers of commerce and industry associations are vital sources of insights from businesses within foundational sectors that support high-growth industries. By collaborating with these networks, the Government can gather timely feedback on the challenges and opportunities within value chains, ensuring that policy responses are well-aligned with the evolving priorities of sectors like fintech, medtech, creative industries, and aviation. Through these partnerships, the Government can also improve the effectiveness of policy initiatives by incorporating real-world perspectives from across the business community.

By prioritising innovation, sustainability, and cross-sector collaboration, the Government can strengthen traditional and emerging foundational sectors, supporting a resilient and adaptable economy. This approach would enhance the UK's competitiveness and global position.

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

To support sustainable growth and maintain its competitive edge, the Government should prioritise high-impact subsectors and technologies that drive economic value, foster innovation, and create employment opportunities. As the world's second-largest exporter of services, the UK is uniquely positioned to leverage its strengths in finance and professional services, fintech, creative industries, aviation, medtech, and advanced manufacturing. As a global hub, London plays a pivotal role in driving the continued development of these sectors, contributing significantly to national and regional growth. By focusing on these areas, the UK can further solidify its position as a global services superpower, advancing economic development and ensuring long-term resilience. For instance, airports are integral to their local economies and substantially impact job creation. London Stansted, for example, directly supports over 12,000 on- and off-airport jobs, with an additional 23,000 indirect or induced roles estimated in the East of England and London regions, highlighting the critical link between aviation infrastructure and regional prosperity.

Finance and Professional Services: As a global financial hub, London is essential to the UK's finance and professional services sector, contributing significantly to GDP, job creation, and international trade. This sector underpins a range of industries by providing vital access to capital, business consulting, and legal services. Critical technologies for this subsector include advanced financial technologies (fintech), artificial intelligence (AI) for automated processes, and blockchain for secure, efficient transactions. Supporting innovation in these areas would maintain the UK's leadership in global financial services and attract continued foreign investment, with London as a focal point for these advancements.

Fintech: Evolving from the UK's strong financial sector, fintech is reshaping traditional finance through innovations like digital banking, mobile payments, and cryptocurrency. Rooted in London, a global fintech hub, the subsector significantly impacts the national and international economy by attracting investment, fostering innovation, and improving access to financial services. Supporting the growth of fintech through regulatory sandboxes, funding for R&D, and international partnerships would solidify the UK's status as a global leader in financial technology.

Creative Industries: London's creative sector, encompassing media, advertising, design, film production, and gaming, stands as a beacon of economic vitality and cultural influence. This industry drives job creation and innovation and leverages cutting-edge technologies such as digital content creation, virtual and augmented reality, and AI-driven content generation to meet the surging global demand for digital media. The Watford-based film and gaming clusters exemplify the sector's potential, hosting world-class production facilities and fostering groundbreaking advancements in digital entertainment. Strategic investments and initiatives are crucial in maintaining the UK's competitive edge, ensuring that London remains a global leader in creative industries while delivering substantial regional economic benefits. The UK can solidify its position as a hub of creative excellence and innovation by supporting these technologies and clusters.

Aviation: The aviation sector is pivotal to the UK's economy, with London as a central player. London's airports serve as major international gateways, connecting the UK to key global markets and enabling trade, tourism, and business travel. This connectivity strengthens the UK's role in global supply chains and reinforces London's position as a top destination for international business. To sustain and elevate this standing, the UK could prioritise innovations in sustainable aviation.

Investment in sustainable aviation technologies aligns with global environmental standards and the UK's Net Zero targets. Key areas for development include alternative fuels such as biofuels and hydrogen, electric-powered aircraft, and advanced air traffic management systems designed to reduce fuel consumption and emissions. London's high-traffic airports are well-positioned to lead the way in implementing sustainable practices, setting industry standards, and enhancing operational efficiency. Infrastructure upgrades—such as electric charging facilities, hydrogen refuelling stations, and AI-driven systems for cargo and maintenance—would solidify London's status as a resilient, forward-looking aviation hub.

Beyond supporting the aviation sector, this commitment to sustainability has far-reaching economic benefits. A study by WPI Economics suggests that high-value sectors dependent on international connectivity, such as life sciences, finance, and advanced manufacturing, could grow faster than the broader economy, potentially contributing an additional £10.6 billion in economic value over the next decade. With aviation as a strategic enabler, the UK's status as the world's second-largest exporter of services could be reinforced, doubling down on strengths like financial and professional services that benefit directly from robust global connectivity.

By driving sustainable aviation growth, the UK strengthens its economy and reinforces its leadership in environmental stewardship within the industry. This elevates London's airports as exemplars of innovation and sustainability, attracting international investment and promoting long-term economic resilience.

MedTech: Emerging from the UK's robust healthcare and life sciences sectors, MedTech is a high-growth area tackling global challenges such as ageing populations and healthcare accessibility. London's status as a MedTech innovation hub is reinforced by the Knowledge Quarter and MedCity, which bring together world-class research institutions, hospitals, and health-focused start-ups, creating a dynamic ecosystem for medical technology development. North-East London's Life Sciences Super Cluster further elevates the region's potential by fostering collaboration between academia, industry, and healthcare providers. These initiatives drive significant advancements in telemedicine, AI-powered diagnostics, and wearable health devices. Strategic investment in these clusters can elevate their global competitiveness, accelerate the commercialisation of R&D, and ensure the UK remains a leader in life sciences innovation, significantly contributing to both economic growth and societal well-being.

Advanced Manufacturing: This sector includes high-value industries such as aerospace, automotive, and electronics. Advanced manufacturing relies on solid global supply chains and access to international markets. Investing in automation, robotics, and sustainable manufacturing practices can enhance productivity and competitiveness, positioning the UK as a leader in high-value manufacturing processes.

Advanced Digital: Emerging technologies like AI, quantum computing, and 5G are pivotal to the future of the UK's digital economy. The UK can maintain its technological innovation and digital infrastructure leadership by supporting research and development in these fields and cultivating a skilled workforce.

These subsectors and technologies align with the UK's national economic objectives by advancing high-value employment, expanding global market access, and driving innovation. By strategically investing in these areas, the Government could reinforce the UK's position as a leader in finance, transport, creative industries, and cutting-edge technologies, with London continuing to play a pivotal role in securing sustainable, long-term growth and resilience.

5. What are the UK's strengths and capabilities in these subsectors?

The fintech and Aviation sectors are pivotal to economic growth and share complementary strengths that can enhance their mutual development. Both sectors benefit from the UK's central role in international trade and connectivity, with London as the nucleus for technological innovation, investment, and talent. However, a notable challenge underpins the growth of both industries: skills shortages. Addressing this gap is crucial for the UK to retain its competitive edge in these high-impact subsectors.

Fintech: The UK has firmly established itself as a global lead in financial technology, with London hosting one of the sector's largest and most diverse ecosystems. This growth has been fuelled by a forward-thinking regulatory environment, such as the FCA regulatory sandbox, which allows start-ups to test and refine their products under controlled conditions. In fintech, the UK is leveraging technologies like blockchain, AI-driven analytics, and open banking to reshape digital finance and improve financial inclusion.

What sets the UK apart in fintech is its ability to integrate advanced technologies into a globally competitive financial services infrastructure, blending traditional finance with cutting-edge fintech innovation. This position attracts foreign investment, fosters collaboration across industries, and creates a vibrant start-up ecosystem that supports everything from digital banking to mobile payments and cryptocurrency.

Aviation: In parallel, the aviation sector remains a cornerstone of the UK's global trade and connectivity, with London's airports serving as major international hubs. These airports facilitate crucial connections for the finance, tech, and services industries, playing a central role in supporting the UK's services export sector, which is twice the OECD average. The UK's strategic geographical position and advanced aviation infrastructure make it a vital player in global supply chains, tourism, and international business travel.

Key to the UK's aviation strength is the focus on sustainable aviation technologies. As part of its Net Zero ambitions, the nation is investing in biofuels, hydrogen-powered aircraft, and electric aviation solutions to ensure that it continues to be a low-emission sector. The country is well-positioned to lead the development of green aviation technologies, sustaining and enhancing its position as a global leader.

Both sectors, Aviation and Fintech, can benefit from innovative funding solutions such as green bonds, which can finance sustainability projects in both digital finance and aviation. As aviation companies look to modernise fleets with greener technologies, fintech tools can offer innovative solutions in the form of digital payment systems, blockchain for secure transactions, and AI-driven financial services to support these investments.

Moreover, aviation companies are increasingly exploring AI-driven solutions not only for operations and maintenance but also for customer service and data analytics. In these areas, fintech can play a supportive role, enabling seamless financial transactions, automated banking services, and real-time reporting systems for aviation stakeholders.

6. **What are the key enablers and barriers to growth in these subsectors, and how could the UK government address them?**

The growth of critical subsectors such as fintech, medtech, green aviation technologies, digital creative industries, and professional services hinges on overcoming critical barriers that inhibit progress. Effectively addressing these challenges could transform them into strategic enablers, unlocking significant economic potential and ensuring the UK remains competitive globally. The primary barriers include insufficient infrastructure development, persistent skills gaps, limited access to finance for scaling businesses, and weak horizontal cooperation at local levels, particularly within regions like London.

Infrastructure development is crucial, with the rising demand from electric vehicles, renewable energy sources, and the electrification of heating systems necessitating urgent upgrades to electricity grids. Insufficient grid capacity can stifle the adoption of green technologies and limit the scalability of sectors such as aviation and MedTech, which rely heavily on reliable energy infrastructure. Continuous upgrades and maintenance of London's and the UK's extensive transport network and those of other regions are essential to meet the needs of a growing population. Modernised logistics infrastructure is crucial to support creative industry exports and the movement of medtech innovations. With only 38% of the UK rail network electrified, there is a significant opportunity to reduce carbon emissions and improve connectivity. Electrifying key routes would support sustainable transport solutions, benefiting sectors such as professional services by enhancing regional accessibility.

The skills shortage remains a critical barrier, particularly in emerging sectors such as fintech, MedTech, and green aviation technologies. High living costs, mismatched education and training systems, and a lack of targeted upskilling programs make it challenging for London and other regions to attract and retain the talent needed to support these industries. Bridging these gaps is crucial to meeting the demands of high-growth sectors. Additionally, many SMEs in these areas face significant obstacles in accessing sufficient funding to scale their operations. Complex application processes, high costs of capital, and limited availability of targeted financial instruments exacerbate these challenges, especially in R&D-intensive fields like medtech and digital creative technologies. To address the shortage of technically skilled professionals, a reformed visa regime that facilitates the recruitment of international talent is urgently needed.

Collaboration between businesses, local authorities, and academia often lacks coordination. This is particularly evident in London, where diverse industries could benefit from stronger cross-sector partnerships to address shared challenges like infrastructure and skills gaps. Addressing these barriers would unlock significant enablers for sustainable growth. Upgraded electricity grids would support the electrification of transport, green aviation technologies, and the digital infrastructure essential for fintech and creative industries. Investment in rail electrification and urban transport networks would reduce environmental impact and improve connectivity, making London and other cities more accessible for businesses and talent.

By addressing these critical barriers and leveraging the enablers they create, the UK government can ensure the Industrial Strategy drives sustainable growth across all key sectors. Collaboration with stakeholders, including chambers of commerce such as LCCI, will be vital in tailoring solutions to meet the unique needs of London and other regions. This approach will resolve infrastructure, skills, and financing challenges, transforming them into foundational strengths for a thriving economy.

8. **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?**

Addressing barriers related to people and skills is crucial for achieving the objectives of the Industrial Strategy, particularly in London, a leading economic driver and a region facing unique workforce challenges. Skills shortages and mismatches are especially pronounced in finance and professional services, fintech, creative industries, aviation, and medtech sectors. Targeted UK government policies, in collaboration with local stakeholders such as the LCCI, could effectively mitigate these issues and support sustainable growth. A range of targeted solutions could be implemented, including but not limited to:

Reforming the Apprenticeship Levy: Simplifying the Apprenticeship Levy is essential to ensure businesses can utilise it effectively for skills development. Extending fund usage deadlines and allowing pre-employment training expenses would particularly benefit London's SMEs, which dominate the city's economy. Given London's financial and professional services hub role, such reforms could address sectoral skill gaps directly.

Localised Skills Programs: London's status as a global city requires a workforce equipped with future-ready skills. Local Growth Plans tailored to the city's unique demands should prioritise green skills in aviation, digital and AI expertise in creative industries, and specialised capabilities in MedTech. LCCI's recommendation for closer collaboration between businesses, education providers, and local Government offers a model for achieving this.

Streamlined Immigration Policies: London's position as a global hub for talent makes streamlined visa processes essential. Reducing high visa fees and minimising bureaucratic hurdles for both employers and applicants would significantly improve access to international expertise. Empowering chambers of commerce, such as the LCCI, to act as intermediaries in skilled immigration could further ease administrative burdens and enhance efficiency. This approach is especially critical for high-demand sectors like FinTech and MedTech, which rely heavily on a diverse and highly skilled international workforce to drive innovation and growth.

Integrating Adult Education with R&D: The adult education budget should be more closely linked to research and development initiatives, particularly in London. Innovate UK and the Mayor's Office could collaborate to integrate technical training programs with the R&D needs of the city's businesses, ensuring workers are equipped for emerging sectoral demands. This integration would help address gaps in green skills, aligning with London's Net Zero ambitions.

Affordable Housing and Cost-of-Living Initiatives: London's high cost of living remains a significant barrier to retaining skilled workers. The Government must collaborate with the Mayor's Office to expand affordable housing initiatives and improve urban infrastructure. For instance, integrating housing developments with industrial zones could benefit logistics and creative sectors while addressing worker mobility challenges.

Real-Time Data and Industry Feedback: Regular collaboration with stakeholders, including the Industrial Strategy Council and Chambers of Commerce, would enable real-time assessments of skills needs. This feedback loop could inform adaptive policy adjustments, ensuring workforce development aligns with the evolving needs of London's dynamic economy.

It is essential to highlight that London generates over 20% of the UK's GDP and serves as a gateway for international investment, innovation, and cultural influence. Addressing its skills crisis is a local priority and a national imperative. With nearly 900,000 businesses operating in the city, policies strengthening London's workforce will yield widespread economic benefits across the UK.

By implementing these targeted measures, the Government could effectively address skills barriers, ensuring that London remains a global leader while significantly contributing to the national economy. Strengthening London's workforce would not only support local businesses but also drive innovation and attract international investment, benefiting the entire UK. As the UK's most significant contributor to GDP and a strategic hub for global cooperation, enhancing London's workforce capabilities would have extensive positive effects, driving economic growth and innovation nationwide. Collaboration with LCCI would ensure these initiatives are impactful and tailored to the city's unique challenges and strengths, eventually advancing a more resilient and dynamic economic environment across the UK.

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

Achieving a step change in employer investment in training within growth-driving sectors such as fintech, medtech, creative industries, aviation, and finance requires rethinking existing policies and support structures. The Apprenticeship Levy is a critical tool but could benefit from reforms to become more flexible and aligned with business needs. Consider the following recommendations:

Reforming the Apprenticeship Levy: Extending the time limits for using Levy funds could provide businesses with more flexibility to plan and implement training programs. This is particularly important in sectors like aviation and MedTech, where longer lead times are often required to develop specialised training pathways. Additionally, broadening the scope of eligible spending to include pre-employment training, modular courses, and non-apprenticeship skills development initiatives could enable businesses to address immediate skill shortages and invest in upskilling their workforce in critical areas such as green technologies and AI-driven solutions.

Introducing Modular Training Options: Supporting modular, industry-specific training programs could allow employees to gain targeted skills without committing to lengthy courses. This approach is particularly relevant for fast-evolving sectors like fintech and creative industries, where agility and adaptability are essential.

Incentivising Employer Collaboration: It could be beneficial to encourage collaboration between businesses, education providers, and industry associations to co-design training programs tailored to the needs of growth-driving sectors. Initiatives like sector-focused training hubs could be supported by reallocating unused Levy funds or introducing additional incentives for businesses that invest in collaborative training schemes.

Linking Training to Growth Incentives: Tying government incentives—such as tax breaks or grants—to employer investment in skills development aligned with national growth priorities could be effective. For example, businesses that train employees in emerging technologies like blockchain in fintech or sustainable aviation practices could benefit from targeted incentives.

Supporting SMEs in Training Investment: Creating dedicated programs that make it easier for SMEs to participate in training initiatives could be advantageous. This could involve pooling resources through chambers of commerce like LCCI to develop shared training opportunities that reduce costs and administrative burdens for smaller businesses.

Promoting Digital Skills and Lifelong Learning: Expanding access to digital learning platforms and lifelong learning credits could empower employees to upskill continuously. This would help address the rapid pace of change in high-growth sectors like medtech and AI-driven creative technologies.

Implementing these recommendations could significantly enhance employer investment in training, driving workforce development across critical sectors. By advancing collaboration with chambers of commerce, these initiatives can be adapted to meet the specific needs of businesses in London and other regions. This approach will support sustainable growth and ensure the UK remains competitive in a rapidly evolving global market.

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

Commercialising R&D is essential for driving innovation and economic growth, but several barriers hinder this process. The UK government must address these barriers to ensure businesses, especially SMEs, can effectively translate innovative ideas into marketable products and services. These barriers encompass:

Access to Funding and Investment: Many businesses, especially SMEs, face challenges securing funding for scaling R&D initiatives. The complexity of accessing grants and venture capital often slows down commercialisation, particularly in high-cost sectors like medtech and fintech.

Fragmented Collaboration Between Academia and Industry: Collaboration between academia and industry often lacks alignment with business priorities. This disconnect results in innovations that are not fully adapted to commercial needs or fail to gain traction in the market.

Regulatory Hurdles: Complex and fragmented regulatory frameworks can delay the commercialisation of R&D, especially in highly regulated industries like medtech and green technologies. Uncertainty around compliance requirements often discourages businesses from pursuing innovative solutions.

Skills Shortages in Key Areas: The commercialisation of R&D relies heavily on a workforce equipped with advanced technical and managerial skills. Businesses face challenges in finding and retaining talent capable of bridging the gap between research and market implementation, which hampers the translation of innovation into practical outcomes.

Cost of Space and Infrastructure: The high cost of office and lab space can be a significant barrier for businesses aiming to scale their R&D efforts. Start-ups and SMEs often struggle to afford the facilities needed for prototyping, testing, and development.

Limited Knowledge of Market Dynamics: Many businesses, particularly smaller ones, lack the resources to conduct comprehensive market research and build commercialisation strategies. This limits their ability to position R&D outcomes effectively in competitive markets.

The following targeted solutions could be considered to address the abovementioned barriers effectively:

Expanding R&D Funding Accessibility: Simplify grant application processes and increase funding pools for SMEs focused on scaling R&D efforts, particularly in priority sectors like medtech, green aviation technologies, and AI-driven fintech solutions.

Fostering Academia-Industry Partnerships: Encourage closer collaboration between universities and businesses through innovation hubs or co-creation spaces. Linking research initiatives with local business priorities could bridge the gap between academic research and commercial application.

Streamlining Regulatory Pathways: Introduce more transparent and efficient regulatory pathways for R&D commercialisation, particularly in emerging industries. A proactive regulatory framework could reduce uncertainty and encourage more businesses to pursue market-ready innovations.

Investing in Skills Development: Focus on targeted skills development programs to equip workers with the expertise to scale R&D projects. Government support for training schemes in commercialisation strategies, intellectual property management, and market research could directly address this barrier.

Supporting Affordable Infrastructure: Work with local stakeholders to create affordable R&D spaces. Initiatives like innovation districts or shared lab facilities could make it easier for start-ups and SMEs to access the infrastructure they need to commercialise innovations.

Improving Market Access Resources: Provide dedicated resources for businesses to understand and navigate market dynamics, including export opportunities. Chambers of commerce could play a significant role in offering mentorship and guidance on market readiness and international commercialisation.

By addressing these barriers, the UK government could unlock the full potential of R&D commercialisation, ensuring that London remains a global leader in innovation while driving growth across the national economy. Collaboration with chambers of commerce would ensure these solutions are well-targeted and tailored to the needs of businesses, fostering a more dynamic and competitive environment for R&D commercialisation in the UK.

15. **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?**

Investment in infrastructure is fundamental to the success of the Industrial Strategy, enabling key growth-driving sectors such as advanced manufacturing, life sciences, creative industries, fintech, and aviation to thrive. Reliable and modern infrastructure supports the UK's competitiveness, encourages private investment, and ensures regional economic resilience.

The Role of Aviation as a Key Enabler

Aviation is a cornerstone of the UK's economic infrastructure, connecting businesses to global markets and facilitating exports. Airports like Heathrow—the UK's only international hub airport—play an outsized role, providing connectivity to 95% of the global economy and supporting 92,000 direct jobs. In 2023, aviation handled 26% of UK exports by value, with sectors like advanced manufacturing and life sciences benefiting significantly. For instance, medicinal and pharmaceutical product exports through Heathrow alone totalled £13.5bn.

Beyond Heathrow, regional airports are vital to local economies, enabling domestic mobility, fostering regional trade, and driving inward investment. Together, the aviation sector underpins growth-driving industries and ensures the UK remains globally competitive.

To maximise aviation's contribution, targeted infrastructure investment is needed to modernise airport facilities, enhance transport connectivity, and accelerate the deployment of Sustainable Aviation Fuel (SAF). Policies that align aviation with broader economic goals—such as full expensing for investments and a cohesive cross-governmental aviation strategy—will unlock further growth potential.

Infrastructure Needs Across Classes

Energy Infrastructure: The transition to renewable energy and the electrification of heating and transport require significant investment in upgrading the UK's electricity grid. This is critical for accommodating the increased demand from electric vehicles (EVs) and clean energy solutions. For aviation, improved grid capacity is essential to support green airport operations and the electrification of ground services.

Transport Networks: Continuous upgrades to the UK's transport infrastructure are vital to meet the demands of a growing population and evolving business needs. For aviation, seamless integration of airports with rail and road networks enhances passenger and cargo movement efficiency. The electrification of rail tracks, with only 38% currently electrified, is a crucial priority for reducing carbon emissions and improving connectivity to airports and other economic hubs.

Digital Infrastructure: High-speed broadband and 5G networks are essential for enabling innovation across sectors, particularly in fintech, MedTech, and creative industries. Digital infrastructure also supports smart airport operations, allowing real-time data sharing and automation to improve efficiency.

Sustainable Infrastructure: Investment in low-carbon technologies and infrastructure, such as SAF production facilities and green airport designs, is essential to align with Net Zero targets. A Revenue Certainty Mechanism for SAF must be clarified to encourage long-term private investment in sustainable aviation solutions.

Policy Recommendations

Streamline Co-Investment Frameworks: Introduce public-private partnerships (PPPs) and innovative financial instruments, including green bonds, to attract investment in critical infrastructure projects.

Support Aviation Infrastructure: Recognise aviation as a foundational sub-sector in the Industrial Strategy, given its critical role in enabling growth-driving industries. Reform business rates and make complete expensing permanent to encourage long-term investment in modernising aviation infrastructure.

Upgrade Energy and Transport Systems: Invest in electricity grid upgrades to support the transition to renewable energy and improve the efficiency of EV charging networks. To enhance connectivity, accelerate rail electrification and integrate transport networks with major economic hubs, including airports.

Develop a Cohesive Policy Framework: Ensure that aviation and other infrastructure classes are supported by a unified, cross-governmental approach that assesses the impact of unrelated policies on the UK's competitiveness.

By addressing infrastructure needs and advancing co-investment, the Government can unlock the full potential of growth-driving sectors, ensuring sustainable and inclusive economic development across the country. Aviation's role, both as an enabler and a driver of growth, highlights the importance of targeted support and a cohesive approach to maintaining the UK's global competitiveness.

22. 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?

Access to finance remains a critical challenge for businesses looking to scale up in the UK, particularly in growth-driving sectors. While the UK possesses a solid financial ecosystem, barriers persist for both companies seeking funding and investors looking to utilise capital. Addressing these barriers is essential to unlocking growth potential and attracting more global players to the UK.

Complexity and Accessibility of Financing Options: Many businesses, particularly SMEs, face challenges navigating the complexity of funding options. Despite grants, loans, and equity availability, application processes are often time-consuming and resource-intensive, limiting accessibility for smaller firms.

High Cost of Capital: Businesses in sectors like MedTech and aviation often require significant upfront investment for R&D and infrastructure. High interest rates and stringent collateral requirements can deter businesses from pursuing necessary funding.

Uneven Regional Access: Access to finance is often concentrated in major financial hubs like London, leaving businesses in other regions underserved. This disparity creates challenges for scaling up outside London's dense financial ecosystem.

Investor Risk Aversion: Investors often favour established businesses and sectors, leaving underfunded emerging industries like green aviation and digital creative technologies. The long timelines and regulatory uncertainties in these sectors further discourage capital deployment.

Regulatory and Administrative Barriers: Lengthy approval processes, regulatory hurdles, and unclear compliance requirements can delay funding, particularly for companies in highly regulated sectors.

Inadequate Support for Scale-Ups: While the UK has a robust start-up ecosystem, mid-stage companies often struggle to access growth capital. Many fall into the "valley of death" between initial funding rounds and large-scale investments. Compounding this issue, an increasing number of mid-stage businesses are relocating to more favourable destinations, such as the United States, attracted by more significant funding opportunities and supportive ecosystems.

Simplifying and streamlining financing pathways could significantly reduce administrative burdens, particularly for SMEs. Introducing simplified application processes for grants and loans and offering centralised resources, such as an online platform, to guide businesses through available funding options would be beneficial.

Expanding targeted financial instruments, such as SUKUK, green bonds, and venture capital-style co-investment funds, could attract investors and provide businesses with flexible, sector-specific financing solutions. Establishing funds tailored to scaling up high-growth sectors such as fintech and MedTech, where global competition is intense, would also be advantageous.

Strengthening regional access to finance by expanding regional financing initiatives and creating localised funds in partnership with chambers of commerce would address regional disparities and provide underserved areas with resources to support growth-driving sectors.

Reducing investor risk through government-backed guarantees for investments in emerging sectors, such as green aviation technologies, could mitigate risk and encourage capital deployment. Developing regulatory sandboxes to reduce compliance barriers and provide investors with confidence in innovative sectors like FinTech and MedTech would also be beneficial.

Enhancing scale-up support by providing dedicated funding pools for mid-stage companies to bridge the gap between start-up funding and larger investment rounds is crucial. Offering tailored mentoring and advisory services through chambers like LCCI to support scale-up businesses in navigating financial challenges would further aid this effort.

It is essential to attract global capital by promoting London's status as a global financial hub and positioning it as the gateway to investment opportunities in the UK's emerging growth sectors. Collaborating with international financial centres to create cross-border investment frameworks would encourage global players to deploy capital in the UK.

By addressing these barriers, the UK government can unlock significant growth potential across high-value sectors, enabling businesses to scale more effectively while attracting global players. Collaboration with organisations like LCCI will ensure these measures are tailored to meet business needs, fostering a competitive and inclusive financial ecosystem that drives innovation and economic leadership.

23. 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?

The current suite of financial instruments, including grants, loans, guarantees, and equity, plays a vital role in supporting growth. However, additional instruments successfully used in other jurisdictions could further encourage strategic investment, particularly in sectors like fintech, MedTech, creative industries, aviation, and green infrastructure. One such instrument is SUKUK, a form of Sharia-compliant bond, which has demonstrated success in attracting diverse investors and facilitating large-scale infrastructure and development projects.

Introducing **SUKUK** for strategic investments provides a unique opportunity to tap into global Islamic finance markets, estimated to be worth over $3 trillion. By issuing SUKUK, the UK government could attract investment from Middle Eastern and Southeast Asian markets, diversify funding sources and promote London as a hub for innovative and inclusive financial products. These instruments could be particularly impactful for financing green infrastructure projects, such as renewable energy developments, sustainable aviation technologies, or eco-friendly urban transport systems, aligning with the UK's Net Zero commitments.

Expanding the use of **green bonds** could build on London's leadership in sustainable finance. The Government could issue more green bonds to fund projects that meet environmental goals. Offering these bonds at competitive rates could attract institutional investors committed to ESG standards, accelerating investments in clean energy and sustainable cities.

Launching **innovation-focused funds** inspired by venture capital models in other jurisdictions could also be beneficial. The Government could establish co-investment funds targeting innovation in high-growth sectors such as fintech and MedTech. These funds could match private investments to reduce risk and encourage more private sector participation in emerging technologies.

Adopting **municipal bonds** for localised growth could empower local governments to fund projects tailored to their specific needs. In London, municipal bonds could support infrastructure expansions, creative industry clusters, and innovation districts, creating a localised approach to strategic investment.

Developing **export financing instruments**, such as export credit guarantees and pre-shipment loans, could support SMEs and scale-ups in creative and professional services sectors looking to expand into international markets. These tools are commonly used in jurisdictions like Germany and could boost the UK's export performance.

Encouraging public-private partnerships (PPPs) could also be effective. PPP models have been used successfully in jurisdictions like Canada and Australia to deliver infrastructure projects. These partnerships could be applied to projects such as research hubs for MedTech and green aviation, blending public funds with private expertise and investment.

Introducing innovative financial instruments, such as SUKUK, green bonds, and municipal bonds, would diversify funding sources and foster strategic investments in critical sectors and projects. By leveraging London's status as a global financial hub and collaborating with stakeholders like LCCI, the UK government can strengthen its financial toolkit, attract international investors, and support sustainable growth nationwide. These tools would complement existing instruments, driving innovation and ensuring the UK remains at the forefront of global economic leadership.

26. 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?

We agree with the current characterisation of clusters but believe further differentiation between services and manufacturing clusters is needed to better capture their distinct dynamics. A tailored approach to defining and supporting clusters would ensure that the unique characteristics of each type are addressed effectively, fostering growth in high-value sectors across the UK.

Services clusters thrive on access to specialised talent, digital infrastructure, and collaborative networks, particularly in creative industries. Soho, located in the heart of London, stands as a quintessential example of a creative industries hub. This vibrant district is home to a dense concentration of film, television, advertising, music, and post-production businesses. Its unique blend of specialised infrastructure, a diverse talent pool, and a collaborative environment fosters innovation and creativity. Soho's ecosystem drives significant economic growth and enriches London's cultural landscape, reinforcing the city's status as a global leader in creative industries.

Another notable example is the North London and Hertfordshire Creative Industries Hub, which integrates cutting-edge film production facilities with a thriving gaming sector. The synergy between academic institutions, industry, and creative enterprises fosters collaboration and attracts talent and investment. Local initiatives and cultural plans enhance its appeal, making it a key driver of London's creative economy. This hub's collaborative model could serve as a blueprint for boosting local economies in other regions and advancing growth and innovation.

Beyond creative industries, London is home to some of the UK's most dynamic life sciences and research clusters. The Knowledge Quarter and MedCity are hubs of innovation, bringing together research institutions, hospitals, and medtech enterprises. These clusters play a fundamental role in driving advancements in healthcare technologies, such as AI-powered diagnostics and wearable health devices.

The North-East London Life Sciences Super Cluster also represents a transformative initiative, advancing collaboration across academia, industry, and healthcare providers. These clusters exemplify the power of London's knowledge-driven ecosystems in delivering both economic growth and public benefits.

In contrast to services clusters, manufacturing clusters rely heavily on physical infrastructure, logistics, and supply chain integration. Their development demands robust transport networks, resource-efficient facilities, and streamlined regulatory frameworks. While London focuses on services clusters, manufacturing hubs across the UK, such as those in advanced manufacturing or clean energy, could benefit from tailored support, including upgrades to electricity grids and transport networks.

Recognising the unique requirements of each cluster type, the Government should implement tailored strategies to support their growth. For London's creative and life sciences clusters, investment in digital infrastructure, affordable workspaces, and policies to attract and retain skilled talent is critical. Infrastructure upgrades and sustainable practices are key enablers of growth for manufacturing clusters.

While the existing cluster characterisation provides a solid framework, differentiating between services and manufacturing clusters allows for more targeted interventions. London's vibrant clusters—such as Soho, the North London and Hertfordshire Creative Industries Hub, the Knowledge Quarter, and the North-East London Life Sciences Super Cluster—demonstrate the transformative potential of well-supported services and knowledge-driven clusters. These hubs fuel local and regional growth and reinforce the UK's global leadership in innovation and creativity. Tailored strategies for each cluster type can unlock new growth opportunities and ensure the UK remains competitive in a rapidly evolving global economy.

28. 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?

The Industrial Strategy has the potential to accelerate growth in city regions and sector clusters across the UK by serving as a strategic framework for stimulating local economies. By drawing on successful examples and established practices, the Government can create a foundation for growth tailored to regional strengths and opportunities.

Leveraging Successful Local Models: Identifying and promoting successful growth models within the UK could inspire similar progress in other regions. For example, cities that have successfully developed tech hubs or creative districts through targeted local policies could share best practices with areas seeking to expand in these or related sectors.

Fostering Cooperation Across City Regions: Encouraging horizontal cooperation among city regions and clusters could facilitate collaboration on infrastructure, talent development, and innovation. By promoting partnerships across major urban areas, the Government can help create synergies that drive sectoral growth and strengthen local specialisations, particularly in high-potential sectors like finance, creative industries, and digital technologies.

Tailoring Local Growth Plans to Regional Needs: Local Growth Plans allow the Government to adapt national objectives to the unique needs of each region, ensuring that policies are relevant, impactful, and inclusive. This tailored approach enables city regions to prioritise investments in sectors that align with their strengths, fostering sustainable and regionally balanced growth.

In summary, by using the Industrial Strategy to support tailored growth plans, promote regional cooperation, and replicate proven local success stories, the Government can accelerate development within city regions and clusters, contributing to a resilient and vibrant UK economy.

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

The Industrial Strategy has the potential to accelerate growth in city regions and sector clusters across the UK by serving as a strategic framework for stimulating local economies. By drawing on successful examples and established practices, the Government can create a foundation for growth tailored to regional strengths and opportunities.

Leveraging Successful Local Models: Identifying and promoting successful growth models within the UK could inspire similar progress in other regions. For example, cities that have successfully developed tech hubs or creative districts through targeted local policies could share best practices with areas seeking to expand in these or related sectors. A notable example of best practice is the collaboration between the London and Edinburgh chambers, which work together to enhance both cities' financial and professional services clusters, demonstrating the value of cross-regional cooperation in driving sectoral growth.

Advancing Cooperation Across City Regions: Encouraging horizontal cooperation among city regions and clusters could facilitate collaboration on infrastructure, talent development, and innovation. By promoting partnerships across major urban areas, the Government can help create synergies that drive sectoral growth and strengthen local specialisations, particularly in high-potential sectors like finance, creative industries, and digital technologies.

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