

Invest 2035: Industrial Strategy Green Paper Response

About this document

This document presents the submission made in response to the consultation on “Invest 2035: the UK’s modern industrial strategy.” The consultation was conducted by the Department for Business and Trade from 14 October 2024 to 25 November 2024. The submission was made on 22 November 2024.

The submission is primarily informed by insights from the Economy 2030 Inquiry, a collaboration between the Centre for Economic Performance at LSE and the Resolution Foundation, funded by the Nuffield Foundation. It also incorporates broader work from the Centre for Performance and the Programme on Innovation and Diffusion (POID). Contributions to Questions 1, 4, and 5 were co-developed with the Grantham Research Institute on Climate Change and the Environment, while responses to Questions 28, 34, and 35 were co-developed with the What Works Centre for Local Economic Growth.

This report is a lightly edited version of the submission.

The submission was authored by Henry Overman, Aadya Bahl, and Esin Serin. Aadya Bahl is a Policy Officer at the Centre for Economic Performance, and Esin Serin is a Policy Fellow at the Grantham Research Institute. Victoria Sutherland, Deputy Director of Evidence at the What Works Centre for Local Economic Growth, contributed to the development of responses to Questions 28, 34, and 35.

Introduction

The Department for Business and Trade’s Industrial Strategy consultation identified eight key growth-driving sectors and sought input on addressing challenges to unlocking business investment.

This response addresses question 1 in the Sector Methodology section; questions 4-6 within the Sectors section; questions 7, 8, 9, 14 and 22 in the Business Environment section; question 28 within the Place section; and questions 34-35 in the Theory of Change section.

Sector Methodology

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

The Economy 2030 Inquiry uses revealed comparative advantage (RCA) to measure the economy’s underlying strengths. The RCA of a country measures how specialised a country is in exporting a specific good or service relative to a reference group. We measure the RCA for the UK relative to the rest of the world. Similar comparative analyses can be conducted using data on innovation activity. Namely, revealed technological advantage (RTA) is calculated by using UK share of patents across technological classes compared to global shares.

The government could undertake a similar approach to identify the most important subsectors to deliver growth, alongside a judgement on how the global and domestic market will evolve into the future.

The Centre for Economic Performance (CEP), the Grantham Research Institute (GRI), the Programme on Innovation and Diffusion (POID), and the Productive & Inclusive Net Zero (PRINZ) programme at LSE have co-developed a green industrial policy 'matrix'. The matrix assesses the UK's comparative advantages in seven selected clean energy technologies, their strategic importance for net zero and resilience, and the likely distributional aspects of growth in terms of job creation and regional spread. While the weights assigned to different objectives, and the appetite for risk would matter for detailed implementation, the matrix can inform the development of an industrial strategy for clean energy industries by highlighting trade-offs in supporting different areas.

The matrix has been applied to assess clean energy technologies in the first instance, but similar assessment frameworks inform industrial policy priorities across and within other growth-driving sectors too.

References

E Serin, P Andres, R Martin, M Read, A Shah & A Valero, [The green industrial policy matrix: Informing an industrial strategy for clean energy technologies](#). Centre for Economic Performance, November 2024.

J De Lyon, R Martin, J Oliveira-Cunha, A Shah, K Shah, G Thwaites & A Valero, [Enduring strengths: Analysing the UK's current and potential economic strengths, and what they mean for its economic strategy, at the start of the decisive decade](#), The Economy 2030 Inquiry, April 2022.

Resolution Foundation & Centre for Economic Performance, LSE, [Ending Stagnation: A New Economic Strategy for Britain](#), Resolution Foundation, December 2023.

Sectors

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

If the UK government wants to focus on areas where there is evidence of the UK's competitiveness on the world stage (which we measure using RCA, see answer to Q1), these could include:

- Financial and Business Services: The UK has a well-established comparative advantage in finance, insurance, pensions, and in other business services such as R&D services, professional and management consulting services, and technical, trade-related services.

- Life Sciences: The UK has a strong specialisation in pharmaceuticals, biotechnology, and medical devices. In particular, pharmaceutical goods, the production of enzymes and medical equipment present a significant growth opportunity for the UK.
- Emerging technologies: The UK shows emerging strengths in transformative areas such as 3D printing and robotics. While these technologies currently constitute a smaller share of global innovation, they are areas of high-growth and represent potential pathways for future development.
- Digital and Information services: The UK is specialised in personal, cultural and recreational services, and charging for the use of intellectual property, with growth opportunities in telecommunications, computer and information services category.
- Clean Energy Technology: The UK has a wide range of strengths over other countries in offshore wind, tidal stream energy, nuclear energy and carbon capture, usage, and storage (CCUS). Each of these subsectors also has potential to support regionally balanced growth in the UK, for example by creating jobs in industrial heartlands and coastal communities, and creating transition opportunities for the North Sea workforce. Unlocking these opportunities may require investment in the UK's existing related capabilities to build specialisms in more complex, high-value products.

Other areas of specialism include aircrafts, spacecrafts, motor vehicle parts, beverages and works of art.

References

E Serin, P Andres, R Martin, M Read, A Shah & A Valero, [The green industrial policy matrix: Informing an industrial strategy for clean energy technologies](#). Centre for Economic Performance, November 2024.

J De Lyon, R Martin, J Oliveira-Cunha, A Shah, K Shah, G Thwaites & A Valero, [Enduring strengths: Analysing the UK's current and potential economic strengths, and what they mean for its economic strategy, at the start of the decisive decade](#), The Economy 2030 Inquiry, April 2022.

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

The potential priority subsectors set out in our answer to Question 4 draw on our analysis of trade and patent data which we use to assess the UK's current and future potential strengths in related markets. The UK can capitalise on the related productive and innovative capabilities it readily has to build future strengths in complex, high-value products and technologies.

Key strengths and capabilities are given below:

- Financial and business services: Other business services, such as R&D and consulting services, account for a large and growing share of UK exports. The UK's strength in financial and related business services is due to factors like human capital,

international openness, a favourable tax regime, and advantages in the English language and legal system. High employment in finance and professional services is spread across the UK, but London stands out in part due to its size advantages. London is also a global leader in fintech and green finance.

- **Creative Industries:** The creative sector, accounting for 6% of UK GVA in 2019, contributes significantly to the UK's soft power. Areas of comparative advantage include personal, cultural, and recreational services, ICT, and intellectual property licensing. The UK's creative industries are concentrated in London and the South East, with clusters in Manchester and Edinburgh. Factors such as the UK's strong education and university systems, culturally diverse creative talent, and public service broadcasters like the BBC and Channel 4 enhance this sector's global standing.
- **Life Sciences:** The UK has a robust legacy of innovation in medicine and healthcare, supported by the NHS and leading academic institutions. UK researchers rank third globally in high-quality life sciences publications. The UK is specialised in pharmaceuticals and biotechnology, and has strong government-financed health R&D.
- **Clean Energy Technologies:**
 - **Carbon Capture, Usage and Storage (CCUS):** The UK has strengths in a number of products that are highly complex and represent large volumes of global trade. These include machinery (and parts of those machinery) for filtering or purifying gases; types of iron or steel pipes of a kind used for oil and gas pipelines; pumps and compressors for air, vacuum, or gas; and certain instruments and apparatus relevant for measurement and monitoring (for instance, for checking pressure and the flow or level of liquids). The UK is also specialised in surveying equipment (for example for oceanographic and geophysical purposes) which is highly proximate to its capabilities and in innovations relating to the capture and disposal of several greenhouse gases including carbon dioxide and methane.
 - **Offshore Wind:** The country is specialised in floating structures which are relevant for building capability in early stage floating offshore wind (FLOW). FLOW represents a new frontier for the offshore wind sector which could see this source of power extend to new sites in deeper waters and with lower seabed impact in the UK and overseas. The UK's specialisations in floating structures and mountings on structures floating on a liquid surface are relevant in the specific context of FLOW. The UK's opportunities are more varied, spanning iron or steel structures (which could include turbine towers), certain electrical equipment, parts of electric motors and generators, and several types of bearings and gearings.
 - **Tidal Stream Energy:** The UK is a leader in developing tidal stream technologies and has specialisation in complex products within the tidal

stream category. This includes small (less than 1 MW) and larger (1–10 MW) hydraulic turbines; and types of engines and motors (and their parts). The UK could also build specialisation in the future in many types of bearings and gearing that are relatively high in both technological complexity and proximity to the UK. Turning to related innovation, the UK has strengths in the overall classification of tide (or wave) power plants as well as many specific innovations relating to structures that would support these plants in the sea. Examples include submerged foundations and anchoring arrangements (which can be relevant for tidal stream devices fixed on the seabed) and floating structures (which could have applications for floating tidal stream devices).

- Nuclear Energy: The UK is highly specialised in nuclear exports, with opportunities in nuclear reactors, fuel elements and isotopes. These are relatively complex products and are relevant for fuel fabrication. In terms of nuclear innovation, the country is specialised in a wide range of innovations including innovations relating to processes such as energy generation of nuclear origin, manufacture of fuel elements and plant operation and maintenance, as well as innovations on specific equipment such as Tokamaks (which are relevant for technological progress on nuclear fusion).

References

E Serin, P Andres, R Martin, A Shah & A Valero, [Seizing sustainable growth opportunities from tidal stream energy in the UK](#). London: London School of Economics and Political Science, June 2023.

E Serin, P Andres, R Martin, M Read, A Shah & A Valero, [The green industrial policy matrix: Informing an industrial strategy for clean energy technologies](#). Centre for Economic Performance, November 2024.

J De Lyon, R Martin, J Oliveira-Cunha, A Shah, K Shah, G Thwaites & A Valero, [Enduring strengths: Analysing the UK's current and potential economic strengths, and what they mean for its economic strategy, at the start of the decisive decade](#), The Economy 2030 Inquiry, April 2022.

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

Strategic sectors such as finance, creative and cultural industries, and life sciences have traditionally employed approximately 20% of the UK workforce and are a product of deep-rooted strengths. However, growth within these sectors depends on addressing structural barriers and low rates of business investment (addressed in our response to Question 7). Contributing factors are explored below:

Lack of economic and political stability

The country has seen various forms of economic and political instability which deters investment:

- Uncertainty due to the EU referendum and the pandemic
- Annual changes to the corporation tax
- Evolving business and growth policies
- Abrupt termination of business support policies

Additionally, the current tax code structure favours debt financing where fully-deductible, debt-financed investment is subsidised by the tax system. The introduction of full expensing for some assets in the 2023 Spring Budget offered businesses an incentive to invest in specific asset types. However, to foster sustained investment across all asset classes, this policy should be made permanent and expanded to include a wider range of assets. Balancing the system by revisiting tax deductions for interest payments could further mitigate the debt-over-equity bias.

Firms level management and ownership

The UK has one of the lowest proportion of firms with 'blockholder' shareholders in the OECD, and low worker involvement. This reduces the likelihood of productive investments.

A potential solution could be introducing a legal requirement that workers constitute one-fifth of the board members for both publicly listed companies and limited-liability companies with over 200 employees. These representatives, ideally selected by the workforce and potentially including union representatives, would provide a strategic perspective from within the firm and enhance decision-making.

Pension reforms could further support productive investments by creating a set of large pension funds that act as blockholders of UK firms. By removing liquidity, regulatory, and cost-related barriers, these funds could more readily invest in long-term productive assets.

The British Business Bank (BBB) could facilitate this process by creating a co-investment fund. This would enable pension funds to invest as limited partners alongside the BBB, leveraging the Bank's expertise in navigating domestic investment opportunities. It could do this by adapting and extending the British Patient Capital, a BBB subsidiary aimed at closing the late-stage funding gap, which is mandated to make investments until 2033. Additionally, structuring this fund to minimise fees for pension fund entry would encourage greater capital flow into UK assets.

Lack of sub-degree qualifications

The successful expansion of growth-driving sectors and technologies demands a workforce with high levels of formal education and technical skills. While analytical and personal tasks have risen in importance across all sectors, their growing importance can be particularly felt in the strategic sectors.

But there is a critical shortage of workers with sub-degree (Level 4 and 5) qualifications in the strategic sectors. The current share of workers with sub-degree qualifications at Levels 4 and 5 should be approximately three times higher, with the strategic sectors missing around 660,000 workers with suitable levels of education. This gap in the provision is potentially limiting employment growth in these sectors. These shortages are not only confined to the strategic sectors but are also widespread across the economy, highlighting the structural issues with the way these skills are delivered.

References

P Brandily, M Distefano, K Shah, G Thwaites & A Valero, [Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth](#), Resolution Foundation, June 2023.

R Costa, Z Liu, S McNally, L Murphy, C Pissarides, B Rohenkohl, A Valero & G Ventura, [Learning to grow : How to situate a skills strategy in an economic strategy](#), Resolution Foundation, October 2023.

Business Environment

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

Low rates of business investment in the UK stifle growth and cannot be explained by its sectoral composition. The most significant barriers to investment not covered elsewhere in our response are:

Market failure in innovation

Knowledge spillovers are a fundamental barrier to Research, Development and Innovation (RDI). Firms undertaking significant R&D investments do not always reap the full rewards, and many undertake incremental innovation, focused more on market capture than the generation of social benefit. Sectors with high R&D intensity, such as pharmaceuticals and net zero, may underinvest in innovation due to the low private returns despite the social value being high.

Beyond knowledge spillovers, market failures in the financing of RDI significantly constrain technology adoption and diffusion. Investment in R&D carries high risk, particularly in early-stage innovation, which often deters private investors. Clean technology sectors illustrate this challenge, where investments are particularly risky due to uncertainties in regulatory environments and market demand, despite these technologies offering high societal benefits.

Rigidity in the planning system

The current planning system in the UK is largely discretionary and focuses on case-by-case applications, prompting local communities to engage more with individual planning

applications than the creation of local strategies. The absence of binding local plans creates an opportunity for political capture of decision-making. This structure also creates ambiguity for businesses, which often face prolonged periods of uncertainty and delays in planning approvals. Such unpredictability deters business investment, as firms may be reluctant to commit resources to projects that could face significant bureaucratic hurdles or ultimately be denied approval.

Conflicting incentives for local authorities

Since the introduction of the Uniform Business Rate in 1990, revenues from business properties flow to the central government, despite local authorities providing services to these commercial sites. This creates a disconnect between the responsibilities and the financial rewards associated with local development. Although recent schemes aim to allow local planning authorities (LPAs) to retain a portion of business rates, these remain limited in scope and continue to be subject to policy shifts.

In addition, local authorities often face pressures from local voters (referred to as 'NIMBYism') who resist new developments to protect neighbourhood character or property values. This further restricts new development and can have a negative impact on the transition to net zero.

Urban growth constraints

Strict regulations limit the expansion of urban areas and constrain the uses permitted for existing urban land. Policies like the greenbelt designation, established after World War II to curb urban sprawl and preserve green space, have largely remained untouched. While these policies protect certain landscapes, they also restrict the availability of land for housing and commercial developments.

Numerous preservation designations and height controls on buildings restrict urban development. For instance, in London, preservation designations and the London View Management Framework limit the construction of taller buildings. Prohibited development has constrained retail growth outside city centres, particularly after the introduction of the Town Centres First (TCF) policy in 1996.

Mismatch in housing supply and its consequences

Tight planning restrictions impact housing availability and composition, leading to significant mismatches between supply and demand. Regulatory constraints limit the flexibility of the housing market to respond to demographic changes. This results in higher vacancy rates in strict planning areas and increased commuting times for workers who are unable to live near employment hubs. Such mismatches contribute to inefficiencies in the housing market, where supply struggles to align with actual needs.

This has implications for transport, as limited urban growth and high housing costs push workers to live further away from their places of employment, increasing the need for transport infrastructure to manage the resulting commuter flows.

References

A Valero & J Van Reenen, [Embedding green industrial policy in a growth strategy for the UK, IPPR Progressive Review](#), 30 (3), 175-83, 2023.

N Bloom, J Van Reenen & H Williams, [A Toolkit of Policies to Promote Innovation](#), Journal of Economic Perspectives, 33(3), 163-84, 2019.

P Brandily, M Distefano, K Shah, G Thwaites & A Valero, [Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth](#), Resolution Foundation, June 2023.

P Cheshire & C Hilber, [Office space supply restrictions in Britain: the political economy of market revenge](#), The Economic Journal, 118, 2008.

P Cheshire, [Broken market or broken policy? The unintended consequences of restrictive planning](#), National Institute Economic Review, 245, 2018.

P Cheshire, C Hilber & H Koster, [Empty homes, longer commutes: the unintended consequences of more restrictive local planning](#), Journal of Public Economics, 158, 2018.

P Cheshire, C Hilber & I Kaplanis, [Land use regulation and productivity – land matters: Evidence from a UK supermarket chain](#), Journal of Economic Geography, 15, 43–73, 2015.

Business Environment – People and Skills

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

The current system is unable to meet growing skills demands, particularly in growth sectors. It is essential for policies to address this imbalance.

The UK government can help ensure Level 4 and 5 qualifications are adequately supported through enhanced funding for Further Education (FE) colleges. The Lifetime Learning Entitlement would help equalise funding opportunities for those pursuing sub-degree qualifications, treating them more favourably in the student finance model. The country needs to move to a demand-led funding system for FE colleges by applying the Robbins principle, similar to that currently used in the Higher Education (HE) system. The principle suggests that any qualified person has access to training at every level. Any provider able to attract enough students to cover the cost of a course can make it available. To support the system's adaptability, safeguards such as course and funding agency approvals are essential.

The vocational pathway should also be made more attractive and easier to navigate. Students and their families should be able to understand the opportunities stemming from sub-degree qualifications and their links to the wider education system. Simplifying pathways, improving career guidance at local levels, and providing clearer signposting for sub-degree qualifications would likely make these qualifications more accessible and appealing, particularly to young people and workers seeking career advancement.

References

R Costa, Z Liu, S McNally, L Murphy, C Pissarides, B Rohenkohl, A Valero & G Ventura , [Learning to grow : How to situate a skills strategy in an economic strategy](#), Resolution Foundation, October 2023.

R Layard, S McNally & G Ventura, [Applying the Robbins Principle to Further Education and Apprenticeship](#), Resolution Foundation, October 2023.

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

The risk of employee turnover – that is workers leaving after receiving training - has contributed to the decline in employer investment in training. Firms may underinvest if they are unable to recoup the returns from investment in training, even though market imperfections will provide some incentive. If the costs of training are reduced, the consequences of poaching are diminished as firms have less to recoup if the employee were to subsequently move.

A ‘human capital tax credits’ system, which allows businesses to claim deductions for investment in employee training, like the existing R&D tax credits could help. Subsidising training would also help reduce inequities in how capital is treated relative to labour, particularly through the R&D tax credits. Implementing this on a trial basis within high-demand areas like net-zero skills development could increase employer engagement with training.

In addition to incentivising firms, supporting individuals could also help bridge skills gaps, especially for those outside traditional employment or on short-term contracts. While implementation of the Lifelong Learning Entitlement would address this at tertiary level, there are many types of training that are out of scope, including short-term training and training at lower levels. There is a need to subsidise individuals because of credit constraints and externalities such as individuals not fully considering the social benefits of the added productivity.

One example of a policy that might be considered are Individual Learning Accounts which were implemented in the UK in the 2000s. This policy was not well regarded in the UK due to its poor design and hasty implementation, but this option should be reconsidered with lessons learnt from experience. A new scheme should be carefully piloted and evaluated

before broader implementation. For example, they could be funded through shared investment by employers and workers, and the government, as one proposal for such accounts in the United States has suggested.

Tax incentives can also be used to subsidise training investment. This was found to be an effective instrument in the Netherlands, and has been used by various countries, who allow individuals to deduct training expenditure from their taxable income.

References

A Fitzpayne & E Pollack, [Working Training Tax Credit: Promoting Employer Investments in the Workforce](#), Aspen Institute Future of Work Initiative, August 2018.

D Acemoglu & J Pischke, [The Structure of Wages and Investment in General Training](#), Journal of Political Economy, 107(3), 539-72, 1999.

Department for Education, [Independent panel report: post-18 review of education and funding](#), May 2019.

D Hidalgo, H Oosterbeek & D Webbink, [The impact of training vouchers on low-skilled workers](#), Labour Economics, 31(C), 1-15, 2014.

E Leuven & H Oosterbeek, [Evaluating the effect of tax deductions on training](#), Journal of Labor Economics, 22(2), 461-88, 2004.

G Becker, [Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education](#), Chicago: University of Chicago Press, 1964.

R Costa, Z Liu, S McNally, L Murphy, C Pissarides, B Rohenkohl, A Valero & G Ventura, [Learning to grow : How to situate a skills strategy in an economic strategy](#), Resolution Foundation, October 2023.

R Costa, N Datta, S Machin & S McNally, 2018. [Investing in People: the case for human capital tax credits](#), Centre for Vocational Education Research, LSE, March 2018.

R Layard, S McNally & G Ventura, [Applying the Robbins Principle to Further Education and Apprenticeship](#), Resolution Foundation, October 2023.

T Falch & H Oosterbeek, [Financing lifelong learning: funding mechanisms in education and training](#), European Expert Network on Economics of Education, EENEE Analytical Report, No. 10, September 2011.

Business Environment- Infrastructure

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

The Economy 2030 Inquiry highlights the significant regional productivity disparities that exist between London and other cities, particularly Greater Manchester (GM) and Birmingham Urban Area (BUA). To reduce Birmingham and GM's productivity gap with London requires increasing the population of high-skilled workers, growing city centres, enhancing public transport networks, increasing housing supply to accommodate population growth and substantial additional private sector investment.

Several targeted policy solutions could be implemented to strengthen regional growth and economic productivity, particularly in places like GM and Birmingham:

Move to a rules-based system

A shift towards a rules-based planning system would be instrumental in addressing the unpredictability and costliness of the current discretionary approach. Implementing clear, consistent guidelines that remove much of the political discretion from planning decisions would make the system more transparent and efficient. This shift could reduce costs, expedite development, and foster a more competitive environment for housing.

Reforming the system for local authorities

Revisiting property taxes to better reflect market dynamics and provide local governments with a share of development revenues would create a more equitable tax system that aligns the interests of local communities with economic development. Providing fiscal incentives for local authorities to permit development would reduce NIMBYism and facilitate regional growth by aligning the interests of the community with broader economic objectives.

Further, ensuring that local authorities have binding land-use plans with clear targets is crucial for addressing regional growth disparities. Implementing mandatory plans would bring greater accountability and predictability to the planning system, as local authorities would be obligated to adhere to a legally enforceable framework that guides land allocation and development priorities. This planning should take place at the right geographic level, ideally reflecting functional economic areas, to ensure that costs and benefits are properly captured.

It is also helpful to include other local authorities in the functional urban area in strategic planning. This will ensure that decisions around utilities and logistics, which have benefits for the city region but have more concentrated and localised costs, are not vetoed by the local authorities such as those surrounding Birmingham and GM.

Removing inflexible height restrictions

Revisiting restrictive height controls, particularly in high-demand urban areas, could significantly expand the supply of housing and office space. Removing inflexible height restrictions would facilitate denser developments and lower commercial space costs, encouraging business growth. This policy shift is especially relevant in cities like London,

where building height is strictly controlled, often requiring the involvement of high-profile architects to navigate planning barriers.

This could also help in prioritising office space and commercial use in city centre developments, thus supporting regional growth. Privileging the city centre for high-value services activities will also allow the benefits from productivity growth to be broadly shared throughout the city region, as those who produce value in the city centre often do not live there.

Adapting the greenbelt

Greenbelts play a crucial role in preserving environmental and amenity-rich land, but they also limit the availability of land for development. Allowing development on greenbelt land with low amenity or environmental significance, particularly near transport hubs like commuter rail stations, could increase housing supply and provide new spaces for business expansion, while preserving the most valuable land for conservation.

Improving energy efficiency in Conservation Areas

There are 1.5 million homes in Conservation Areas, and here it is very difficult to install double glazing, solar panels, insulation or heat pumps. Adjusting conservation rules to allow energy efficiency improvements without compromising historical preservation could reduce carbon emissions and cut energy bills for residents. This would support both environmental goals and economic affordability.

Rethinking the Town Centre First policy

Rethinking the Town Centre First policy could further unlock commercial development in outlying areas, which could ease pressure on city centres and foster economic growth in less restrictive locations. Allowing more flexibility in retail zoning would enable new stores to emerge in locations where they can maximise productivity and better serve local demand, thus supporting regional retail expansion and employment.

References

A Breach, S Bridgett & O Vera, [In place of centralisation: A devolution deal for London, Greater Manchester, and the West Midlands](#), Resolution Foundation, November 2023.

P Brandily, M Brewer, N Cominetti, M Coombes, A Corlett, L Judge, F Odamtten, H Overman, C Pacitti, G Rodrigues, K Shah, P Swinney & L Try, [A tale of two cities \(part 1\): A plausible strategy for productivity growth in Birmingham and beyond](#), Resolution Foundation, September 2023.

P Brandily, M Brewer, N Cominetti, M Coombes, A Corlett, L Judge, F Odamtten, H Overman, C Pacitti, G Rodrigues, K Shah, P Swinney & L Try, [A tale of two cities \(part 2\): A plausible strategy for productivity growth in Greater Manchester and beyond](#), Resolution Foundation, June 2022.

P Brandily, M Distefano, K Shah, G Thwaites & A Valero, [Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth](#), Resolution Foundation, June 2023.

P Cheshire & C Hilber, [Office space supply restrictions in Britain: the political economy of market revenge](#), The Economic Journal, 118, 2008.

P Cheshire, [Broken market or broken policy? The unintended consequences of restrictive planning](#), National Institute Economic Review, 245, 2018.

P Cheshire, C Hilber & H Koster, [Empty homes, longer commutes: the unintended consequences of more restrictive local planning](#), Journal of Public Economics, 158, 2018.

P Cheshire, C Hilber & I Kaplanis, [Land use regulation and productivity – land matters: Evidence from a UK supermarket chain](#), Journal of Economic Geography, 15, 43–73, 2015.

P Cheshire & C Hilber, [CEP Election Analysis 2024: Housing and planning. Paper number CEPEA061. Centre for Economic Performance](#), London School of Economics, June 2024.

P Cheshire & C Hilber, [The economic costs of the failing planning system](#). Paper number CEP680. CentrePiece article, London School of Economics, June 2024.

Business Environment – Mobilising Capital

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

Access to finance

Firms with high growth potential, particularly innovative small and medium-sized enterprises (SMEs), face significant financial barriers that hinder their ability to scale up. These obstacles limit the growth potential of individual companies and restrict broader economic dynamism and innovation. It is hard for firms to finance innovative projects through bank loans, as innovation is intangible and difficult to collateralise. It can also be difficult for firms working with risky or unproven technologies to access equity finance. As a result, these firms are reliant on venture capital or other forms of equity financing.

Yet, the venture capital landscape in the UK is heavily skewed towards early-stage investments, with limited options for scale-up capital. Although the UK is a leading European destination for venture capital investment, its venture capital industry lacks the breadth and focus on later-stage finance. Moreover, equity financing is disproportionately allocated to London. High-growth firms outside of London are frequently overlooked by venture capitalists and investors, and as a result, they may lack access to the best-suited forms of finance. Local demand for venture and early-stage capital is inconsistently met across the UK, implying that capital is not flowing to small businesses across the country.

The British Business Bank (BBB) has played a crucial role in increasing finance for SMEs and mid-cap businesses, particularly in underserved regions. In particular, the organisation has helped boost investment for intangible intensive firms that require equity investment. But its reliance on government funding limits its potential, as funding is allocated in ring-fenced pots.

Allowing the BBB to borrow capital from the market through government-guaranteed bonds would expand the scale of the bank without large upfront government costs and reduce its reliance on the Spending Review process. While this change will require time and potential adjustment of fiscal rules, the BBB's strategic goals can be expanded in the meantime. It should include a larger convening role across regional business communities and a focus on helping SMEs become investment-ready and aware of external capital sources.

Broader challenges facing SMEs

Smaller firms frequently lack the absorptive capacity needed to integrate new digital tools and managerial practices. They tend to invest less in process innovation and invest less per worker. This weakens firms' resilience to economic shocks and technological shifts. SMEs are also more likely to report lack of skills, particularly in fast-growing areas, as a barrier to innovation. Thus, SME support policies typically address both financial and non-financial barriers. But this area has also seen a lot of change, making it challenging for firms to navigate the landscape.

A large-scale £500 million 'Help to Grow' business support programme was launched in 2021 containing two parts, namely 'Help to Grow: Digital' and 'Help to Grow: Management'. While the former was cut due to low take-up, the latter aimed to improve managerial and leadership skills and productivity in SMEs. Early evaluations found that the scheme had positive impacts.

The Government should build on this framework by promoting the brand and its reach. Expanding experimentation and evaluation can also help identify the impact of various interventions. Randomisation can be used within different areas of the programme, such as identifying the best ways of delivering support.

References

P Brandily, M Distefano, K Shah, G Thwaites & A Valero, [Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth](#), Resolution Foundation, June 2023.

Place

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

Cities play a crucial role in driving national economic growth. Yet productivity and income disparities among UK cities are large, with major cities like Greater Manchester and

Birmingham lagging behind London and the UK average. The productivity gap between these cities and London highlights the urgent need for targeted, locally informed interventions. The Economy 2030 Inquiry has emphasised the importance of a high-skilled workforce, and the role of housing and transportation in bridging the gap. Some policy mechanisms to do this have been discussed in our response to Question 14.

But to effectively accelerate growth at a city-region level, it is also important to have an in-depth understanding of the local economy. The Economy 2030 Inquiry was underpinned by an analysis of economic performance, including the areas of greatest underperformance and opportunities for growth. The Local Growth Plans should be based by a similar analysis of the local economy.

The What Works Growth (WWG) Centre's guidance on effective local industrial strategies can be helpful in developing these analyses (<https://whatworksgrowth.org/resource-library/developing-an-effective-local-industrial-strategy/>).

Policies aimed at accelerating city-region growth should also reflect robust evidence on both effectiveness and cost-effectiveness. Evidence reviews by WWG offer insights into a variety of growth levers, and can inform the selection of targeted interventions (<https://whatworksgrowth.org/evidence-topics/>).

Long-term stability in policy and funding is essential to create a supportive environment for city-region growth. Cities need dependable resources and a commitment to enduring, place-based policy frameworks to develop and implement effective strategies. Success depends on carefully structured policies that align with local market realities, allow for experimentation, and include evaluation mechanisms.

References

P Brandily, M Brewer, N Cominetti, M Coombes, A Corlett, L Judge, F Odamtten, H Overman, C Pacitti, G Rodrigues, K Shah, P Swinney & L Try, [A tale of two cities \(part 1\): A plausible strategy for productivity growth in Birmingham and beyond](#), Resolution Foundation, September 2023.

P Brandily, M Brewer, N Cominetti, M Coombes, A Corlett, L Judge, F Odamtten, H Overman, C Pacitti, G Rodrigues, K Shah, P Swinney & L Try, [A tale of two cities \(part 2\): A plausible strategy for productivity growth in Greater Manchester and beyond](#), Resolution Foundation, June 2022.

Resolution Foundation & Centre for Economic Performance, LSE, [Ending Stagnation: A New Economic Strategy for Britain](#), Resolution Foundation, December 2023.

What Works Centre for Local Economic Growth, LSE, [Policy challenge: Developing an effective local industrial strategy](#), What Works Centre for Local Economic Growth, June 2018.

Theory of Change

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

Achieving economic growth will require significant investment across interconnected dimensions like housing, transport, and skills, as highlighted in previous questions. The causal pathways within the model should clearly recognise and account for these complex interactions to create a cohesive and realistic framework.

The creation of theories of change at various levels can ensure clear thinking and make the process more manageable. This means having a Theory of Change for different policies, for each sector and place, and the Industrial Strategy as a whole.

It is also crucial to be clear about the intended purpose of the Theory of Change. If it is approached primarily as a tool for accountability and monitoring, it may become overly focused on measurable elements at the expense of a broader understanding. Conversely, if it is framed as a mechanism for articulating, testing, and agreeing the rationale for investment, the Theory of Change can serve as a more expansive tool.

It is important to develop based on robust, evidence-backed assumptions. This means relying on established evidence regarding whether specific activities lead to outputs, those outputs yield outcomes, and those outcomes ultimately achieve desired impacts. The What Works Growth (WWG) Centre has a range of resources on evidence to help with policy development (<https://whatworksgrowth.org/evidence-topics/>).

The WWG guide on logic models can help with further thinking: (<https://whatworksgrowth.org/resource-library/using-logic-models/>).

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

The commitment to monitoring and evaluation is welcome but evaluating the Industrial Strategy as a whole may present significant challenges, given the complexity and breadth of its initiatives.

Instead, focus should be placed on individual policies, programmes, and projects within the strategy. This targeted evaluation can help draw clearer insights about what works and to make evidence-based recommendations for improvement.

The What Works Growth (WWG) Centre at LSE uses counterfactual and value-for-money evaluations for impact evaluation and finds impact evaluation easier to achieve when integrated early in the policy development process. This allows for more robust methodologies, such as randomised control trials, to be implemented where appropriate.

Historically, few UK growth policies have been evaluated using the most robust methods. The Industrial Strategy presents an opportunity for a step change in this regard. By establishing dedicated funding or processes to support rigorous evaluation, the strategy could set a new standard for evidence-based policymaking. Where impact evaluation is not feasible, high-quality monitoring data can be collected. This data can be fed back into ongoing programme delivery and be used to inform future policy design. This method can help to guide improvements and increase the overall efficacy of the Industrial Strategy.

The WWG 'how to' guide on better evaluation can help inform this process (<https://whatworksgrowth.org/resource-library/8-step-evaluation-guide/>)