ICAEW
REPRESENTATION 81/24

INDUSTRIAL STRATEGY CONSULTATION RESPONSE

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ICAEW welcomes the opportunity to comment on the Industrial Strategy Consultation published by Department for Business and Trade on 14 October 2024, a copy of which is available from this link.

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KEY POINTS

ANSWERS TO SPECIFIC QUESTIONS

SECTOR METHODOLOGY

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

1. In any consideration of industrial policy, a balance has to be struck between horizontal policies, which support the growth and development of the whole economy, and vertical policies with a more direct, sectoral approach. We think that with Invest 2035 the government has struck the right balance.
2. We also believe that an industrial strategy which identifies sectors for a targeted approach to investment and initiatives to achieve higher rates of growth is correct. The government's identification of the eight sectors are the right ones in which the UK has both a present comparative advantage and which has future global export potential. We would suggest an additional sector – that of UK higher education – should be included as a growth sector; the UK is second only to the United States for the excellence of our universities, they are a significant source of soft power for the UK and produce economic activity through the attraction of researchers, undergraduates and graduates both domestically and overseas. Crucially, UK universities generate research and innovation which, properly applied and commercialised, can produce significant beneficial spillovers for the country.
3. We do not believe that the government should jump to identifying subsectors. A sectoral approach is the appropriate level at this stage in policy formation. A rush to subsectors will risk injecting complexity and inefficiency into the very start of the process, undermining progress from the outset. We would suggest that a preferred approach would be to ensure that the identified growth sectors each prepare a sector plan which includes specific opportunities and policy interventions.

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

4. The government should ensure as a priority that data sets become more reliable and accurate. This is a vital prerequisite for securing more effective decision making and economic growth. The 2016 independent review of UK economic statistics by Sir Charlie Bean revealed significant shortcomings in economic statistics, particularly in relation to services. A member who was involved in the creation of a sector deal in 2018 stated that "accurate government data was rarer than hen's teeth. Six years on, no progress has been made whatsoever. You can't manage what you can't measure."
5. Outside of the industrial strategy, government should ensure the data captured from such organisations as Companies House and HMRC could be better analysed and evaluated to determine how sector performance, particularly in new areas, is progressing.

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

6. As the green paper rightly points out, the UK has significant strengths which should provide real optimism as to the opportunities for growth for our country in the next few decades. However, it is also fair to say that the frequent series of 'once-in-a-lifetime' shocks in quick succession over the past 15 years, from the global financial crisis to the war in Ukraine and subsequent wave of high inflation has revealed the UK economy to be less resilient than it should be. This makes us more reliant on, and more vulnerable to, external factors and circumstances, which in turn leave us more exposed to supply-side challenges and price spikes. Although the Industrial Strategy rightly focuses on targeted sectors for growth, the importance of key foundational industries and value chains cannot be ignored.

7. The UK economy thrives when it embraces what it does best and encourages open and free trade across the world. However, this should also be coupled with identifying within the Industrial Strategy those key foundational sectors and value chains without which our resilience is compromised. One member in manufacturing stated as an example, “we cannot have a defence industry without secure and preferably NATO based, if not UK based, supplies of raw materials, technology [and] solid state electronics.”
8. In this context, members in the West Midland suggested that the Industrial Strategy should “ensure each sector plan identifies its dependence on foundational sectors and gives genuine signals for supply chains – e.g. the need to decarbonise the life sciences supply chain, or the importance of resilience and security of metal production. This should provide more clarity and confidence for decision-making in those supply chain businesses.”
9. Taking this idea further, a member suggested that foundational sectors and value chain analysis should be closely linked to placemaking policies, not only in terms of addressing regional inequalities, but also in respect of adapting to climate change. This could include, for example, using a value chain analysis to mitigate the risks of buildings that may be built on a flood plain, thereby reducing the opportunity of insuring the asset or affordable finance. This is similar to the use of earth systems models by meteorologists to predict climate and weather patterns and trends and could be applied in this context to boost the effectiveness of the industrial strategy approach.

Sectors

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

10. We agree that the green paper has identified the right eight growth driving sectors, subject to the inclusion of one additional sector as mentioned above. These sectors characterise the shape of the UK economy and are where the UK has both a current global strength and future potential.
11. The UK’s professional and business services (PBS) sector is one of the largest and most successful sectors. In 2023 it added £271bn of value, accounting for 12% of UK GVA and supported 5.04m jobs, one in seven of all UK jobs. The sector has grown at an annual average of 2.5% since 2010.
12. As part of the PBS sector, we estimate the accountancy profession supported a contribution overall of £81bn to UK GDP in 2022. This amounted to 3.4% of UK GDP, equivalent to approximately 80% of the gross value added (GVA) contribution of the financial services sector in the UK that year. Of this total, 41%, or an estimated £33.3 billion contribution to UK GDP, came from the accounting services sector itself. The remaining 59%, or £47.4 billion, was supported by “in-house” accountancy employees in a variety of sectors across the economy.
13. We estimate that the implied productivity of employees in the accounting services industry was 1.6 times the economy average. Employees within the sector contributed an estimated gross value added per employee of £103,000, compared to the economy wide average of £66,100.
14. As we have stated above, in addition to the eight identified sectors, we believe Higher Education should be identified as a ninth high-growth sector. While we have not reviewed data on the productivity or output growth of the Higher Education sector, we question whether these metrics for the sector itself are adequate for assessing its contribution. London Economics’ 2023 report on the benefits and costs of international higher education students to the UK economy estimated that ‘the total benefit to the UK economy from 2021/22 first-year international students over the duration of their studies was approximately £41.9bn, while estimated total costs were £4.4bn’. This provides a major export value as well as wider benefits to the UK economy from access to leading international talent and expertise.

Identifying focus technologies

15. The detailed plan each of the growth sectors will present to government should identify key opportunities, including in technology, and can help in prioritising and targeting potential government interventions.
16. To assist government in its initial analysis we have set out here an example of key technologies essential for the transformation and future potential of the accountancy sector.
17. **Cloud adoption:** This has been one of the biggest areas of innovation. Accounting systems and packages have moved from being hosted on accountants' premises to being cloud hosted. This has been largely driven by vendors who supply these systems but was also accelerated by the pandemic and the need to support remote work. Cloud systems allowed accountants to access systems from anywhere at any time, thereby providing flexibility, and improving the speed and efficiency of accounting processes. Cloud adoption has also acted as an enabler, providing access to other technology capabilities, including those outlined below.
18. **Automation:** This encompasses many technologies including Robotic Process Automation, which have been embedded in business processes through workflows, document matching and automated approvals etc. This has helped to boost productivity in the sector.
19. **AI:** Machine Learning has been particularly adopted in the profession for transaction monitoring to support audit and compliance activities such as risk identification and anomaly detection. Optical Character Recognition (OCR) and Natural Language processing (NLP) have also been used in reading documents and extracting information to aid auto population of financial records. This has also contributed to improving productivity and efficiency. Most recently the use of generative AI is being explored to further increase productivity in use cases such as document generation (reports, marketing materials etc.), document summarisation and insight extraction.
20. **Data Sharing:** Application Programming Interfaces (APIs) and Electronic Data Interfaces (EDIs) have been adopted to facilitate easier integration between applications and systems and to share data with other organisations, for example through Open Banking.
21. **Data Analytics and Visualisation:** Reporting is largely digital, interactive and dynamic with various tools developed and adopted. These provide insights such as predictions that can be used in financial modelling and forecasting, as well as compliance activities. They also provide a more interactive and tailored reporting experience for example allowing users to select what presentation of the data they would like and providing the ability to drill into data of interest.
22. There are also a number of areas where government could help support productivity growth and innovation in the accountancy profession, namely:
23. **Data Sharing of Government Departments:** There is duplication in information which is reported to government entities which generates an administrative burden, for example filings to Companies House and HMRC. The government should seek to find ways to allow public services to be accessible in a single 'one stop shop' where information provided is then fed into the correct entities. Equally, government will also need to develop Smart Data Frameworks with industries to support sectoral and industry wide data sharing. A key one for accountancy will be for identity verification services to support the digitisation of the tax system and to support e-invoicing. Research by Sage found that e-invoicing in Europe could unlock an average of €13,500 in savings for EU SMEs.
24. Government could also consider going further not only with data sharing within Whitehall departments by considering a consultation on introducing a digital-identity system. This could apply both for citizens accessing public services and businesses setting up and providing services to each other and to government. Such a scheme is not too far removed from what is already provided for citizens' access to public services, such as the NHS App easing the processes of making an appointment, ordering repeat prescriptions and accessing information relating to test results. However, we also wish the Government to explore how such a system could assist business productivity by easing access to a range of government and corporate services. Singapore's digital identity solution, Singpass, enables half a billion

personal and corporate transactions each year, such as access to finance. In Australia, it is mandatory for all company directors to apply for a Director Identification Number to continue acting as a company director. This has been designed to identify and tackle fraud, but designed correctly, could also smooth friction when interacting with government, thereby reducing unnecessary regulation and contribute towards cutting the cost of business.

25. **Regulatory Certainty:** Around AI, we were supportive of the 'pro-innovation approach' proposed by the previous government. We were particularly supportive of its ambitions, the proposed guiding principles, having a central coordination function for regulation, and the introduction of sandboxes. However, to make this approach a success, we recommend that the government provide greater insight into how the approach will work in practice, make explicit what some requirements will be to increase certainty, provide greater funding to regulators to give them greater access to expertise and upskilling budgets so they can be effective at regulating the technology.
26. **Skills policy reform:** The government should leverage Skills Bootcamps, which already receive resources and have a track record in addressing digital skills. While consolidating skills policy and funding for upskilling is broadly supported, there are concerns about the Department for Education's approach, particularly regarding flexibility in apprenticeship funding and reducing bureaucracy.
27. The proposed data driven approach to skills policy should not burden businesses. When replacing the Apprenticeship Levy with the new Growth and Skills Levy, it is crucial to consider the impact that changes could have on valuable existing programmes, particularly higher level apprenticeships, such as Level 7 qualifications provided for accountancy, which are valuable in providing the skills needed to deliver the Industrial Strategy in the highly skilled areas of the future economy that boost productivity (including AI skills).
28. **AI Upskilling:** The upskilling of businesses across the economy and of regulators to support the proposed approach to AI regulation should be a priority. A recent example was the AI Upskilling Fund pilot which supports SMEs in the professional and business services sector by match-funding AI skills training for their employees. This was a positive development but could be improved by simplification of the application process. The government should also build on its £10m investment for regulator upskilling to ensure regulators have the skills required to address the risks and harness the opportunities of AI.

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

29. The sector plans which each of the growth sectors will present to government should address this question on a specific basis to support further analysis. At the next stage government should present sectoral analysis of comparable depth to the European Commission review led by Mario Draghi.
30. To contribute to that process we have provided information for the accountancy sub-sector, using data from Oxford Economics CCAB Accountancy-Report.
31. **Employment:** We estimate the accountancy profession supported 689,300 jobs in 2022 across the UK in accounting, bookkeeping, and audit roles. This total includes professionals in the accountancy firms, as well as "in-house" accountants working in other sectors. Overall, we estimate 828,200 jobs were supported by the accountancy profession in 2022. This is equivalent to 2.5%—or one in every 40—of all jobs in the UK, and represents an increase of 1.9% from the 812,500 jobs supported in 2017.
32. **Skills:** We are a highly skilled sector. ICAEW's world class ACA qualification is at level 7, equivalent to a Master's degree and is one of a number of UK qualifications in the PBS sector that is highly exportable and in demand internationally. Within the UK the accountancy profession is a major route into high quality, employment relevant Level 7 qualifications, and often a route in for individuals who would not otherwise have the opportunity to obtain a qualification at level 7. Professional accountancy qualifications are often taken while working and therefore are a strong and highly viable access route into Level 7 for those with limited personal means. As the employment statistics show these skills are in both high demand in the UK economy and are also highly productive.

33. This opportunity has benefited significantly from apprenticeship funding. We are concerned that proposed changes to Level 7 funding through the Growth and Skills Levy undermines several elements. First, at a broad policy level, this proposal seems to be counter to the government's welcome intention to have growth as its primary mission. We are concerned that this is an early indicator that industrial policy will not have appropriate coordination of decisions taken across government. Of course, industrial policy is one facet of the Government's economic and growth policy; but we do believe an effective industrial strategy with a sectoral approach towards targeted priority sectors should deploy strong coordinated policy responses across all of Whitehall to ensure decisions made across different departments do not potentially adversely affect growth prospects of those identified growth sectors.
34. To that end, we have recently written to the Secretary of State for Education, expressing concern that this proposal risks damaging the wider economy's growth prospects by restricting access to high level skills and forcing firms to consider offshoring economic activity, thereby reducing the future talent pool within the UK. We are also concerned that this move limits access to professional careers and holds back social mobility, by removing an affordable and accessible alternative to university; as well hindering the ability of small and medium-sized professional and business service practices from hiring and growing their business. We have asked the government to ensure that people aged 25 and under should still be able to access level 7 funding to gain vital skills and to grow the economy in priority sectors.
35. **GDP contribution:** As we answered to question 4, in 2022, we estimate the accountancy profession supported a contribution of £80.7 billion to UK GDP.
36. **Tax contribution:** In 2022, we estimate that the accountancy profession contributed £11.7 billion in tax revenues to the UK and Irish exchequers through the taxes paid by its employees and businesses.
37. **Accountancy services to the economy:** Accountancy is a vital service for businesses in both the UK and Ireland. Accounting professionals track, interpret, and project a company's finances, to communicate these to stakeholders and enable informed decision making. In 2022, businesses in the UK procured an estimated £29.3 billion in accounting services. We estimate that the IT sector and the professional services sector were the largest purchaser of accounting services, in absolute value, and as a proportion of their total spends. The IT sector spent almost £6.0 billion on accounting services in 2022—or 4.5%—of its total spend.
38. **Championing diversity and inclusion:** The accountancy profession is taking action to support equality, diversity, inclusion, and socio-economic mobility. This includes involvement in programmes to increase the skills and employability of young people, such as ICAEW's Rise initiative and Access Accountancy.
39. **Contributions to sustainability:** The profession is also playing a critical role in supporting organisations to mitigate the risk and maximise the opportunities presented by climate change. Accountants are beginning to advise and help clients and boards to integrate sustainability into their business and transition to net zero within agreed timescales. This work enables directors to better deliver on their fiduciary duties, as well as reassure investors.

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

40. We believe that substantive progress to addressing these barriers can be made by focusing on three areas that should be at the core of the Industrial Strategy: certainty and stability; skills; and better use of data. We illustrate those barriers with examples from our sector:

Certainty and stability

41. **Economic uncertainty:** Certainty and stability is the single most important factor in business investment: the industrial strategy needs to deliver this. Policy stability is vital to enable the

confidence needed to make productivity investments and overcome barriers to innovation and technology adoption.

42. **Barriers to innovation:** we have set these out in the answer to question 4. A recent research report by Sage, Demos and the ACCA suggests that widespread AI adoption in the UK alone could add £2bn to GDP and create 20,000 jobs. It estimates that if all practices achieved the same level adoption as the 'trail blazers' the industry could experience 12% growth in real terms by 2025. The report also finds that 24% of accountants and bookkeepers using AI have already seen improvements in efficiency and productivity.

43. A barrier we hear frequently from mid-sized firms in the accountancy sector emerges from the use of different vendor supplier products. The number of vendors is limited and cohesion between tools developed by different third parties is often difficult. Vendors are under no obligation to make connections (APIs or connectors) with other third-party software available. This creates hesitancy to further purchase more tools as experiences in IT investment have not always met expected gains in productivity or profitability. This is the largest issue experienced by mid-sized firms in the accountancy sector and presents a fundamental barrier to adoption.

Skills

Recruitment and retention challenges.

44. Mid-tier accountancy firms play a vital role in supporting and advising businesses across every part of the country. They are crucial in enabling productivity and economic growth across the entire economy. In research carried out this year by ICAEW, more than half of mid-tier firms cited talent shortages as a macro trend driving change in the profession. 70% of firms listed a talent-related issue as their highest concern and a further 18% listed it as one of their top two.

45. This trend is common across Western developed economies. In the United States over 75% of CPAs reached retirement age in 2019 and the US is lacking 340,000 accountants alone. Skills shortages are also common in Europe; Accountancy Europe is currently conducting research in this area to quantify these. The UK has been fortunate to have attractive accountancy sector qualifications, which are a route into wider roles in the economy and where students can study while working without the prerequisite for a degree. These factors are not the case in many advanced economies. Access to the profession has been further strengthened and extended by the Apprenticeship Levy, which currently covers level 7 professional qualifications such as chartered accountancy. In a world of skills shortages in advanced economies this should stand the UK in good stead. However, as we have stated in an earlier answer, the model would be threatened by the restriction of level 7 apprenticeship funding.

46. **Perception of the sector:** We believe this factor needs to be given greater attention, it is a major concern of many strategic sectors. The reality is that perceptions matter, particularly when coupled with poor career advice and planning. An early action for the strategy could be investment into school careers services, which have been defunded in recent years. Every young person should have a clear roadmap, guidance and support into the areas where they can best match their skills and interests with the needs of the economy. The reality is that roadmap is not clear to far too many young people and with modern technology there is no excuse for this.

Use of data

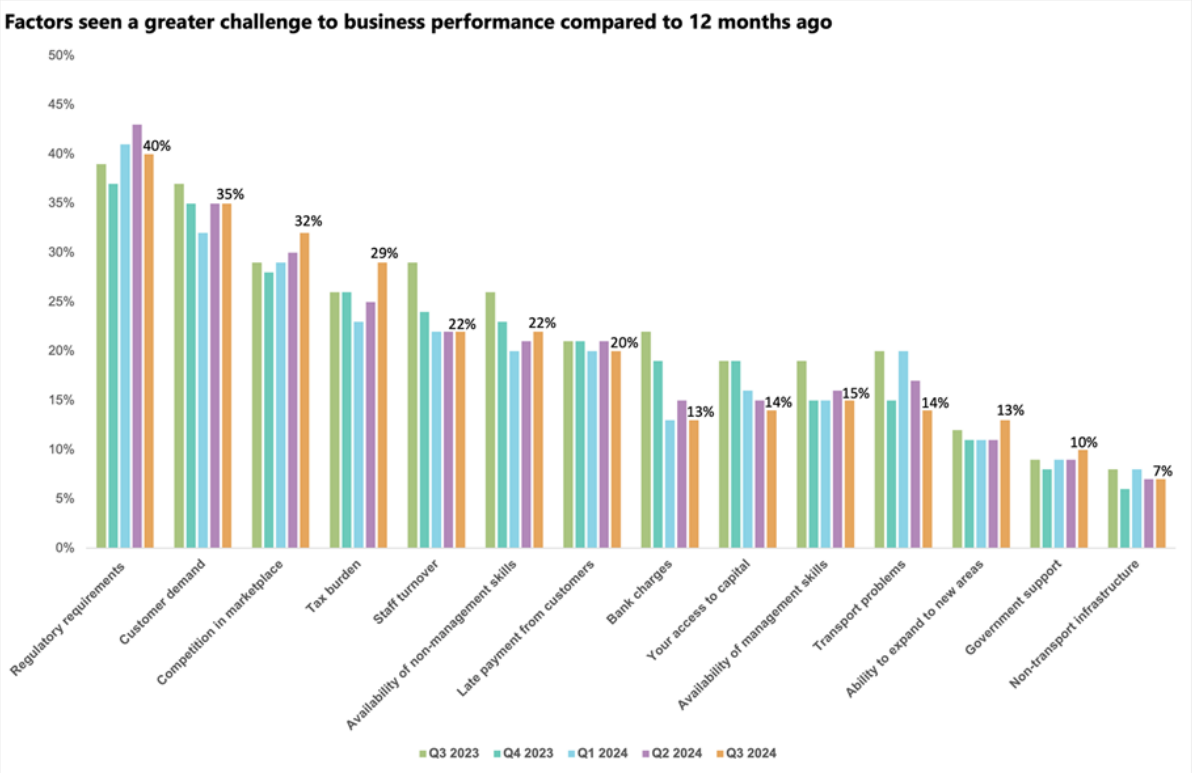
47. **Local infrastructure and place branding:** The accountancy profession has been a strong factor in local growth of high-quality jobs. For example, since PwC's Bradford office opened in 2019 the team has grown by 174% and it has recently become an anchor tenant at the city's Anchor Park with a new 27,050 sq foot office space. Accountancy firms are already place makers in cities across the UK and there is scope here for further regional expansion. We believe a key part of the industrial strategy could be in working with professional services firms in place making.

48. To enable regional investment the Industry Strategy will require reliable regional data to enable performance to be measured. The regional element is one example of why reliable and targeted data will be crucial to the success of the strategy.

BUSINESS ENVIRONMENT

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

49. ICAEW's Business Confidence Monitor (BCM) is of the UK's largest and most comprehensive business quarterly surveys, providing a key barometer of business conditions, sentiment of business leaders making employment, export and investment decisions and the current and future health of the UK economy. BCM has been running since 2004, thereby providing longevity, consistency and an ability to identify long-term trends and subsequent valuable insights.
50. BCM consistently show two factors as leading indicators acting as barriers to investment: certainty in policy and regulation (reflected in regulatory requirements and customer demand) and skills (reflected in staff turnover and availability of management skills).
51. In our last BCM, covering quarter 3 of 2024, regulatory requirements continue to be the most widely reported challenge by businesses and are most prevalent in the sectors of Banking, Finance & Insurance, Transport & Storage and Business Services.
52. The most notable change to the challenges reported by businesses in Q3 2024 is the rise in the proportion citing the tax burden. In Q3 2024, 29% of businesses raised tax as an issue. This matches the historic rate for this response.
53. Taken together, these factors indicate a general and growing concern that the cost of doing business is increasing and subsequently acting as a drag on growth. In our ICAEW Manifesto published before the 2024 General Election, we highlighted concerns about regulations relating to banking arrangements which are acting as a real and tangible drag on business start up and scale up. We cited a member working in logistics who stated: "setting up a bank account for a small business is almost impossible – you can register a company in 10 minutes, find a client in a week, but it takes three months to open an account."
54. Regulation remains at the heart of these concerns, and the Industrial Strategy needs to demonstrate how policy stability and reduction in policy churn will help to encourage business investment and growth. In particular, we would recommend that government could use the Sector Plans and related sector councils such as the Professional and Business Services Council to focus on improving regulation to remove burdens on business and thereby strike out obstacles to growth. We would urge such an initiative not rely on gimmicks seen previously such as the 'one-in-one-out' approach to deregulation, but a genuine and focused attempt to highlight which regulatory burdens could be removed to boost growth.



55. Our Business Confidence Monitor also demonstrates the importance of long-term consistent data in understanding policy challenges and interventions. We therefore believe that in addition to specific interventions to provide certainty and stability and develop skills, the third crucial factor for the Industrial Strategy should be in making good use of data to measure barriers to investment and prioritise interventions.

56. **Certainty and stability:** The overarching concern that we hear from ICAEW members is that they want an economy underpinned by certainty, clarity, stability, as well as the right incentives they can rely on for the long-term to influence investment, employment and growth. There is a desire to see the government follow through on its existing policy commitments, finish projects that have been started, and invest sufficient resources in government departments and the private sector to deliver this. Fiscal policy needs to support this with an objective of putting the public finances on a sustainable path, prioritising long-term stability over short-term volatility.

57. Our members have seen too often either the lack of a clear strategy for core business enablers or that policy and incentives change too frequently. This has a chilling effect on investment; the BCM shows that companies are still downbeat about their investment plans over the next 12 months. High borrowing costs and a degree of economic uncertainty is likely feeding into concerns about the likely return on investment. This means that companies are planning to cut investment growth to 1.9% over the coming year, dropping below the historical average of 2.1%. This is a concern, given that the country's economy needs business to invest for growth. The industrial strategy therefore needs to set out long-term commitment to policy stability and provide certainty across the investment horizon.

58. One member running a large business in the renewable energy sector told us that "uncertainty is a killer. We need certainty that there will be continuity of policy". A member running a life sciences business told us that the recent election and strong government majority was positive as it had reduced uncertainty, with the result now being the UK could be seen as the "most boring" major economy, with a 3–4-year period of strong political stability ahead. Businesses hope this will translate into a stable policy framework.

59. **Skills:** As we have noted in earlier questions, our members tell us that access to appropriate skills is one of the largest challenges to turning business potential into reality. As the high-tech economy of the future will rely ever more on high-level skills, skills will become an even more critical determinant of economic performance. There are currently two fundamental

issues that members experience, first is in attracting young people into careers in productive sectors in the first place. Sectors including construction, manufacturing and our own sector, accountancy find that young people are often uniformed about the opportunities on offer or have an unrealistic expectation about where productive and rewarding work can be found.

60. As one member told us: “A major concern is labour supply and the ability to fill vacancies. A shortage of engineering skills makes delivery of projects a challenge and has the potential to drive inflationary pressures.”

61. As technologies become more complex, the path from school leaver to skilled worker becomes harder to plot. World-leading qualifications like ICAEW’s ACA help to provide the skills the economy needs. Action is needed in the industrial strategy to enable every individual to see clearly the skills and qualification pathways into the sectors that need talent for growth.

62. To measure this the industrial strategy should include a KPI to track the proportion of individuals who hold a technical qualification as their highest educational attainment. This metric was reported by the previous Industrial Strategy Council which revealed that the UK has one of the lowest performances in the OECD. This needs to be addressed if the UK is to focus on growth.

63. **Data:** We believe a central role of the new Industrial Strategy Advisory Council should be to set a small basket of well-defined metrics and to monitor performance against these. ONS data should be the starting point for these metrics, but there needs to be an appropriately skilled and resourced team to develop the data to ensure a high level of accuracy for the required purpose. Those metrics should measure specific barriers to investment, and monitor performance against them.

64. In addition to these three fundamental points, there are several other important factors which government policy and industrial strategy could address:

65. **Tax:** The tax system, which could encourage productivity, is too complex, and creates disincentives to growth and investment by distorting long-term decisions. The Business Tax Roadmap gives an opportunity to look holistically at the tax base to identify areas that are holding back business activity and growth as well as identifying potential tax policy options. The roadmap is key for delivering greater certainty and enabling businesses to undertake scenario planning of their own to invest with greater confidence. ICAEW’s Tax Faculty will be responding separately to the consultation on the Business Tax Roadmap.

66. **Resilient institutions:** Strong resilient institutions, underpinned by a robust corporate governance framework, provide the certainty to attract investment. During its last iteration, for example, the Industrial Strategy Council lasted less than two-and-a-half-years. In ensuring that the industrial strategy helps to reduce policy churn, it should encourage the setting up of long-term and resilient institutions which businesses know will be longstanding features of the UK business ecosystem. Putting the Industry Strategy Advisory Council on a legislative footing, and thereby making it difficult for any subsequent government to abolish without taking parliamentary steps to repeal it, is a positive step in this direction.

67. **Infrastructure:** To support the Industrial Strategy the government should set out strategies for planning reform, housing, infrastructure, energy security and transport. There is a need to investigate barriers to infrastructure investment in pension fund risk profiles.

68. Members in Wales told us of persistent delays to critical infrastructure decisions. These included the decision to terminate electrification of the rail mainline at Cardiff, scrapping of the M4 relief road scheme and the current Severn Barrage Commission, which is the latest in a long history of such projects, none of which were approved for construction.

69. A member in the renewable energy sector in Scotland told us “business is ready. We have the plans to build, own and operate next generation tidal turbines. The state needs to be bolder and remove unnecessary bureaucracy that results in months/years of conversations. If the [government] wants the UK to deliver X energy, then lead on it.”

70. Another member in the energy sector said that the priority for many firms has to be on “realising and developing the once in a lifetime opportunity that the creation of renewable energies presents. [In Scotland] we have Cromarty Greenport- it has the facilities, location

and size to become a renewables hub of Europe. This has potential to be larger than North Sea oil, however it is held back by things like housing, transport, joined up strategy and working between stakeholders, lack of government leadership etc".

71. This is what a characteristic of a successful industrial strategy could bring. It could provide the means to provide policy stability and through strong political leadership give businesses and investors a clear direction of travel, while working closely with stakeholders in the private and public sectors to unlock blockages

72. **Investment in place:** Cluster status for cities and regions to champion technologies would enable better integration and targeting for existing government interventions including Local Skills Improvement Plans, freeports and investment zones and R&D investment. We understand that grid connection is a key consideration for some high growth enablers, such as data centres. Therefore regional strategy should identify and integrate relative strengths in skills, knowledge, institutions and infrastructure.

73. **R&D:** This green paper rightly identifies that persistently low investment UK has been one of the reasons for poor rates of productivity and economic growth. We welcome the government's manifesto commitment to "meaningful partnerships with industry to keep the UK at the forefront of global innovation". Government plans to scrap short funding cycles for key R&D institutions in favour of ten-year budgets is also welcome and much needed. A firm commitment to ensure 3% of GDP is spent on R&D is also required, as well as a roadmap for achieving this, including levers relating to regulation and taxation and support from HMRC.

74. We believe that an overhaul of the government's guidance on R&D tax relief, along with a commitment to update the guidance regularly to reflect new technologies, will help to embed the merged R&D relief rules. This guidance needs to be developed in consultation with businesses and advisers to reflect real-life examples of qualifying R&D projects across a range of industries.

75. Incentivising R&D is inseparable with innovation. We therefore welcome the government's commitment to maintain the current structure of R&D tax relief over the next parliament, which we believe will provide much-needed stability and certainty. More attention is needed however to power an innovation-led modern economy. The Royal Society, for example, shows that R&D claims from businesses registered in the North East were, at £85m, only 7% of the £1,140m in 2015-16 in London. Given that the North East invented railways, light switches and dry photographic plates, the government should use the opportunity of its first Budget and commitment to an industrial strategy to ensure that the North East and other regions can be as innovative and world-changing in the 21st century as they were in the 19th century.

76. HMRC have reported a reduction of 23% in the volume of R&D tax credit claims in the SME scheme for the tax year 2022 to 2023. This is despite a 1% increase in the overall value of R&D tax support. There has been a reduction in the average number of claims up to £15,000.

77. One member in a large life sciences business told us that their business typically submitted significantly more information than required to support claim applications to reduce the risk of delays in processing. This approach ensures that the business has more chance of success, but it also increases regulation, causes delays and inefficiencies and deters claims, thereby disincentivising innovation and growth. Although they had not experienced delays themselves the business reported industry "horror stories of HMRC not understanding the details and holding up a claim". Such difficulties are more problematic for smaller and medium-sized businesses.

78. Regional R&D investment should also be measured. We have concerns that the current regional data is inaccurate as it is based on registered office location. This does provide a complete picture of where and in what form R&D is taking place. A core task of the industrial strategy should be to produce higher quality data in the areas being monitored.

79. **Access to financial advice:** Our members state that the blockage to accessing finance is not the quality of the business, but the quality of the application for finance. The government should explore a new version of the Growth Voucher Scheme and consider supporting more

bespoke resources to facilitate scale-ups in the UK in order to ensure access to financial advice is more readily available.

80. **Green finance:** We support the government's manifesto commitment to making the UK the green finance capital of the world. The City of London is well placed to be the world's leading gateway to green finance; it is vital we keep pace with the regulation and market innovation needed to service these opportunities. It is positive that the UK has developed a Transition Plan framework and was an early leader in carbon reporting, but not that we have yet to agree a green taxonomy or to adopt international sustainability reporting standards.

Business Environment – People and Skills

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?

People and skills barriers in the accountancy sector

81. To contribute to DBT's analysis we provide here an analysis of people and skills barriers in the accountancy profession. There are four main areas that we would highlight.
    i. increasing the mobility of professional qualification holders – both into the UK and exporting from the UK.
    ii. developing the current apprenticeship schemes.
    iii. employer involvement in degree schemes.
    iv. digital upskilling.

Mobility of professional qualifications

82. It is very important for government and statutory regulators to boost the mutual recognition of professional qualifications between the UK and other countries to ensure that UK employers have access to the knowledge and skills they need to deliver and grow professional services and enhance the economy.
83. In this area, we welcome DBT's now well-established grant scheme to support professional bodies and regulators in forming international recognition agreements with their counterparts. We would like to see this scheme continued and expanded.
84. DBT and FRC have made some welcome progress in signing audit qualification recognition agreements with other countries to improve mobility (EEA EFTA, New Zealand, Australia, Switzerland) but there is much more to do in this area, most fundamentally with the larger economies. Where there is not an FRC agreement in place, an overseas auditor (however senior and indeed who may be an international expert on a particular industry) faces an onerous UK requalification process gaining further work experience here and passing exams from the initial qualification of a UK Recognised Qualifying Body. This degree of requalification is inappropriate in a modern economy and is economically sub-optimal, especially given the shortage of auditors in the UK at the moment.
85. Countries where audit qualification agreements are badly needed include the US, India, South Africa and the Philippines. It would also be very beneficial – and natural – to reactivate through the Trade and Cooperation Agreement (TCA) the levels of audit and professional qualification recognition between the UK and the EU that was present when the UK was an EU member state and came under the mobility provisions of the Statutory Audit Directive and the Directive on the Recognition of Professional Qualifications. Little has changed educationally since Brexit: this is therefore essentially a political decision to take. We have dealt with some of our members recently who are now facing disproportionate requalification conditions in EU member states (for instance in the Netherlands having to gain a relevant Master's degree) where previously they would have faced a quick and simple test in local tax and law only. UK employers cannot hire EU professionals without contemplating similar UK barriers.

86. The MRPQ chapters within FTAs are important, although in practice may merely be a different route to requiring FRC to deliver an audit qualification recognition agreement.
87. Regulatory culture change is also needed. It is important that the UK becomes attitudinally more open to recognising professionals, including auditors, who qualified in other countries. Part of this change is legal change, for instance the Companies Act, 2006. There are two dimensions to this. Sometimes it may be necessary to amend the actual wording of the law. An example here is how DBT is currently amending 9(4) of Schedule 11 of the Companies Act to allow US auditors and auditors from selected other countries to supervise qualifying experience for a UK audit qualification.
88. But other times there is a quicker way to the goal, which is for government and FRC to agree that formal change to the law is not needed but a new interpretation needs to be placed on existing legal wording to operate the existing legislation more flexibility. An example here is the level of reciprocity that the UK expects to receive when entering into an audit qualification recognition agreement with another country. The UK currently will not enter into an audit qualification recognition agreement with another country unless that country agrees to recognise all the UK Recognised Qualifying Bodies. We think this is an unnecessarily high threshold which prevents agreements being signed with some big economies, for instance the US and probably also India. We believe it should be sufficient if the other country agrees to recognise some UK RQBs –indeed, this is how we interpreted the relevant clause in the existing UK legislation (s1221 of the Companies Act, 2006).

Apprenticeship schemes

89. To address barriers related to skills provision, UK government policy could benefit from a targeted reform of the apprenticeship system to ensure greater relevance and flexibility. By involving employers of all sizes directly in the design of apprenticeship standards, programs could be more closely aligned with the rapidly evolving skills required by in demand sectors. Through collaboration with industry bodies, employers can help shape apprenticeship content to meet current and emerging sector needs. Government policy could facilitate this by creating frameworks for industry-led input, ensuring that apprenticeships remain agile and responsive to changes in technology and regulation. Additionally, simplifying the apprenticeship system, with streamlined administrative processes and clear guidance for employers, would make it easier for companies, particularly smaller enterprises, to engage in skills provision and development.
90. Currently, employers are involved in the apprenticeship design process mainly through consultation with industry bodies and participation in government-led initiatives run by the Institute for Apprenticeships and Technical Education (IfATE). Employers also contribute by offering apprentices on-the-job training, ensuring that apprentices acquire practical skills within real-world business environments, which complements their formal qualification. However, despite this involvement, employer influence is often limited to periodic feedback rather than direct, continuous engagement in the design, development, and updating of apprenticeship content.
91. To make employer involvement more impactful, employers could take on a more active, ongoing role in both the development and review of apprenticeship design. One way to enhance this involvement is through industry-specific advisory panels that regularly meet to update apprenticeship standards, responding to shifts in skills demand driven by regulatory changes, technological advancements, or economic factors. Employers could also contribute more substantially by leading workshops, participating in skills assessments, and collaborating directly with training providers on program delivery. This would ensure that apprenticeships reflect the latest industry practices and technologies.
92. Through these enhanced avenues of participation, employers would not only help shape apprenticeships to align with sector's needs but also strengthen the link between education and industry, ensuring that apprenticeship programs remain adaptable, relevant, and effective in providing skills that drive growth in the economy.

Employer involvement in degree schemes

93. The third item is degree schemes: the importance of the HEI sector working in partnership with employers and professional bodies to create degree programmes that encourage widening participation and lead to employment upon completion.

Digital upskilling

94. Fourthly, Government estimates of the cost of the digital skills shortage in its 2022 Digital Strategy was ~£63 billion per year. The annual Consumer Digital Index, published in 2023 found that 7.5 million people, or 18% of UK adults, lacked the essential digital skills that are needed for the workplace. ICAEW research into Mid-Tier Accountancy practices found 31% of respondents referenced introducing, understanding, and keeping up with technology as the key challenge facing their firm.
95. Improvements to apprenticeships could address the shortage of non-management skills and develop skills in target industries including engineering, manufacturing and digital. Skills England appears to be aiming to support this goal, noting that the apprenticeship scheme needs to be flexible enough to enable employers of all sizes to adopt apprenticeships and give flexibility to train staff in areas where there are skills shortages or emerging skills are needed.

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

96. First, from an MRPQ perspective, employers will need to see an acceleration in the number of audit recognition agreements, particularly focusing on those countries which major UK employers want qualification holders from.
97. Employers will need to see swifter development of recognition agreements as the present process can take many months or even years.
98. Employers will also need to see that those agreements which are signed are more straightforward to operate as currently there is too much complexity and bureaucracy. To give an example, we have had two queries recently from our members with the UK audit qualification who did not hold “RI” status which is required under the FRC audit qualification agreement with Switzerland. We are having to explore the possibility of their setting themselves up as sole practitioners (with no intention of signing a UK audit report) in order to get RI status to satisfy the wording in the agreement.
99. Where an agreement is signed, it would be much more helpful to employers if the audit recognition agreements allowed experience to be retrospectively recognised rather than requiring experience to be gained going forward from the signing date. The current approach effectively puts a two-year delay on what are probably going to be the majority of applications as it seems most applicants do not currently hold audit rights in their home country because they have been in the UK for some time (and therefore have to go down the specified adaptation route not the aptitude test route).
100. It is important that MRPQ chapters within FTAs commit regulators to delivering meaningful recognition within an ambitious timeline and avoid the situation of hopeful FTA announcements which then do not translate into genuine mobility for professionals. One technical aspect that needs to be considered here is how a migrating professional will satisfy the local recognition conditions that are set by an agreement, normally an aptitude test in local tax and law. It is important that this conversion test is available regularly, not just once a year, and that there is tuition available.
101. Secondly, to foster a step change in employer investment in training within growth-driving sectors, it is essential to involve employers of all sizes directly in the design of apprenticeships. When employers play a significant role in creating apprenticeship standards, the resulting programs are better aligned with real-world industry needs, ensuring that apprentices gain relevant, in-demand skills. This collaborative approach allows apprenticeship programs to adapt quickly to sector-specific requirements, such as digital

finance, sustainability reporting, and regulatory compliance, making them more attractive and valuable for both employers and apprentices. With employers actively shaping these programs, apprenticeships can better reflect the technological advances and regulatory complexities shaping the finance industry.

102. Increasing tax incentives for employer-designed training programs would further stimulate firms to invest in skill development. When companies contribute to the design of apprenticeships, they are more likely to invest in the training itself, seeing it as directly beneficial to their operational goals. By offering enhanced tax relief for businesses that participate in co-designing training for emerging fields like fintech, sustainability, and data-driven finance, the government can create a compelling business case for companies to engage actively in skill development. Tying these tax benefits to the successful completion of sector-relevant certifications, which employers have helped to shape, would ensure that incentives lead to impactful, applicable skills.
103. The apprenticeship levy's application could also be broadened to support employer-designed training that meets both general apprenticeship criteria and sector-specific needs. Currently, the levy's use is largely restricted to standardised apprenticeships, which may not always fully address evolving needs in specialised areas. Expanding the levy's flexibility to allow for employer input into customised apprenticeships would encourage companies to invest in developing programs tailored to their specific operational requirements, making apprenticeships a more central part of workforce development in high-demand areas. Additionally, allowing firms to transfer unused levy funds to smaller companies within their sector, especially if these funds are used for apprenticeships designed by sector-leading employers, could foster a more uniformly skilled workforce across the industry.
104. To increase employer investment in training, particularly through apprenticeships, the apprenticeship system must become simpler and easier to navigate. Many businesses, especially small and medium-sized enterprises, find the current system complex and challenging to engage with due to administrative burdens and rigid requirements. Streamlining the application and management processes for apprenticeships, including reducing paperwork and providing clear, centralised guidance, would make it far more accessible for employers to participate. Simplified systems could also involve a digital portal that consolidates information on available funding, relevant training providers, and program standards, making it easier for companies to find and implement the right apprenticeship schemes. Additionally, introducing a dedicated support service to help employers navigate these processes, particularly for smaller businesses with limited HR capacity, would further encourage more companies to engage with apprenticeships as a viable path for workforce development.
105. Finally, lifelong learning incentives with a focus on employer-designed content would support continuous upskilling and reskilling in growth sectors. A government-backed fund could enable businesses to co-create lifelong learning programs that align with industry standards and evolving practices, particularly in areas requiring ongoing adaptation like compliance, digital finance, and sustainable investing. By supporting employers who develop or co-develop continuous professional development programs, particularly in areas like data analytics or ethical AI in finance, the government can encourage a culture of skill evolution. This approach ensures that apprenticeships and ongoing training remain relevant to the industry's dynamic demands, fostering a workforce that is prepared for future sector shifts. An IMF report found that the UK skills gap remains more pronounced than comparable EU countries and that nearly half as many UK adults are in further education (apprenticeships, community learning, or other training) than in 2012. The EU has a patchwork of grants, which are being utilised to upskill domestic labour including the Digital Europe Programme, European Globalisation Adjustment Fund for Displaced Workers, Erasmus + and InvestEU which may widen the gap.
106. ICAEW would encourage employers to seek innovative ways of working with FE and HE sectors locally to create programmes that lead to positive employment outcomes for young people, such partnerships would be strengthened by the support of professional bodies through accreditation of qualifications and recognition of relevant work experience. The

"Flying Start Programme" is one such example of a tripartite arrangement between PwC, ICAEW and several universities across the UK, where students are recruited by both the employer and university to complete an Accounting and Finance degree that includes maximum credit for prior learning, the chance to sit professional exams, a paid placement every year of the degree and the guarantee of employment for those students achieving a 2:1. This programme is driven by a commitment to widening participation and metrics are closely monitored to ensure the programmes encourage diversity and inclusion. Our view is that many other universities would welcome the development of similar programmes that allow for the fast track of a professional qualification within a degree if they had the backing and sponsorship of an employer.

Business Environment - Innovation

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

107. The latest ICAEW BCM survey from Quarter 3 2024 reflects a bleak outlook for R&D expenditure: R&D budgets declined for the second consecutive quarter, falling below the historical average (1.9%) to 1.7% in the quarter. Businesses expect this trend will continue, with a projected increase of just 1.2% over the coming year. This is something which the green paper rightly identifies as something to address in the industrial strategy.
108. To support the 3% of GDP target, the government will need to ensure that incentives between HMRC and DBT are aligned so that there are clear guidelines and visibility on what qualifies as R&D. To make appropriate investments, companies need certainty and stability. This is particularly essential for micro and smaller companies.
109. The government should also invest in HMRC to bring in technical capability to make judgements about R&D tax incentives and review of HM Treasury's ability to provide more targeted assistance as appropriate. This is needed to support growth areas like life sciences, advanced manufacturing and digital technology. The Small Business Commissioner should also be equipped to investigate barriers to R&D following publication of the Industrial Strategy.
110. Extra support could also be directed towards sectors that the government wishes to encourage, such as climate change and nature loss, given they are an economic objective. This will help to distribute skills, infrastructure and investment more evenly across the UK. Investment in net zero is one of the biggest growth opportunities for the UK and can play a key role in reducing persistent regional economic disparities; as we have seen from Members' comments, the North East of England, Humberside and Scotland may have the greatest potential as hubs and clusters of clean growth industries.
111. We would also emphasise that the government has the data to answer this question. Between the grants and tax incentives taken on by firms, their tax payments and filings in Companies House, the Government could identify where R&D investments or incentives have provided the greatest growth. Consideration should be given as to whether R&D policy goals are best achieved through tax incentives or grants, or other mechanisms. Coupled with data on the levels of abuse and other unintended consequences of these mechanisms can then also inform how to mitigate these consequences.
112. To support the devolution goals of the government, collaboration or devolution of grants could support regional growth based on the needs and strengths of UK regions. It may also make some regions more attractive to businesses to start operations.
113. Government needs accurate data to monitor the performance of R&D, which also includes regional R&D performance. A core action of the industrial strategy should be to provide reliable data.
114. The government must also recognise that many micro and small companies simply do not have the capacity to innovate or implement new technologies. The West Midlands CA references in its draft consultation response the low levels of business leadership and management qualifications in that region, although this is a general structural challenge across the country, and states that this leads to a lack of "absorbative capacity". We would

urge the industrial strategy to consider how best to ensure small companies who are time poor and with little resource or capacity can consider and deploy better management and leadership practices, tech adoption and improved processes.

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

Business Environment - Data

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

115. For the industrial strategy to be transformative, accountability is key. The previous Industrial Strategy Council was required to produce an annual report on progress, but this contained neither clearly defined and consistent metrics nor any financial information. We believe a central role of the new Industrial Strategy Advisory Council should be to set a small basket of well-defined metrics and to monitor performance against these. ONS data should be the starting point for these metrics, but key data points should be reviewed and may need to be further developed before being applied for decision making purposes.
116. Concerns regarding the accuracy of the ONS Labour Force Survey were expressed in a letter from the Treasury Committee on 21 November, and in case ONS compile many thousands of datasets. We would recommend the establishment of an appropriately skilled and resourced team to develop the data to ensure a high level of accuracy for the required purpose. The Industrial Strategy Advisory Council Annual Report should contain a targeted and consistent, independently assured set of metrics. Those metrics should include non-financial targets around sustainability and inclusivity. There should be KPIs based upon reduction of policy churn, as well as for skills.

Use of government data

117. The government holds huge amounts of data, but often doesn't use it to publish insights. We would caution that:
    - Reporting and publication of data should not divert public services' resources away from delivering these resources. It is more important that the public sector operates effectively than data availability.
    - Anything that is reported needs to be timely and that timelines are measured. We note that some of the statistics presented to support the thinking of this strategy are half a decade old or older. Data and reporting lose their usefulness over time so that while data and measurement can support and measure the success of the strategy, both the private and public sector should have their decisions informed by as close to real time information as possible.
    - The government will need to be clear about what the data is for and how firms might benefit from it. Data that is collected by the government should be reviewed and considered as to how it will benefit those reporting it. This creates a virtuous cycle where reporting is not solely a burden that organisations must do, but something they receive benefit from it.
118. We find that the following insights would be most beneficial:
119. **Facilitating competition** - Economic benchmarking of sectors, including profitability by size, the government incentives they use (e.g. R&D, Upskilling funding, Apprenticeships Levy) and regions they have operations in. This could be generated by data already within Companies House and HMRC and supplemented by data in other departments. Businesses want to know how they compare to their competitors; the previous government's Business Productivity Review highlighted that one of the characteristics of high productive firms is that these entities benchmark their performance against their peers. By facilitating easier benchmarking, firms will be better incentivised to increase productivity, or develop innovative products.

120. **Service standards adherence** - where public services or utilities are provided, tracking of usual timelines, success of applications or operations and rejection rates or broader failures will help inform the PBS sector in parts of their advisory roles. For example, timely information of carbon emissions will inform investments which support the net zero transition.
121. **Improved and standardised local government sharing** – Local government shares a lot of data with the national government, on matters such as waste and energy, but this is not used effectively. We would encourage the government to facilitate the sharing of costs broken down by services can also foster better use of local government funds and collaboration across localities. For example, sharing of data on costs of road maintenance for example would facilitate knowledge exchanges between councils to maximise efficiency of public spending. This also will support the government's ambition to devolve more powers to local authorities.
122. Further to this, silos of data within government should be reviewed and removed where appropriate. Ultimately, the government will have the best view of what data it holds and by allowing more sharing it will find more insights that can inform policy decisions, or even insights which would be beneficial to be published. This sharing can then also inform the development of data sharing and API standards which will be critical foundations to a future open data ecosystem. The Data Use and Access Bill is a good foundation, but the opportunities for smarter government and a more agile economy will be based on a much broader open data ecosystem.

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

123. Barriers the government could remove or mitigate to support businesses, including accountancy practices, are:
124. **Consolidation of reporting and single points of contact:** There is duplication in information which is reported to government entities which generates an administrative burden, for example filings to Companies House and HMRC. The government should seek to find ways to allow public services to be accessible in a single "one stop shop" where information provided is then fed into the correct entities. A digital identity, referred to in an earlier question, may help to facilitate such a mechanism, and we reiterate our recommendation that government considers issuing a consultation on this matter.
125. **Facilitation of Smart Data Frameworks:** The Government will also need to develop Smart Data Frameworks with industries to support sectoral and industry wide data sharing. A key one for accountancy will be for identity verification services to support the digitisation of the tax system and to support e-invoicing. Research by Sage found that e-invoicing in Europe could unlock an average of €13,500 in savings for EU SMEs.
126. **Regulatory consistency:** Access to this data will allow for better utilisation of analytics and application of AI to generate insights. We were supportive of the 'pro-innovation approach' proposed by the previous government on regulating AI. We were particularly supportive of its ambitions, the proposed guiding principles, having a central coordination function for regulation, and the introduction of sandboxes. However, to make this approach a success, we recommend that the government provide greater insight into how the approach will work in practice, make explicit what some requirements will be to increase certainty, provide greater funding to regulators to give them greater access to expertise and upskilling budgets so they can be effective at regulating the technology and to align better with the EU approach to avoid further complexity and barriers to firms deploying the technology.
127. **Digital skills:** Lack of digital skills is a barrier to businesses and government making best use of data and therefore on making it more widely accessible. Without these skills, available data may be of poor quality, untimely, and difficult to use by businesses. The Government estimated that the digital skills shortage was costing the UK economy ~£63 billion per year in its 2022 Digital Strategy and the annual Consumer Digital Index, found that 7.5 million people, or 18% of UK adults, lacked the essential digital skills that are needed for the workplace in 2023.

Business Environment - Infrastructure

14. 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?

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?

Business Environment - Energy

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

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

Business Environment - Competition

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

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

128. While a good regulatory environment is conducive to investment and growth, the increasing volume of regulation and number of regulators are burdens that are adding to the cost of doing business and subsequently discourage investment. As stated earlier, in ICAEW's most recent BCM survey, 40% of businesses cited regulatory requirements as a growing challenge. The disparate nature of information available on who are the UK's regulators and how much they cost makes it difficult to assess whether, collectively, they are contributing to UK productively and growth as effectively as possible.
129. We strongly support the green paper's analysis which states that a central factor that industrial strategy should address is slowing market dynamism. We would urge the government to ensure that prioritisation of growth sectors, while very welcome in targeting investment and facilitating higher rates of growth, should not slow down dynamism or protect incumbents from challenge and competition. We support the sentiments put forward the OECD, which stated: "Policies should aim to boost market dynamism through the diffusion and adoption of technology and intangible assets, especially by young productive firms. This includes facilitating the entry and growth of productive firms, for instance through access to finance, whilst allowing the exit of unproductive firms to foster creative destruction. Innovation policies should be inclusive, targeting all firms - including entrants—and not only incumbents."

Business Environment - Regulation

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

130. A key point to consider in regulatory reform is around the approach to new technologies. We illustrate this with some examples from the accountancy sector:
131. **Artificial Intelligence** – The government should quickly provide details of how the central functions identified in the AI regulation policy paper will be set up and how they will operate. This will help alleviate business concerns around working with multiple appropriate regulators including duplication, contradiction and remits that are not covered. We are pleased to have seen the recent publication of the AI Management Essentials toolkit and believe it is a step in the right direction.

132. Equip the regulator with powers to institute an independent, third-party review of AI use where a public interest case is met.
133. **Third parties and ecosystems** - Increasingly firms are relying on technology ecosystems such that regulated activities will be falling outside the regulators perimeter. This creates a dynamic where firms are accountable for the actions of another party. This is a dynamic has already acknowledged in the Financial Services and Markets Act and is being taken forward by HMT and the financial regulators with their approaches to critical third parties.
134. **International alignment** – Digital technologies are global in nature, enabled by the internet. Diverging global rules governing technological development and use can impact the level of technology adoption in different jurisdictions. We are seeing this risk emerging in AI, with the AI Act in the EU and the relevant presidential executive order in the US taking differing approaches to the responsible use of AI. Regulatory coherence seen as a key enabler for adoption and having a different regulatory regime could make the UK a less attractive market for technology companies to roll out new products and for investors looking at UK accounting tech startups.
135. This also applies to using third parties where the jurisdiction of regulators tends not to be extraterritorial. In the context of tech companies, this makes using a US tech company when operating in the EU more difficult due to differences in privacy and data protection rules. Firms having to prove compliance is also becoming more burdensome as all companies are becoming increasingly digital.
136. **Software for recording, transcribing and summarising meetings** – There is an emerging concern that the transcriptions or recordings will enter the scope of investigations. At present minutes of meetings for traceability of decisions are deemed sufficient as evidence and do not include the same level of detail as a recording or transcript. This benefits the discussions leading to decisions as individuals do not fear wording may be misconstrued as something that may constitute a regulated activity. For example, an auditor in a meeting stating that an audit in progress is ‘doing ok’ as saying that the audit will say everything is in order as opposed to the audit running on time. This has a chilling effect for firms which would otherwise reduce administrative burden of minuting meetings.
137. Increasing certainty of what may or not be permitted under data protection rules in the context of emerging software, particularly AI, is a consistent theme. We have heard of cases where partners of accountancy practices not recording and using software to transcribe meeting notes due to GDPR while the practice does occur in law firms.
138. Further uncertainty of whether regulators expect firms to hold onto recordings and transcripts longer than their current data retention policies also makes firms less likely to adopt these technologies.

Business Environment – Crowding in Investment

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

139. ICAEW members are at the forefront of business investment decision-making. Their training and experience enables them to identify the need for, appraise and finance investments.
140. In a 2024 KPMG survey , UK CEOs identified the risks to their businesses’ growth over the next 12 months as relating to cyber security, supply chains and emerging technology. Accordingly, the CEOs’ investment plans are to advance digitisation within operations, and to unlock talent (by accessing the right talent and investing in lifelong learning).
141. The survey’s responses provided indications aligned to some proposed growth-driving sectors. For example:
    - In Infrastructure and Transportation, GenAI is a top investment priority (68% CEOs) while 93% CEOs plan to increase headcount over the next 3 years (but see note* below).

- In Technology and Telecoms, 78% CEOs say that GenAI is a top investment priority.

142. The survey, and the plans to increase headcount, preceded the changes to employer national insurance and the national living wage announced in the Autumn Budget 2024. ICAEW members surveyed after the Budget reported likely adverse changes to staffing such as reviewing recruitment of school leavers, reducing staff pay awards and delaying recruitment.
143. Another survey in 2024, from Deloitte , indicated that UK CFOs targeting productivity growth, business performance and competitiveness, expect to increase investment in
    - digital technology and assets; and
    - in workforce skills.

    rather than in physical technology and assets.
144. Fiscal policy can influence investment as seen with the 100% capital allowances during COVID-19, and full expensing for EV charging points. However, for smaller businesses and ones wishing to scale up, often it is cash flow that determines the ability to implement an investment decision. Rewards that provide an upfront cash benefit to such businesses are often more effective than credits and allowances that provide retrospective benefit. Small and medium sized businesses do not pay corporation tax until 9 months after the end of the accounting period, which could be quite some time after the expenditure was incurred. ICAEW has pointed out in relation to the capital allowances regime that even companies falling under the quarterly payments regime will largely need to wait for the tax cash benefit of allowances. Pre-profit and loss-making companies may never see the benefit because they have no profit from which to deduct the allowances.
145. The availability of infrastructure also influences business' investment decisions and can determine their implementation. Our members point to evidence in the growth-driving sectors of advanced manufacturing and clean energy where “infrastructure is not only the main driver of economic growth for countries and the most significant way of achieving the UN’s Sustainable Development Goals…”
146. Uncertainty over the direction of government policy and regulation can pause business investment, as evidenced by the contraction of SME new asset finance contracts just before the July 2024 election as well as investment levels just before vs just after the COVID-19 super-deduction allowance deadline. This should motivate the government to review business support and incentives in an holistic manner rather than making ad hoc and piecemeal changes. It should also use the opportunity to take forward any outstanding recommendations of the independent review into RDI.

Business Environment – Mobilising Capital

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?

147. Poor business awareness of funding options is certainly a factor. ICAEW plays a part in addressing through our Business Advice Service (BAS), which provides a free consultation to businesses seeking trusted business advice. This is a valuable source of advice for sources of funding as well as about high-quality, appropriate information that will meet the requirements of the funding source and help make a business more investible. For scale-up businesses, a barrier to investment is also lack of visibility of follow-on funding and capital that will support the growth journey.
148. An ICAEW member in Scotland reports that “[Supporting teams while growing business] has been a struggle in a small business that has had a hiatus due to process delays in funding. I am sure I’m not alone in this and all that the funding delays create is instability and uncertainty in the supply chain. You can keep a team focussed on moving forward for only so long before the lack of progression creates a situation where people seek greater personal stability.”

149. Our members in corporate finance report no shortage of equity for properly advised businesses that prepare quality financial information and have sound management and control systems, as well as the fundamental criterion of attractive growth propositions. Businesses tend to be more successful with funding applications made via accountants or other qualified advisers, as those intermediaries have a good understanding of the wider funding marketplace. There is significant value, therefore, for businesses to access expert professional advice.
150. However, the cost of tailored professional advice can be prohibitive, and the government cannot expect services like ICAEW's BAS and those of Chambers of Commerce to provide UK businesses with access to advice. There is a pressing need for growth vouchers, or similar, so that businesses need not be deprived of the benefits of expert, professional advice
151. Another barrier when seeking finance to scale up is the poor understanding of the value that is in the business, especially in its intellectual property, and in proving ownership. This is fairly common among AI and creative businesses. As described in ICAEW's recent evidence to the Digital and Communications parliamentary committee, "young businesses can often struggle to identify what to protect as IP. They often can recognise new innovations or new creative work as valuable assets but may find it harder to identify what distinguishes their goods or services from those of competitors, and what can be trademarked, for example – as IP".
152. Absence of interconnectivity of the factors that encourage growth is a further barrier to investment. The importance of investment in place, as seen in our response to question 7, is illustrated in the need identified by ICAEW members and their current efforts to set up the Reading Tech Cluster. The initiative aims to emulate the successful ecosystem in, for example, the hubs of London, Cambridge and Oxford for fintech, tech and life sciences.
153. Investors seeking to deploy capital can lack the skills and specialist technical and scientific knowledge required to understand businesses in growth driving sectors. According to the British Business Bank's Small Business Equity Tracker, "the sectors in which the UK has the largest gap with the US include life sciences, where the US raises 59% more investment, R&D intensive sectors (41%) and deeptech (27%). In these sectors, VC investment requires specialist technical and scientific knowledge as well as large pools of patient capital, areas which remain challenges for UK companies seeking to scale".
154. Enhancing and creating the interconnectivity mentioned above, including through investment in place, can create the right environment where opportunities for cross-fertilising of ideas and experiences among entrepreneurs and investors or for identifying adjacencies for expansion, can flourish.
155. Regulatory uncertainty is also a barrier to investors' deployment of capital. Recent examples of uncertainty that dampened investor appetite include the lack of detail provided regarding the regulation of AI; and the delayed decision on extending the sunset dates for tax-advantaged venture capital reliefs.
156. Investment in businesses in innovation-heavy sectors is especially risky and commitment is typically for the long term. This combination is unattractive to many investors but can be mitigated, for example where public funding takes initial losses and crowds in private investment.

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?

157. There appears to be little available evidence on the extent to which business support can promote business investment, and a literature review has identified this as a research gap. The literature review itself corroborates our members' experience, finding that 'the strongest available evidence shows that financial instruments (such as investment subsidies and

grants), regulatory frameworks and policy instruments that decrease costs of acquiring assets increase business investment'.

158. Long-term financial instruments are typically more suited to funding innovation and companies 'of the future'. This is because of lengthy pre-revenue, production and profitability periods. Research by ICAEW and the Institution of Engineering & Technology (IET) in 2017 illustrates this is pertinent for advanced technology companies.

Business Environment – Trade and International Partnerships

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

159. We strongly support the Secretary of State for Business and Trade's focus on producing a Trade Strategy that reinforces and supports the Industrial Strategy. The linkages between the two in considering the international dimension is critical – certainly in terms of the international competitiveness of the growth sectors in export markets, but also in terms of their international benchmarking. International cooperation and partnerships should also be addressed, where these can support the growth sectors.

160. An ICAEW member in Scotland reports that "there is a collective perception that exporting is difficult… more help from government support agencies and the banks from people who really know what happens is crucial. My experience of government support agencies is "hit and miss" – a higher level of competence is required. The banks have fewer people, and their focus is typically on their larger customers, similar to the big consulting firms – small businesses rarely get a "look-in".

161. Government should therefore consider the following specific factors:

- Equipping UK missions overseas to make a specific and measurable contribution to the strategy.
- Aligning trade missions, their support infrastructure and objectives with the strategy.
- Engaging economic representatives of foreign missions in the UK to collaborate around the objectives of the Industrial Strategy.
- Reviewing the UK's voice and effectiveness in international standards forums relevant to the growth sectors. For example, in the accountancy sector the UK endorsement board is a positive force for an impactful UK contribution to financial reporting standards. Infrastructure such as this should be regarded as strategic and invested in.
- Linking Industrial Strategy with the Trade Strategy and the crucial element of regional strengths. The Government should work with Mayoral Combined Authorities and devolved administrations to establish a consistent yet locally distinctive devolved and regional business support and trade offer to help advise local businesses on how to start, or scale up, their exports. Such a practice has been long established with Germany, which has 79 local chambers representing all 3.4 million small businesses in the country

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

162. DBT will have data on export markets by location and sector, which should be used to support decisions about targeting.

163. From the perspective of the accountancy sector there is growth potential for UK professional services in the USA and India – both very large markets where English is widely spoken – and the profession continues to build relationships in China, Indonesia and the Middle East. ICAEW has significant groups of members in Cyprus, Malaysia, Singapore, Hong Kong, the Middle East and Australia, whom we are committed to supporting and value government attention in these locations.

PLACE

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?

164. We strongly support the characterisation of clusters. The agglomeration effect provides tangible benefits to companies, individual workers and the inherent strength of a regional economy. We think it is particularly important in terms of spreading good practice in a specific area and allowing talent and innovation to transfer and spillover into other nearby firms. Designating clusters could be an immediate and tangible outcome from the strategy and government should avoid the natural incentives to spread its attention too thinly. It should be decisive in defining clusters.
165. To support the development of clusters we have some observations:
166. The interactive chart of clusters in the Green Paper is helpful, but complex. Government needs to decide which clusters have sufficient scale or potential to be designated, and how they align with identified growth sectors. Consultation will be important but clear decisions need to be made.
167. Some clusters might be more like networks than spots on a map. Geographical proximity is important, and clusters have strong potential for place making, but industry dynamics should also be considered.
168. Special consideration will be needed for the devolved nations, as they may identify cross-border clusters or networks dispersed across the nation.
169. This section is relevant to the questions on resilience and value chain models, but national capacity also matters and is necessary to support local clusters. For example, our members in manufacturing told us that the sector relied on an eco-system of small suppliers and that there were concerns about the sustainability of this ecosystem in the UK – the location of such small suppliers may be less important than the question of whether at national level the eco-system can sustain itself.
170. Strategic sovereign capabilities also need to be considered. Some of these will be important to the growth sectors, but in any case, certain sovereign capabilities will be desirable for national security. Chip fabrication, steel, and battery manufacturing are each examples. The word ‘battery’ is only mentioned once in the green paper and ‘chip’ and ‘steel’ not at all.

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

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?

29. How should the Industrial Strategy align with devolved government economic strategies and support the sectoral strengths of Scotland, Wales, and Northern Ireland?

171. Before considering the relative sectoral strengths of Scotland, Wales and Northern Ireland, the Government must first define the relationship between Westminster and other levels of government in the UK with respect to investment, small business support and economic policy more generally. This means that the government must work to produce clear “rules of engagement” for how Westminster and regional government representatives collaborate on regional industrial strategies. An ICAEW member in Wales underscored the need for “greater certainty” between Westminster and Cardiff, as it is often unclear which level of government businesses should turn to when dealing with a wide range of problems.
172. We would strongly urge for the devolved administrations to have an active, consistent and pre-defined role in shaping the Industrial Strategy in their own jurisdictions. The predictability of this relationship is in many ways more important than the specifics of where decision-making power lies.

PARTNERSHIPS AND INSTITUTIONS

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

173. The effectiveness of the Industrial Strategy Advisory Council will be crucial to the success of the strategy. A key decision will be on the remit of the council and the mechanisms it has to achieve its objectives. We believe that the role of the council should be to define a policy framework, which it should then leave to business to decide how it operates within. Stability and certainty are key and there should be a commitment from the outset to the longevity of the policies in the framework. We support the 10-year time horizon proposed in the green paper. The framework should encompass interlinked supportive strategies in crucial areas.
174. Clear, consistent, simple and reliable metrics are key so that the council can monitor progress in the target areas. These metrics should be published annually and subject to independent assurance. The difficult decision will be how the Industrial Strategy Advisory Council will be equipped to take action where performance falls short or is imbalanced. We would expect it be empowered to make recommendations to government and for there to be a formal mechanism for these recommendations to be considered, rejected or implemented.

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

32. How can we improve the interface between the Industrial Strategy Advisory Council and government, business, local leaders and trade unions?

175. The Industrial Strategy Advisory Council should produce an Annual Report to include a basket of consistent key metrics, which should be subject to independent assurance. This will enable transparent communication of progress to non-governmental institutions and enable dialogue. There should then be periodic opportunities for public dialogue.
176. We would recommend that relevant sector bodies, such as the Professional and Business Services Council, should be used as an effective vehicle for dialogue between the Industrial Strategy Advisory Council and businesses within the growth sectors. We think government should consider whether sector council representation should also be included on the Industrial Strategy Advisory Council as a means of providing a direct link between the Council and the growth sectors coordinating Sector Plans.
177. The advisory council should ensure transparent due process is followed in decision-making and hold public consultation to support its operation – for example consultation might be appropriate in setting its objectives and KPIs.
178. The advisory council also needs to determine how different organisations can convene to help with specific objectives and issues. Organisations should be invited to offer expertise on selective, specific issues. This is especially important with a focus on sectors but will also be necessary to enable success with technology as well as place.

THEORY OF CHANGE

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

179. In our answer to Q30 we recommended that “the Industrial Strategy Advisory Council produce an Annual Report to include a basket of consistent key metrics, which should be subject to independent assurance. This will enable transparent communication of progress to non-governmental institutions and enable dialogue. There should then be periodic opportunities for public dialogue”.

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

180. We do not wish to answer this question.

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

181. In addition to the publication of Industrial Strategy Advisory Council's Annual Report, there should at the very least be an annual parliamentary debate on progress with the industrial strategy. We would also recommend that the Industrial Strategy Advisory Council embarks upon a programme of public consultation with businesses and stakeholders, to ensure that they can provide feedback as to progress.

ADDITIONAL INFORMATION

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