

Barclays Response to Invest 2035: The UK's Modern Industrial Strategy Consultation

22 November 2024

Introduction

At Barclays we welcome this consultation on the UK's Modern Industrial Strategy, which if implemented effectively will help drive growth and opportunity across the UK. We look forward to working in partnership with Government to help develop this ten year plan which we believe could help define the future prosperity of the UK economy.

As a partner to UK businesses for over 330 years, Barclays has an extensive portfolio of clients spanning all sectors of the UK economy. With one million small businesses, 70,000 start-ups a year, and a large Corporate and Investment Banking client base we are well placed to provide an overview of business sentiment for all eight sectors outlined by Government. The Green Paper's focus on driving business investment and growth aligns with our new strategy, which was announced earlier this year and demonstrates our commitment to our UK home market. This is underlined by our decision to invest £30billion of risk-weighted assets back into the UK. As part of this, we want to expand and accelerate our corporate lending in the UK, helping more clients invest for growth – a key ambition of the Government's Modern Industrial Strategy. As such, this consultation provides a welcome opportunity to set out a long-term vision for growth, and Barclays looks forward to working with the Government on its implementation.

The Government's Modern Industrial Strategy is also an opportunity to establish a clear narrative on investment priorities. At Barclays we have previously supported the idea of a dedicated UK Development Agency (UKDA), focusing solely on the promotion and development of high-quality FDI to help strengthen the case for investors to choose the UK. The Government's plans for a bolstered Office for Investment are welcome and we look forward to working with the Minister for Investment in her new role.

We strongly welcome the inclusion of financial services as a key sector in the Government's Modern Industrial Strategy, recognising both its significant direct contribution to the UK economy but also the vital role the sector plays in facilitating investment and growth across all other sectors. Barclays also has a significant interest in the Government's Green Paper beyond financial services given the broad client base we support.

Throughout our response we have consulted with all aspects of the UK arm of our business to ensure we have captured in-depth analysis of the eight growth sectors identified by the Government. In this response, we have initially outlined some of the key themes we have identified via client feedback and our sector leads, before looking at each of the eight sectors individually and examining specific feedback. Aside from Financial Services, for which we have contributed our own view as a Financial Institution, the other subsectors include feedback we receive from clients via our sector specialist teams in the UK Business Bank, UK Corporate Bank and UK Investment Bank (which includes corporate banking coverage of the majority of the FTSE350 and equivalent-sized private businesses). Within those sectors, we have selected the questions which are most relevant based on the feedback we have received.

Our responses also include data and insights which we collect through research projects that help provide a deeper understanding of our clients. This includes insights from our new Business Prosperity Index¹

which tracks business performance, sentiment and future growth with economic modelling produced in partnership with the Centre for Economics and Business Research (Cebr).

Overall, we believe there are some core principles that a successful and strategic Modern Industrial Strategy should have at its heart:

- 1. Long-term policy direction:** Considerable volatility in recent years – both geopolitically, and in the domestic political and economic landscape – has significantly undermined business confidence to invest. This is hampering not only growth potential, but also key policy objectives such as the transition to a net zero economy. It is critical that the new Industrial Strategy gives businesses the stability they need by setting a long-term policy framework that they can have confidence in, regardless of political change. Strong governance, genuine partnership with business and oversight of delivery will be crucial, and Barclays stands ready to support the work of the Industrial Strategy Council. Early clarity on whether the new Industrial Strategy Council has replaced previous business forums (such as the UK Business Council and National Economic Council), as well as a clear understanding of how it will interact with government 'Mission Boards', the Board of Trade and the Office for Investment Board, will be crucial to ensure effective business engagement.
- 2. National Transition Plan:** A key challenge in financing the transition is the absence of clear, Government-backed sector decarbonisation pathways, which makes investors hesitant to commit capital for long-term infrastructure and capex-heavy investments. To address this, the Government should implement a national transition plan with specific timelines for key sectors like power, energy, food and agriculture, industry, transport, and housing. This plan should align with the Government's Industrial Strategy Green Paper to avoid investor confusion and ensure a cohesive approach to fostering innovation, boosting productivity, and enhancing competitiveness across various sectors.
- 3. Incentives framework:** Whilst the UK has many features that make it a compelling place to be an internationally competitive centre for transition and green finance, the Government needs to focus on creating favourable conditions to make the transition commercially viable in the UK. A stronger suite of incentives across the policy landscape is being offered by competitive jurisdictions, notably within the Inflation Reduction Act in the US. This will require the UK to consider the incentives it can offer for transition investment, and the implication this has on the UK's international competitiveness. This includes developing new innovative financial products (such as transition or 'greening' bonds) and financing mechanisms (such as blended finance solutions) to de-risk and support the growth of transition finance activity in the UK.
- 4. Supporting scale-ups:** We also support the Government's inclusion of cross-cutting policies that support a pro-business environment as part of the wider Industrial Strategy. We would, however, also welcome a greater policy focus at the heart of the Industrial Strategy on the particular experiences of smaller companies across all sectors, including but not restricted to: business creation and fast-growth scale-ups, given the large proportion of the economy they represent. Doing so also helps overcome the issues identified in the Industrial Strategy around the reliability of traditional data sources for new and emerging technologies. The constrained ability for smaller companies to access scale-up capital both in the form of late-stage private financing and public markets also emerges as a persistent theme

across sectors. The success of supported University spin-off ecosystems can also be cited as an important mechanism to support smaller ecosystems of scale-ups. Further to this, Government should address the stark under-representation of female investors and female founders. Just 11% of VC committee members are women, and only 1.8% of equity capital goes to female-founded businesses.²

5. **Place-based policy:** We welcome the commitments in the Green Paper to ‘place’, ensuring policies are tailored to specific place-based constraints and opportunities. Barclays reach across the UK, means we are considering how to best deploy our insights and data to support place-based policy development; the Industrial Strategy is a welcome first step for the UK to deliver this ambition. A genuine focus on sub-national growth strategies will enable the Government to deliver on their regional growth objectives for the Industrial Strategy, including the deployment of a strategy which looks specifically at the opportunities and challenges for the small business population.
6. **Alignment of Government and regulators:** While the exact role, remit, and structure of regulators will vary by sector, it is crucial for the successful deployment of the Industrial Strategy that the Government establishes mechanisms to provide clear direction to regulators. This ensures they consider necessary growth factors in pursuit of their objectives while maintaining their operational independence.