INDUSTRIAL STRATEGY ADVISORY COUNCIL

Industrial Strategy Advisory Council Annual Report 2026

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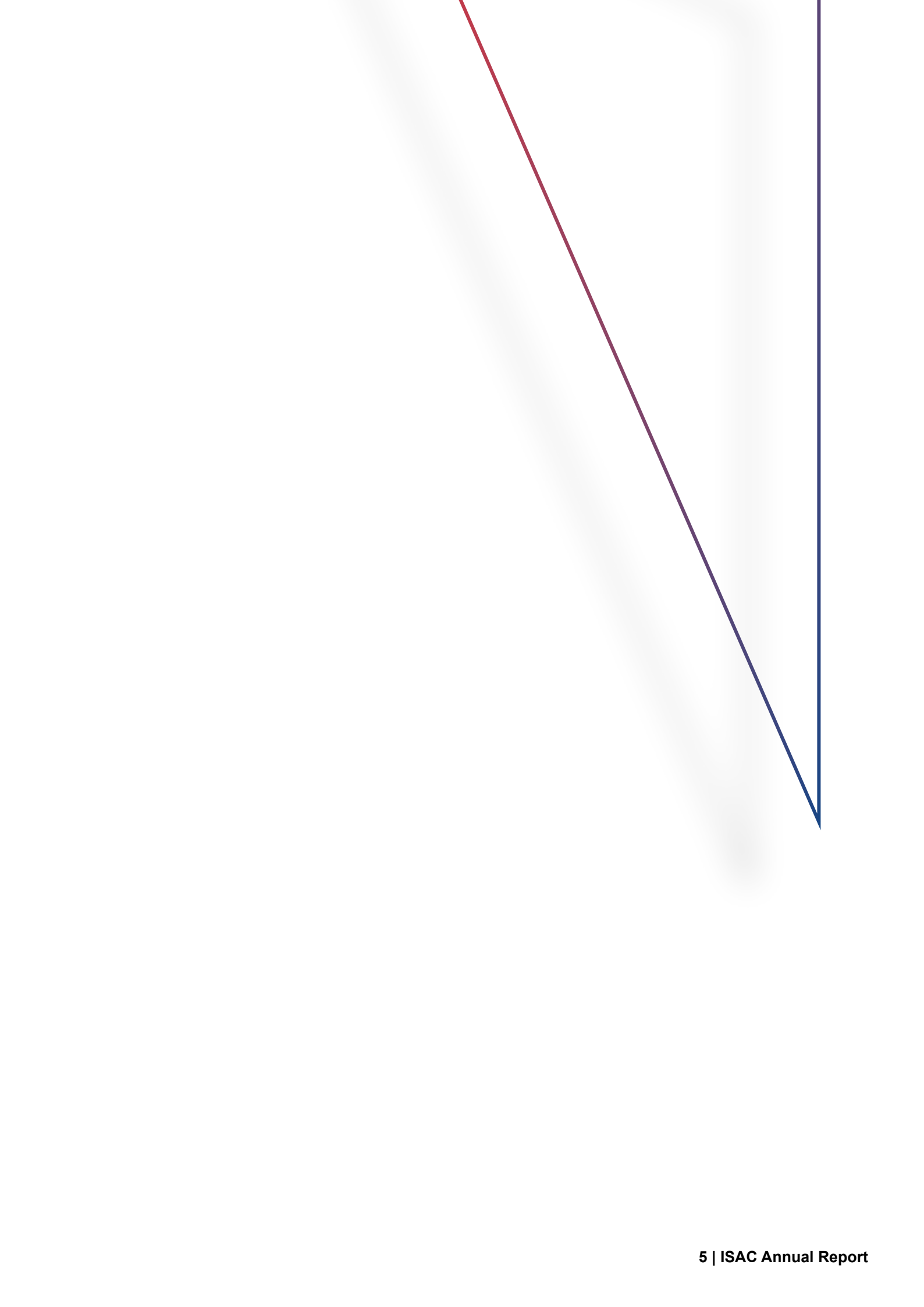
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Foreword

Over its first year, the Industrial Strategy Advisory Council ("the Council") has engaged extensively with industry, academia, local and national government and stakeholders to explore the issues that are most important to the Industrial Strategy's long-term success. We would like to thank the many people that generously gave their time to share their experiences and views with us.

The message from our work this year is clear: the ten-year Modern Industrial Strategy (IS) is needed now more than ever. Despite signs of a pickup in productivity growth in 2025, the UK remains in the midst of a productivity and growth crisis. Annual productivity growth slowed to an average of just 0.9% between 2007 and 2024, down from an average of 2.0% a year between 1997 and 2007[1]. This has real world impacts; as a result of weak productivity growth, average real wages were just £9 a week higher in August 2026 than they were at the start of 2008[2].

The business environment is challenging, with intense competition for global investment and advanced economies increasingly turning to more activist industrial policies to tilt the playing field. Inaction is not an option: increasing investment, both foreign and domestic, raising productivity, and strengthening economic resilience is the only plausible path to delivering sustained improvements in jobs and living standards. This will require persistent focus and prioritisation over many years. Businesses cannot make long-term investment decisions based on short-term signals; in an increasingly uncertain global environment they need clear priorities, consistent policy, and confidence that the government will maintain direction.

The Council has heard resounding support for the IS' focus on priority sectors, places and the cross-cutting conditions needed for growth. Despite substantial changes to the global economic environment over the year since its publication, the fundamental diagnoses and policy priorities of the IS remain the right ones.

But change is not happening fast enough on the fundamental factors that hold back investment and growth. This includes our high industrial energy costs, skills shortages, complex regulation and planning systems and uneven access to finance. Improving these fundamentals is important not just for the sectors within the IS, but for the foundational industries they rely on and other businesses across the UK.

If the first year after IS publication has been about getting the policy right and interventions launched, the second year must be about execution and driving maximum impact for businesses on the ground. The IS will ultimately be judged by whether it makes the UK a more attractive place to invest, innovate, grow and create good jobs in the IS8. That means turning the commitments within the IS into visible change and using it to strengthen coherence and co-ordination across policy decisions.

The government's new emphasis on reindustrialisation, devolution and place-based growth represents an opportunity to streamline execution within the government and turbocharge delivery and impact of the IS. We must take that opportunity.

For the Council, our next phase will be about supporting the continued execution and evolution of the IS with independent, evidence-led advice. We will continue to listen, engage and build our evidence base to assess the impact of the IS and ensure it is a living strategy without losing long-term direction. A ten-year strategy requires sustained partnership between the government, business and society. The Council's role is to help maintain that focus so that growth in the sectors of the future translates into lasting benefits across the UK.



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Executive summary

The Industrial Strategy Advisory Council

The Industrial Strategy Advisory Council ("the Council") is an independent expert committee responsible for advising the government on the delivery and development of the Industrial Strategy (IS), and monitoring progress on its objectives.

Since publication of the Industrial Strategy in June 2025, and in line with its mandate from the government, we have:

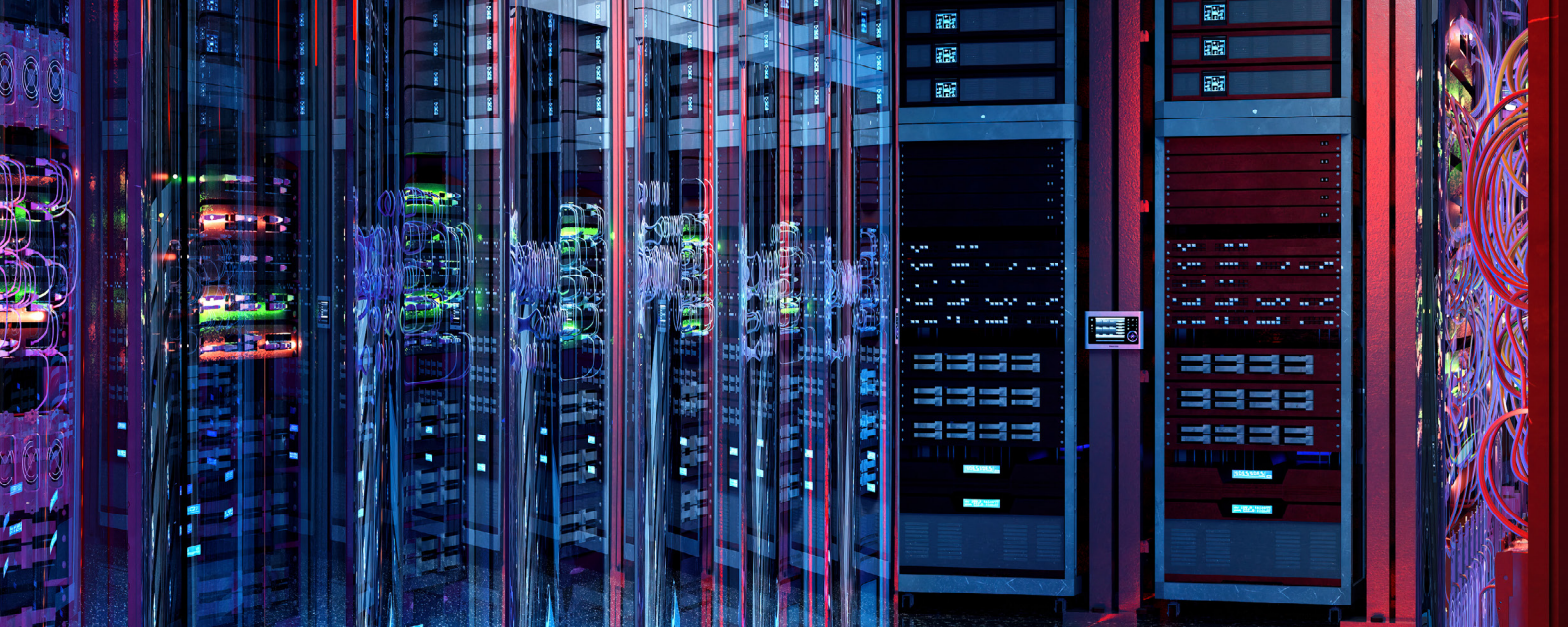
- **Published research and advice** on increasing business investment in skills, market dynamism in the defence and clean energy sectors[3], and local economic growth[4].
- **Supported the government's ambition** to more closely link immigration policy with skills and industrial policy via the Labour Market Evidence Group[5].
- **Supported robust monitoring and evaluation** of the IS by developing the Theory of Change[6].
- **Monitored and assessed progress on the overall Industrial Strategy** drawing on operational and economic data and stakeholder insights, and used these insights to develop views on how the IS could evolve in response to delivery progress and developments in the economy.

This Annual Report sets out the work that we have undertaken since publication of the IS and draws out key conclusions and future priorities for the government in delivering the IS in its second year and beyond.

Work programme summary

In July 2026 we published three formal research reports, making a range of recommendations to the government to support key IS objectives. These are discussed in detail in chapter 4 of this report.

The Council is an active participant in the Labour Markets Evidence Group (LMEG) together with the Migration Advisory Committee (MAC), the Department for Work and Pensions (DWP), Skills England and representatives from the devolved governments. Over the last year the LMEG has focused on supporting development of the Sector Jobs Plans for the IS' eight growth-driving sectors ("the IS8"), and the MAC's review of the Temporary Shortage List[7].



Over this same period, our work on Monitoring and Evaluation has primarily focused on developing the IS' impact pathway. We commissioned London Economics[8] to build on the impact pathway published alongside the IS and develop a proposed full Theory of Change for the Council which could be translated into a practical evaluation architecture. This work has informed the conclusions set out below and in chapter 2 of this report.

To assess progress on the IS and how it should evolve, we engaged extensively with industry, including through a series of roundtables with IS8 sectors in each of the nations. This direct insight from business has been coupled with analysis of key economic indicators at sectoral and national level. The Council has held discussions with Mayors, Members of Parliament, trade bodies and government officials to build a comprehensive understanding of the impact of the IS and future priorities. This has contributed to the key priorities set out below and discussed in chapters 1 and 3 of this report.

This programme of stakeholder engagement and ongoing economic analysis will continue to be a core part of the Council's work in future years. In 2026-2027 we intend to visit mainland Europe and the Asia-Pacific region to further our links with partners in these areas and learn lessons from international best practice.

Key findings and future priorities for UK government

The IS was published in June 2025 with a clear objective: a 10-year plan to significantly increase business investment in eight growth-driving sectors ("the IS8"), by making it quicker and easier to invest and providing businesses with the certainty and stability needed for long-term investment decisions. We remain strongly supportive of this core objective, and the prioritisation of eight sectors and critical foundational industries to deliver it.

As we set out in this report, faster, more ambitious and more coordinated action on tackling core barriers to investment in the UK is needed to deliver on this ambition. This requires the whole of government to embrace and promote the IS, sending a clear signal to business and workers that it continues to believe in the potential of the IS8 sectors to deliver resilient growth.

The global economic environment in which UK businesses are operating has worsened since the IS was published, driven by heightened geopolitical uncertainty, increased economic security concerns and technological change at a pace and scale that has surpassed expectations. Businesses repeatedly told us that this makes the ten-year IS even more relevant. But the gap between the IS' policy ambition and businesses' day-to-day experience remains too wide.

Businesses have told us that many of the fundamental barriers to growth that were identified in the IS — in particular electricity prices, slow planning processes, skills shortages and complex regulation — have not sufficiently changed from when the IS was published. Meanwhile, concern over supply chain resilience, the impact of AI, geopolitical turbulence and cyber security has grown in the IS8 during this time.

The government has strengthened the institutional architecture supporting delivery of the IS and improved alignment between IS priorities and policy delivery, such as better integration of IS objectives into skills, innovation and business support policies. The government must now send consistent and sustained signals that the IS remains a whole-of-government priority, evidenced by faster, tangible improvement on the business environment fundamentals that matter most. Interventions must have the pace and ambition to meet the scale of the challenges facing our economy, requiring greater coordination, prioritisation and effort across government than we have seen in the past year. Businesses want to invest in their operations, their people and innovation as they know this is what will keep them competitive. But they need the government *as a whole* to have a relentless focus on creating the conditions to enable them to do so. The government must rapidly build on the progress it has made since the IS was published and shift its focus from tracking policy delivery to measuring impact and outcome in the areas that matter most to businesses.

We have a clear opportunity before us to deliver a step-change in IS delivery and impact. The Prime Minister has placed renewed emphasis on reindustrialisation to drive economic prosperity and resilience in local areas.

We welcome the government's confirmation that the IS will be at the heart of reindustrialisation. We urge the government to maintain a strong focus on enabling our high-potential IS sectors to grow and deliver high-wage jobs, alongside a stronger focus on the foundational industries identified in the IS as critical to its success, and the opportunity to develop these further. Given this — and noting industry's preference for faster delivery of the IS over new strategies or plans — the government should use the IS as the primary national framework for delivering reindustrialisation, doubling down on the IS' focus on regional clusters and foundational industries to drive its reindustrialisation ambitions.

As set out in the IS itself, its ultimate success will be measured by progress on Gross Value Added (GVA), labour market outcomes such as employment and wages, productivity growth, and increased exports. But these are long-term goals, and it is too early to draw any causal link between the IS in its first year and these macroeconomic indicators. The government must now develop a framework which enables it to monitor progress on the drivers of these outcomes. This report suggests where we believe there is most potential to deliver a step change in the UK's ability to meet the ambition the IS rightly sets out, and the areas where we as an independent Council will monitor progress over the coming year.

Our work over the last year has led us to the following priorities where the government should focus efforts to maximise the impact of the IS in the coming year.

Priority 1: Focusing on the fundamentals (chapter 1 of this report)

1.1 Faster and more ambitious action to reduce industrial electricity costs. We welcome the government's focus on bringing down energy costs in the 2026 Autumn Budget ("the Budget")[9] as current interventions alone will not meet the objective of making electricity costs competitive for the IS8 and foundational industries. This has implications for growth and investment into the UK, with energy costs cited as a major factor in investors' decision making. Far more ambitious reform is needed and we support the government's announcement that it will introduce a Cost Control Framework (CCF) to drive down bills over the next 10 years. The CCF should consider options to reform existing policy and network costs as well as new ones; and include measures that will deliver impact in the short-medium term as well as over the ten-year horizon. As an interim measure, government should consider options for expanding the British Industrial Competitiveness Scheme (BICS). The government must also continue to improve the planning and consenting process for energy projects to reduce developer costs.

We will monitor progress on closing the gap between UK and European average prices over the next year.

1.2 Greater coordination to deliver effective skills policy. The Council's work on skills recommended stronger coordination between employers, workers, sector bodies and training providers to ensure training responds to business need. Jobs plans have been a first step towards delivering some of this coordination, but their development has not been consistent. These plans must sit alongside devolution and not in opposition to it. While there is understandable focus on supporting workforce entry, the government must not lose sight of the importance of supporting existing workers to upskill or retrain to transition into more productive or emerging new roles. Jobs plans should be living documents that are regularly reviewed, refreshed, and used to convene businesses and trade unions representing workers in each IS8 sector to discuss progress against their ambitions. They should be a mechanism to provide greater flexibility in skills funding, where sectors are able to come together around a clear plan.

Finally, financial and capacity constraints in the Further and Higher Education sectors are a material strategic risk to IS delivery. The government must take radical action, likely including an independent review of the sectors' sustainability, recognising in full the broad role they play across skills, research, innovation and regional growth.

We will monitor progress by examining data in the IS8 sectors on: employer investment in skills, the share of workers actively taking part in training, employers' self-reported skills gaps, the number of trainees and apprenticeships, and skilled vacancy rates alongside the number of jobs in each sector.

1.3 National ambition on regulation and planning reform reflected at local level. The government has set out ambitious reform programmes but businesses have been clear that there has been insufficient impact to date. Strong national ambition must now be reflected in local delivery and regulatory practices, with the measure of success being not policy design, but outcome and impact on business. Targeted reforms to the planning process have the potential to be highly cost-effective, reducing costs for businesses while accelerating delivery.

We will monitor improvements by considering planning decision times, business reporting on regulatory burden and whether we are seeing increased market entry from innovative firms resulting from a more agile regulatory system.

1.4 A more interventionist approach to economic resilience. The government should systematically identify the inputs the UK economy is dependent on and put in place targeted strategies to secure them. This should include maximising the potential of public procurement to support innovative UK businesses and strengthen supply chain resilience in line with the government's current reform agenda, which we welcome.

We will monitor action to map supply chains in the IS8 sectors and their links to foundational industries, including where they impact jobs and local labour markets, and the action the government has taken to identify and address critical risks and vulnerabilities to resilience and jobs.

1.5 More action on cyber security. The government should deliver a comprehensive communications campaign aimed at Small and Medium-sized Enterprises (SMEs) in the IS8 and foundational sectors to highlight support already available from the National Cyber Security Centre, and consider an accreditation scheme for cyber security solutions to help smaller firms navigate a complex commercial landscape. At the other end of the spectrum, major employers and operators of nationally significant infrastructure require closer collaboration with the government on intelligence and technology sharing to guard against the most sophisticated attacks. We support recent calls from the Director General of MI5 for a new 'team of teams' approach across government, industry and academia to address vulnerabilities[10].

We will monitor survey and qualitative data on firms' awareness of cybersecurity issues and levels of concern.

1.6 Greater ambition on access to private finance and tackling regional disparities. The Budget announced a strong package of measures to support UK start-ups and scale-ups, including £5 billion of additional British Business Bank funding. Good progress in increasing access to finance from the UK's public finance institutions must be matched by greater ambition and pace on mobilising private institutional capital, particularly pension funds, into the UK's innovative scaling businesses. In support of local growth objectives, the government should also consider a rapid review of how to rectify the UK's unusually high regional disparities in the cost of capital, learning from international case studies of more regionally grounded public finance institution models.

We will monitor public investment flows towards the IS8 and different regions of the UK, and progress on unlocking greater equity investment from pension funds and other institutional investors.

1.7 Greater emphasis on AI within the IS. AI represents a seismic shift bringing both opportunities and threats, and should be recognised as a fundamental cross-cutting pillar of the IS given its economic and productivity impacts across all IS sectors. The government should help create the conditions for businesses, particularly SMEs, to integrate AI effectively and safely. Recognising the pace of change in AI diffusion and adoption since the IS was launched, the focus should be on a number of areas, including workforce skills and confidence in AI use, assurance on cybersecurity issues and clarity on areas of regulatory uncertainty.

We will monitor data on AI adoption and integration in the IS8 sectors.

Priority 2: Monitor, learn and adapt (chapter 2 of this report)

2.1 A multi-layered monitoring and evaluation framework that tracks outcomes and impact. In addition to prioritising the development of robust evaluation plans for the most important individual interventions of the IS and the sector plans, the government should develop a programme-level monitoring and evaluation framework. The monitoring framework should increasingly focus on metrics which signal the impact these interventions are having, particularly in addressing the fundamental challenges that continue to hold back investment. The evaluation framework should establish feedback mechanisms to ensure emerging lessons from evaluations can influence evolution of the IS.

2.2 Improving access to high-quality data for ongoing monitoring and evaluation. Legal uncertainties, institutional barriers, and inconsistencies in sector definitions for statistical purposes are acting as barriers to data access and data sharing across departments. These are constraining monitoring activities and hindering plans for robust and innovative evaluation. The government should establish a coordination mechanism bringing together IS sector statistics leads from across departments to address shared challenges on business identifiers, linking to secondary data, and official sector definitions.

Priority 3: The government's new agenda as a catalyst for greater impact (chapter 3 of this report)

3.1 The IS as the national framework for reindustrialisation. The IS was the result of significant analysis of how to deliver strong, secure and sustainable economic growth to boost living standards in every part of the UK. The government should use the forthcoming 10 Year Plan and Rewiring the State Delivery Plan to reaffirm the IS as the national framework for reindustrialisation and set out how it will be stepped up and used to deliver it. This should include an increased focus on local IS8 clusters – including where we have existing regional strengths – and the foundational industries that create high-wage, highly-skilled jobs across the UK. No10 North, as the 'situation room' for local growth, should play a visible and formal role in driving increased coordination and ensuring that ambitious delivery of the IS remains a whole-of-government priority.

3.2 A plan for English devolution that builds local economic capability. The government should establish a clear relationship between national IS priorities and local delivery systems, including rapidly communicating which powers will be devolved and which will remain nationally held. Devolution of powers and funding must be supported by a programme of local capability building and a streamlining of central government to ensure that local leaders are able to identify and engage effectively with national policymakers.



Introduction

The Modern Industrial Strategy ("the IS") was published in June 2025. It is a ten-year plan to create the conditions for the UK's high-growth, high-productivity industries to invest and grow. It recognises that economic growth will drive good jobs and opportunities, support high-quality public services and raise living standards across the country.

The IS is built around three interlinked pillars: improving the business environment, prioritising eight sectors ("the IS8") with the greatest potential to drive future growth and good jobs and supporting priority places and clusters.

The Industrial Strategy Advisory Council ("the Council") is an independent advisory body responsible for advising the government on the development and delivery of the IS and monitoring progress towards its objectives. It brings together senior leaders from business, academia and trade unions. The Council reports to the Chancellor of the Exchequer and the Secretary of State for Business, Innovation, Science and Trade (BIST) and is supported by a secretariat of civil servants from BIST.

In December 2025 the Chancellor and Secretary of State for BIST set the Council's first annual mandate. This, together with the Council responsibilities set out in the IS, have shaped our work programme over the last year.

About this report

This is the Council's first Annual Report. In accordance with our Terms of Reference[11] and annual mandate[12], our primary purpose is to inform Parliament and the public about the work the Council has undertaken, the evidence and insights emerging from that work and issues relevant to the next phase of the IS.

Part of our role is to monitor and assess progress and the impact of the IS. The IS is a ten-year plan that seeks to deliver long-term structural changes to the UK's business environment. A little over one year since publication of the IS, it is too early to judge its success in achieving its long-term ambitions or to see causal impact in the six macroeconomic indicators set out in the IS such as GVA growth and jobs. Instead, we have considered the progress we would expect to see at different stages of the 10-year life of the IS and focused our assessment on the early stage (year one) and outlining our approach to year two onwards:



YEAR ONE

Execution and delivery

SUCCESS:
Credible delivery and business confidence.

Assess delivery of key policy interventions and early signs that the Industrial Strategy is strengthening business confidence.

EARLY SIGNAL

Government coordination and increased business confidence.

YEAR TWO

Improve the fundamentals

SUCCESS:

Fewer barriers to investment.

Assess progress in tackling the fundamental barriers holding back business investment.

FOCUS AREAS

Energy costs • Skills • Regulation & planning • Access to finance
Economic security & supply chain resilience • Cyber resilience
AI adoption & integration

YEARS 5+

Structural change

SUCCESS:
Observable economic transformation.

Assess whether the Industrial Strategy has driven meaningful structural change, reflected in wider economic performance.

CORE METRICS

GVA • Productivity • Employment
Business investment • Exports • Large home-grown businesses

Chapters 1-3 discuss our work to assess implementation progress, support effective monitoring and evaluation and identify future priorities for evolution of the IS. To inform this assessment, we conducted a series of sector-focused roundtables with IS8 sectors in all nations of the UK, commissioned research from partner universities, conducted a pulse-survey on IS relevance to CEO board-level decision-making, and held discussions with government departments and research institutions.

Chapter 4 discusses our priority research projects, which were published in July 2026. Chapter 5 provides an overview of our engagement and partnerships.



Chapter 1: Focusing on the fundamentals

Developments in the economic environment

Developments in the economic environment have provided a very challenging backdrop for the execution and delivery of the IS.

The global economic environment in which UK businesses are operating has worsened since the publication of the IS. Businesses tell us that they are operating under ever more complex conditions, characterised by heightened geopolitical uncertainty, increased economic security concerns and technological change, notably in AI, at a pace and scale that has surpassed expectations.

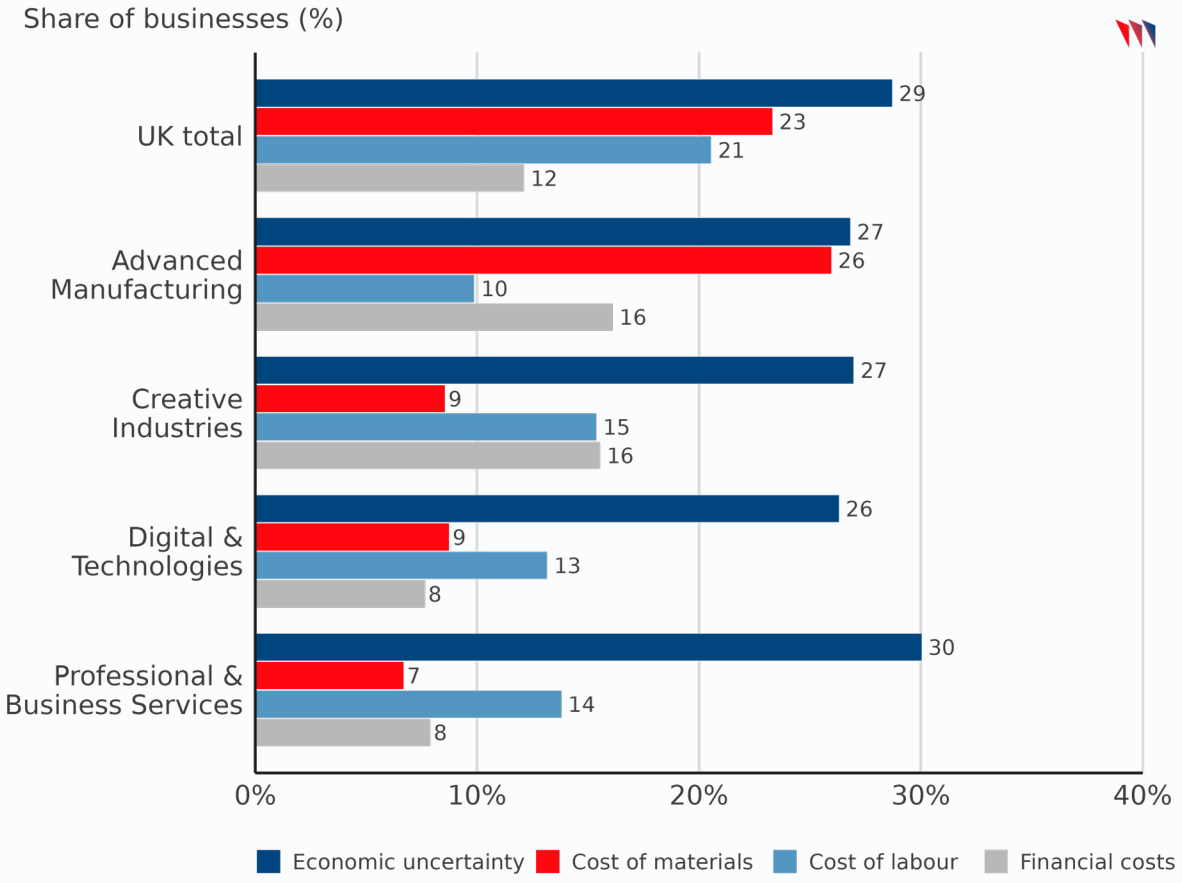
Our analysis of the Office for National Statistics' Business Insights and Conditions Survey (BICS) accords with what we heard from businesses: in September 2026, economic uncertainty was the most commonly cited challenge impacting turnover in the four IS8 sectors analysed (Figure 1). Some of this heightened uncertainty for outward oriented IS8 sectors reflects the trend towards increased protectionism, which has accelerated since the beginning of 2025.

For example, the proportion of UK businesses experiencing additional costs owing to US tariffs doubled from around 4% in 2025 to around 8% in early 2026. This has since fallen back to around 6% in the most recent data[13].

Global events have accentuated many of the fundamental challenges identified in the IS, such as comparatively high energy prices in the UK. Global energy prices have risen markedly, and supply chains have faced disruption due to the Middle East conflict, generating significant economy-wide impacts. Evidence suggests that in September 2026, around one in 10 businesses surveyed expected energy prices to be their main business concern in the following month, more than double the proportion at the time of IS publication (Figure 2). Since the publication, the proportion of businesses citing energy costs as the primary reason behind them raising prices increased by 10 percentage points, overtaking labour costs as the most common driver of price increases.

Figure 1: Economic uncertainty was among the primary factors hitting business turnover across several of the IS8 sectors

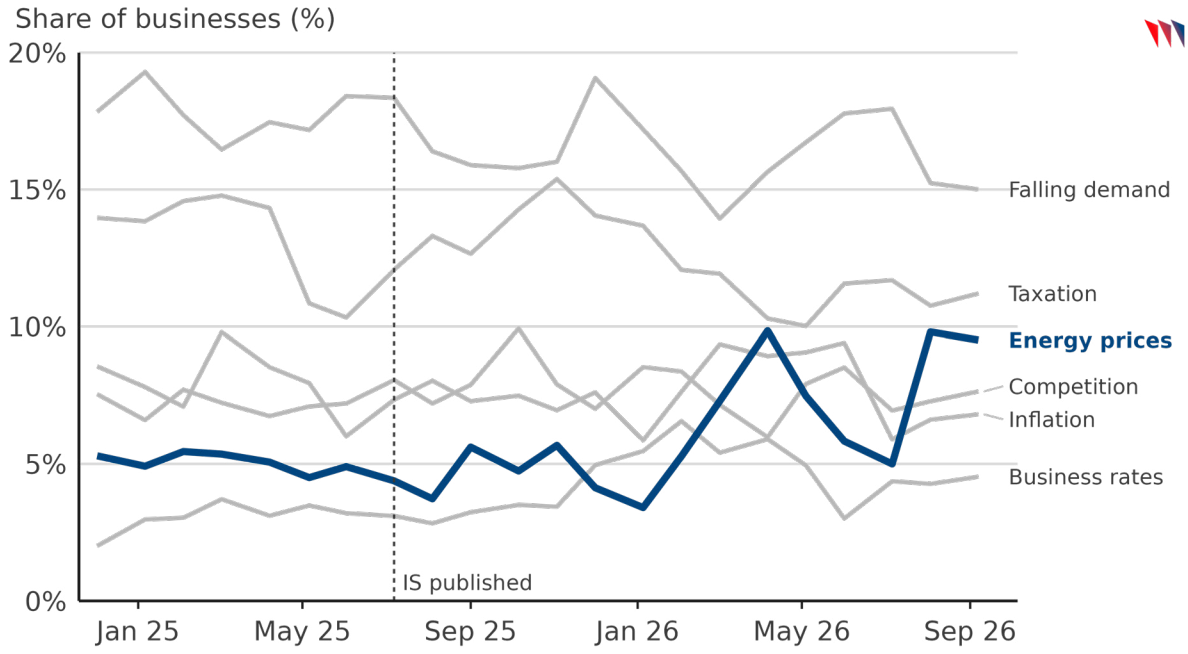
Share of businesses responding to "Which of the following challenges, if any, are currently impacting your business's turnover?", UK and selected IS8 sectors, September 2026



Source: ISAC analysis of ONS Business Insights and Conditions Survey (BICS), wave 164. Businesses could select more than one challenge, so shares do not sum to 100%. Selected challenges shown. Sector comparisons should be interpreted with caution as overlapping SIC definitions have been made mutually exclusive for this analysis.

Figure 2: The proportion of businesses reporting energy prices as their primary business concern has doubled since the publication of the IS

Share of UK businesses responding to "Which of the following, if any, will be the main concern for your business in the next month?", December 2024 to September 2026.



Source: ISAC analysis of ONS Business Insights and Conditions Survey (BICS), waves 122 to 164. Businesses could select one main concern only. Selected concerns shown so shares do not sum to 100%. "IS published" marker represents the first post-publication survey wave, not the actual publication date. Dates indicate survey fieldwork periods. Responses concern the following month's expected main business concern.

Government signalling on strategic priorities

Government signalling is essential to give businesses the confidence to take action. There is strong early evidence that some of the government's arm's length bodies (ALBs) and public institutions are shifting their mandates and priorities to align to IS8 sectors and clusters, for example:

- UK Research and Innovation (UKRI) has used the IS8 as a framework for its 2026-2031 strategy and has committed over £9 billion to the IS8 through new year allocations[14]
- Skills England (SE) has produced a comprehensive review of skills demand and supply by IS sector[15]
- Public Financial Institutions (PuFins) are revising their mandates to align with IS priorities. For example, the British Business Bank (BBB) has a new five-year mandate tying its objectives directly to IS8 sectors, while the National Wealth Fund (NWF) has aligned its sector focus more closely with the IS.

However, we have not seen sustained prioritisation of the IS across all government departments. Too often businesses have reported that decisions made by different parts of the government have not felt joined-up, undermining the IS' core message that the government is serious about backing our high-potential sectors and frontier technologies. Examples include the decision not to proceed with key elements of the Professional and Business Services Sector Plan that was published as part of the IS, and skills funding choices that have prioritised workforce entry over the higher-level and management skills that are vital for productivity and technology adoption in the IS8. In chapter 3 we suggest that the government might use No10 North, as the 'situation room' for local growth, to drive stronger coordination.

The Business Perspective

Business has been clear that without significant and sustained attention to address the fundamental conditions in IS8 sectors that drive investment decisions, the landscape will not shift. The following issues were identified in the IS as key areas to tackle and, over a year on, are still consistently raised with us as major constraints to growth and global competitiveness.

We have considered progress to date in each of these areas and sought to identify where the IS must evolve and go further. Two of these issues — electricity costs and skills, which were repeatedly raised as the top two barriers to growth — were subject to particular consideration in our engagement to understand the ongoing barriers business face, and the associated priorities for government action across IS8 sectors. More detail on these two areas is set out in Annex A. Given advances in AI capability and adoption since the publication of the IS, and the potential to drive economic growth and productivity across the IS8, we also consider AI to be a fundamental area where the IS must go further.

1.1 Industrial Electricity Costs and Grid Connections

The IS identified high industrial electricity prices as a major barrier to growth and committed to "tackle high industrial energy costs [and] ensure strategic investment projects receive timely grid connections".

Electricity prices

A year on, electricity prices remain the number one concern raised with us by energy intensive and electrifying IS8 sectors. The UK continues to have the highest industrial electricity prices in the G7, with UK non-domestic consumers paying over 1.6 times more than French counterparts, rising to 3.5 times as much for energy intensive non-domestic consumers[16]. If we are serious about reindustrialising the UK, this must change.

Some progress is apparent, for example the British Industrial Competitiveness Scheme (BICS) is now accepting applications and will offer substantial discounts to eligible businesses. While BICS only applies in Great Britain, the UK government has committed funding to set up an equivalent scheme in Northern Ireland. BICS is a welcome and necessary intervention but we heard from a significant number of energy intensive businesses that the eligibility criteria were too complex and narrow – even if this reflects a deliberate effort to concentrate meaningful support where it can have the greatest impact. As an interim measure, the government should consider options to expand BICS and increase its impact.

Fundamentally, short-term measures are not sufficient to address the underlying cost differential with international competitors. Where businesses and suppliers are investing in technologies and processes to lower energy costs, the government needs to respond with policy consistency to protect and encourage such investment. In this context, we welcome the government's commitment to introduce

a new Cost Control Framework (CCF) at the Spending Review in 2027 to drive down prices over 10 years.

If we really want to tackle high electricity costs and level the playing field for British industry, the CCF must consider the costs and benefits of well-publicised options including:

- Reforming the way current and future policy costs are recovered
- Moving swiftly from the Contracts for Difference consultation to implementation, in order to accelerate delinking of gas and electricity prices
- Reforming the way network costs are recovered, for example by backloading the recovery into future years when electricity demand should be higher (and thus fixed costs can be spread over more users) due to industrial electrification and new users such as data centres.

The government should also ensure that the CCF accounts for the need to improve the planning and consenting process for energy projects to reduce developer costs and limit the extent to which these translate into higher electricity prices for businesses.

Alongside a focus on bringing down near-term electricity prices, the government should prioritise transforming demand. Supporting industrial electrification can reduce energy use and emissions while increasing power-system flexibility[17]. Improving business energy productivity would strengthen their competitiveness and resilience to price shocks[18]. Raising all manufacturing firms to the 25th percentile of energy productivity in their industry would cut energy use by 40% for the same output[19].

Grid Connections

There has been progress on connections with the (Grid) Connections Accelerator Service (CAS) now operational, Ofgem consulting on plans to tackle speculative data centre projects in the electricity connections queue, and the newly announced Great British Grid (GBG) signalling an intention to accelerate the network investment needed to address physical capacity constraints.

The government has now published its consultation on *accelerating electricity network connections for strategic demand*[20], confirming that powers from the Planning and Infrastructure Act will be used to prioritise strategically important projects. This includes reserving connection capacity for strategic data centres alongside measures to allow temporary on-site generation while they await a grid connection by exception.

The government should now implement these reforms at pace, ensuring that prioritisation reflects the full range of strategically important demand across the IS8 and foundational industries, so that viable projects can secure timely connections. This should be complemented by stronger government coordination and clear accountability to maintain investor confidence.

1.2 Skills

In recent months there has been strong delivery momentum behind skills reform, with the IS' key first-year commitments largely established and moving from design into delivery. We also welcome the government's recent commitment to delivering the most pro-business migration system in Europe for highly skilled workers, including the extension of the post-study work visa. This should help businesses access the talent they need while domestic skills pipelines continue to develop.

However, skills shortages, access to relevant training, low employer investment and lack of trainer-employer coordination remain persistent challenges for businesses across the IS8, with key sectors competing for the same skilled workforce to varying degrees of intensity across regions.

Survey data shows that businesses' top reason for recruiting difficulties in IS8 sectors was a "lack of qualified applicants for the roles on offer" (72%)[21]. When asked about the impact of skills shortages on business growth over the next 12 months, the top concern among IS businesses was a "reduced ability to adopt new technologies, processes or innovate" (19%) — notably higher than the non-IS8 rate (8%)[22]. In addition to general recruitment difficulties, sector-specific bottlenecks also constrain businesses, such as security clearance in the defence sector.

IS8 sectors face 85,600 'external skill-shortage vacancies' — openings that are hard to fill because of difficulties finding applicants with the required skills, knowledge and/or experience — and have 349,000 current employees with skills gaps[23]. At the same time, employer investment in training has fallen by 19% in real terms between 2011 and 2024[24]. Higher-productivity, "frontier" firms, are distinguished both by how much they invest and which skills they invest in. The quality, targeting and strategic use of the training is important, with frontier firms prioritising management training[25].

Our research pointed to a need for stronger coordination between employers, workers, sector bodies and training providers to ensure training responds effectively to business needs. Jobs plans have been a first step towards delivering stronger coordination, but their development has been inconsistent.

While current policy appears weighted towards supporting workforce entry, there is considerable untapped potential in upskilling and reskilling those already in employment. Indicative modelling suggests that upskilling just 10% of the IS8 workforce could unlock approximately £9 billion in cumulative GVA growth between 2026 and 2029[26]. The modelling indicates that improving the proficiency of the existing workforce offers a substantially greater potential economic uplift than addressing skills-shortage vacancies alone. Delivering the IS will therefore depend not only on strengthening the pipeline of future workers but also on helping existing workers transition successfully as technologies (especially AI), occupations and business models evolve. The government should therefore retain a sustained focus on upskilling and retraining the existing workforce, including in higher-level technical, AI, entrepreneurship, and management skills crucial for innovation and growth in the IS8.

The same pressures are evident across Scotland, Wales and Northern Ireland, where skills provision is largely devolved. There are strong examples of employer-led and targeted approaches, such as the AI Collaboration Centre and Software NI in Northern Ireland and Screen Alliance Wales. However, retention is a growing problem in Wales, including for apprentices once their training ends, and vacancies are being delayed or held back. In Scotland, the college funding model limits alignment between courses with major local investments.

Jobs plans for the IS8 should be living documents, convening businesses and trade unions representing workers in each IS8 sector to discuss progress against their ambitions on a regular basis. They should be a mechanism to provide greater flexibility in skills funding, where sectors are able to come together around a clear plan. Jobs plans should be regularly reviewed and refreshed to ensure they support a responsive-skills system better aligned to the needs of the future workforce. To support this, the government should set out a governance structure for the ongoing review and subsequent coordination and delivery of updated jobs plans.

Capacity and funding pressures in further and higher education are also emerging as a material strategic risk to future skills development in the IS8. England's 16 to 18 population is projected to increase by 70,000 between 2025 and 2028, colleges could need up to 12,400 additional teachers by 2028-29 compared with 2020-21 levels, and 36% of English higher education providers already reported a deficit in 2024-25[27]. These pressures raise fundamental questions on whether the system has the capacity, specialist capability and financial resilience to meet future IS8 workforce needs. Greater devolution of post-16 skills and employment functions creates an opportunity to align provision more closely with local labour markets, strengthen relationships between Strategic Authorities, providers and employers, and develop more coherent pathways across education and employment. However, devolution alone cannot address system-wide capacity and funding pressures. The government should therefore consider urgent action, for example a review of the sustainability of further and higher education to meet IS objectives, and, working with partners, use its findings to develop a ten-year plan for the capacity, capability and funding required to meet IS workforce needs.

1.3 Regulation and planning

The proportion of businesses agreeing that the overall level of regulation in the UK is an obstacle to their success increased from 37% in 2020 to 47% in 2024, while 52% expected the burden resulting from regulation to increase over the following 12 months[28]. Pace, predictability and coordination across the regulatory system, particularly its ability to keep pace with technological change, are consistently raised as both enablers of and potential barriers to investment and growth.

This sentiment was shared across the IS8. In Digital and Technology, swift regulatory action can give the UK first-mover advantage, but policy and regulatory frameworks now struggle to keep pace with technological change. Financial Services worried that scaling firms are falling behind international competitors, particularly in emerging areas like digital assets and tokenisation. In Defence, strict accreditation requirements continue to hinder market entry for manufacturers and smaller businesses in the supply chain, and in Clean Energy, fragmentation between regulators and national and local-level decision-makers is deterring investment and delaying the clean energy transition.

In Planning, fragmentary decision-making is also an issue, with site-specific requirements delaying construction and forcing investors to look elsewhere. Businesses we spoke to strongly supported the government's planning reforms but, as with regulation, these must be enacted with greater speed and focus. Early progress on planning, consenting and grid reform needs to translate into faster outcomes. Housing, transport connectivity and access to specialist laboratory space are also important enablers of growth. Clearer, more coordinated routes for engaging regulators would help firms, for example in unlocking the opportunity presented by Northern Ireland's health data.

This answer is not simply to reduce regulation, it's about fostering a more agile, innovation-friendly regulatory system that attracts investment while maintaining essential protections. The establishment of the Regulatory Innovation Office is a welcome step forward, but to maximise impact government should continue to:

- **Focus on delivery:** to build confidence we must demonstrate that businesses, especially innovative companies bringing new technologies to market, are getting faster, more coordinated and predictable regulatory decisions.
- **Use agile approaches where appropriate:** such as regulatory sandboxes, with clearer routes from testing to commercial deployment, so that experimentation leads to regulatory learning rather than further complexity.

- **Strengthen coordination and shared learning across regulators:** including ensuring national ambition is reflected in local delivery and regulatory practices.

1.4 Economic Security and supply chain resilience

Since publication of the IS, there have been security and supply challenges with geopolitical shocks, rising protectionism and supply disruption now a standing cost of doing business across the IS8. Comparable economies are adopting a targeted approach to protect supply and support the critical national infrastructure on which industrial sectors depend. Japan, South Korea, the EU and Australia have all introduced legislative or regulatory frameworks to identify critical goods, materials or supply chain dependencies, and to give governments powers to monitor, support or secure their supply. These frameworks are often backed by measures such as targeted finance, strategic reserves or stockpiles, public procurement, investment support, or emergency intervention powers[29].

We welcome the government's progress identifying the 36 categories of growth driving inputs on which the IS8 depends and setting out an action plan[30]. It must now set clear outcomes for the level and form of resilience it wants (domestic capacity, diversification or security of supply), and how it intends to achieve this.

The message from business is consistent: capacity follows demand. Supply-chain support and sector ambitions help smaller suppliers across the UK, but major manufacturers will not commit capital-intensive investment to the UK without visibility of future order books. This is particularly true in the Defence sector, where the rising defence budget is a strong signal of increased demand.

Across all sectors, the government should use procurement, regulation and public finance to send credible demand signals alongside conventional investment support. Greater strategic use of public procurement, including, for example, through faster NHS adoption of health technologies, would also help UK firms scale. This could also include enabling earlier or longer-term procurement, multi-year orders, forward commitments and sovereign capability requirements to stimulate investment across supply chains, using regulatory and financing arrangements to cover the risk of forward orders, and the National Wealth Fund and other financial institutions carrying wider risks that the market cannot bear alone.

Public procurement should also take account of resilience and economic security alongside price and technical compliance, where this is clearly in the national interest, recognising that resilient supply chains in strategic sectors have economic and security value of their own.

Reindustrialisation requires a renewed focus on the supply chains and productive capacity that underpin growth in the UK economy. Understanding these supply chains is not only important for economic resilience, but also essential for protecting existing jobs, identifying vulnerabilities in local labour markets, and realising the full employment potential of growing businesses across the IS8 sectors.

Combined with deeper international partnerships to diversify sources of critical inputs, these actions would put supply-chain resilience on a more strategic footing and better connect the UK's industrial capability ambitions with the commercial conditions required to attract and retain investment.

1.5 Cyber Security

Cyber attacks are a risk to the wider economy, not just IT systems. More than four in ten UK businesses reported a cyber breach or attack last year[31]. The 2025 attack on Jaguar Land Rover illustrates how disruption at a strategically important business can spread through production and supply chains into the wider economy. Some focus on cyber security is evident — some programmes are becoming well-established and are well-funded to combat this threat.

Smaller companies told us that they struggle to navigate an increasingly complex landscape and need trusted advice and support. The National Cyber Security Centre (NCSC) already provides significant resources and guidance, but in critical sectors, resilience cannot rest principally on individual organisations demonstrating compliance against relatively static regulatory frameworks. The rapid development of AI and increasingly sophisticated cyber threats mean that compliance requirements need updating continuously by current threat intelligence and specialist cyber expertise.

There are already well-established cyber programmes in place, such as Cyber Essentials[32], CyberFirst[33] and TechFirst[34], and we welcome the government's plan to publish a refreshed National Cyber Action Plan shortly. For for the Action Plan to succeed, it will need to incorporate a more strategic model in its execution than plans that went before it. This means working with regulators and industry in the IS8, to provide clearer mechanisms for sharing emerging threats and best practice, ensure that regulatory expectations evolve as technology and risks change, and support coordination on decisions regarding frontier AI technology adoption. Leaving individual IS8 organisations to make these judgements alone risks fragmented and inconsistent assessments of risk and vulnerabilities across interconnected systems.

1.6 Access to Finance

There has been good progress on access to finance, with evidence of the IS shaping how money is deployed through the PuFins. The BBB and the NWF have both tilted activity towards the IS8, and we welcome the shift towards equity stakes with higher risk appetite. The Budget committed to a strong package for UK founders and scale-ups, such as a £5 billion uplift to the British Business Bank's financial capacity to support equity investments in high-growth firms.

However, there is scope to go further, particularly where government-set return targets inadvertently incentivise institutions towards lower-risk lending. Capital-intensive firms in advanced manufacturing and deep tech struggle to access the finance they need to scale, falling between the mandates of different institutions. The government should consider how to target that gap directly. More also needs to be done to unlock institutional investment, including pensions — particularly exploring scaling up their capacity to invest. The Scale-up Fund and Mansion House Accord are welcome, but the pace of implementation is too slow — especially for SMEs — and the government should focus the next phase on closing that gap.

The government's ambition to drive growth across the whole country will require a financial system that supports firms wherever they are located. It should build on existing partnerships and investment programmes, such as the broadly supported City & Growth Deals, rather than create new ones. Evidence from the Productivity Institute shows the UK's highly centralised, London-centred financial system is an outlier by OECD standards, with capital markets persistently pricing most of the UK outside London and the Southeast as high-risk[35]. This issue cannot be solved by PuFins alone — relevant regulators and The Bank of England have a role to play in addressing this disparity.

1.7 Artificial intelligence

Artificial intelligence (AI) will revolutionise every area of business activity across the IS8 and beyond. AI should receive greater attention in the IS, given its importance to future economic growth (both risks and opportunities) and as a cross-cutting technology shaping the future of all the IS8. As businesses are moving from early AI-adoption to productivity enhancing integration of AI, government policy needs to not only keep pace but look ahead to the future opportunities and risks. OECD estimates suggest that AI could unlock annual labour productivity growth of 0.4-1.3 percentage points for the next decade[36].

The IS made several commitments to grow the AI sector in the UK, including introducing AI growth zones and upskilling 10 million workers in AI by 2030. Over the last year we have seen the launch of a £500 million sovereign venture fund to help AI start ups to scale, and the publication of the AI Hardware Plan bringing together £1.1 billion of government support focused on developing, deploying and scaling AI technologies and chips. We welcome the further commitments to building the UK's AI capability set out in the Budget, including an additional £60 million for the Sovereign AI Fund and additional £120 million of funding for the AI Security Institute.

In addition, since the IS launched, sector-specific plans to enhance adoption of AI in 7 of the IS8 sectors have been published[37]. These identify barriers to adoption and recommend actions to enhance adoption. International comparisons suggest that the UK is one of the higher adopters of AI among European countries, but lower than in the US[38]. In 2026 over one-third of UK businesses (with 10 or more employees) self-report using AI, up from 12% in 2023[39].

The wider adoption and integration of AI will be transformative and a critical determinant of international competitiveness. The government must help to create the necessary conditions to enable businesses to integrate AI. Businesses highlighted opportunities for the government to support the development of workforce skills and build confidence in AI adoption (particularly for small businesses with wider supply-chain impacts) by providing assurance and guidance on cybersecurity issues and greater clarity on other areas of regulatory uncertainty. The AI Collaboration Centre in Northern Ireland shows how targeted support can help drive adoption, combining postgraduate scholarships, short courses and direct support for SMEs.

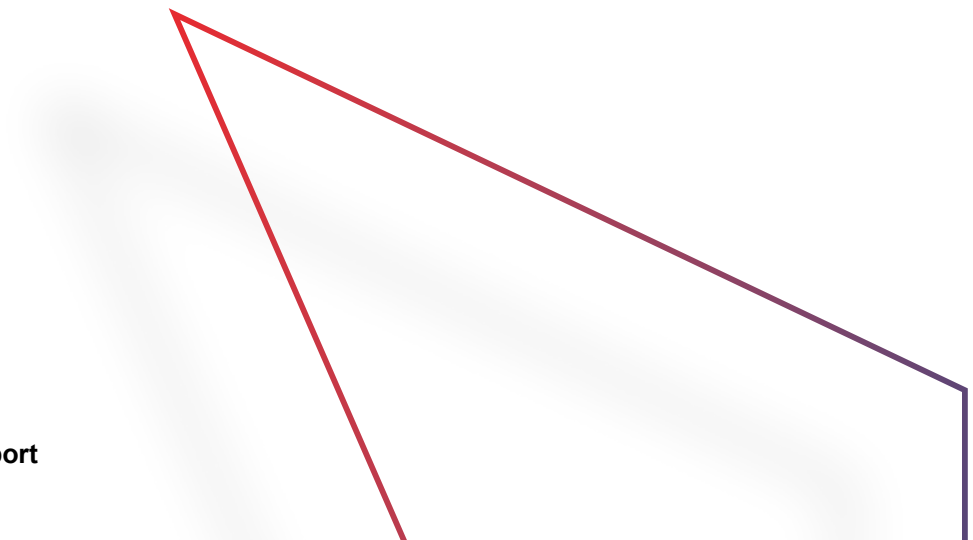
Businesses across the IS8 also raised the tensions between productivity benefits and levels of employment, as well as the challenges posed to copyright and intellectual property (IP) in some sectors such as the Creative Industries. We therefore welcome the establishment of the AI Economics Institute and in our next year's work programme will work with them to strengthen the evidence base on how AI affects productivity, labour markets and growth in the IS8, ensuring that the evidence reaches policymakers.

With the pace of change set to continue, driven by improvements to model capability and increasing adoption and integration, as well as the opportunity and risks for international competitiveness in the IS8, the government should go further and recognise AI as one of the fundamental drivers of business productivity and a cross-cutting pillar of the IS.

Measuring progress in future years

As the IS progresses from early execution of its flagship interventions towards the delivery of meaningful results for businesses and their workers, we will monitor and assess early signs of progress in tackling these fundamental issues that really matter to business through a combination of quantitative and qualitative analysis and stakeholder engagement. Signs of progress against these long-term, fundamental issues will ultimately be how businesses judge successful implementation of the strategy. In future years, we would expect to see signs of significant progress in the following areas:

- Electricity Prices: UK Industrial electricity prices should start to materially close the gap with prices in European peers.
- Skills: Within the current IS8 workforce, the share of workers actively taking part in training should rise and employers' self-reported skills gaps should begin to close. The long-term pipeline of new talent should also begin to increase through an increased number of trainees and apprenticeships.
- Regulation and Planning: Planning decisions should be processed faster and the regulatory burden reported by business should ease. A more agile regulatory system will also start to see increased market entry from innovative firms.
- Economic Security and supply chain resilience: the government should have set out its ambitions and goals, providing a strong signal to business of future intentions which can derisk large capital investments. Supply chains for IS8 sectors and foundation industries should be mapped to identify vulnerabilities and understand impacts on local labour markets.
- Cyber Security: Increased awareness of cybersecurity and best practice, particularly among SME's, with increased domestic resilience against cyber-attacks.
- Access to Finance: Public investment should increasingly flow towards regions outside London and the Southeast, as well as sectors requiring patient capital, such as Advanced Manufacturing, developing a thriving scale up ecosystem.
- Artificial Intelligence: The number of firms integrating AI meaningfully should continue to grow, providing opportunities for productivity improvements.





Chapter 2: Monitor, learn and adapt

Building the evidence needed to learn and adapt over ten years

The government has been clear that the IS is a ten-year plan that will evolve over time to continually meet the needs of UK industry. While providing consistency, a long-term strategy should also evolve in response to the lessons learned from implementation.

The pace of geopolitical and technological developments since publication of the IS underline the need to regularly assess whether it remains suited to the economic environment or should adapt. Mechanisms must be in place to ensure that timely data and business intelligence on implementation and economic developments is available to policy-makers. This includes plans for both ongoing monitoring to assess the direction of travel, as well as evaluation to assess impacts once they emerge.

For a ten-year IS involving supply side improvements to the economy, the impacts of interventions will often take years to become visible, and attributing impacts to the interventions will often be difficult. This creates two risks. The first is judging impact prematurely, before structural reforms have had time to work. The second is waiting too long to identify where implementation is not working or where assumptions underlying the IS need to change.

The priority is therefore to establish the evidence infrastructure now. This includes monitoring that moves from delivery towards assessing whether interventions are having intended outcomes and supporting learning. It is also important to establish data systems to ensure decision makers understand what's changing across sectors and places.

In line with our mandate to provide independent oversight of the government's efforts to monitor and evaluate the impacts of the IS, we have engaged with officials responsible for monitoring of sector plans in several departments and BIST to understand progress.

In addition, we commissioned London Economics to build on the impact pathway published alongside the IS to develop a full Theory of Change[40] which could be translated into a practical monitoring and evaluation architecture. This provides a resource for government to consider as it further develops its monitoring and evaluation approach. The original impact pathway provided a simple visual of how IS interventions and activities fed through to the strategy's intended impacts. The full theory of change sets out further detail

of the causal mechanisms linking interventions to their intended long-run outcomes, and advice on the potential metrics which could be monitored to assess whether causal mechanisms and underlying assumptions are operating as intended.

2.1 Developing a multi-layered monitoring and evaluation framework that tracks impacts and enables learning

Develop a programme-level monitoring and evaluation plan

In addition to prioritising the development of robust and proportionate monitoring and evaluation plans for the most important individual interventions of the IS and the sector plans, the government should continue to develop and put into action the programme level monitoring and evaluation framework set out in the Technical Annex of the Industrial Strategy.

This should take a multi-layered approach where individual interventions are assessed by the responsible department, with programme evaluation assessing whole programme level outcomes.

The multi-layered, coordinated approach, is important because the IS is more than the sum of its individual interventions, and there will be wider impacts from the IS that intervention level evaluations will not capture. For example, the IS is intended to provide a prioritisation framework capable of influencing wider decisions across both the public and private sectors.

The programme level monitoring and evaluation framework should include the provision of consistent evaluation guidance for sector teams, and mechanisms to coordinate evaluation activity across the IS to enable learning lessons from across the sector plans and cross-cutting thematic areas.

Ongoing monitoring activities should move progressively from execution to outcome metrics and systematically incorporate business intelligence

The government has established mechanisms for monitoring the execution of the IS and ensuring accountability for delivering against what the government set out in the strategy. These include the establishment of senior responsible owners across government for each of the IS interventions and mechanisms for regular reporting on delivery progress. These allow the central coordinating team in BIST to track execution and identify bottlenecks.

The government publishes regular implementation reports on a quarterly basis. Yet some businesses told us that they can find it difficult to understand the overall state of delivery, what has been completed, what remains in development and what is coming next. Greater transparency about implementation and the evidence government will use to assess progress could strengthen accountability and give businesses greater certainty as to the direction of travel and support their planning – especially to take advantage of upcoming opportunities and milestones in IS execution.

To date, the internal and external reporting has rightly primarily focussed on tracking execution milestones. Over time, however, the internal and external monitoring data should increasingly address what those activities are achieving: whether the fundamental constraints to investment are easing, whether firms are experiencing improvements in the business environment and their competitiveness and whether the growth-driving sectors and places are experiencing the benefits that are intended.

The six metrics for the IS (GVA, Productivity, Employment, Investment, Exports, Home-grown businesses) are long-term in nature. Drawing on our commissioned work from London Economics, the government should also set out the range of outcome metrics which will be used to monitor intermediate outcomes that signal progress in the nearer term.

In particular, those relating to the fundamental challenges that continue to hold back investment. These indicators could, for example, include public finance investment, international competitiveness of UK industrial electricity costs, private investment leveraged through UKRI programmes, contract award times, SME participation in innovation programmes, skills gaps and grid-connection and planning decision times, business investment sentiment, and foreign direct investment (FDI) flows. Wherever possible, these indicators should capture regional variations, enabling an understanding of not only national progress, but differences in performance and impact across regions and devolved nations.

Effective monitoring will also include the systematic incorporation of insights from business intelligence. There is a significant opportunity to make much greater use of AI to strengthen the systematic collection and analysis of business intelligence from the IS8. This would complement the quantitative metrics and improve policy-makers understanding of the commercial environment. Better intelligence should help government identify emerging business needs in the IS8, understand barriers to growth and assess the effectiveness of interventions.

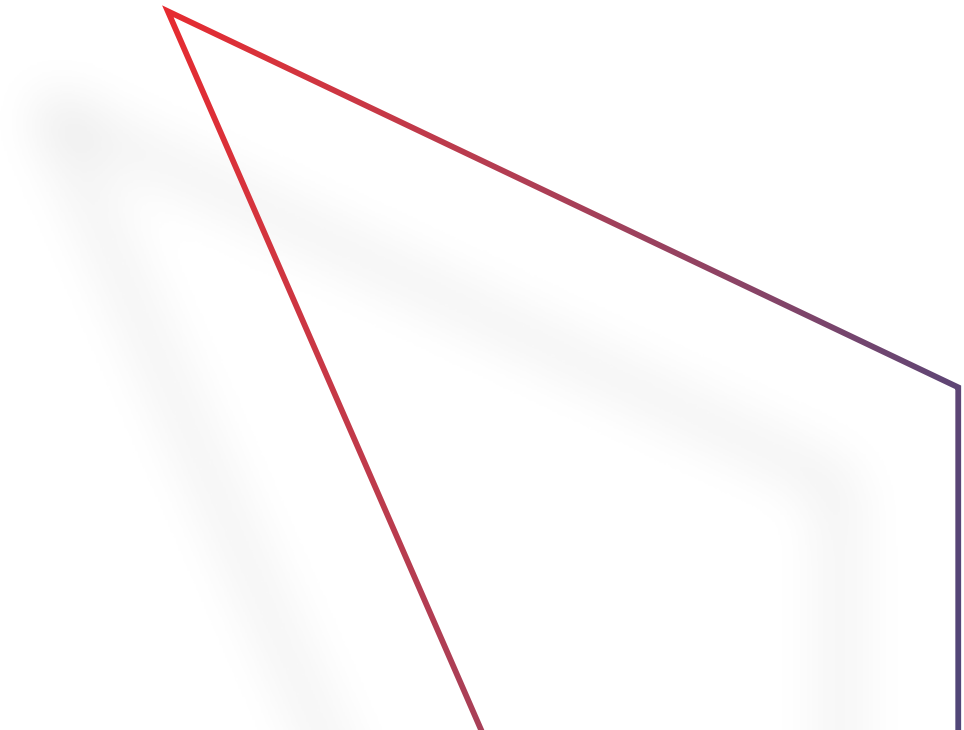
Evaluation should be planned now and used as an effective mechanism for learning

Evaluation should not be treated solely as an assessment undertaken after an intervention has concluded. For a long-term strategy like the IS, its greatest value is as a learning mechanism.

Through our engagement with several sector lead departments, we found that evaluation plans are being actively considered, but in some cases, thinking remained in the early stages. We found that progress on developing robust evaluation plans is varied across government, with a lack of resource and prioritisation the most frequently cited constraint.

To be effective, and in line with the principles of the Magenta book, evaluation plans should be developed early. While the eventual impacts of interventions may take several years to emerge, data collection and evaluation plans should be developed in advance to ensure that the data and evidence is available in future to robustly evaluate impact.

To ensure that evaluation evidence is influential in decision-making and to drive accountability for prioritising robust and proportionate evaluation, the outputs from intervention level and programme-level evaluations as they emerge should be formally included within the scope of the IS' most senior governance mechanisms.



2.2 Improving access to high-quality data for ongoing monitoring and evaluation

Access to high-quality data is an essential enabler of high-quality monitoring and evaluation.

During our engagement with several sector lead departments, access to data emerged as a recurring challenge. While substantial data exists, legal uncertainty, institutional barriers and resource constraints can limit its use for monitoring and evaluation. This restricts more innovative approaches, including linking monitoring data to secondary sources (for example His Majesty's Revenue and Customs or Office for National Statistics), which could provide stronger insights.

Those obstacles are consequential. Linking information collected through IS interventions with wider administrative and economic data could significantly improve government's ability to understand firm-level and sector-level outcomes, and distinguish between businesses exposed to particular interventions and appropriate comparators.

Consistent statistical definitions of IS8 sectors and frontier industries are critical for monitoring and evaluation. Stakeholders cited inconsistent application of sector definitions and business lists as a key constraint where improved coordination could help.

The government should establish a coordination mechanism bringing together IS sector statistics leads from across departments to address shared challenges on business identifiers, linking to secondary data, and official sector definitions. We will work in partnership with the government on this.



Chapter 3: The government's agenda as a catalyst for increased impact

Since the IS was published, we have seen significant shifts in the policy and political context. The new Prime Minister has set out a mission to reindustrialise Britain and deliver growth in every postcode, with decentralisation and devolution of powers to local areas (in England) as the primary policy mechanism for achieving these goals.

What has not changed is the need for a strong IS that acts as an enduring framework for the government to prioritise high-impact interventions that will drive investment and growth. Indeed, our analysis and engagement with business has made clear that the IS' diagnosis of the key barriers to investment (discussed in chapter 1) is even more valid today than it was as when the IS was published. As a result, businesses have told us that they want the government to prioritise faster delivery of the IS over new strategies or major changes in policy direction. We have seen positive delivery signals in many areas of the IS, but in an increasingly challenging economic environment, businesses need to see ambitious delivery of priority interventions and clear evidence that the IS and economic growth are at the heart of the government's decision-making.

The change of government leadership and its new agenda present a real opportunity for renewed energy and focus on building business confidence, and driving the investment that will ultimately deliver good jobs in every part of the UK. To capitalise on this, we have identified the following two areas for action: the IS as the national framework for reindustrialisation, and, a plan for English devolution that builds local capability.

3.1 The IS as the national framework for reindustrialisation

While businesses have cautiously welcomed the focus on reindustrialisation and local growth and the explicit recognition of the importance of the IS to it in the Budget, there is still uncertainty about what it means in practice.

The IS was the result of robust analysis of how to deliver strong, secure and sustainable economic growth to boost living standards in every part of the UK. Crucially, it recognised the need to make choices and avoid spreading government support too thinly. It was strongly welcomed by industry and other sectors at the time of publication and retains a high degree of support, albeit with caveats about pace of delivery which we discuss in chapter 1.

In our view, its analysis — including the prioritisation of high-growth sectors of the economy and the places that support them — remains valid and is strongly aligned with the government's focus on good growth in every part of the country. Realising the growth potential of the IS8 would mean an additional 1.8 million good jobs — high-productivity jobs that pay more and benefit from higher skills investment than the economy average — in all regions of the UK over the next decade[41].

We welcome the vision of reindustrialisation encompassing the IS8 and foundational industries with the IS at its heart. Reindustrialising the UK will require both nurturing emerging industrial clusters and sustaining the established strengths that already contribute significantly to national prosperity. The IS should be the national framework for delivery of this ambition and political momentum should be used to drive renewed focus on the IS8 regional clusters and foundational industries.

As discussed in chapter 1, there needs to be greater coordination and prioritisation of the IS across the whole of government. In this context, the establishment of No10 North and the (re)formation of the National Economic Council (NEC) to coordinate economic growth and devolution is welcome. No10 North and the NEC should play a visible and formal role in supporting BIST to hold government departments to account for ambitious IS delivery and ensure that IS objectives are considered in relevant policy decisions.

3.2 A plan for English devolution that builds local capability

The growing emphasis on devolution creates a significant opportunity to strengthen the place-based delivery of the IS but also presents risks, particularly for policy areas which need nationally recognisable standards and frameworks. The government's forthcoming plan for rewiring the state must provide clarity on which policy levers and funds will be devolved, and which will stay at national level.

Our work this year demonstrates that devolution of powers alone is not sufficient to deliver growth (see chapter 4). Effective delivery depends on the capability of places to understand their economies, develop a long-term economic vision, coordinate institutions and investment, build investable propositions and engage effectively with businesses.

This matters as devolution accelerates. Devolution without capability risks increasing rather than reducing regional inequality. Places with stronger existing analytical, institutional and delivery capability may be better positioned to use new powers and attract investment, while those starting from a weaker position may find it harder to do so.

We suggest three priorities to support effective place-based delivery.

- **Alignment:** a clear relationship between national IS priorities and local economic strategies is essential, allowing local flexibility and empowerment while ensuring activity across places contributes to shared national growth objectives. The objective should not be for every place to pursue the same model of growth, but for local economic strategies to be guided by a clear national framework that supports the identification and exploitation of local economic strengths.
- **Accountability:** as further growth-related powers are devolved, the government should be clear about where decision-making powers lie, including which responsibilities sit nationally, which are exercised locally and who is accountable for outcomes. Businesses and supply chains operating across multiple regions value consistency and navigability, and devolution should not inadvertently create additional fragmentation and complexity.
- **Capability:** devolution must be accompanied by sustained work to strengthen the economic capabilities places need. This includes analytical capability, economic strategy, investment expertise, spatial planning and specialist delivery capacity. Central government should complement this by providing coordinated and accessible routes through which places can draw on national expertise, finance and delivery support where necessary.



Chapter 4: The Industrial Strategy Advisory Council's research projects

In December 2025, the government asked the Council to provide advice on three specific policy issues. Advice was submitted to the government and published in July 2026 and this chapter discusses our findings.

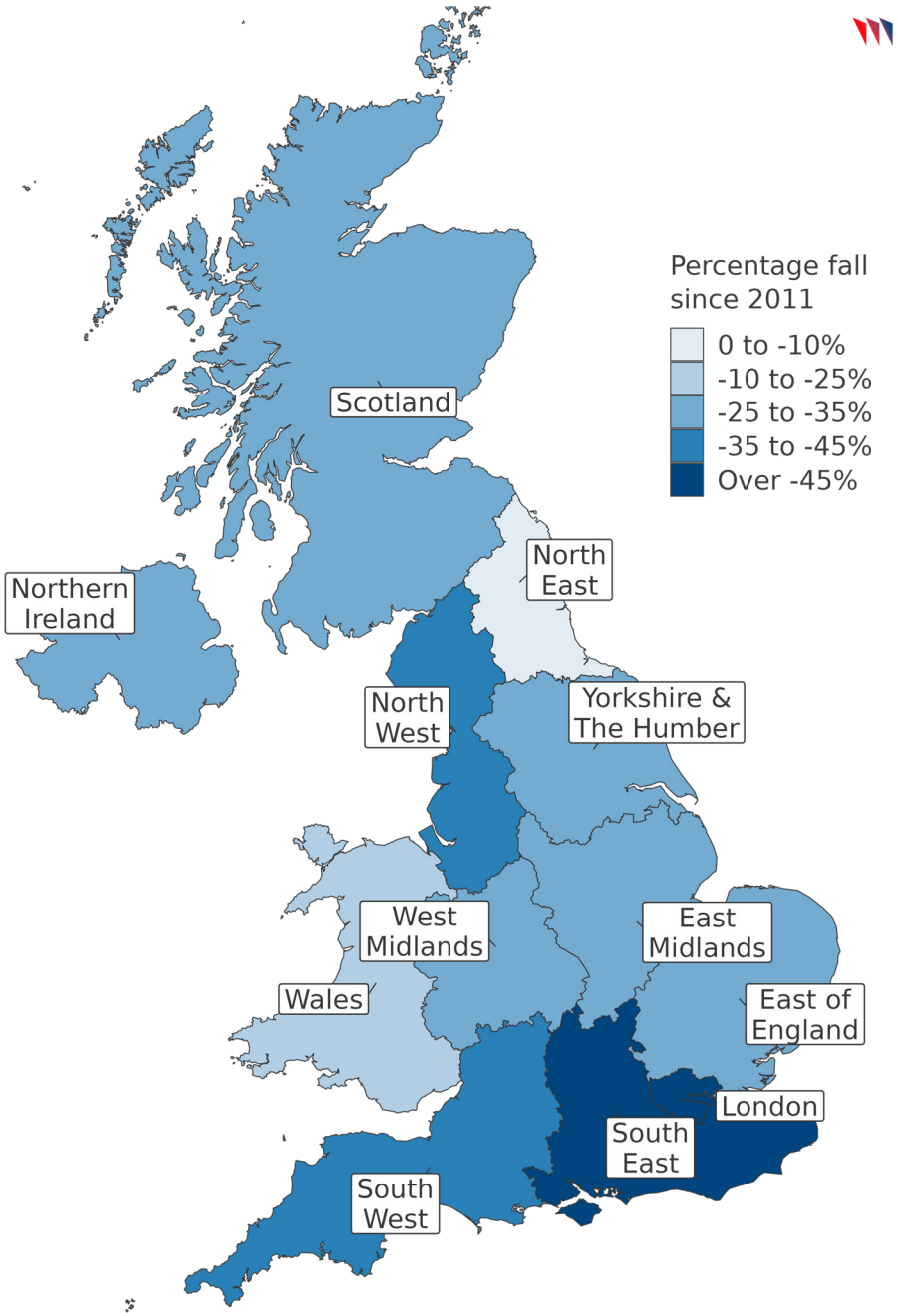
Report One: Increasing employer investment in skills

The Council was asked to consider how to help reverse the long-term decline in employer investment in skills in the UK, particularly in the IS8.

Skills are critical to the IS' growth ambitions, but employer investment in training fell 19% in real terms between 2011 and 2024[42]. At the same time, IS8 sectors face 85,600 external skill-shortage vacancies and 349,000 employees with skills gaps[43], while employment in IS critical occupations is projected to grow by 1.8 million by 2035[44]. Upskilling just 10% of the IS8 workforce could potentially result in a cumulative GVA increase of £9 billion over the period 2026 to 2029[45].

Figure 3: Real-terms employer investment per trainee has fallen in every region and nation

Real-terms percentage change in investment per trainee between 2011 and 2024.



Source: ISAC analysis using Employer Skills Survey 2024[46].

We combined data analysis with structured stakeholder engagement, drawing on evidence from SMEs, large employers, training providers, academics and researchers. Emerging insights were also shared with government departments to inform the development of IS Sector Jobs Plans.

Findings

The evidence points to several interacting barriers which can hinder employer engagement in the skills system and hold back investment:

1. **Complexity and information gaps,** making it harder for employers, particularly SMEs, to identify skill needs and navigate available support.
2. **Weak coordination and collective action** where skills needs are shared across whole sectors, supply chains or local areas.
3. **Gaps in training provision,** including the availability, relevance, quality and flexibility.

These challenges are exacerbated by rapid technological transformation driving changes and uncertainty in employers' skills needs, making it harder to anticipate and respond to future skills needs.

Advice and recommendations

We recommended a coordinated package of reforms using and strengthening existing institutions and mechanisms, rather than creating new delivery bodies:

1. **Reduce complexity** by giving employers clearer advice, creating simpler skills pathways and applying a cross-government simplification test to new skills policies.
2. **Strengthen coordination and collective action** through stronger sector and local institutions that bring together workers, employers and the government, and pilots of employer-led training consortia.
3. **Mobilise large employers** to support skills development within their supply chains, including by using public procurement and social value levers.
4. **Improve the quality and responsiveness of training,** including support for modular Level 4–6 provision, greater comparability of standards and proportionate evaluation.

Report Two: Market dynamism – unlocking the potential of disruptive businesses

The Council was asked to consider how to address issues preventing disruptive business models in the clean energy and defence sectors.

Dynamic markets support competition, innovation, and productivity by enabling productive new firms to enter and scale and by encouraging established businesses to improve. However the UK has seen a decline in market dynamism over the last 25 years[47]. While the UK has a higher-than-average rate of start-ups and firm entry, these firms are less likely to survive and grow[48], and since 2005 the share of all turnover accounted for by young firms has almost halved[49].

We explored two policy levers (regulation and public procurement) that the government can use to shape the conditions for market disruption[50], with a focus on clean energy and defence. We combined structured engagement with businesses, academics and public-sector stakeholders with targeted analysis and case studies. Our work noted that disruption is not itself the objective, the goal is more contestable markets where challengers can enter and scale, and incumbents face strong incentives to innovate.

Findings

We found that the central challenge is not a lack of innovative businesses, but the conditions that determine whether they can enter markets and scale:

- **Regulatory friction** and fragmented pathways can slow innovative firms and technologies.
- **Procurement processes** can make it difficult for new entrants to access government markets and move from innovation to scaled adoption.
- **Risk aversion and fragmented accountability** can slow decision-making and prevent reforms having their intended effect.
- **Poor visibility of procurement opportunities and data** can weaken demand signals and make it harder to assess business participation.

Advice and recommendations

Our report recommended action in three key areas:

1. **Modernise regulation.** Strengthen regulators' focus on market dynamism and contestability and create a clearer mechanism for identifying and removing regulatory barriers facing new entrants.
2. **Reform public procurement.** Create more accessible routes for innovative businesses, pilot rapid innovation procurement pathways and strengthen commercial capability to support appropriate risk-taking and innovation.
3. **Improve procurement data.** Give businesses greater visibility of future demand, improve the consistency and usability of procurement data, and use better analytical and visualisation tools to monitor participation and inform decisions.

Report Three: Developing local capability for economic growth

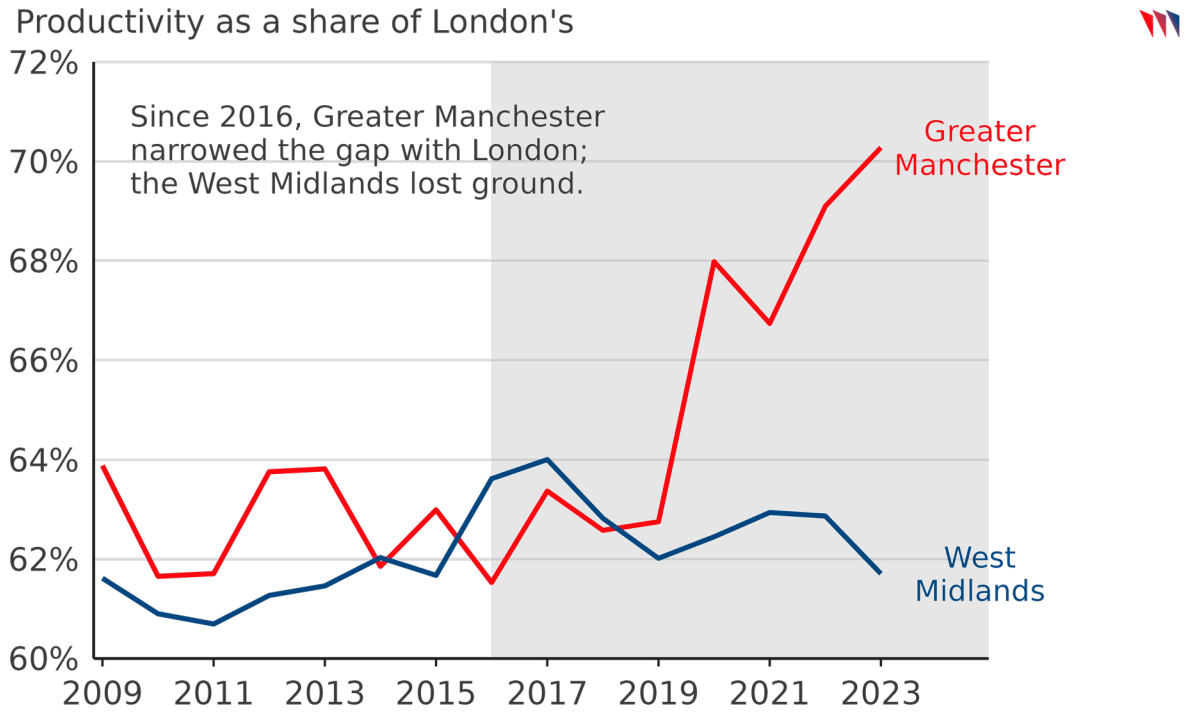
The Council was asked to consider how business dynamism could be strengthened across the UK to support the ambition for sustainable economic growth in every part of the country.

The UK has some of the most acute regional economic disparities among comparable economies. Tackling this challenge is an urgent priority for achieving the stronger national growth and productivity envisaged by the ten-year IS.

Focusing on Greater Manchester and the West Midlands, two of England's largest regional economies with contrasting economic trajectories, the Council undertook a microstudy to understand how national and local government can better support local growth. We combined analysis of economic and business data with desk-based research, stakeholder interviews and roundtable discussions involving businesses, local leaders, universities and other local institutions.

Figure 4: Greater Manchester's productivity began to catch up with London after 2016 while the West Midlands lost ground

Gross Value Added (GVA) per filled job for Greater Manchester and the West Midlands as a percentage of London, 2009 to 2023.



Source: ONS subregional productivity statistics.

Findings

Growth is about capability, not just powers. Places do not grow simply because powers are devolved to them, but because they have the capability to understand their economy, develop a long-term vision, coordinate investment, and support business growth.

Successful places combine long-term leadership with strong coordination. Greater Manchester's experience highlights the importance of long-term economic planning, alignment across skills, planning, housing and transport, a compelling investment proposition, and effective collaboration between national and local government, universities and business.

The practical barriers that businesses highlight are consistent, so a national IS remains central to local delivery. Despite their different economic trajectories, businesses in both regions highlighted a common set of barriers to growth: skills shortages, scale-up finance gaps, transport connectivity, housing and workspace affordability, and difficulties retaining firms as they grow. These challenges closely reflect those identified in the IS.

Advice and recommendations

Our report made the following recommendations:

1. **Successful local growth increasingly depends on capability and accountability, not just powers.** The government's devolution agenda presents a significant opportunity to strengthen place-based delivery of the IS, but devolving responsibilities alone will not be sufficient.
2. **National and local government should work together to strengthen the capabilities** needed to understand local economies, coordinate investment and support business growth, while keeping local growth aligned with national IS priorities.
3. **Define the economic capabilities places need and identify the gaps.** This should include analytical, economic strategy, investment, spatial planning and specialist delivery as set out in our report.
4. **Bring high-quality expertise into places** from central government (and vice versa) where gaps in capability are identified.
5. **Further simplify funding and reporting requirements** so local capability can focus on growth.



Chapter 5: Stakeholder engagement, research partnerships and international engagement

Stakeholder engagement

Over the last year we have engaged extensively with businesses, local and national government, and industry bodies in support of our research and advice.

Over the summer and early autumn, we held a series of business roundtables in England, Wales, Northern Ireland and Scotland to build our understanding of the impact of the IS on its priority sectors (the IS8). We spoke with businesses of all sizes and from a range of sub-sectors to examine how changes in the economy had impacted them and how the IS was shaping investment decisions and confidence. Crucially, this engagement pointed to where we should focus and contributed directly to development of the future priorities set out in chapters 1-3 of this report. More detail of what we heard from business and other stakeholders can be found in the sector snapshots at Annex B.

Research and academic partnerships

The Council's work is evidence and analysis based. Over the last year we have developed our analytical capability across a wide range of data sources, including through collaborations with the Manchester Institute of Innovation Research (University of Manchester), Aston Business School, Kings College London, and Oxford University's Centre on Skills, Knowledge, and Organisational Performance. To support further collaboration with the research community, in March 2026 we set out our Areas of Research Interest (ARI)[51].

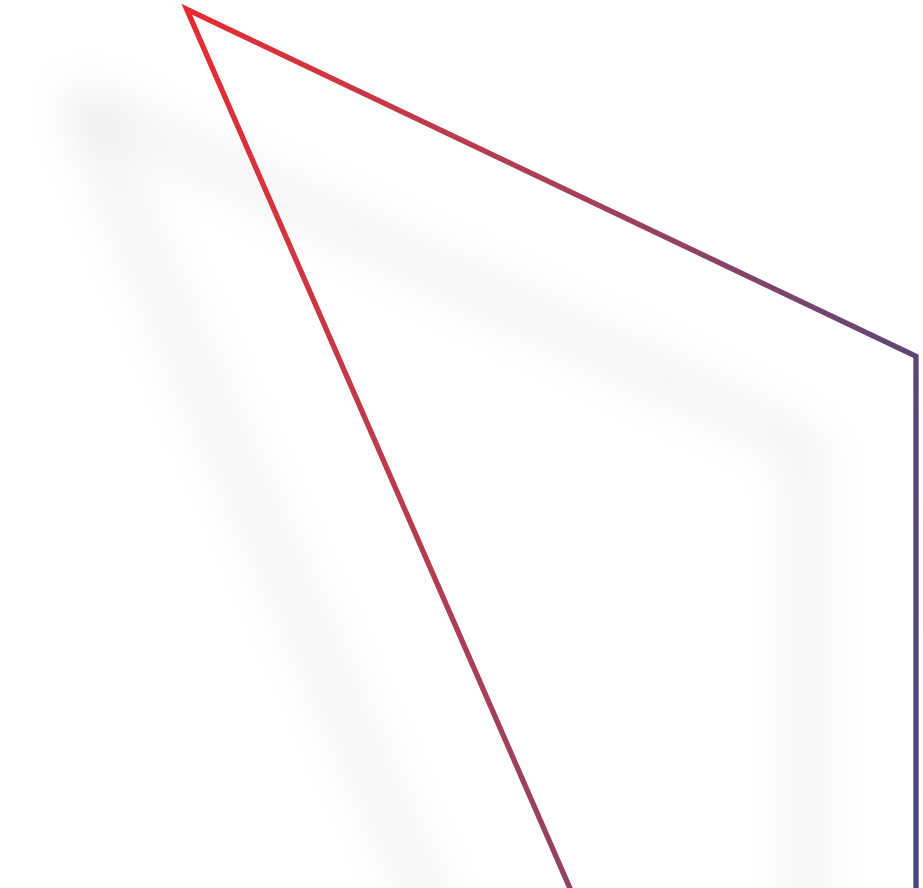
The Council's vision is a collaborative one. To further our research capability and strengthen our understanding of the challenges and opportunities across the UK, we are pursuing a programme of strategic partnerships with research-intensive universities to share research, academic expertise and local networks to strengthen our recommendations into government.

We were delighted to partner with Unit M[52], the University of Manchester's innovation arm, as part of the launch of our Headquarters in Greater Manchester in December 2025. We signed our second partnership with Queen's University Belfast[53] in October 2026. These partnerships provide the Council with access to academic expertise and research capability, while also enabling us to draw on established regional networks to convene businesses, local leaders, researchers and other stakeholders in support of our work programme. We look forward to establishing similar strategic partnerships with universities in Scotland and Wales over the coming months.

Building on our relationship with the University of Manchester, in September 2026 the Council delivered a policy conference in collaboration with The Productivity Institute[54]. The conference brought together business figures, researchers, policymakers and practitioners to explore the key drivers of productivity growth and the data and evidence needed to strengthen the UK's policy choices. The output will be used to shape and define the Council's research agenda for the next year.

International partnerships

We are committed to building enduring partnerships with like-minded bodies in international partner countries. This will enable us to exchange ideas, share evidence and learn from international best practice. Over the past year our work has included engagement with counterparts in Japan and France through the government's two Industrial Strategy Partnerships. These exchanges have given the Council insight into how partner countries are designing and delivering long-term industrial strategies in an increasingly competitive global environment. Visits to mainland Europe and Asia-Pacific are planned for the year ahead to support the Council's work and explore lessons from comparable economies.



Annex A: Delivery deep dives – energy and skills

Energy Deep Dive

Context

The Industrial Strategy (IS) set out a significant policy package to tackle high industrial energy prices and grid connection delays. During the first year of its delivery, the government has introduced three major interventions: the British Industrial Competitiveness Scheme[55] (BICS) for eligible energy intensive businesses and the Connections Accelerator Service[56] (CAS) for selected priority projects, and most recently in September announced the creation of Great British Grid[57] (GBG). Further measures announced in October included plans to introduce a Cost Control Framework, freezing the main rate of the Climate Change Levy on electricity, consulting on Contracts for Difference, scrapping the Gas Shipper Obligation, and improving grid connections.

BICS responds to a significant and persistent price competitiveness challenge. By the end of 2025, the UK had the highest non-domestic electricity prices (including taxes) in the 'EU14 (Western EU countries) + UK' group, and for energy intensive industries[58] – those most vulnerable to price shocks – prices were more than double the median of this group[59].

The price gap partly reflects how policy costs (green levies) are funded. The UK places a much larger share of policy costs on electricity bills than the EU14; although comparable countries face similar costs, they typically fund them through general taxation rather than passing them on to energy consumers[60].

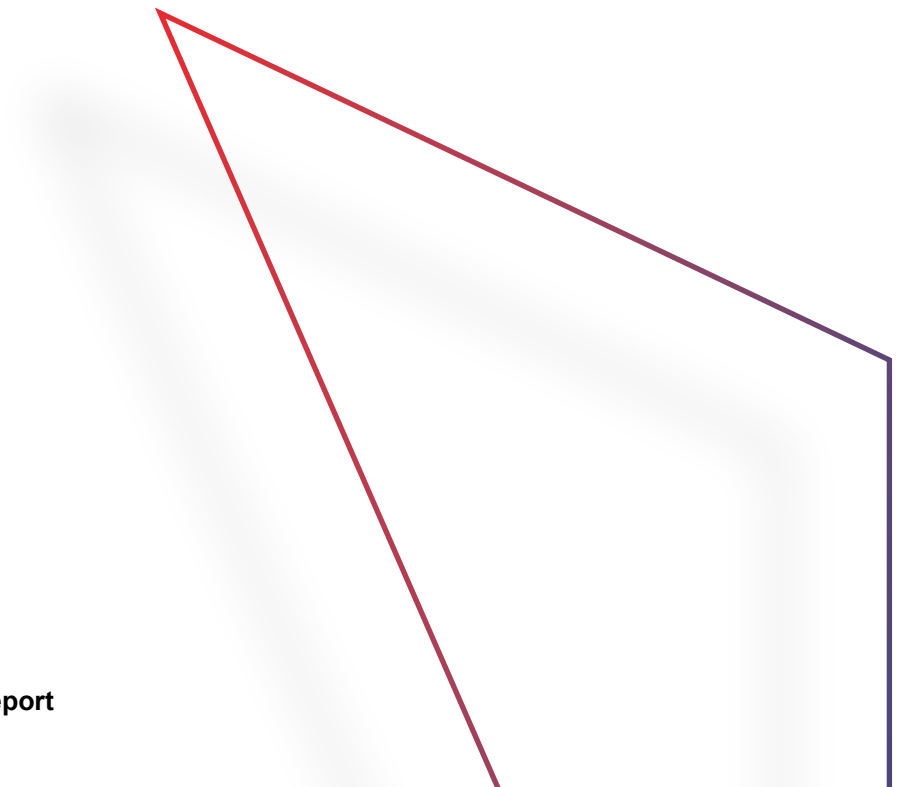
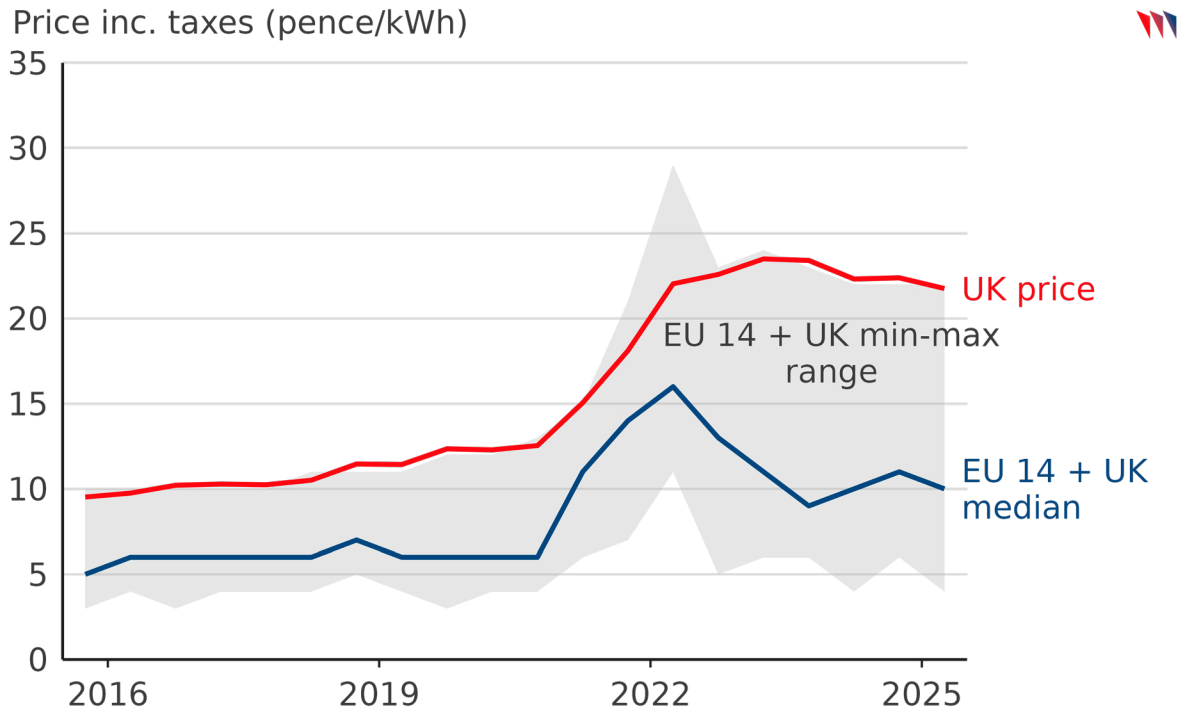


Figure 5: UK electricity prices are more than double the median of the EU14 + UK for energy intensive industries

UK and 'EU14 + UK median' electricity prices including taxes for very large non-domestic consumers



Source: ISAC analysis of international non-domestic energy prices, available at https://www.gov.uk/government/statistical-data-sets/international-non-domestic-energy-prices

Wholesale gas prices in 2026 are the highest they have been since 2023[61], however, the pressure on UK businesses is not simply the wholesale cost of energy. They also face rising costs in other areas, including those related to funding network upgrades. This will create a growing base of long-term costs that must be recovered. For example, more than £70 billion upgrades to the electricity transmission system could be required over the next five years[62].

At the same time, electricity demand is falling, with industrial demand in 2025 at its lowest level since 1983, driven by energy efficient improvements and a move from traditional manufacturing to higher-value (manufacturing) processes such as pharmaceuticals[63]. This creates a risk that rising network costs are recovered across a smaller volume of electricity consumption, at least in the near term, increasing costs for remaining businesses and further weakening demand. Grid constraints are not unique to the UK and they are intensified by global pressures, including supply chains for critical components/equipment and access to highly skilled labour.

Energy efficiency is also an important demand-side lever. Improving energy productivity – value added per unit of energy consumed – would strengthen firms' competitiveness and resilience to price shocks. Raising all manufacturing firms to the 25th percentile of energy productivity within their industry would reduce energy use by 40% for the same level of output[64].

Findings

Industrial electricity costs remain a significant competitiveness concern, particularly for energy-intensive and electrifying industries. Businesses recognise interventions designed to support strategically important projects and improve grid connections but remain concerned about the underlying cost differential with international competitors and the predictability and availability of connections. BICS and CAS are significant but targeted and do not address the structural drivers of high-industrial electricity costs or wider grid connections.

The long-term objective should be clear: businesses considering major investment in the UK need confidence that they will be able to access secure, competitively priced energy and timely grid connections. The interaction between industrial competitiveness, electrification, and decarbonisation means that this will remain a strategically important issue for the IS' growth-driving sectors.

BICS provides temporary relief for eligible energy-intensive firms and we welcome the government's decision to expand the scheme and make an additional one-off payment to cover higher costs in 2026-27. However, businesses told us that it remains limited and uncertain as to whether the scheme will influence long-term investment decisions citing slow implementation and complex and narrow eligibility criteria. For example, businesses outside BICS and related support schemes account for nearly 90% of non-domestic electricity consumption and almost all the UK's 2.7 million companies[65].

CAS has helped coordinate a small number of strategically important projects, helping to secure and safeguard up to £8.5 billion of investment across priority sectors[66]. However, it does not resolve wider grid capacity constraints or provide certainty for the broader pipeline of projects facing long waits for connections, with businesses continuing to report unclear eligibility, insufficient information and waits of seven to eight years for some projects. The announcement of Great British Grid (GBG) is a step towards addressing this wider constraint, while CAS supports priority projects through the connections process, we understand that GBG is intended to accelerate delivery of the underlying infrastructure needed to expand network capacity.

Conclusions

Short-term relief schemes are not sufficient to address the structural drivers of high industrial electricity prices. The government should build on the measures announced to date and pursue reforms that improve price competitiveness, support electrification, and reduce exposure to volatile gas prices.

Cutting electricity costs and accelerating grid upgrades will support electrification, net zero, and wider economic transformation. Industrial electrification can reduce energy use and emissions while increasing power-system flexibility[67]. The government must also continue to improve the planning and consenting process for energy projects to reduce developer costs and limit the extent to which these translate into higher electricity prices for business

Alongside expanding supply, the government should prioritise transforming demand; improving business energy efficiency can boost growth and productivity, accelerate the energy transition and deliver commercial benefits[68].

Priority 1: the government should develop fundamental structural changes that move beyond short term commitments to lower industrial energy prices. This should include considering the benefits of well-publicised options, such as:

a) Reforming the way current and future policy costs are recovered.

b) Moving swiftly from the Contracts for Difference consultation to implementation, in order to accelerate delinking of gas and electricity prices.

c) Reforming the way current and future network costs are recovered, for example by backloading recovery into future years when electricity demand should be higher (and thus fixed costs can be spread over more users) due to industrial electrification and new users such as data centres.

d) Working with business to deliver greater energy efficiency and innovation, utilising the latest technology to drive more ambitious energy transition plans and assess where further government intervention could remove barriers to action.

Grid reform and infrastructure delivery

Grid connections reform and infrastructure must remain a priority to support investment and growth. Stronger government coordination and accountability is needed to ensure essential network projects are delivered at pace.

Priority 2: the government should play a more directive role in accelerating connections reform and resolving transmission and distribution infrastructure delays. This should include:

a) Rapidly implementing outcomes from the DESNZ public consultation on *Accelerating electricity network connections for strategic demand* and setting out further reforms to address these ongoing issues.

b) Considering how to best hold electricity transmission and distribution networks to account for continuing delays to major network upgrades and substations which then delay investment projects.

c) Setting out how GBG will prioritise investment in network infrastructure that unlocks strategically important industrial projects, including how it will coordinate with CAS, network operators, and the National Energy System Operator.

Skills Deep Dive

Context

The IS and subsequent Post-16 Skills White Paper set out a significant programme of reform intended to strengthen the workforce pipeline for growth-driving sectors. During the first year of delivery, the government has established many of the key building blocks of this agenda. This includes Sector Plans and Jobs Plans, targeted investment in priority skills, reforms to apprenticeships and technical and vocational education, a Temporary Shortage List, and a stronger role for Strategic Authorities in skills and employment provision.

Most reforms remain at an early stage of implementation, and it is too early to assess their impact on workforce outcomes. However, the scale of the challenge is already clear. Employer investment is down 19% since 2011[69]. England's 16 to 18 population is projected to increase by around 70,000, or 3%, between 2025 and 2028[70], while Skills England forecasts that employment in occupations critical to the IS will increase by around 1.8 million between 2025 and 2035, with 62% of this additional demand expected at Level 4 qualifications or above[71].

Our assessment is that the government has established the architecture of a more responsive skills system. Successful delivery will now depend on securing greater employer investment, maintaining sufficient system capacity, and supporting the existing workforce to respond to technological and industrial change. Higher employer investment in skills is necessary to encourage a greater reliance on UK-based staff, and less reliance on migration as a route to fill skills gaps. Where training in requisite skills takes several years, employers are likely to continue to need to rely on international migration to fill skills gaps in the near-term.

Findings

Employer engagement and investment in skills remain a key constraint.

Public funding cannot realistically meet future workforce needs on its own and so employer investment in skills remains a core challenge, with investment down 19% since 2011[72].

Recent reforms to apprenticeships and the Growth and Skills Levy are intended to provide employers with greater flexibility but it remains unclear whether this will lead to a sustained increase in employer-led investment rather than simply changing how existing funds are used.

We have previously argued that employers must play a greater role in workforce development[73] as the new system in England (including reforms to Technical and Vocational levels) depends on employers helping to shape qualifications, provide placements and work experience, and create routes into skilled employment. Whether reforms increase both employer participation and investment will be an important measure of success.

Post-16 capacity could become a constraint on IS delivery

Delivering the IS will depend on a post-16 system with sufficient capacity to teach more young people, develop higher-level and technical skills, and support workers to retrain. Yet demand is rising from a constrained base in the IS8.

England's 16 to 18 population is projected to increase by around 70,000, or 3%, between 2025 and 2028[74], a significant near-term demographic bulge that will need to be sufficiently accommodated. Maintaining spending per student at its 2026-27 level in real terms would require a further £150 million by 2028-29[75]. The Department for Education estimates that colleges could require between 8,400 and 12,400 additional teachers by 2028-29, compared with 2020-21 levels[76]. Although recent funding increases have partially reversed earlier reductions, funding per 16 to 18 student in colleges remained around 8% below its 2010-11 level in real terms in 2025-26[77].

Higher education also faces financial pressures, in 2024-25, 36% of English higher education providers reported a deficit[78]. Their sustainability matters to the IS8 because universities do more than supply graduates: they provide research and specialist expertise, support innovation and business collaboration, and can act as anchor institutions within local economies. Some Universities are closing departments critical to the IS8 such as chemistry which can therefore weaken not only the national higher-skills pipeline and the delivery of the IS, but also the institutional capacity available to support local growth, innovation and devolved delivery.

Capacity is particularly constrained in adult learning. Classroom-based adult-education spending was projected to be around 54% lower in real terms in 2025-26 than in 2010-11, reflecting both lower participation and sustained reductions in funding rates[79]. The skills system is being asked simultaneously to accommodate larger post-16 cohorts, supply specialist and higher-level skills, and help adults respond to technological and industrial change in the IS8. Protecting provider capacity and financial sustainability is central to the delivery of the IS, particularly as powers and funding are devolved.

Workforce transition, and lifelong learning will become increasingly important

Recent reforms place considerable emphasis on supporting participation and strengthening pathways into employment, including through Technical Excellence Colleges, Foundation Apprenticeships and the development of new technical and vocational pathways from age 14.

While supporting young people remains important, the majority of the workforce of 2035 is already in work today[80]. Technological change, industrial restructuring and the adoption of AI are likely to alter skill requirements across many sectors. Delivering the IS will therefore depend not only on strengthening the pipeline of future workers but also on helping existing workers transition successfully as technologies, occupations and business models evolve.

The scale of this challenge is significant. Skills England forecasts that employment in occupations critical to the Industrial Strategy will increase by around 1.8 million between 2025 and 2035, with 62% of this additional demand expected at Level 4 qualifications or above[81]. At the same time, the net zero transition will reshape employment within and between sectors.

Around 7% of UK workers are in sectors that will need to redirect their products or production processes, while less than 1% work in high-emitting sectors likely to phase down[82]. Although employment supported by clean-energy industries could increase from around 440,000 jobs in 2023 to 860,000 by 2030, this does not mean that new opportunities will automatically emerge in the same occupations, places or timeframes as declining jobs in the broader energy sector[83].

The labour market impact of AI remains uncertain[84]. Evidence indicates that while 11% of jobs in the UK may be substituted by AI on average, a much larger share (28%) is expected to be complemented rather than replaced[85]. Just 5.5% of UK businesses report that AI is reducing their headcount while roughly half report no change[86].

This indicates that in the near-term at least, the challenge for the UK is not one of widespread job losses, but of the need to adapt to the changing nature of work by ensuring the workforce has the skills they need to leverage new technologies. These shifts strengthen the case for a flexible skills system that expands routes into growing occupations, provides continuing and modular training for people already in work, and aligns provision and careers support with emerging employer demand.

Skills devolution creates opportunities but also IS delivery risks

Greater devolution of post-16 skills and employment functions creates an opportunity to align provision more closely with local labour markets, strengthen relationships between Strategic Authorities, providers and employers, and develop more coherent pathways across education and employment.

However, uneven institutional capability, uncertainty over governance, risks to rural and specialist provision, and potential fragmentation of the qualifications landscape could produce inconsistent opportunities for learners and employers. As greater responsibility is devolved, the effectiveness of the system will increasingly depend on the balance between national consistency and local flexibility, as well as clear accountability for outcomes. This will be particularly important where specialist provision spans local boundaries or requires coordination between multiple institutions and places.

Conclusions

The government has established much of the architecture of a more responsive skills system, but successful delivery now depends on addressing three linked challenges: employer investment, system capacity, and workforce transition and lifelong learning.

Future priorities for consideration should include:

1. Strengthening employer engagement and investment in skills. Building on the Council's recent report, the government should develop a long-term strategy to increase employer engagement in workforce development and reverse the decline in employer investment in training. It should clarify employer and government responsibilities, test sector-based and co-investment approaches, and measure whether reforms are increasing both employer participation and investment.

2. Developing a ten-year plan for post-16 skills capacity and devolved delivery in England, underpinned by an urgent review of the sustainability of further and higher education. The government should work with Skills England, Strategic Authorities and providers to develop a ten-year plan for the capacity, capability and funding required to meet IS workforce needs. This should consider further and higher education, adult learning and specialist provision, and clarify national standards, local flexibility and accountability arrangements so that greater devolution strengthens rather than fragments provision in the IS8.

3. Putting workforce transition and lifelong learning at the centre of IS delivery. The government should identify the sectors, occupations and places facing the greatest disruption or growth from technological and industrial change and develop targeted workforce transition plans with employers, providers and Strategic Authorities. This should include expanding flexible and modular learning, strengthening careers support and aligning local skills provision with workforce transition needs. Jobs Plans can support this transition by providing a practical mechanism for aligning skills provision with changing sector and place-based needs. The government should not view these as one-off products, but as iterative tools that are updated as evidence on skills demand, delivery barriers and employer needs evolves. To achieve this, Jobs Plans should be designed to learn from one another, including by comparing the ambition, specificity and delivery progress of their commitments.

Annex B: Sector snapshots

The Council has developed insights into the IS8 sectors through data analysis and stakeholder engagement via a series of business roundtables. This work has developed into the following sector snapshots, which set out key evidence in relation to each sector.

The detailed methodology for the sectoral data, including Standard Industrial Classification (SIC) definitions and apportionment, aligns with the published Industrial Strategy economic indicators methodology[87] and accounts for the latest ONS Blue Book revisions where relevant[88].

Understanding developments within IS8 sectors is important to ensuring that the IS remains relevant and is delivering as intended. While it is too early for impacts to be emerging in the sector data, it is important that we establish a robust understanding of sectoral data for the purposes of effective monitoring in later years.

The development of the snapshots highlighted the challenges involved with inconsistent sector definitions and the data limitations they cause. This fed into our recommendations regarding consistent definitions and metrics. At this stage, consistent metrics across all of the IS8 sectors are not possible and the data presented below are the most consistent set currently available.

Advanced Manufacturing

The IS set a clear vision for the UK to be the best place in the world to start, grow and invest in Advanced Manufacturing by 2035, overcoming the sector's consistently flat productivity since 2023.

Over the last year, greater certainty about the UK's long-term direction has supported business confidence, with billions committed through public funding and major private investments from firms including Nissan, Cummins and Agratas. The sector is adopting AI, automation and digitalisation, while decarbonising and building resilience against trade, supply chain and energy cost pressures.

Key progress includes:

- £4 billion through DRIVE35 to 2035
- £500 million of collaborative Research and Development (R&D) funding through UKRI programmes
- Over £1 billion of automotive investment from industry
- Published a new UK Space Strategy
- 28,500 apprenticeship starts in priority occupations
- Support for major investments including Jaguar Land Rover, Nissan and Wayve
- The new government agreement with Rolls-Royce is expected to create thousands of new jobs and support reindustrialisation, including a £2.5 billion programme for cutting-edge jet engines

In Year two, the government has said it will focus on reducing electricity costs, delivering the Advanced Manufacturing Jobs Plan, opening export markets, supporting the Agratas gigafactory in Somerset, and launching an agri-tech exports accelerator.

Advanced Manufacturing – Economic Indicators (2025)

Gross Value Added	Employment (workers in employment)	Business Investment (2024)	Productivity (output per worker)
£79.5bn	770,000	£15.0bn	£105,450
▲ +0.5%	▲ +0.7%	▼ -2.5%	▼ -1.3%

Metrics shown are in current prices. Arrows show the percentage change from 2024 to 2025 in chain volume measures, except business investment which is 2023 to 2024.

Source: BIST, ONS GDP output approach – low-level aggregates, current prices, 2023 prices. ONS JOBS03: Employee jobs by industry, JOBS04: Self-employment jobs by industry. ONS Business Investment (annual Gross Fixed Capital Formation, Volume Index Capital Services), current prices, 2024 prices. ONS Output per job by division, UK. These estimates are derived from annual ONS data of the whole economy, revisions can occur when official statistics are published.

Figure 6: Advanced Manufacturing productivity has grown by 220% between 1997 and 2025, compared with just 30% for the UK economy

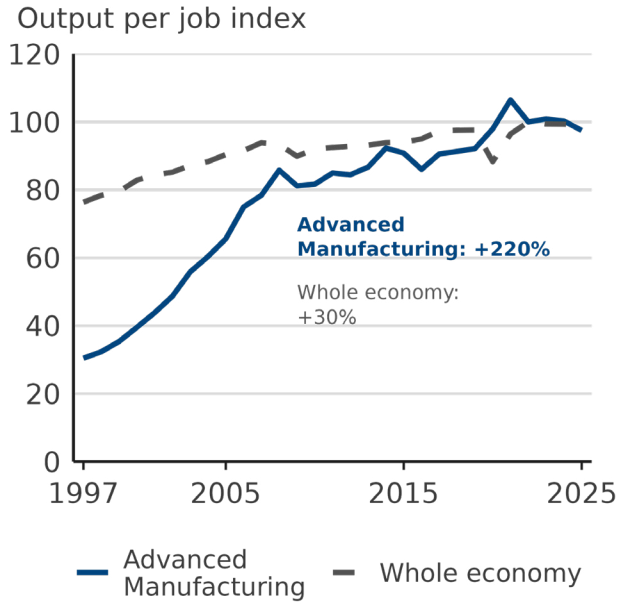
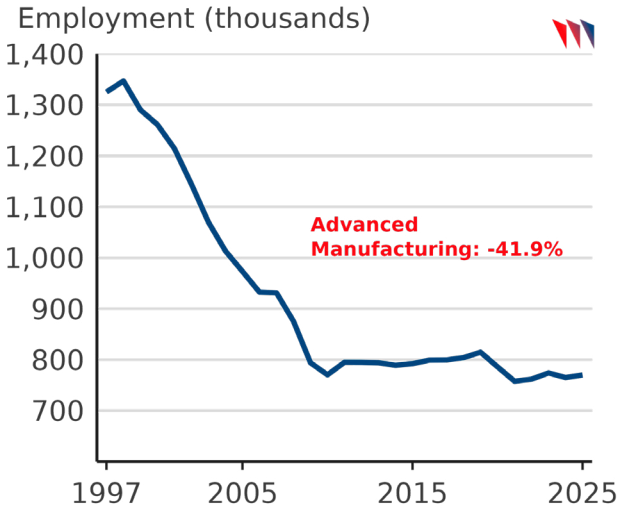


Figure 7: Advanced Manufacturing sector employment has declined by 41.9% since 1997



Source: ONS GDP output approach – low-level aggregates, 2023 prices (2023=100). ONS JOBS03: Employee jobs by industry, JOBS04: Self-employment jobs by industry.

Each job in Advanced Manufacturing now generates considerably more economic output than it did nearly three decades ago. This reflects a sector that has automated, specialised, and moved up the value chain, generating more economic value from a smaller workforce, but also one where the offshoring of more labour-intensive production has contributed to rising productivity.

Views from the Advanced Manufacturing sector

During sector roundtable engagements, Advanced Manufacturing businesses strongly supported the direction of the IS but warned that momentum must be maintained amid slower than expected delivery. High energy costs were cited as the biggest challenge, with existing interventions seen as too limited and slow to influence investment. Businesses also highlighted opportunities from skills reform, AI and wider technology adoption, better support for SMEs, and a stronger focus on supply-chain resilience.

Businesses in Northern Ireland reflected difficulties of turning their strong aerospace supply chain into work with primes across the whole of the UK. They emphasised the importance of building on existing assets or mechanisms rather than new programmes (such as the four NI City & Growth Deals). The sector warned that entrenched global supply chains will make domestic alternatives hard to sustain commercially without stronger incentives and policy or procurement signals to use them. Despite this, larger firms in the sector have a greater appetite to engage with innovative suppliers and R&D.

R&D activity was well recognised by businesses in Scotland, but they noted they are yet to see the factory development and supply chains that should follow. SMEs in critical technologies raised the importance of shared infrastructure for their growth as building their own is often beyond their reach. Businesses recognised the strength in the IS in picking up industrial strategy sector clusters across different regions but stressed that these sector strengths should continue to be understood through functional economic geographies rather than administrative boundaries.

The South Wales compound semiconductor cluster shows strong export performance and clear alignment with the IS. However, businesses in Wales identified a gap between digital and manufacturing policy that is limiting coordinated growth. Businesses also saw an opportunity for Wales to lead on the domestic recycling of critical inputs and suggested that progress measures should capture value retained in manufacturing as well as IP creation.

Clean Energy Industries

Clean Energy Industries are central to the UK's ambition to become a global clean energy leader by 2035, with annual investment targets in frontier industries expected to double to over £30 billion. Since July 2024, £100 billion of private investment has been announced across the sector, while deployment investment more than doubled from £7 billion in 2024 to £15.6 billion in 2025, creating opportunities for domestic manufacturing and supply chain growth. The Clean Energy Jobs Plan was published on 19 October 2025.

Government support is strengthening wind, hydrogen, fusion, nuclear fission, heat pumps and Carbon Capture, Usage, and Storage (CCUS). Key measures include Great British Energy's £1 billion supply chain programme, record offshore wind capacity through Allocation Round 7, £204 million for the Clean Industry Bonus, £2.5 billion for the UK Fusion Strategy, and the Warm Homes Plan. Major projects include new nuclear small modular reactors (SMRs) in Wylfa, CCUS clusters under construction, and manufacturing investments from Vestas, Schneider Electric and others.

Year two delivery will focus on further investment in offshore wind and networks, expanding clean energy supply chains, supporting heat pump manufacturing, progressing hydrogen and CCUS plans, and growing UK industrial capacity in fusion, cables and transformer manufacturing.

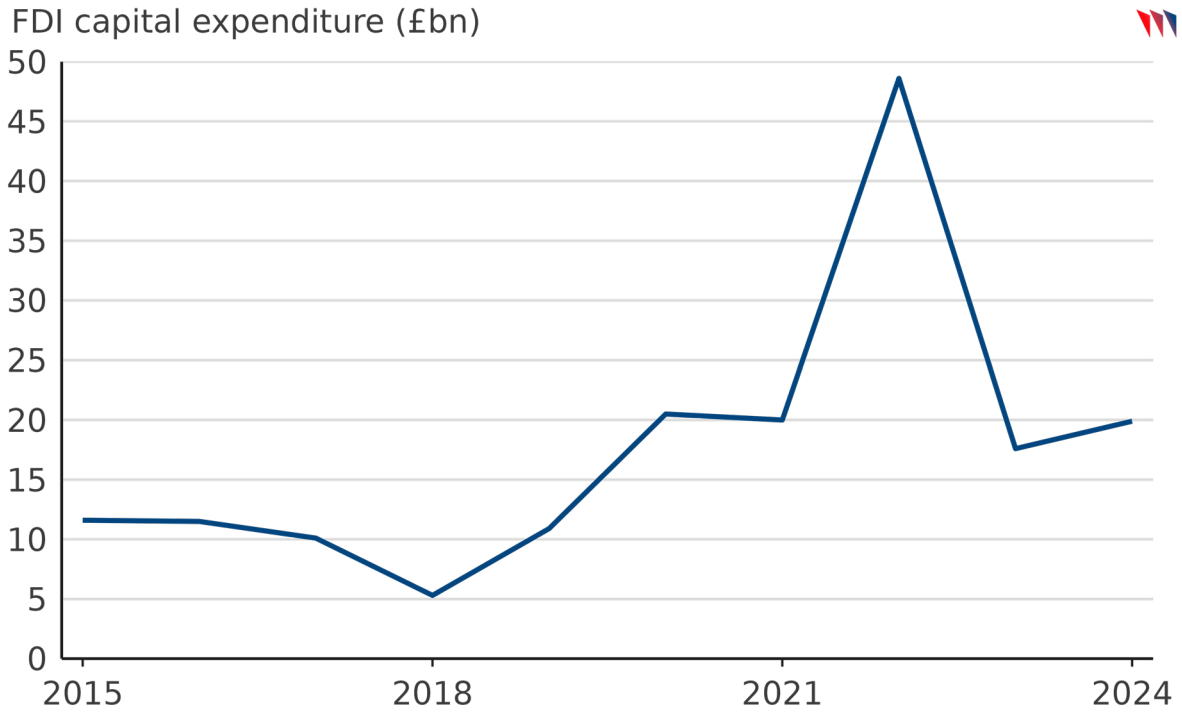
Clean Energy Industries – Economic Indicators (2024)

LCREE Turnover	LCREE Employment (workers in employment)	Foreign Direct Investment	Number of LCREE Businesses
£77bn	304,000	£19.9bn	118k
▲ +11.8%	▼ -4.1%	▲ +13.5%	▲ +24.8%

Low Carbon and Renewable Energy Economy (LCREE). Arrows show the percentage change from 2023 to 2024. LCREE turnover is in current prices.

Source: ONS LCREE, UK: 2024. Office for Investment, ISAC analysis of subsector Greenfield FDI 2003 to 2024 using fDi Markets subsectors mapped to the Clean Energy Industries sector.

Figure 8: UK Clean Energy Industries FDI capital expenditure remains around double its pre-2020 level, highlighting sustained international investor confidence in the sector



Source: Office for Investment, ISAC analysis of subsector Greenfield FDI 2015 to 2024 using FDI Markets subsectors mapped to the Clean Energy Industries sector.

Investor confidence in the UK's clean energy industries remains robust, reflected in sustained levels of foreign investment since 2020. Although project numbers continue to grow, the exceptional capital expenditure recorded in 2022 was driven by several large investments.

Views from the Clean Energy Sector

Clean Energy businesses reported that high energy costs, grid constraints and regulatory uncertainty are undermining investment incentives. Skills shortages and the workforce transition were also major concerns raised at the sector roundtable, particularly in electrical and clean energy occupations and in supporting workers moving from fossil-fuel industries into secure, high-quality jobs. Businesses added that affordability and delivery challenges are slowing consumer adoption and limiting how widely the benefits of the transition are felt.

In Northern Ireland, businesses were enthusiastic about the opportunities of the energy transition and the movement of workers from established energy industries into emerging sectors such as offshore wind. Businesses raised the need for government to move beyond funding innovation to helping create viable markets and order books for commercial products through public procurement and market shaping. Businesses in Scotland highlighted Allocation Round 7 as evidence that clear, long-term policy unlocks investment, with strong demand for the next round anticipated. However, they noted ports faced a “chicken and egg” problem on floating offshore wind: they cannot invest without firm developer commitments, and developers will not commit until infrastructure is visible. Businesses suggested public finance could play a role in breaking this deadlock.

Welsh businesses recognised that the IS has helped bring funding for offshore wind. However, they felt funding pots remain small and fragmented, and supply chain activity has yet to reach North Wales. Uncertainty over energy policy and targets, together with grid constraints, means significant potential investment in Wales is on hold. Ports face the same barriers seen elsewhere and without firm commitments from developers, the risk of investing ahead of demand is too high. Renewables funding was also described as hard to access, and one scale-up seeking significant capital told us international discussions were moving faster than those with UK bodies. Businesses also stressed the importance of supporting existing energy jobs, including in oil and gas, so that skilled workers can move into new sectors over time.

Creative Industries

By 2035, the UK aims to strengthen its position as a global creative superpower and become the leading destination for investment in creativity and innovation. The Creative Industries sector is expected to increase business investment to £31 billion, supported by strong recent growth, with the sector expanding by 3.1% in Q1 2026, ahead of the wider UK economy. Key government-backed initiatives include:

- Empowering mayors to design interventions for creative businesses and freelancers through the £150 million Creative Places Growth Fund. This consists of £25 million allocations for Greater Manchester, Liverpool City Region, North East, West of England, West Midlands, and West Yorkshire
- More than 80,000 young people taking part in activities during Discover! Creative Careers Month, in November 2025, involving over 1,200 schools and 600 employers, with industry contributing an estimated £1.5 million in support.
- A British Business Bank commitment of up to £45 million to Redrice Ventures and working capital for Allegro Finance's UK film and TV lending platform through Beechbrook Capital, and support for a £2.6 million equity investment for Edinburgh-based entertainment tech company Esk Film Services to help the company scale its global live entertainment experiences.

Year two delivery will focus on the expansion of Creative Industries R&D nationwide, through additional CoSTAR labs and a new wave of R&D clusters in early 2027. The National Centre for Arts and Music Education will launch by the end of 2026, alongside delivery of a refreshed Creative Careers Service and the rollout of Skills Passports. The first phase of three-year growth packages for Screen (£75 million), Video Games (£30 million), and Music (£45 million) will also be delivered.

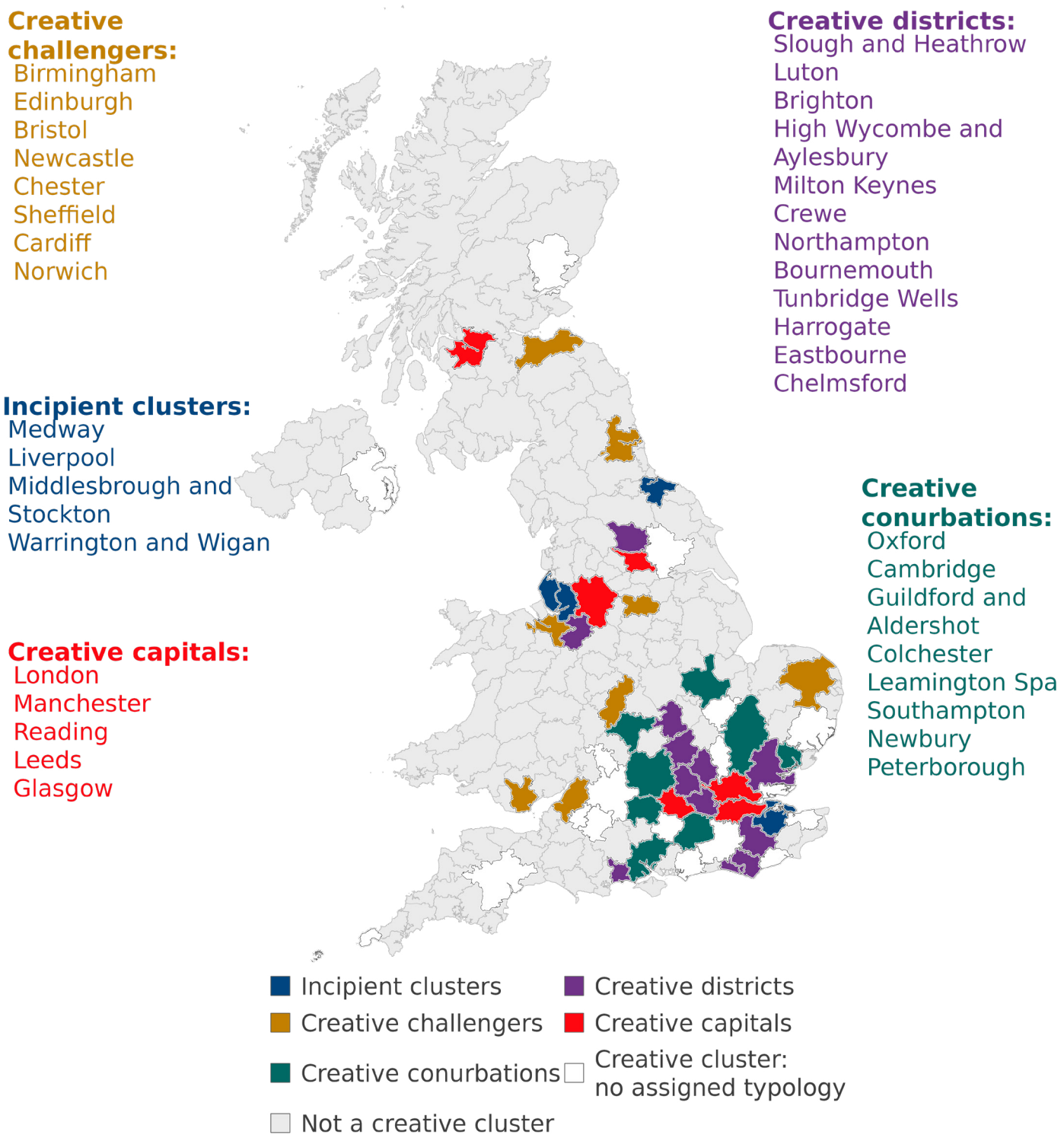
Creative Industries – Economic Indicators (2024)

Gross Value Added	Employment (filled jobs)	Business Investment	Productivity (output per worker)
£145.8bn	2.41m	£17.8bn	£67,610
▲ +4.6%	–	▼ -5.1%	▲ +3.2%

Metrics shown are in current prices. Arrows show the percentage change from 2023 to 2024 in chain volume measures.

Sources: DCMS Economic Estimates: Gross Value Added for DCMS sectors and subsectors 2024, current prices, 2023 prices. ONS Annual Population Survey, ONS Labour Force Survey. ONS Business Investment (annual Gross Fixed Capital Formation, Volume Index Capital Services), current, 2024 prices. ONS Low-Level Aggregates and Productivity Jobs, 2023 prices. These estimates are derived from annual ONS data of the whole economy, revisions can occur when official statistics are published.

Figure 9: A typology of creative clusters across the UK



Source: DCMS Understanding the growth potential of creative clusters - GOV.UK, Frontier Economics and Mateos-Garcia et al (2018). Recreated October 2026 by ISAC.

The UK Creative Industries sector is strongly clustered geographically, with 83% of employment concentrated in 55 creative clusters across the country[89]. Nesta classifies these as incipient clusters, creative districts, conurbations, capitals and challengers, reflecting differences in business size, stability, specialisation and growth. **These clusters vary in maturity and growth potential, ranging from emerging hubs to established creative capitals that support large numbers of businesses and jobs.**

Views from the Creative Industries sector

Creative Industries businesses broadly welcomed the IS' recognition of the sector and its focus on growth, but stressed that the priority now is translating commitments into visible delivery. Stakeholders highlighted the importance of policy certainty, particularly around copyright and IP in the context of AI, alongside more accessible and flexible funding and business support. Skills and workforce challenges were also prominent, with businesses calling for greater flexibility in apprenticeships and training to reflect freelance and project-based working, alongside stronger careers and work-experience pathways. Businesses also emphasised the need to support the smaller firms and creative activity that underpin sector growth, while maintaining a clear focus on areas of genuine competitive advantage.

Wales has a large and successful creative ecosystem. Businesses cited creative tax incentives as the kind of bold policy change that allows firms to act and noted that strong skills initiatives in the sector rely too heavily on sponsorship.

Defence

The UK aims to become a defence industrial leader by 2035, with a stronger, more competitive and resilient defence sector that supports national security, exports, innovation and regional growth. Recent global instability, including conflict in Ukraine and tensions in the Middle East, highlights the importance of overcoming recent drops in productivity and increasing industrial strength to both economic and national security.

Key progress includes major export wins, such as the £8 billion Typhoon agreement with Türkiye, advances in counter-drone technology, and continued delivery of AUKUS. Government support includes the Defence Investment Plan, a £50 billion Defence Export Fund, at least £400 million annually for UK Defence Innovation, £250 million for five regional Defence Growth Deals, new Defence Technical Excellence Colleges and a Defence Universities Alliance.

Further initiatives have been introduced to support SMEs, start-ups and emerging technologies, including the Defence Unicorn Fund, new procurement routes and Europe's largest drone testing centre in Swindon. The focus should now be on delivering outcomes. Year two delivery will focus on scaling UK Defence Innovation, reforming procurement so contracts can be awarded faster, reducing barriers for suppliers, and strengthening the UK's defence industrial base.

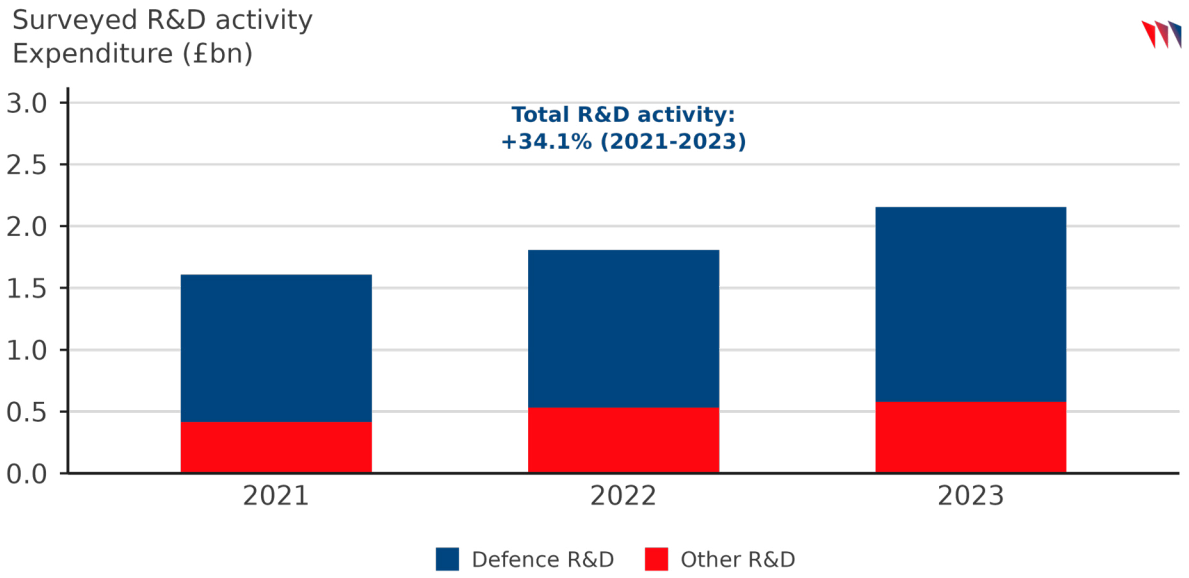
Defence – Economic Indicators (2025)

Gross Value Added	Employment (workers in employment)	Exports (5-year average)	Productivity (output per worker)
£15.8bn	189,500	£10.8bn	£83,400
▲ +6%	▲ +7%	▲ +16%	▼ -1%

Metrics shown are in current prices. Arrows show the percentage change from 2024 to 2025 in current prices.

Source: ADS group, UK Defence Sector Outlook 2026, UK Defence Sector Outlook 2025.

Figure 10: Between 2021 and 2023, total R&D activity by surveyed companies increased by 34.1%, from £1.61 billion to £2.15 billion



Source: The Joint Economic Data Hub 2025.

The Defence sector expanded between 2022 and 2023, with marked growth in employment alongside rising surveyed R&D activity. This points to a sector increasing both its workforce capacity and innovation investment, supporting its role as a driver of UK industrial and economic strength.

Views from the Defence Sector

Defence businesses welcomed the sector's inclusion in the IS and recognised its potential to support national security, advanced manufacturing, innovation and regional growth. However, the most consistent message from businesses was that delivery is not yet being felt strongly enough, with slow and risk-averse procurement, unclear routes into the market and limited commercial capacity continuing to constrain SMEs and prevent innovation from translating into larger contracts and scale-up. Businesses called for greater certainty over future demand, faster and simpler procurement, stronger export and partnership support, and more coordinated action across the government to build sovereign capability, skills and resilient UK supply chains.

The Defence Growth Deal was welcomed as a major opportunity to position Northern Ireland as a long-term contributor to UK defence and resilience but time has drifted on and pace has slowed on this deal being realised. Businesses also want clearer signals from the Ministry of Defence on demand. Procurement remains a critical barrier, as many SMEs are too small to compete alone and require clearer signals on future requirements or how their capabilities could contribute. There was strong support for SME consortia and for a Defence "Hub of Impact" building on Northern Ireland's success in cyber.

In Scotland, where Glasgow City Region has one of the UK's largest clusters of defence-related employment, stakeholders suggested that investment should focus where civil and defence technologies, infrastructure and supply chains overlap. Welsh companies saw supply chain resilience as a cross-sector issue critical to supporting small businesses and building the ecosystem around an industry and as such were focused on understanding their capabilities before looking at building resilience.

Digital and Technologies

The UK has a strong track record in science and innovation and a globally competitive Digital and Technologies sector, employing around 1.33 million people and generating an estimated £157.8 billion in GVA. The sector is highly innovative and investment-intensive, accounting for 41.0% of patents granted by the UK Intellectual Property Office and 29.9% of university spinouts in the UK. However, challenges remain in scaling firms, accessing late-stage finance, and retaining listings domestically. The Digital and Technologies sector plan sets out how the UK will become a top global hub for creating, scaling and investing in tech businesses by 2035, with the government driving growth, productivity and economic security through action across the following areas:

- **Boosting R&D and innovation:** the government is increasing public R&D investment to £22.6 billion annually by 2029/30 with nearly £4 billion committed to the Digital and Technologies sector plan frontier technologies by UKRI.
- **Improving access to finance:** committing an additional £4 billion to the British Business Bank to catalyse investment and investing £500 million in Sovereign AI to give AI start-ups the capital and resources they need to scale in the UK.
- **Creating a skilled workforce:** delivering large-scale training and AI upskilling, while attracting global talent, alongside the Digital and Technologies Jobs Plan, which was published on 21 October 2026.
- **Enhancing infrastructure:** investing in the UK's AI compute capacity, digital networks, and faster electricity grid access for businesses.
- **Developing international partnerships:** deepening collaboration with global partners and striking new agreements to help scale UK technologies, anchor investment and market access.
- **Reforming regulation:** introducing pro-innovation regulation via the Regulatory Innovation Office.
- **Improving government procurement of innovation:** including a world-first commitment of up to £1 billion to procure large-scale quantum computers in the early 2030s.
- **Driving adoption of frontier technologies:** including through expert AI Champions across IS8 Sectors and publishing their independent sector plans.

Digital and Technologies – Economic Indicators

Gross Value Added (2024)	Employment (2024)	Equity Investment (2025) (non-publicly listed companies)	Productivity (2024) (GVA per employee)
£157.8bn	1.3m	£8.3bn	£119,000

Growth rates are not available, as the first statistical release using this methodology was published in June 2026.

Source: Digital and Technologies Sector Statistics, Volume 1 (2026). Estimates are based on a company-list definition comprising the six frontier technologies and the wider digital element of the sector.

Figure 11: The UK attracted substantial Digital & Technologies FDI capital expenditure in 2024, reflecting a sharp increase on previous years

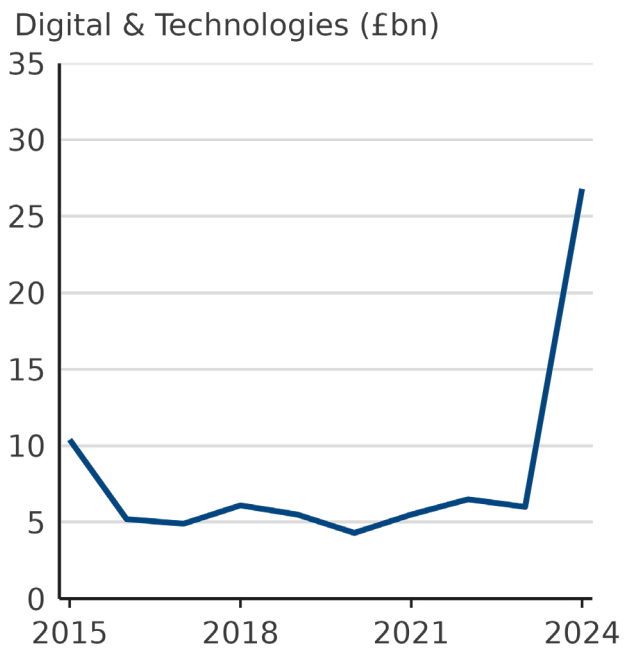
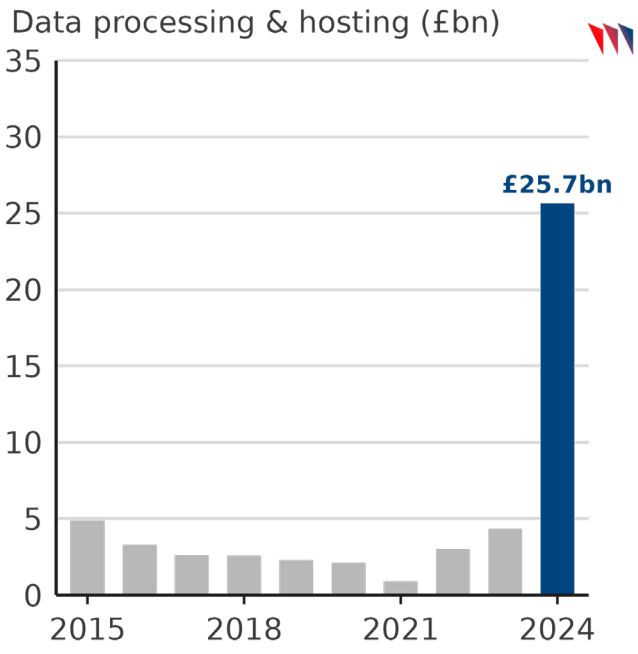


Figure 12: Data processing, hosting, and related services drove the sharp rise in FDI capex in 2024, largely reflecting large-scale "mega-projects", particularly in semiconductors and data infrastructure



Source: ISAC Analysis of subsector Greenfield FDI capital expenditure 2015 to 2024, Office for Investment. A proxy definition of the Digital and Technologies sector was used in this analysis to allow for international comparisons.

The UK's position suggests it remains a leading European destination for major digital and technology investment, despite strong competition from larger G7 economies. The 2024 spike appears highly concentrated in a small number of capital-intensive projects, meaning recent growth may reflect strategic infrastructure investment rather than broad-based expansion across the sector.

Views from the Digital and Technologies Sector

At the sector roundtables Digital and Technologies businesses stressed the need for policy frameworks to keep pace with rapid technological change and the growing importance of national security and resilience. It was highlighted that although access to funding has improved, gaps persist for growing and mid-sized firms. Stakeholders also identified tensions between policy objectives, including AI adoption and employment, regulatory divergence and alignment with the EU, and migration policy and access to skills.

Cyber and AI are strengths in Northern Ireland, however, stakeholders felt that flagship interventions such as AI Growth Zones do not translate cleanly to its economic structure which reiterates the importance of place-based approaches. The AI Collaboration Centre was cited as a targeted model that works. Businesses stressed that the rapid increase in demand for AI related skills has led to a wider challenge in requiring new entrants with appropriate capabilities and existing employees who can adapt to and adopt AI effectively. Upskilling the existing workforce was argued as the priority for businesses.

Stakeholders in Scotland raised concerns that the public case for data centres is being lost, despite their importance to sovereign capability, pointing to brownfield sites and closed-loop cooling as part of the answer. They also called for greater recognition of wireless, mobile and space communications as critical infrastructure. Welsh businesses would welcome closing the gap and ensuring a connection between the digital strategy and the manufacturing plan, which is most visible in semiconductors.

Financial Services

The government's ten-year ambition is for the UK to be the world's leading destination for financial services investment by 2035. One year after the publication of the Financial Services Growth and Competitiveness Strategy, progress has been made in strengthening competitiveness, supporting innovation, and enhancing the sector's contribution to economic growth across the UK.

To deliver a competitive regulatory environment, the Financial Services and Markets Bill introduced on 19 May 2026 aims to create a more proportionate and growth focused framework, reducing burdens on firms, and increasing access to finance.

The UK has advanced measures to support innovation, including a new regulatory framework for crypto assets, the digitalisation of financial markets, and initiatives to help high-growth and fintech firms scale. Reforms to pensions, retail investment and capital markets are intended to increase investment in UK businesses.

The government has also prioritised skills development and financial services clusters to ensure growth is distributed across the UK, alongside publishing the Financial Services Skills Compact on 14th July 2026. Early indicators show positive momentum, including growth in financial services exports, continued investment across regional centres, and strong capital-raising activity.

Financial Services – Economic Indicators (2025)

Gross Value Added	Employment (workers in employment)	Business Investment	Productivity (output per worker)
£223.7bn	1.1m	£17.1bn	£199,310
–	▼ -3%	▼ -4.2% (to 2023)	▲ +2.8%

Metrics shown are in current prices. Arrows show the percentage change from 2024 to 2025 in chain volume measures except business investment which compares 2023 to 2025.

Source: BIST, ONS GDP output approach – low-level aggregates, current prices, 2023 prices. ONS Pay As You Earn Real Time Information (HMRC). ONS Business Investment (annual Gross Fixed Capital Formation, Volume Index Capital Services), current prices, 2024 prices. ONS Low-Level Aggregates and Productivity Jobs, current prices, 2023 prices. These estimates are derived from annual ONS data of the whole economy, revisions can occur when official statistics are published.

Figure 13: Financial Services performance has been considerably below that of the rest of the economy since 2010

Cumulative real output growth since 2010

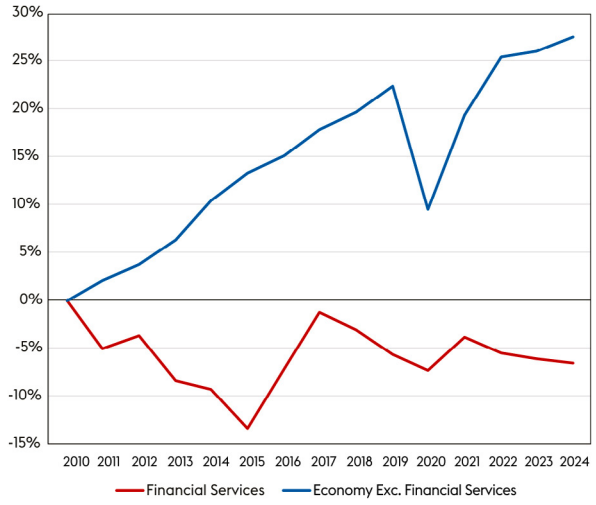
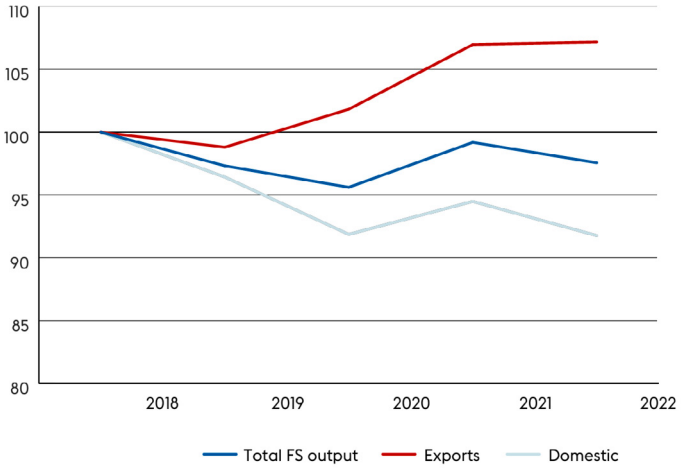


Figure 14: Financial Services exports have grown in recent years, becoming more internationally focused

Financial Services Real Output Index (Base 2018=100)



Source: HMT analysis – Financial Services – Growth & Competitiveness Strategy[90] (Technical annex).

Despite a slowdown in the sector's performance, growing global markets provide an opportunity for UK financial services growth.

Views from the Financial Services Sector

At sector roundtables, Financial Services businesses broadly supported the IS as a driver of long-term certainty, while noting that political and economic uncertainty continues to affect confidence. Stakeholders described AI as a defining strategic issue, raising questions about UK competitiveness, workforce impacts and regulatory readiness. Persistent barriers to scaling and investment, particularly for fintechs and SMEs, were also emphasised, with regulation viewed as both a constraint and a potential enabler. For Scottish business, explicit public-private financing models would be welcome, along with strong partnership working to ensure national and local government interventions are aligned.

Life Sciences

One year after publication, the Life Sciences Sector Plan is delivering tangible progress towards the ambition of making the UK the leading life sciences economy in Europe by 2030 and the third strongest globally by 2035. The UK remains a European leader in pharmaceutical R&D investment and over £4 billion of life sciences public-private investment has been announced since the publication of the sector plan.

Delivery has focused on three pillars: enabling world-class R&D, supporting businesses to start, grow and invest, and driving health innovation through NHS reform. Clinical trial performance has improved significantly, with average set-up times falling from 169 to 122 days. The Life Sciences Jobs Plan was also published on 9 July 2026.

The UK has strengthened its research and innovation ecosystem through the creation of the Health Data Research Service, expansion of genomics programmes and increased support for high-growth firms. Alongside this, reforms to National Institute for Health and Care Excellence (NICE), Medicines and Healthcare products Regulatory Agency (MHRA) and NHS procurement are helping innovative medicines and health technologies reach patients faster.

While strong foundations have been established, businesses highlighted that delivery and faster adoption of innovation will be essential to improve patient access and maintain the UK's competitiveness in an increasingly challenging global market.

Life Sciences – Economic Indicators (2024/25)

Turnover	Employment (workers in employment)	Pharma R&D Expenditure	Productivity (output per worker)
£125.8bn	306,650	£9.3bn	£263,360
▼ -1.2%	▼ -2.1%	▲ +8.1%	▼ -3.5%

Metrics shown are in current prices. Arrows show the percentage change from financial year 2023/24 to financial year 2024/25. Data for Pharmaceutical subsector R&D expenditure is for 2024 only, the arrow shows the percentage change from 2023 to 2024 in current prices.

Source: OLS Bioscience and health technology sector statistics 2024/25, ONS Business enterprise research and development, UK 2024, 2023. ONS Output per job by division, UK. Some estimates are derived from annual ONS data of the whole economy, revisions can occur when official statistics are published.

Figure 15: The UK is a world-leading centre for life sciences discovery research, with one of the world's highest shares of medical sciences publications among the top 1% most cited globally

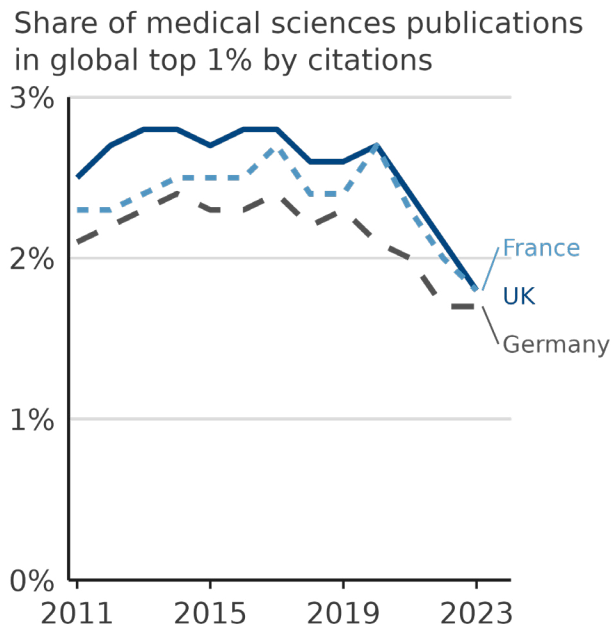
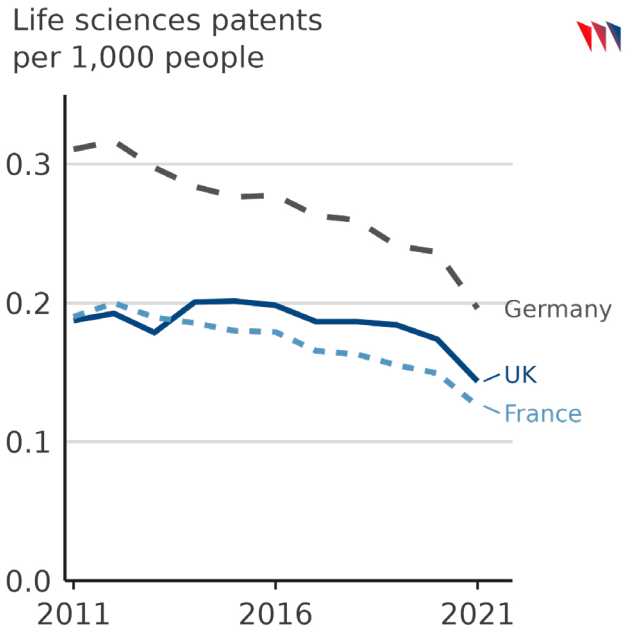


Figure 16: With declining UK patent intensity, the UK may be stronger at generating scientific breakthroughs than at commercialising research



*Source: ISAC analysis of Office for Life Sciences, Life Sciences Competitiveness Indicators 2024. *US excluded due to its significantly larger economy, which can distort comparisons between European countries.*

The UK life sciences sector remains highly competitive in discovery research, with strong global performance in high-impact medical science publications. However, falling UK patents per 1,000 people indicates that this research strength is not translating as effectively into commercial outputs. The key challenge is therefore to convert the UK's scientific excellence into stronger innovation, IP and scale-up outcomes.

Views from the Life Sciences Sector

Life sciences businesses expressed strong support for the IS and Life Sciences Sector Plan at roundtables. Positive progress was welcomed in clinical trials, manufacturing investment, regulatory engagement and the UK's attractiveness to investors, as well as the government's response to tariffs. Access to finance was cited as a barrier to growth, alongside concerns about adoption, workforce pressures and maintaining life sciences expertise across government.

Northern Ireland's comprehensive health data makes it a potential test bed for innovation that could scale elsewhere, but businesses reported difficulty engaging with multiple regulators and UK health bodies, which slows progress and makes the landscape more complex.

Businesses in Scotland welcomed the shifts in the 10-Year Health Plan and pointed to early signs of progress but adoption of new technology across a highly stretched NHS remains slow. A shortage of wet lab space for start-ups was also raised, with public intervention seen as necessary where commercial returns are too low.

For Wales, there is huge potential from the clusters to contribute to UK growth, but businesses warned that investment will go elsewhere without the right conditions – and this requires a strong national and devolved partnership to make sure those conditions are in place.

Professional and Business Services

The Professional and Business Services (PBS) sector is a core part of the UK economy, contributing £326 billion in GVA in 2025 and acting as a key enabler of productivity, trade, and innovation across all industries. The UK is the second-largest exporter of PBS services globally, and exports have grown substantially in recent years. The PBS sector plan aims to make the UK the world's most dynamic PBS centre by 2035, with a commitment to double investment to £65 billion by:

- **Accelerating technology adoption and innovation:** creating hubs, sandboxes, and data-sharing initiatives to support innovation.
- **Building skills and workforce capacity:** expanding apprenticeships, and targeted training and address skills shortages in digital, climate and professional services roles.
- **Boosting exports and global access:** removing market access barriers, expanding trade agreements and recognition of qualifications, and increasing overseas promotion, missions and export finance support.
- **Improving access to finance and business environment:** expanding British Business Bank support, enabling IP-based lending, reforming procurement to support SMEs and attracting inward investment.
- **Strengthening regional clusters and frontier industries:** establishing PBS hubs in key regions and supporting high-growth subsectors such as legal services and consultancy.

Professional and Business Services – Economic Indicators (2025)

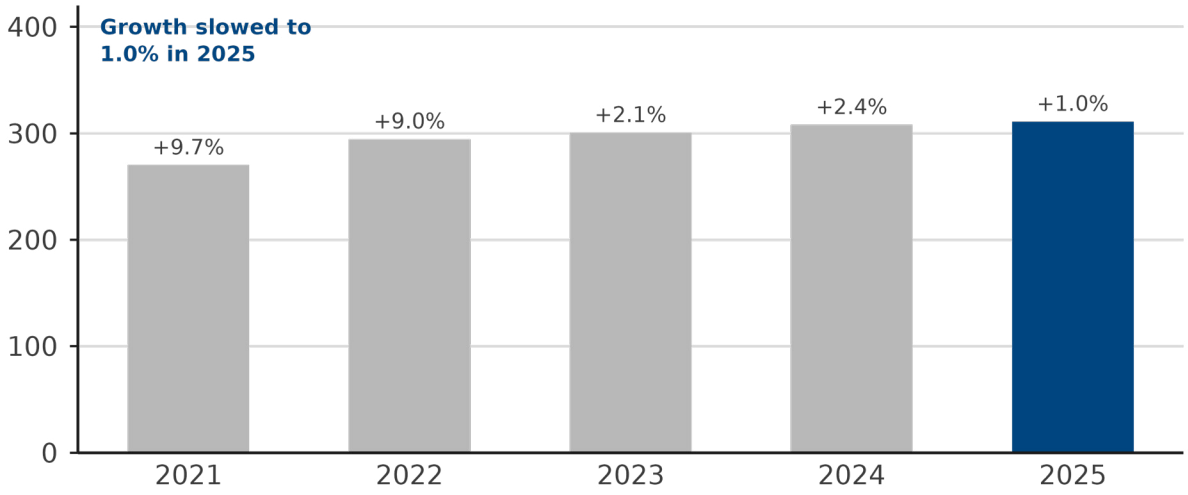
Gross Value Added	Employment (workers in employment)	Business Investment	Productivity (output per worker)
£326bn	5m	£58.3bn	£65,448
▲ +1%	▼ -0.7%	–	▲ +1%

Metrics shown are in current prices. Arrows show the percentage change from 2024 to 2025 in chain volume measures.

Source: BIST, ONS GDP output approach – low-level aggregates, current prices and 2024 prices. ONS JOBS03: Employee jobs by industry, JOBS04: Self-employment jobs by industry. ONS Business Investment (annual Gross Fixed Capital Formation, Volume Index Capital Services), current prices and 2024 prices. ONS Output per job by division, UK. These estimates are derived from annual ONS data of the whole economy, revisions can occur when official statistics are published.

Figure 17: The PBS sector is one of the UK's largest sectors, but has seen muted growth in the past three years

PBS gross value added (£bn, chained volume measures), 2021–2025. Labels show annual growth (%).



Source: BIST analysis of ONS GDP output approach - low-level aggregates (chart: chained volume measures, 2023 prices, text figures: current prices). Estimates are derived from annual ONS whole-economy data and may be revised when new official statistics are published.

The sector generated £326 billion of GVA in 2025, the largest of any other IS8. PBS is not just a large service sector, it is one of the UK's biggest employers and investors, underpinning growth across the wider economy, as noted in the the PBS Jobs plan, which was published on 19 October 2026. As noted in the PBS sector plan, AI has the potential to raise productivity across the professional and business services sector by reducing the time required for research, analysis and administrative tasks, allowing firms to deliver more output with the same workforce.

Views from the Professional and Business Services Sector

PBS businesses were broadly supportive of the IS' sector-focus and ambitions for structural change but emphasised the need for increased coordination across government on IS delivery, stronger focus on long-term competitiveness, and greater policy coherence. For Scotland, businesses were welcome of the recognition of the sector in Edinburgh and Glasgow but called for more detailed propositions on skills pipelines and targeted investment. Similar to other sectors, Scottish businesses questioned what reindustrialisation will look like in a devolved context where economic growth will come mainly through services.

Skills emerged as a major theme across the sector and places engaged, with AI reshaping workforce needs. To support the transitions driven by technological change, businesses stressed the need for the government and employers to better anticipate future skills requirements, improve talent attraction through visa policy, and put greater emphasis on lifelong learning, alongside early career entry.

Endnotes

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