

Committee(s): Policy and Resources Committee – For Information	Dated: 08/06/23
Subject: Innovation and Growth (IG) performance (FPS)	Public
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?	6,7,8
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain’s Department?	N/A
Report of: Damian Nussbaum, Executive Director, IG	For Information
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Summary

This report summaries the performance of the Innovation & Growth Department’s (IG) Financial and Professional Services (FPS) related activity across the 2022/2023 Financial Year.

Recommendation(s)

Members are asked to:

- Note the report.

Main Report

Background

1. The Innovation & Growth (IG) Directorate has key roles to play in driving economic prosperity across the Square Mile, London and the wider UK. It does this by:

- Maintaining London and the UK’s position as the world’s leading financial and professional services centre.
- Helping to deliver a Climate Action Strategy (CAS) for both the City of London Corporation (CoLC) and the Square Mile.
- Working to attract leisure tourism to the Square Mile through our Destination City programme (DC).

2. The work of the Directorate is fuelled by robust research, a marketing and communications strategy and a CoLC wide business engagement strategy.
3. The Committee asked for a report back on IG's work on FPS, including with reference to overseas offices.
4. The paper below relates only to the FPS work of the IG, with both CAS and DC reporting separately to the Committee.

Current Position

Competitiveness

5. IG works to strengthen the UK's competitiveness as the world's leading global hub for financial and professional services. The department works with government and industry to accelerate sustainable growth through financial and professional services innovation and the use of technology, boosting the competitiveness of the UK's world-class business environment, maximising market access for UK-based financial and professional services firms, promoting global recognition of the UK's world-leading FPS offer in key markets, and cultivating strong, strategic, outcome focused relationships with key stakeholders. IG promotes the UK's exceptional financial and professional services sector abroad and works to strengthen global trading relationships that will see the UK continue to thrive into the future.
6. This allows us to strengthen and promote the UK as:
 - **Open** – the UK has a global outlook, expertise and reach.
 - **Innovative** – the UK's financial and professional services are at the forefront of tech adoption and innovation.
 - **Sustainable** – the partner of choice for capital and expertise on green and social impact finance.
7. IG's priorities were chosen because the domestic and global context in which the UK's FPS and tech sector operates is changing rapidly and significantly. These developments present an unprecedented opportunity for the industry. Yet there are also a set of challenges and threats to its historical strengths. Our priorities are therefore those identified in the creation of the Competitiveness Strategy.
8. An example of our current work is the Corporation is developing a sector-led vision for how the financial and professional services sector across the UK will drive growth at home and for its global customers. As a champion of UK financial and professional services, the Corporation has an important role in supporting the sector. Politically neutral and independent of member interest, it is well placed to convene all parties across government and industry and catalyse a shared strategy and detailed roadmap for implementation.

9. *Finance for growth: A roadmap*, will set out long-term plans to reinforce and renew the UK's role as a global financial centre. In the face of increasing international competition, it will provide a pathway to continued success for the rest of the decade.
10. Using robust evidence and research, we will make recommendations for regulatory reform in UK FPS, focusing on tech/innovation, sustainable finance, a competitive marketplace and international promotion. The aim is to ensure the UK FPS sector is best in class internationally and able to contribute positively to the UK economy and global growth for the rest of the decade.

Sustainable Finance

11. IG promotes the UK's leadership and provision of a one-stop shop; the go-to partner for countries and companies, looking for capital and expertise, to help them meet their sustainability goals. Our Net Zero Delivery Summit, now in its second year in 2023 brings together global voices to advance better transparency, comparability, and credibility in the global sustainable finance agenda and market.

Innovation and Tech

12. IG aims to nurture innovation in financial and professional services through the use of technology. We have recently established the Centre for Finance Innovation and Technology which will work to bring the ecosystem together in time bound coalitions to address barriers and capture opportunities for growth from the use of financial and professional services technology. It is an organisation that is unique to the UK.
13. IG also works to plug the growth finance gap for FPS Tech, introduce globally pioneering digital regulation and become the first-choice location for FPS Tech firms.

Performance against KPIs

14. IG has number of Key Performance Indicator within Financial and Professional Services (FPS) that we measure the Department's performance against and are captured in the [Departmental Business Plan](#).

15. IG's major priorities for 2022/2023 were:

- i. **Nurture an innovative ecosystem** and integrating technology across UK FPS. Supporting tech to scale and ensuring the greater availability of green and impact finance and services from the UK.
- ii. **Attract and retaining firms' talent capital and export proposition.** Increasing UK share of global Assets Under Management (AUM) and driving cross UK growth for tech. Increasing inclusion in the FPS and tech sector.
- iii. **Retain a world-class business environment** by increasing access to talent, strengthening the international competitiveness of UK FPS policy and regulation. Protecting and increasing access to key jurisdictions with a particular focus on digital trade.

16. As per above, the data and performance analysis below related only to FPS with the CAS and DC teams reporting separately.

Key Performance Indicator	Current Performance (2022)	Direction of Travel /Target	March 2023 Benchmarking Position	Narrative on March 2023 Position	Achievements in support of KPI in 2022-2023
Composite (Various drawn from 95 indicators)	1 in rank 61/100; 58/100 in previous year	Retain No 1 Position	Now joint 1st in rank and London/New York score is 60/100	Joint first with New York, up one point from last year. Actual point spreads are not major but ones to watch. London appears to be falling behind most on Sustainable Finance with New	<ul style="list-style-type: none"> • Benchmarking 2023 • State of the Sector 2023

				York and attractiveness to talent across the centres.	
Mobilisation of green and impact finance from the UK (Refinitiv)	<p>Sustainable Loans: £21.5bn GBP; 12% growth from previous</p> <p>Size of Green Funds: £21bn GBP; 116% growth from previous.</p> <p>Issuance of Green and Sustainable Bonds: £12bn USD; 52% growth from previous</p>	Positive trajectory in relation with other centres	<p>Sustainable Loans: £52bn in 2021, a 140% increase.</p> <p>Responsible Investment funds Assets under management (AUM): £91bn Dec 2022. Unchanged from 2021 (IA)</p> <p>Green bond issuance: \$35bn issued in 2021, a 500% YoY increase. Total outstanding Green bonds \$50bn.</p>	<p>The UK has seen an increase in green finance activity across capital markets, but still lags other financial centres. Government issuance is lower than in the US or EU; £16bn of green gilts were issued in 2021 with £10bn of issuance planned for 2022-23. AUM in Responsible funds was unchanged in 2022 as positive sales flows (£5bn) were offset by negative performance.</p>	<ul style="list-style-type: none"> • HMG announcement of voluntary carbon market (VCM) consultation • Launch of new VCM designation by LSEG • Hosted the Net Zero Delivery Summit in partnership with the COP26 Presidency – a platform to spotlight the role of financial services and the UK to a global audience, and discuss priorities and challenges. Prime Minister attended to hear senior industry views. • IRSG mandated by FCA to develop industry Code of Conduct for ESG Ratings and Data. • HMT announced action in renewed Green Finance Strategy on key priorities that CoLC advocated for (TPT, Taxonomy, ISSB standards) • Launched the Just Transition Finance Challenge in partnership with the Impact Investing Institute, which aims to recognise firms that commit to embed just transition considerations into their investment decisions. 20 firms are signatories as of now

<p>Global share of AUM (Willis Towers Watson)</p>	<p>7.2 % 18.6% increase from previous. Global average growth was 14.5%</p>	<p>Rate of UK growth higher than rate of global growth</p>	<p>UK share of global AUM fell in relative terms to 14% in 2021 from 14.7% in 2020 but rose in actual terms to £11.6trn in 2021 from £11trn in 2021. The US increased market share from 44% to 44.6%. Both France and Germany increased market share in 2021.</p>	<p>Growth in AUM over last decade has been supported by strong capital markets performance but we have entered a period of greater volatility and uncertainty which has impacted on AUM growth. AUM growth in UK was weaker than the US and Europe in the last year but the positive is that the UK is highly internationalised ((46% of clients are overseas) and the rate of AUM growth with these clients is higher (10%) than with domestic (4%) over the last 5 years</p>	<ul style="list-style-type: none"> • Global Investment Futures (GIF) contributed 7 commercial wins/deals • GIF has increased international market engagement with top priority investors (Japan/China/US/Aus)
<p>Drive Investment levels in Tech, with particular focus on FinTech, at all stages (Pitchbook)</p>	<p>FinTech: £5.9bn USD 89% decrease on previous year, every other centre down ex US 31% down. In first half of 2021 has picked up to 24.5bn</p>	<p>10% annual increase</p>	<p>In 2022, fast-growing UK tech companies continued to raise investment at near-record levels (£24bn), more than France (£11.8bn) and Germany (£9.1bn) combined.</p>	<p>Relative is always important here – we are second only to New York and better than next 13 European countries behind so punching above our weight. Currently 10% of global share which is a metric we should be looking at</p>	<ul style="list-style-type: none"> ▪ Agreed mission for and launched CFIT to reduce barriers to growth and investment (Sept 2022 and Feb 2023) ▪ Produced content promoting the strengths of for UK Fin Tech in international and domestic investment (March 2023) ▪ Produced report and conducted political and industry engagement within Growth

				here and elsewhere going forward. That said, some sources say 2022 figures are carrying belated 2021 reported positions so are artificially high. Therefore, watching 2023 with interest.	<p>Capital Initiative to identify collective action to increase domestic institutional flows to high growth companies and landed in Spring Budget (Jan 2023 and March 2023)</p> <ul style="list-style-type: none"> ▪ Held Tech Dinner to celebrate investment in UK Tech and influence media and domestic investors about the value of the sector (March 2023)
Access to International Talent (Institute for Management Development: yearly)	4/7 position of other International Financial Centres 11% increase from previous year, UK has biggest increase of peer IFCs	UK increases faster than peer IFCs	UK ranks 5/7 amongst financial centres. After improving its overall rank in 2021, the UK fell to its lowest ranking in five years in 2022.	New visa routes (Global Business Mobility, High Potential Individual and Scale-up) were launched in 2022 and may take time to have a positive impact. Drivers for fall in ranking include macro factors such as high cost of living, high personal taxes and inflation.	<ul style="list-style-type: none"> • HMT announcement to review short term mobility routes • Report and engagement on cross border remote working
Global recognition of FPS Regulatory Regime (Duff & Phelps)	1 in rank	Retain No 1 Position	Unchanged as Duff & Phelps report has not been updated since 2021. D&P do not have a timeline for any updates to the report.	UK cannot be complacent about #1 ranking and needs to implement regulatory reforms (Financial Services and Markets Bill and Edinburgh reforms)	<ul style="list-style-type: none"> • State of the Sector 2023 • Advocacy on inclusion of Secondary Objective on growth and competitiveness in Financial Services and Markets Bill

Performance of IG oversees offices

Brussels Office

17. The last year saw the CoLC office in Brussels acting in a particular challenging political environment, with EU and UK positions on the Northern Ireland Protocol in particular having an impact on IG's work. The focus was therefore to retain some key elements in UK market access to the EU and prepare for deepened future EU-UK cooperation following the Windsor Framework.
18. The Brussel office was successful in a number of areas, most notably:
- Maintaining UK data adequacy with the EU, despite the rewriting of the UK GDPR. The publication of the IRSG report on international data transfers and the presentation of this report to a Brussels audience proved to be key levers.
 - Presenting the City as leading centre for green and transition finance. This was cemented with the delegation trip of the Chairman of Policy and Resources (CPR) to Brussels as well as the Annual Brussels Reception, focused on transition finance. We will continue this engagement and ask in particular for alignment of EU regulations with ISSB standards.
 - Softening the EU stance on clearing and the plans to harmonise the framework for third country branches (CRD6 article 21c). Our regular engagement with key stakeholders in Brussels and our delegations to EU member states were key aspects to make the voice of the UK FPS sector heard in the EU.
 - Raising the profile on the Corporate Due Diligence Directive (CSDDD) and the corporate sustainability reporting directive (CSRD) by mobilising a growing alliance of third-country partners. We played an important role in moving the European market infrastructure regulation (EMIR) in the right direction by aligning our sector in our regular cross-industry meeting in the IRSG EU Regulation Committee and the Brussels Industry Salon. We will continue our engagement during the ongoing legislative process and advocate for solutions beneficial to both sides of the Channel.
 - Prepare the field for a deeper future cooperation following the resolution of the Northern Ireland protocol questions and improving EU-UK relations in the future. A particular focus has been led on the review of the EU-UK Trade and Cooperation Agreement in 2025 and an efficient industry participation to a potential EU-UK regulatory dialogue on financial services.

China Office

19. The China team lead our campaign on Sustainable Finance in market focused on delivery of key projects including a high-level UK-China Green Finance Taskforce working with Dr Ma Jun developing stronger alignment between the UK and China in Green Finance which is critical to achieving global targets on climate.
20. The team lead on the Corporation's RMB Internationalisation Initiative which seeks to ensure London maintains and monitors its place as a hub for trading.

21. The China team also led in market engagement for the Global Investment Futures campaign and secured commercial wins over the last year with 6 Chinese FPS companies.

India Office

22. The office's key campaign this year has been focused on influencing key Indian stakeholders on the UK's offer on Sustainable finance and infrastructure as India looks to the global markets for finance for green infrastructure. This work is focused on ensuring London is seen as the primary place for capital raising for sustainable infra projects in India as well as the place with advisory expertise in professional services to help the UK win business.

23. Aligned with this, the office led our partnership and secretariat work with the Climate Finance Leadership Initiative, a global private sector led initiative instigated by Bloomberg, to crowd more global private finance into India sustainable goals.

24. The team led engagement with HM Treasury on the India-UK Financial Markets Dialogue and led the delivery of a high-level discussion on 'Sustainable Infrastructure Finance' with an Indian delegation to London.

25. The team has also led on planning of all LM and CPR visits focused on delivering UK as a leader in Sustainable Finance and a natural partner for Indian businesses when looking abroad to raise money.

Performance against key policy objectives

26. The IG Regulation and Policy team also saw a number of successes in areas of key strategic importance to the CoLC competitiveness agenda, most notably:

- **Growth Capital** - the Lord Mayor and CPR have been socialising the idea of a joint commitment to channel Defined Contribution (DC) pension capital to growth companies, and IG has been engaging with HM Treasury (HMT) at a working level too. We believe this has (partly) led to this commitment. We will now flesh out and build consensus around the proposal, with the aim of it being announced later in the year.
- **Short Term Talent Mobility** - in 2021 IG worked with Ernst & Young (EY) and The City UK (TCUK) to publish a report which recommended exactly this: to allow employees to enter the UK for short-term productive activity without a work visa, and to negotiate reciprocal treatments with trade partners. We provided further evidence to HMT in 2022 to help make the case within government and the policy was included in the 2023 Budget.
- **Green taxonomy** - is an important building block in the sustainable finance framework and is being retained and developed by HMG. This has been an area of a large amount of work by IG officers, particularly through the International Regulatory Standards Group (IRSG).

Corporate & Strategic Implications

Strategic implications – The work of IG directly supports the City of London’s Corporate Plan and its work is directly tied to the Competitiveness Strategy.

Financial implications – All activity was completed within IG’s annual business plan and budget.

Resource implications – All activity was resourced within IG’s business plan and budget.

Legal implications – None.

Risk implications – The risk of not conducting this type of work and activity is the potential negative impact on the City’s, London’s and the UK’s standing as a global financial hub and key economic driver for the country.

Equalities implications – None.

Climate implications – None.

Security implications – None.

Conclusion

27. The Committee is asked to note the contents of the paper.

Appendices

None

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