

Response to Building our Industrial Strategy from the London Waste and Recycling Board

1. The following is a response from the London Waste and Recycling Board to Green Paper Building Our Industrial Strategy
2. The London Waste and Recycling Board (LWARB) is a statutory Board established by the GLA Act 2007 to provide a strategic approach to waste management in London. The Board is chaired by the Mayor of London (or his representative). As well as the Chair, the membership comprises four councillors and two independents nominated by London Councils and one independent appointed by the Mayor of London.
3. LWARB works to promote and encourage the production of less waste; an increase in the proportion that is reused or recycled; and the use of methods of collection, treatment and disposal of waste that are more beneficial to the environment. LWARB has recently launched a new £50 million Business Plan to reinvigorate recycling and accelerate the development of a circular economy in London.
4. Q1 - Does this document identify the right areas of focus: extending our strengths; closing the gaps; and making the UK one of the most competitive places to start or grow a business?
5. LWARB Response:
6. We support the creation of a new Industrial Strategy for the UK. The consultation document outlines a number of focus areas, however we believe that greater prominence should be given to resource efficient and circular economy models as a means of improving productivity and creating economic value.
7. A circular economy, by its nature makes the best possible usage of available resources but also protects businesses from fluctuating commodity prices. It provides an opportunity to develop a more stable and productive environment for manufacturers, retailers and consumers and helps to mitigate against some of the macro challenges that the UK faces such as Brexit, reliance on Oil & Gas and resource scarcity. Circular economy business models also generate new revenue streams, markets and product lines. Examples of circular business models include designing products to last longer, which can lead to greater reuse and ability to repair/ refurbish and re-sell to support growth and allow for easy recover of materials when a product is eventually recycled. Service models, including product maintenance, take-back schemes, rent/ lease models and sharing platforms are becoming more established.
8. The UK is already home to a number of leading circular economy businesses (from start-up through to global corporates) and academic institutions, with organisations increasingly seeking ways to adopt more sustainable, value creating circular models. Given this trend is happening at a business level globally, it would seem to make logical sense for Government policy to support and encourage this shift so that UK firms remain competitive. LWARB research highlights that the potential additional GDP that can be generated in London alone, by adopting circular business models could be upwards of £7bn by 2036.

9. The consultation paper is also heavily focused on supporting innovation in cutting-edge sectors such as AI, Robotics, Science and Technology, which is very important. However the UK economy is still founded on “traditional” industries such as construction, manufacturing and retail which also need support and funding to improve productivity and allow them to embrace innovation.
10. The proposal to develop funds to support innovation and productivity improvements is very welcome, however our experience in driving change at a city level is that development of a more holistic ecosystem is necessary, beyond just provision of capital. There needs to be a level of co-ordination and collaboration at a localised level, so LEPs will be critical. Organisations often lack the management skills, resources and time to implement change so setting up localised advisory support/ investment readiness programmes can be extremely helpful to support growth or change management plans before funding is accessed. Policy could also be used to support productivity gains e.g. tax incentives for better use of resources, incentives for larger corporates to collaborate with smaller organisations.
11. **Q2.- Are the 10 pillars suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing?**
12. Our view is that a focus on circular economy should be one of the key pillars of the strategy for the reasons outlined above.
13. **Q3 - Are the right central government and local institutions in place to deliver an effective industrial strategy? If not, how should they be reformed? Are the types of measures to strengthen local institutions set out here and below the right ones?**
14. If an effective Industrial Strategy is to be developed then a high degree of co-ordination and collaboration will be required across a broad spectrum of stakeholders, which implies that both central and local institutions will need to be strengthened and potentially augmented.
15. **Q5 - What should be the priority areas for science, research and innovation investment?**
16. Current and proposed strategy appears to be focused on channelling research and innovation funding through universities. Given the objective is to improve productivity across the economy, we need to find a way of improving access to research and funding for established businesses. Our experience is that SME’s in particular find it difficult to access public sector research grants and often don’t have the skills to properly innovate – equally, universities don’t always have the skills and experience to effectively commercialise ideas so there would appear to be scope for encouraging greater collaboration between institutions and business.
17. **Q8 - How can we best support the next generation of research leaders and entrepreneurs?**
18. Entrepreneurs often still struggle to attract the right funding, support and access to customers/ supply chains in order to develop and scale their start-ups. There are a number of helpful public sector backed programmes in existence, such as Start-Up

Loans and Research grants, however these programmes tend to tackle one specific issue faced by entrepreneurs in isolation and there is no comprehensive national programme of support that encompasses funding, mentoring, training, access to potential customers. There is a strong business case for developing a national start-up programme, with the support of the investment, corporate and academic sectors, that seeks to build an effective ecosystem to foster promising entrepreneurs. The rate of failure of start-ups is extremely high at 90%, however the evidence provided in the latest Beauhurst Report (Beauhurst, 2017), analysing all non-listed equity investment (except M&A activity) undertaken in 2011, shows that if a start-up receives professional investment and support, the rate of failure falls to just 13%.

19. LWARB is seeking to support growth of the circular economy by developing such an ecosystem in London, providing acceleration and incubation support, access to facilities for testing and prototyping, investment funding, advisory support, links to corporates and management support in order to maximise the chances of creating viable, scalable businesses.

20. Q15 - Are there further actions we could take to support private investment in infrastructure?

21. LWARB has been investing in waste infrastructure in London for 10 years and during that timeframe demand has significantly fallen – our first call for investment in 2010 saw over 300 proposals received, however the final call in 2015 saw only 3. This reflects the difficult operating environment in London but is also a reflection of policies in sectors such as plastics recycling (such as the PRN system) that have encouraged exporting of material.

22. Our private sector co-investors have been reluctant to commit capital in the sector because of the absence of long-term central government policies that foster a stable operating environment. Ultimately the funds who are most suited to investing in infrastructure are those long dated ones such as pension funds who can take a 20-year investment view – however this term can span multiple political cycles with several changes in policy possible, which significantly increases the risk profile. Perhaps some form of public sector guarantee over the operating environment would be helpful in reassuring investors that future cash flows will be stable and more predictable.

23. Q16 - How can local infrastructure needs be incorporated within national UK infrastructure policy most effectively?

24. What further actions can we take to improve the performance of infrastructure towards international benchmarks? How can government work with industry to ensure we have the skills and supply chain needed to deliver strategic infrastructure in the UK?

25. Q21 - How can we drive the adoption of new funding opportunities like crowdfunding across the country?

26. Crowdfunding has become an increasingly valuable source of funding for start-ups, to the extent that the two leading platforms, Seedrs and Crowcube completed significantly more deals in 2016 than anyone else (combined 21% of the market by volume as shown in the diagram below), in a year when non-listed equity investment

(excluding M&A activity) fell for the first time in years. However Crowdfunding remains relatively unproven with only 4 commercial exits being achieved to date.

27. The fact that the Business Growth Fund, Scottish Enterprise and Finance Wales were the next most active investors highlights that it is extremely difficult to attract private sector funding into early stage investing. At the same time, listed UK companies, Private Equity and Pension funds are sitting on record piles of cash. Innovative start-ups suffer from an inability to access bank funding (still the biggest source of finance in the UK) due to lack of trading history and limited cash flow – unless they have high growth rates built into their models they are unlikely to secure venture capital funding (explaining why the technology sector is so favoured).
28. Accordingly, we welcome the Patient Capital review being undertaken by the Government and encourage consideration of policy levers to unlock investment from corporates and larger institutions. One solution could be to provide a tax incentive for corporates to invest in start-ups, on similar lines to EIS by providing relief against Corporation Tax.
29. **Q22 - What are the barriers faced by those businesses that have the potential to scale-up and achieve greater growth, and how can we address these barriers? Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread?**
30. Our experience of working with SME's is that the biggest barriers to achieving growth are access to finance and resources. Most of the available finance is geared towards established, low risk enterprises and loss tolerance is extremely low. Much of the venture capital industry looks for annual revenue growth rates in excess of 100% and seeks the unicorn investee to underpin returns – this means that many viable, steadier growth businesses struggle to attract finance.
31. Many SME's also lack the full suite of management skills and internal resources to implement scale up strategies. Whilst acceleration and incubation support exists in London, this is geared towards the start-up world and largely focused on the technology sector. Finding a means of replicating the support models available through incubator programmes with more mature SMEs or fostering collaboration with established Corporates (who often aren't great at innovation) will significantly help to de-risk investment proposals for funders.
32. **Q23 - Are there further steps that the Government can take to support innovation through public procurement?**
33. LWARB believes that public sector organisations can help support wider adoption of the circular economy through smarter procurement policies. The Mayor of London and the GLA family are leading the development in this area by updating their responsible procurement strategy and we would welcome the opportunity to share learnings. Together the GLA family of organisations spend almost £11bn a year on goods and services – London's Boroughs spend around £20bn, highlighting that innovative procurement policies can generate significant value and contribute to a lower carbon environment. We are already working with other countries to learn from their practices such as the Green Deal in the Netherlands.

34. Q30 - How can the Government support businesses in realising cost savings through greater resource and energy efficiency?

35. The potential economic value creation from encouraging resource efficiency and circular economy practice is huge and would significantly bridge the productivity gap. LWARB research highlights that the potential savings that can be generated in London alone, by adopting circular business models could be upwards of £7bn by 2036
36. Examples of circular projects have already demonstrated the benefits of designing in circular economy thinking – in 2014 Segro deconstructed an entire warehouse and rebuilt it on a new site within the same Berkshire business park. The construction team re-used as much of the building material as possible, including the steel frames, concrete beams and slabs – as a result, the building achieved a 25% cost saving against the cost of a new build and resulted in a 56% reduction in carbon emissions. The Foodsave initiative demonstrated a saving of over £6,000 for small hospitality sector businesses by reducing food waste at each stage of preparation. Ricoh set up its GreenLines product, to show that value could be made through using re-used and recycled parts in the printing and document sector – it now accounts for over 10% of all group revenues and has allowed the company to move towards its target of reducing new material usage by 25% by 2020
37. However, the benefits of resource efficient models have not been widely adopted yet across all industries – for instance, 32% (over 1 million tonnes) of all plastics manufactured in the UK are lost to the economy every year. We strongly believe that the Government should consider policy levers, including powers of planning and procurement, that encourage adoption of more circular business models, to create economic value, enhance the UK's economic resilience and help to reduce harmful emissions.
38. We also wish to see greater collaboration right across the supply chain, so that all businesses benefit, not just those with the funding and resources to manage this shift. London is already collaborating with pioneer cities and regions such as Peterborough and Scotland to share best practice and LWARB would welcome the opportunity to share our experience and expertise with other cities.