



House of Commons

Business, Energy and Industrial
Strategy Committee

**Industrial Strategy:
Sector Deals:
Government Response
to the Committee's
Seventeenth Report**

**Nineteenth Special Report of
Session 2017–19**

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Business, Energy and Industrial Strategy Committee

The Business, Energy and Industrial Strategy Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Energy and Industrial Strategy.

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Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website at www.parliament.uk/beis and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee's website.

Committee staff

The current staff of the Committee are Chris Shaw (Clerk), Alison Groves (Second Clerk), Ian Cruse, Becky Mawhood and Ashleigh Morris (Committee Specialists), James McQuade (Senior Committee Assistant) and Gary Calder (Media Officer).

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Eighteenth Special Report

On 18 March 2019, the Business, Energy and Industrial Strategy Committee published its Fifteenth Report of Session 2017–19, on *Industrial Strategy: Sector Deals* [HC 663]. The response from the Government was received on 30 May 2019. The response is appended below.

Appendix: Government Response

The government welcomes the Business, Energy and Industrial Strategy Committee's report *Industrial Strategy: Sector Deals* (HC 663) which was published on 19 March 2019. The government has considered the Committee's findings and recommendations and our responses are set out in this document.

The Industrial Strategy is our long-term plan to boost productivity, by backing businesses to create high-quality, well paid jobs throughout the United Kingdom, with investment in skills, industries and infrastructure. As the Report highlights, the primary focus of the Strategy is on economy-wide policies to boost productivity and earning power, such as the transformative commitment to boost Research and Development investment across the economy to 2.4% of GDP by 2027, record infrastructure investment through the National Productivity Investment Fund and our reforms to technical education. The Strategy also sets out four Grand Challenges where businesses and government can work together to put the UK at the forefront of the industries of the future, ensuring that the UK takes advantage of major global changes, improving people's lives and the country's productivity.

The Report also recognises that partnerships between key sectors of the economy and government can play a key role in boosting the productivity of those sectors. The government's approach has been to agree Sector Deals with key sectors of the UK, building on industry-led proposals to boost productivity in those sectors. Since December 2017, we have launched a total of 10 Sector Deals across 9 different sectors; with over £3 billion worth of investment, increasing the UK-based supply chain and building up high-skilled, talent pipelines. The Government will continue to work closely with business, the Devolved Administrations and local areas, in order to ensure that the implementation and continued development of Sector Deals is as ambitious and inclusive as possible.

1. Establishing Sector Deals

Recommendation

The Government should ensure that Innovate UK has sufficient funding and flexibility to support innovation and productivity growth in sectors beyond those receiving sector deals or those meeting current Ministerial-set grand challenges. (Paragraph 14)

Government Response

We are investing in strategic innovation challenges through the Industrial Strategy Challenge Fund (ISCF), which will help deliver the four Grand Challenges of the Industrial Strategy and support sector productivity including through Sector Deals. The ISCF brings together the UK's world-leading research base with business to develop the

technologies that will transform existing industries and create entirely new ones. Investing through the ISCF is about more than simply increasing the level of R&D investment as a direct intervention. We aim to increase investment from business and to support the government's ambitious target of increasing investment in R&D to 2.4% of GDP by 2027 and 3% in the longer-term.

The ISCF funds innovative research in areas where the UK is most competitive or has the most potential to be competitive. Over the last two years, £1.7bn of funding has been allocated to help solve ambitious industrial challenges, including the Faraday Battery Challenge, which supports establishing the UK as a leader in innovative new battery technology, and Data to early diagnosis and precision medicine, enabling industry to create life-saving new products and technologies. ISCF challenges support nascent and growing industries, including the Next generation services and Quantum technology pioneer funds announced in the Industrial Strategy White Paper (2017).

Funding from the ISCF is neither a requirement nor a given for Sector Deals and the government is open to proposals from sectors including where they are not in receipt of ISCF funding or where they are not planning to bid in to the ISCF. Similarly, sectors that have submitted Sector Deal proposals to government are not guaranteed a share of the fund. The ISCF is targeted at challenges where cutting-edge R&D will make a significant difference to the UK, address societal challenges and deliver benefit across sectors. Where R&D can be funded through other means, or action is needed in other areas, ISCF funding would not be appropriate or necessary.

ISCF funding has also been allocated to challenges that are not linked to live Sector Deal negotiations. For example, £99m was awarded to the Satellites and Space Technology Challenge to build on the UK's global reputation for satellite technology and £102.5m allocated to the Prospering from the Energy Revolution Challenge, which will develop world-leading local smart energy systems that deliver cheap and clean energy across power, heating and transport, while creating high value jobs for the future.

As a key fund that supports the delivery of the Industrial Strategy, UKRI and BEIS sent out calls for Expressions of Interest for the third wave of the ISCF that are explicitly aligned with the Grand Challenges, the wider Industrial Strategy and BEIS Strategic objectives in early 2018. This will continue to ensure that ISCF policy aligns with the ambitions set out in the Grand Challenges.

2. Who Gets a Deal?

Recommendation

The Government should now deliver on its promises to the [construction] industry and ensure its commitments in this and every sector deal are fully funded. In return, the construction sector must work together to deliver the changes needed to improve its workforce, business model and uptake of technology for it to be a sustainable part of the economy. (Paragraph 22)

Government Response

The government can confirm that £170m of funding for the Transforming Construction Programme, a key part of the Construction Sector Deal, is proceeding.

Of particular interest to the Committee was the establishment of the Construction Innovation Hub in November 2018, a partnership between the Manufacturing Technology Centre, the Centre for Digital Built Britain, and the Buildings Research Establishment. The Hub will receive £72m from the ISCF and will focus on the application of digital and manufacturing technology to construction, including standardisation of design elements (particularly for replicable social infrastructure such as schools). Additionally, £36m has been allocated to the Active Building Centre at Swansea University to support research and development on the integration of energy generating technology into buildings. Finally, £60m has been allocated to smaller research and development projects which support the overall aims of the Transforming Construction programme. Approximately £12m from this pot was awarded to 25 projects in February.

The Construction Leadership Council (CLC) is overseeing the delivery of the industry's commitments, and will provide an update on progress made over the first year in July 2019.

Recommendation

The government should confirm whether sector deals are still open to every sector of the economy, and be clear on the level of engagement a sector pursuing a deal can expect from government. The government should provide a roadmap for sectors seeking a deal, making clear the milestones and timescales for reaching a deal. (Paragraph 25)

The government has, in the past, indicated it is willing to engage with any sector that wants a deal, it should now ensure that no sector that has approached it with a credible offer is shut out of the sector deals process. (Paragraph 39)

Government Response to both recommendations

We can confirm that sector deals are open to every sector and we are committed to building long-term strategic partnerships with businesses through Sector Deals between the government and industry. We will continue to take forward further Deals where industry-led proposals best meet the six expectations set out in the White Paper.

This open offer does not place any expectations on the government to simply agree to lobbying demands from groups of businesses that do not align to those six expectations. Similarly, Sector Deals are not about merely recognising the importance of a part of the economy, no matter how successful that sector may be, instead they are a set of mutual commitments from business and the government with an aim of boosting productivity in specific sectors. As highlighted in the Industrial Strategy, 'there is no requirement for any sector to have a Deal' and the government feels that focusing on the proposals that best align with our expectations ensures that the most impactful Deals are progressed.

Every sector is different, and every Deal discussion involves differing levels of interaction with the government. When sectors make proposals to government, they engage directly with sector facing officials in government who will guide them through the process and ensure that the steps are as clear as possible. This involves iterative discussions to improve the initial Deal proposal's ability to demonstrate how it meets our expectations, progressing into formal negotiation once ministers agree that the expectations have been met (in addition to the 10 Deals agreed to date, we are also in negotiation with the Tourism and Food and Drink Manufacturing sectors). Once in formal negotiations, timings for

finalising a Deal can also vary, reflecting the government's desire to negotiate genuinely impactful Sector Deals that contain substantial commitments from both the government and the sector themselves to boost productivity.

3. Proposals for a Deal

Recommendation

The Government should pursue further sector deals that similarly seek to deliver environmental and societal benefits alongside the economic boost they can bring to industry. (Paragraph 29)

Government Response

We agree that further Deals should support wider government objectives and the recent Offshore Wind Sector Deal is an example of how this can work. The Deal advances the Clean Growth Grand Challenge, commits the sector to improve workforce diversity and benefits communities around the UK.

The expectations in the White Paper clearly state that we expect Sector Deals to include detailed proposals on how they can contribute to the wider objectives of the Industrial Strategy and align with the Grand Challenges. We will continue to push for significant commitment from sectors to deliver wider benefits in future negotiations.

Recommendation

The Government should return to discussions with the [steel] sector on a potential deal and provide clarity on the asks and offers that could enable the Government to meet its commitment to develop the UK steel industry, supporting a now commercially sustainable sector in a competitive global market. (Paragraph 33)

Government Response

We remain open to discussing a Sector Deal with the steel industry and have been meeting with companies in the sector regularly to discuss this. The Department commissioned research identifying future domestic market opportunities for the UK steel sector worth an additional £3.8 billion per year. We are encouraging the UK steel sector to come forward with plans to exploit these opportunities and improve their competitiveness.

The government has taken a number of measures designed to support the steel industry. These include:

- a new Industrial Energy Transformation Fund, announced at the Budget by the Chancellor, backed by up to **£315m of investment**, to help businesses with high energy use to cut their bills and transition UK industry to a low carbon future;
- supporting the transformation of our foundation industries (steel, glass, ceramics, chemicals) more broadly through providing up to £66 million, subject to industry co-funding, through the Industrial Strategy Challenge Fund to develop radical new technologies and establish innovation centres of excellence in these sectors;

- compensation for the steel industry for the costs of renewables and climate change policies, amounting to over £278m since 2013;
- working with the steel industry to introduce steel procurement guidance, which ensures that the government and the wider public sector take into account wider social and environmental benefits when procuring and designing their major projects;
- publishing, for the first time this year, information from government departments and their arm's-length bodies on how much steel they have procured over the last financial year and how they have applied the steel procurement guidance. We have also published an update of the Steel Pipeline, signalling upcoming steel requirements for national infrastructure projects; and
- ensuring that businesses will continue to be protected from unfair trading practices by identifying which existing EU trade remedies will be continued as the UK establishes its independent trade policy.

We will continue to work closely with the sector to support them to develop a sustainable long-term solution for the sector. Proposals set out by the steel sector made significant asks of government on energy prices and business rates but contained limited commitments from the sector on their future UK investment. What funding commitments they did contain came from a minority of the steel-making companies, and even that was contingent on further investment support from the government. It was therefore clear the sector was not proposing a deal but an ask. We therefore did not agree a Sector Deal at that time. We remain open to progressing with a Deal if the sector can bring forward credible proposals to improve investment levels as has been the case in other sectors who have agreed deals based on a shared vision for improved productivity and innovation.

Recommendation

We recommend that the Government now deliver on this promise and publish an action plan for how it is going to work with low productivity sectors to provide the productivity boost they so urgently need. BEIS should ensure that other Government departments, including the Department for Education and HM Treasury, are fully engaged in developing and delivering this plan. (Paragraph 38)

Government Response

Raising productivity is one of the government's key priorities and core to the UK's Industrial Strategy. This Department is currently undertaking a review of the actions that could be most effective in improving the productivity and growth of small and medium-sized businesses in all sectors and the Business Productivity Review is set to be published shortly.

As highlighted above, the government is open to proceeding with further Sector Deal proposals that best meet the expectations set out in the Industrial Strategy. As such, we would welcome further proposals from low productivity sectors. BEIS works closely with other government departments when considering and developing sector deal proposals.

Reflecting this, we are currently in final negotiations with the tourism industry on a Tourism Sector Deal. We believe that the measures that will be agreed in the Deal will

boost employment and productivity in the sector across the country; involving a large number of businesses in the hospitality sector, another low productivity sector. We are also working closely with the retail sector, through the Retail Sector Council, on their developing thinking on a Deal proposal.

4. Criteria for a Deal

Recommendation

We recommend that Government should publish updated criteria which accurately reflect what they are looking for in sector deals. Sectors should be able to judge whether they may be able to meet these without having to commit significant resources to a deal at this stage. (Paragraph 42)

We recommend that in setting new criteria, the Government should ensure all sectors embed the Industrial Strategy's five foundations of productivity in deal proposals and, at a minimum, include a requirement to deliver regional growth, increase skills in the sector, and provide support for the supply chain. (Paragraph 45)

Government Response to both recommendations

We have set out six expectations for Sector Deals in the White Paper: clear leadership, representation of the full breadth of the sector, analysis of the strategic case for working in partnership with the sector, specific proposals that are both impactful and deliverable and a balance in the asks of government and offers from the sector.

While supportive of the areas that the Committee recommends being made more explicit in our expectations, a number are already clearly set out. Specifically, two of the expectations make it clear that we expect Deals to evidence their impact on regional growth. When demonstrating that the breadth of the sector has been represented, Deal proposals should include evidence that, where relevant, local authorities, Local Enterprise Partnerships, Prosperity Boards, development agencies, other local business membership organisations and universities have been involved. Similarly, in articulating the impact of specific Deal proposals, we have set out the expectation that any analysis should be consistent with local economic development strategies where there is a strong link to local economies (particularly as Local Industrial Strategies are developed and agreed).

In considering the analysis of the comparative strengths and weaknesses of the sector, the expectations also highlight that proposals should include analysis of the position and importance of the sector alongside other industries in its supply chain.

We are also supportive of the specific recommendation that skills proposals are included in future Deals and all but one of the ten published Deals contain substantial commitments to boost skills in their respective sectors. Additionally, we have set out that the articulation of the impact of specific proposals should include analysis of potential increases in employment or increases in skilled workers.

The six expectations provide a framework for us judge the merits of individual Sector Deal proposals but also retains a degree of flexibility as each sector is unique and there is a risk that excessive prescription could preclude some sectors from the process; but all published

Deals show how policy commitments align to the five foundations of productivity. We agree that industry should not commit resources to the development of Deal proposals without detailed initial discussions with the relevant sector-facing officials in government.

Recommendation

We recommend that the Government no longer refuses to negotiate with trade bodies in cases where they can demonstrably represent the breadth of the sector, including trade unions and small businesses. (Paragraph 48)

Government Response to both of the recommendations

As we set out in the White Paper, we are assessing potential deals against the six expectations set out in the Industrial Strategy. This includes, clear, identifiable leadership, evidence that full breadth of the sector is represented including a broad range of stakeholder involvement and support. As such we expect Deal proposals to be representative of their sector, not just incumbent businesses, and driven by a wide range of businesses in collaboration with other stakeholders. Where a trade body can show that they fully represent a sector (including new entrants and SMEs), then we are open to working with them. Indeed, a number of Deal discussions have involved the government working closely with one or more trade bodies (such as the role being played by the Food and Drink Federation in the negotiation of the Food and Drink Sector Deal).

Recommendation

If sector councils are, as it appears to date, to be an integral part of all sector deals, the government should make this clear in its criteria for a deal, and provide greater transparency on the establishment, membership and operation of such councils. We recommend that the government lay before Parliament a statement setting out the establishment of any sector councils, and clearly publicise any vacancies or changes to membership. (Paragraph 51)

We recommend that the sector councils should engage with the full breadth of the sector in order to maintain confidence including, but not limited to, workers and trades unions, small businesses and trades bodies. (Paragraph 52)

Government Response

Sector bodies and councils have proved to be invaluable in developing a shared vision between government and industry for the future of a number of sectors. There are a wider number of sector and government bodies in existence from the Nuclear Industry Council to the Food and Drink Sector Council. Each council reflects the unique circumstances of the sectors make up and membership is generally published on the relevant departmental section of Gov.uk.

These bodies are not a pre-requisite for a Deal but, given the key role they are playing in overseeing the implementation of agreed Deal commitments, we would expect to see the clear articulation of other means of overseeing implementation for any Deal with a sector that does not have a similar structure in place.

The membership of these groups generally reflects the composition of the sectors they represent and there are no central requirements on their membership. Where relevant, the Government agrees that the representation of small and medium-sized enterprises (SMEs),

workers and trade bodies on Sector Councils are key considerations that sponsoring departments should consider when establishing and refreshing the membership of these bodies.

Recommendation

To encourage further sector deals and to increase business awareness of the content and process, the Government should make as much information as possible relating to the creation and monitoring of sector deals available to the public, including annual reports, metrics and summaries of the implementation plans created for each deal. (Paragraph 54)

Government Response

In the creation of Sector Deals the government publicly set out six expectations that all Deal proposals will be measured against. We will continue to proceed with Deals that best meet the six expectations set out in the White Paper and provide ongoing iterative feedback to interested sectors through interaction with officials and Ministers.

In assessing the deliverability of Deal proposals, we consider the adequacy of the proposed mechanisms to monitor progress against the commitments made and regularly consider implementation progress once Deals have been agreed. Where key milestones in implementing Deals are reached, the government and industry make these public on a case-by-case basis. Many of the commitments in Sector Deals are long-term and their impacts will take some time to be measurable, but we anticipate making these public in due course, including as part of the commitment to update on implementation progress annually.

In addition, the Industrial Strategy Council will recommend the criteria to measure and monitor the success of the Industrial Strategy and will publish a regular report assessing the progress of the Strategy against those success measures.

Recommendation

We recommend that the [Industrial Strategy] Council sets the metrics and criteria of success for sector deals as part of its work programme and publishes regular scrutiny of the process and deals agreed by Government. (Paragraph 55)

Government Response

The Industrial Strategy Council is an independent non-statutory advisory group and will determine its own areas of focus. The Council will recommend the criteria to measure and monitor the success of the Industrial Strategy. Central to the Council's work programme will be to develop a comprehensive set of success metrics that will enable the Council to comment on the progress of the Industrial Strategy. The metrics framework will consider the overall headline success metrics for the Industrial Strategy as well as metrics for each of the Foundations, Grand Challenges, and for the Sector Deals. The Council will publish a regular report assessing the progress of the Industrial Strategy against those success measures. In addition, the Council is taking forward an insight project that will consider the conceptual framework for assessing the success of published Sector Deals.

5. What difference can a deal make?

Recommendation

We recommend that the Government require an analysis of the regional benefits of sector deals as part of the negotiations process. The assessments should be published alongside the deals themselves and regional impact should be measured as part of the review process for each sector deal. (Paragraph 59)

Government Response

Each sector is unique and therefore each Sector Deal will have a unique geographical footprint. Two of our expectations of future Sector Deals make it clear that we expect Deals to be firmly rooted in their impact on place:

First, when demonstrating the breadth of the sector has been represented, we have highlighted that we expect the involvement of relevant local authorities, LEPs, Prosperity Boards, development agencies and local business membership organisations where they have a clear interest in furthering the success of a particular sector.

Second, in setting out the impact of Sector Deal proposals, we'd expect any analysis to be backed and informed areas where the sector has a strong link to local economies.

As we monitor and report on progress, we would expect that Annual Reviews mark a great opportunity to demonstrate regional impact where relevant.

In addition to Sector Deals, Local Industrial Strategies are a key policy in the Industrial Strategy. Working in partnership with places to develop Local Industrial Strategies is central to our aim of creating prosperous communities across the country. They will set out clearly defined priorities for how cities, towns and rural areas will maximise their contribution to UK productivity and they will allow places to make the most of their distinctive strengths and better coordinate economic policy at the local level.

Recommendation

BEIS should ensure that a greater proportion of staff, especially those working on policy issues, are employed outside London and the South East and should provide regular updates to the Committee on progress. (Paragraph 60)

Government Response

Last November, the Chancellor of the Duchy of Lancaster wrote to all Secretaries of State setting out the importance of the government's commitment to relocate both public bodies and Civil Service roles into the regions and nations of the United Kingdom. To support this, the Places for Growth Programme are increasing their engagement with departments in the run up to the Spending Review, and are drawing on advice and support from colleagues across Whitehall, including the BEIS Industrial Strategy Team.

The BEIS Estates Team have met with Places for Growth to discuss options for our own estate, as part of this long term (2030) programme, and these conversations are continuing.

In addition, the Cities and Local Growth Unit is a cross-departmental team between BEIS and the Ministry of Housing, Communities and Local Government (MHCLG).

The directorate leads in Government on developing and implementing policy to drive economic growth and productivity in each part of the country. The unit is made up of nine Deputy Director led teams and has approximately 200 staff. Geographically it is organised into four policy teams based in Whitehall and five local teams, with offices in London, Gateshead, Manchester, Leeds, Birmingham, Bristol, Nottingham and Cambridge. Increasing the Directorate's SCS capacity outside of London, a co-Director will be joining the unit in May, who will be based in Leeds.

Recommendation

The Government should ensure that Catapults are involved in the negotiation of relevant sector deals, and where such catapults do not exist, should work with sectors to consider their establishment on a case-by-case basis. (Paragraph 63)

Government Response

One of the expectations we have set out for Sector Deals is that the full breadth of the sector is represented. This includes those organisations with a clear interest in furthering the success of the sector. A number of Catapults have been closely involved in the development of Sector Deal proposals and we would encourage this, where relevant.

After five years of operation, the Catapult network was independently reviewed in 2017. The review concluded that the Catapult concept is sound when effectively implemented and made a number of recommendations focused on governance and strategy, performance management, and ensuring economic impact. We are working with UKRI to embed the changes recommended by the review.

We are investing over £1.2bn in the network over five years. This investment will allow the Catapult network to help thousands of businesses across the UK to do cutting-edge R&D, and train hundreds of thousands of apprentices and doctoral students in technical skills in high-demand from industry. The funding builds on the success of the Catapult Centres and recognises the significant impact they have had in transforming the UK's innovation infrastructure. They are a crucial part of helping us meet the commitment in the Industrial Strategy to spend 2.4% of GDP on R&D and make sure the UK is the world's most innovative economy. They play a vital role in supporting the development of new technologies and will help to position the UK at the forefront of the industries of the future.

Decisions on future funding priorities for science and innovation, including the establishment of any further Catapults, will be taken as part of the forthcoming Spending Review.

Recommendation

We recommend that the sector deals should not be sought or offered if they are being used as a mechanism for sectors to raise themselves only to meet basic employment standards. (Paragraph 66)

Government Response

We welcome the Committee's recommendation and we agree that Sector Deals should not be a mechanism for sectors to only meet basic employment standards. We expect

that future Sector Deals will have clear commitments on Good Work and contribute to wider national objectives as set out in our six expectations. A number of Deals already demonstrate significant commitments from sectors to increase training opportunities and workforce diversity and we expect this to continue in future discussions.

Commitments in Sector Deals complement the government's Good Work Plan which supports both workers and employers, including through enhancing workers' rights, improving enforcement and increasing transparency.

The Good Work Plan also sets out the government's commitment to quality of work in the UK; placing equal importance on the quality and quantity of work available in the UK economy, and through the Industrial Strategy the Business Secretary accepted responsibility in the Industrial Strategy for improving the quality of work.

The Industrial Strategy Council also recently accepted the Secretary of State's request to consider proposals for measuring quality of work on offer in the UK labour market as part of their wider work to develop measures of success for the Industrial Strategy. Their work will inform how government adopts and tracks a set of metrics to measure quality of work.

Recommendation

We recommend that the business and Government follow the example the offshore wind sector has set by including targets for greater diversity as part of sector deals in industries which are currently failing in this regard. BEIS should work with the Department for Education to ensure that no sector of the economy is missing out on potential talent for their workforce. (Paragraph 68)

Government Response

We agree that no sector should miss out on potential talent for their workforce. We will continue to work closely with the Department for Education on the skills agenda and through Sector Deals we are supporting career development, boosting apprenticeships, working with the National Retraining scheme and actively promoting social mobility.

Each Sector Deal will need to be tailored to its own circumstances, however, within the published deals, we have secured a commitment that women will account for 40% of all those employed in the nuclear sector by 2030, up from 22% at present; the Aerospace Sector Deal saw the creation of the Women in Aviation and Aerospace Charter; and the Offshore Wind Sector Deal commits to doubling the proportion of women in the workforce to at least a third within the decade and to establishing a new target for black and minority ethnic representation in the sector by the end of this year.