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Business, Energy and Industrial Strategy Committee

Post-pandemic economic growth: Industrial policy in the UK

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Business, Energy and Industrial Strategy Committee

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A flagship policy of the 2017–19 Government, the Industrial Strategy was intended to address long-term economic challenges in the UK, including regional gaps in pay and productivity and the availability of high-quality jobs. The strategy was constructed around national missions, referred to as 'Grand Challenges', and brought together a mixture of policies which applied across all parts of the economy and others to support individual industries.

Our inquiry, which launched in the summer of 2020 as part of our super-inquiry on 'Post-Pandemic Economic Growth', set out to examine whether the strategy focused on the right sectors, issues and policy areas. In response to our inquiry the Government almost immediately said it would revise the Industrial Strategy to take into account Covid-19, Brexit, and its climate change commitments. It was sudden and unexpected, therefore, when the Government announced in March 2021 that the Industrial Strategy would be scrapped and replaced with the new Plan for Growth, intended to reflect our new economic circumstances. The manner in which the Industrial Strategy was scrapped underlined concerns about the Government's commitment to long-term industrial policy, as it inherited it from the previous administration.

It is true that the economic outlook has been altered by Covid-19, but the long-term challenges the 2017 strategy sought to address are as relevant today as they were four years ago. However, by speaking to businesses big and small we found that the Industrial Strategy was seen as complex, often remote and removed from the day-to-day concerns of British business. The Plan for Growth provides an opportunity to learn from this experience and deliver a more engaging and focused industrial policy than the 2017 strategy, which contained over 142 sperate polices.

Although complex, the 2017 Industrial Strategy reflected a mission-based approach as it was structured around a set of key national objectives. In principle, the missions of the 2017 strategy were intended to provide a framework for developing targeted policies that would be effective across all parts of the economy—for example, growing the digital and technological skills of the UK workforce—and for targeting support at specific sectors. The absence of a mission-based focus from the Plan for Growth may be problematic as working towards clear goals can create a shared sense of purpose across Government and industry. Furthermore, without a shared focus, policymaking risks becoming fragmented, offering piecemeal solutions to sectoral problems within different Government departments rather than a strategic whole-of-government approach to meeting national challenges.

The Industrial Strategy benefitted from the powerful independent insight and scrutiny that was provided by the Industrial Strategy Council. By scrapping the Council, the Government has removed a valuable resource which underpinned effective policymaking and established metrics for measuring the success of the Government's policy. We can only improve industrial policy if we learn from past experiences of what did and didn't work. The Industrial Strategy Council provided this opportunity. However, the Government has offered no convincing rationale for the Council's abolition, and industrial policy would be best served if the Government reversed this decision.

The 2017 strategy envisaged a series of Local Industrial Strategies, aligned to the national Industrial Strategy and delivering on local economic opportunities. However, only seven out of 38 such local strategies were ever published. We identified concerns about the powers, funding and support available to local areas to develop and implement these strategic plans, as well as the limited resources and priority afforded within central Government to this co-creation approach to industrial policy. Despite the paucity of published local strategies, their development proved a useful exercise for many areas, and the uncertainty over what form strategic local and regional economic policymaking will take in the future risks hindering the effective use of central Government funding for levelling up and local investment.

We responded to the concerns of witnesses by exploring how industrial policy can support SMEs and rapidly growing businesses in the UK. The clear message we heard was that there is a gap in capital which can stymie the growth of British businesses. Worryingly, it seems that many businesses, especially those outside of the venture capital hotspots such as London and the south east, find it easier to access capital from the US than they do from the UK. Whilst this might work well for an individual business the drain of intellectual property out of the UK is bad for our economy. Funding from the Industrial Strategy Challenge Fund could help to fill the gap for some businesses, so we were concerned at analysis which said the fund was too small and increasingly focused on larger businesses in specific regions. In addition, we heard a strong case that for many small enterprises the collaborative funding model is unworkable and it is Government as a direct purchaser that can stimulate innovation and businesses development.

We have no appetite for industrial policy to be used to prop up failing businesses, but it can be essential in providing a framework to supporting businesses and workers in sectors undergoing rapid change. The Government has moved to modify its state aid regime which offers the potential to develop a more effective partnership between the public and private spheres, but how the Government plans to support, fund and partner with private enterprise is far from certain. It was in this context that we considered the development of the Advanced Research and Invention Agency (ARIA) which could be central to changing the way commercial innovation is supported in the UK. However, we were concerned that, like industrial policy itself, ARIA has no clear departmental relationship or mission.

Over the course of our inquiry the Government's approach to industrial policy shifted rapidly but without establishing a clear direction of travel. Whether the Plan for Growth will build on or abandon the policies of the 2017 Industrial Strategy is uncertain and it is far from clear which ministers are responsible for delivery, how outputs will be measured or which aspects of the previous Industrial Strategy will continue and in what form. For industrial policy to succeed it must be delivered successfully across the whole of Government in partnership with regional and local leaders, but this will require clear political leadership and responsibility from the heart of Government to make it happen.

Introduction

Our inquiry

1. The Industrial Strategy was launched by Rt Hon Greg Clark MP, then Secretary of State for Business Energy and Industrial Strategy, on 27 November 2017. A flagship policy of the 2017–19 Government, it sought to address long term economic challenges in the UK, including tackling gaps in regional pay and productivity, and the availability of high-quality jobs and business opportunities across the country. The strategy included wider objectives connected to national missions - referred to within the strategy as 'Grand Challenges.' In practice the strategy contained a mixture of policies which applied across all parts of the economy and sectoral polices intended to support individual industries.

2. On 23 July 2020, we launched our inquiry into the Industrial Strategy,[1] the second strand of our over-arching inquiry into Post-Pandemic Economic Growth.[2] Our inquiry set out to examine whether the strategy was fit for purpose and focused on the right sectors, issues and policy areas. We considered the extent to which the strategy was properly designed and implemented to encourage the growth of a more productive, inclusive and sustainable economy capable of generating wealth, innovation and high-quality jobs. In response, the Government immediately announced it would revise the Industrial Strategy, to take into account Covid-19, recent commitments in legislation relating to Net Zero Greenhouse Gas emissions, and the UK's exit from the EU:[3]

> The Government is refreshing the Industrial Strategy 2017 to ensure that it remains relevant and responds to current and emerging events across the UK. The challenges of low productivity, sluggish growth and weak business investment remain. Therefore, existing policy interventions will likely remain at the heart of a renewed approach to industrial strategy, and we may need to go further to recover from the impacts of Covid-19 and deliver jobs.[4]

3. Although the Government recognised that the Industrial Strategy had "been well received by business and academics in the UK",[5] it was suddenly and unexpectedly announced in March 2021 that the Industrial Strategy would be replaced with the Government's new Plan for Growth. We only discovered the Government's intention to replace the Industrial Strategy with the Plan for Growth via a single reference in a document which accompanied the Budget delivered to Parliament on 3 March 2021. Although fully aware of our inquiry, Rt Hon Kwasi Kwarteng MP, Secretary of State for Business, Energy and Industrial Strategy, only confirmed the change in policy to us on 8 March 2021 in response to correspondence from the Chair.[6] The manner in which the Industrial Strategy was scrapped raises fundamental questions about the viability of policies designed for the

1 The full terms of reference for our Post-pandemic economic growth: Industrial Strategy Sub-inquiry inquiry can be found here.
2 The Post-pandemic economic growth inquiry was announced on 3 June 2020. The full terms of reference can be found here.
3 The Climate Change Act 2008 (2050 Target Amendment) Order 2019, made 26 June 2019; European Union (Withdrawal Agreement) Act 2020
4 Department for Business, Energy and Industrial Strategy (PEG0287) para 29
5 Department for Business, Energy and Industrial Strategy (PEG0287) para 31
6 See HM Treasury, *Build Back Better: our plan for growth*, CP 401, March 2021, p 20. The correspondence can be accessed here.

long term and the Government's commitment to industrial policy more broadly.

4. At the time of writing, the extent to which the Plan for Growth will build on or abandon the policies of the 2017 Industrial Strategy remains unclear and requires further investigation and scrutiny. There are indications that aspects of the Government's new policy may diverge from its old approach, but how, in practice, it differs from the 2017 strategy is far from clear. It is not clear which ministers are responsible for delivery, how outputs will be measured or which aspects of the previous Industrial Strategy will continue and in what form.

5. However, the Government has indicated that many (if not all) aspects of the 2017 strategy would be retained or modified in some shape or form. Our recommendations were formulated in the context of our inquiry into the 2017 strategy but are applicable to the Plan for Growth. The fundamental concern, and issue at the heart of our report is the effective delivery of industrial policy in the UK - and this is the focus of our conclusions and recommendations.

6. We examined the Industrial Strategy in its entirety, from mission-oriented policy to the challenges facing rapidly growing scale-up businesses. Our inquiry completed its evidence gathering one day before the Government's announcement that the Industrial Strategy would be replaced by the Plan for Growth. We thank all of those who provided evidence to our inquiry - a full list of which is attached in annex 1. We also held a series of informal (online) roundtable discussions, which enabled us to engage with a wide set of participants from a broad range of sectors to discuss issues including the Industrial Strategy. The discussions provided us with an invaluable insight into the attitudes and perceptions of businesses operating across the UK and we are grateful to all those that took part. A full list of attendees and a summary of the discussions can be found in annex 2.

7. In this report we seek to contextualise the main themes that have emerged from our inquiry and the effectiveness of specific policy interventions that were made as part of the Industrial Strategy. We also summarise our concerns regarding the future of industrial policy in the UK and highlight areas where the Government can further capitalise on its achievements.

8. In chapters 1 and 2 we scrutinise the Government's reasoning for, respectively, replacing the Industrial Strategy with the Plan for Growth, and abolishing the independent Industrial Strategy Council, and explore the implications of these decisions for industrial policy in the UK. Chapter 3 considers the balance between the different approaches employed in the Industrial Strategy and examines the extent to which the strategy resonated with British business. We consider the effectiveness of sector deals and their impact on business in chapter 4 and in chapter 5 investigate how successfully the Industrial Strategy translated itself at a local level. Chapter 6 examines the funding made available via the Industrial Strategy to help small businesses seeking investment to innovate and compete. Chapter 7 concludes with some final reflections on the direction and focus of post-Industrial Strategy industrial policy in the UK.

Building blocks of the 2017 Industrial Strategy

Foundations and Grand Challenges

9. The 2017 Industrial Strategy was based around five fundamental strategic objectives for the UK economy regarded as the foundations of productivity, and four global trends, known as 'Grand Challenges'. Policies of the Industrial Strategy were supposed to help achieve the aspirations of the five Foundations which were:

i) **Ideas**: Making the UK the world's most innovative economy—with policies focusing on research and development, including raising total R&D investment to 2.4% of GDP by 2027, and creating a new Industrial Strategy Challenge Fund.

ii) **People**: Creating good jobs and greater earning power for all—with policies including better technical education, investment in STEM subjects and a National Retraining Scheme to reskills and upskill the workforce.

iii) **Infrastructure**: A major upgrade to the UK's infrastructure—including investment in transport, housing and digital infrastructure (e.g. 5G and full fibre broadband) and electrical vehicle charging infrastructure.

iv) **Business environment**: Making the UK the best place to start and grow a business—with policies including sector deals aimed at increasing sector productivity, and investment in innovative and high potential businesses with funds incubated through the British Business Bank.

v) **Places**: Creating prosperous communities across the UK—with policies including agreeing local industrial strategies, and creating a new Transforming Cities fund to drive projects to improve productivity within city regions.[7]

10. The four Grand Challenges were targeted national objectives based on global trends of most significance to the UK:

i) **Artificial Intelligence & Data Economy**: To put the UK at the forefront of the artificial intelligence and data revolution.

ii) **Clean Growth**: To maximise the advantages for UK industry from the global shift to clean growth.

iii) **Future of Mobility**: To make the UK a world leader in the way people, goods and services move.

iv) **Ageing Society**: To harness the power of innovation to help meet the needs of an ageing society.

7 Department for Business, Energy and Industrial Strategy, *Industrial Strategy: the 5 foundations*, November 2017

Sector deals

11. Sector Deals were the aspect of the Industrial Strategy which translated policy aspirations into practical actions in specific industrial sectors. Sector Deals were agreed across ten industries with the intention of boosting productivity, employment, innovation and skills:

- Aerospace
- Artificial Intelligence
- Automotive
- Construction
- Creative industries
- Life sciences (N.B. two life science Sector Deals were agreed)
- Nuclear
- Offshore wind
- Rail
- Tourism[8]

Industrial strategy methodology

12. The approach that was taken by the Industrial Strategy to bring together the Foundations, Grand Challenges and Sector Deals can be broken down into three broad methods: missions, horizontal policy, and vertical policy. The table below outlines how each method related to an underlying principle and the consequent practical policy approach.

Table 1: Horizontal, vertical and mission-based approach of the Industrial Strategy

Method	Principle of the method	Policy approach
Missions	Identify key societal challenges and encourage investment and innovation across different sectors of the economy to tackle them	Establish four Grand Challenges
Horizontal policy	Policies designed to take effect across all parts of the economy	For example: Government policy and commitments related to levelling up, digital infrastructure investment, workplace skills and lifelong learning
Vertical policy	Translate policy aspirations into specific industrial sectors	Agree 10 bespoke sector deals, largely focused on encouraging research, development and innovation and enhancing skill levels within particular industries

Source: PEG 287, paras 8, 9, 27, Industrial Strategy Council Annual Report 2020

8 Department for Business, Energy and Industrial Strategy, *Introduction to Sector Deals*, June 2019

13. In principle, each method could be mutually reinforcing. For example, the rail sector deal (vertical) included features that could help make progress against the clean growth and future of mobility Grand Challenge (missions) and was focused in a sector which would support the development of improved infrastructure (horizontal).[9]

9 Department for Business, Energy and Industrial Strategy & Department for Transport, *Rail Sector Deal*, December 2018

1 The end of industrial policy?

Table 2: Key features of the 2017 Industrial Strategy & 2021 Plan for Growth

Features of industrial policy	2017 Industrial Strategy	2021 Plan for Growth
Mission led challenges	√	x
Horizontal policy interventions	√	√
Sectoral support	√	√
Local industrial policy	√	?
Independent scrutiny	√	x

Industrial Strategy abolished

14. The Plan for Growth announced at the March 2021 Budget signalled the end of the 2017 Industrial Strategy (IS). Speaking in the House of Commons on 8 March 2021, the Secretary of State for Business and Industrial Strategy, Rt Hon Kwasi Kwarteng MP, said:

> I have read the industrial strategy comprehensively, and it was a pudding without a theme, in my view. I feel very strongly that the conditions of 2017 do not apply to 2021, and I am very pleased to announce to the House that we are morphing and changing the industrial strategy into the plan for growth.[10]

15. This contrasted with the evidence we received which showed that businesses across multiple sectors were supportive of the IS as a means of developing a structured relationship between business and Government where both parties work towards an achieved objective. Witnesses to our inquiry and participants at our roundtable discussions were, overall, supportive of the broad approach taken by the Industrial Strategy. The CBI said: "The fundamental building blocks of the Industrial Strategy remain the right ones for the UK's long-term competitiveness."[11]

16. Some witnesses called for a revised focus in light of Brexit, Covid-19 and the Government's net zero commitments, but said these revisions could be accommodated through a refreshed Industrial Strategy.[12] Anthony Walker, Deputy Chief Executive Officer of techUK, said the Government and industry "should be building on the structure that we have rather than suddenly ditching large parts of the existing strategy."[13] Commenting on the Plan for Growth, Professor Mariana Mazzucato, writing in conjunction with colleagues from the UCL Institute for Innovation and Public Purpose, said today's circumstances and the Government's objectives are not incompatible with the Grand Challenges established in 2017.[14]

17. The Government noted that some features of the Industrial Strategy such as sector deals will be retained, but the future of the cross-cutting 'mission' oriented elements remains, at present, uncertain, with the Government saying it "will evolve the Grand

10 HC Deb, 9 March 2021, col 679 [Commons Chamber]
11 Confederation of British Industry (CBI) (INS0016), p 1
12 University of Glasgow (PEG0296), Confederation of Paper Industries (INS0008)
13 Oral evidence taken on 8 October 2020, HC (2019–21) 674, Q44
14 UCL Institute for Innovation & Public Purpose, *Building Back Worse*, 23 March 2021 (accessed May 2021)

Challenges and Missions programme to ensure they meet the needs of our technology innovation landscape".[15] MakeUK, representing the manufacturing sector, responded to the strategy's abolition by highlighting serious concerns about the future of industrial policy in the UK.[16]

18. Andy Haldane, Chair of the Industrial Strategy Council (ISC), told us that the significance of the Industrial Strategy was that it was a 'strategic' set of measures which amounted to more than a disparate set of policies.[17] The Secretary of State told us that the Plan for Growth would be more "focused and have a bit more direction" but did not specify how, in practice, it would look and feel distinct from the 2017 Industrial Strategy.[18] However, in its 2021 report the Industrial Strategy Council found "180 policies and commitments in the Plan for Growth. That begs questions about the scope and scale, and hence likely success, of this plan".[19] Some of the initiatives within the plan have identified funding attached, whilst others are simply commitments to publish further strategies.[20]

19. The Secretary of State said that the Plan for Growth has a greater macro-economic focus than the Industrial Strategy which, he argued, had been spread too thinly in its sector-by-sector approach.[21] However, he maintained that the Plan for Growth did not represent a fundamental shift in policy:

> I disagree with this idea that somehow we are ending the industrial strategy and then starting something else. A lot of the elements of the industrial strategy, the sector deals you have mentioned, some of the sector deals we are negotiating at the moment, are still in place.[22]

Making the case that the Plan for Growth will carry over themes of the 2017 Strategy, he added that a "lot of the good elements of the industrial strategy are morphing into other strategies and are being branded differently, but a lot of the substance of what we are trying to do has stayed the same".[23] The Secretary of State's insistence, however, that the Plan for Growth does not represent a sea change in policy sits somewhat uneasily with his comment that the "world of 2017 no longer exists. We are in a totally different era."[24]

The Plan for Growth

20. The Plan for Growth seeks to address three pillars of growth – infrastructure, skills and innovation, and there are policies and funding commitments within the plan related to each area. However, the Industrial Strategy Council's analysis, published in their 2021 annual report, illustrated that these initiatives are fragmented, and, in the case of skills the Government's plans, so far, lack scale and scope.[25] The Council warned in its 2021

15 Letter from Secretary of State to the Chair regarding the Work of the Department
16 MakeUK, *Letter to Rt Hon Kwarsi Kwarteng MP*, March 2021
17 Q214
18 Oral evidence taken on 13 April 2021, HC (2019–21) 301, Q153
19 Industrial Strategy Council, *Annual Report*, (March 2021), p 5
20 For example, the Industrial Strategy Council noted £27bn of capital investment on economic infrastructure in 2021–22; £14.6bn of direct public funding attached to the R&D roadmap in 2021–22, and £12bn, including £3bn of new money, allocated to reducing emissions from energy, buildings and transport.
21 Oral evidence taken on 13 April 2021, HC (2019–21) 301, Q153
22 Oral evidence taken on 13 April 2021, HC (2019–21) 301, Q154
23 Oral evidence taken on 13 April 2021, HC (2019–21) 301, Q154
24 Oral evidence taken on 13 April 2021, HC (2019–21) 301, Q155
25 Industrial Strategy Council, *Annual Report*, (March 2021), p 29

Annual Report that in and of themselves, policies to improve infrastructure, skills and innovation do not offer sufficient conditions for improvements in productivity and living standards which lie at the heart of industrial policy:

> It is well-recognised that growth in living standards and productivity typically relies on a broader set of "capitals" than the traditional ones. That includes measures of natural capital (nature and the environment), social and human capital (trust, relationships and well-being) and institutional capital (both national and local institutions, suitably co-ordinated), among others.[26]

21. In combination, the Plan for Growth's three pillars and the set of capitals outlined by the Industrial Strategy Council reflect much of what underpinned the Industrial Strategy, although it should be noted that there is no oversight or measure of achievement against the 'broader capitals.' The focus on Grand Challenges, however, is absent and the Government's policy—aside from reiterating its commitments to the "levelling up" and net zero agendas—appears to de-emphasise the 'mission-led' approach to growth advocated by experts such as Professor Mariana Mazzucato.[27] Unlike the 2017 strategy with its Local Industrial Strategies, the Plan for Growth also does not include an explicitly local or regional structural element.[28]

22. **The economic outlook has been fundamentally altered by the Covid-19 pandemic and by Brexit, and today's circumstances therefore require a revised focus in industrial policy. However, some of the foundations and long-term challenges that the 2017 strategy sought to address are still relevant today and should be carefully considered in the new Plan for Growth.**

23. **The Government now has an opportunity via its Plan for Growth to deliver a more narrow and focused set of polices than the 142 that emerged from the 2017 strategy. We note that the Industrial Strategy Council's analysis suggests the Government has not started well in this regard. *The Government should refine a set of prioritised policies which have sufficient scale and scope to make progress against the Government's strategic objectives. Government should publish the metrics it will measure to show progress in the delivery of these strategic objectives.***

Cross-government delivery

24. It is not yet clear whether the Government intends to retain a strategic industrial policy or how it will deliver against the objectives of the Plan for Growth. We heard from the Industrial Strategy Council that to succeed industrial strategy must be owned across Government departments—something the 2017 strategy did not always achieve—but it has yet to be demonstrated that the Plan for Growth provides a specific enough vision to achieve cross-Government buy-in and coordination. However, the cross-cabinet National Economy and Recovery Taskforce which is chaired by the Prime Minister offers a potential structure to take forward more coordinated activity.[29]

26 Industrial Strategy Council, *Annual Report*, (March 2021), p 26
27 Mariana Mazzucato, *A challenge led recovery: the role of mission oriented industrial strategy*, (July 2020)
28 This point is explored further in Chapter 5.
29 Announced in the Plan for Growth, the National Economy and Recovery Taskforce is a cabinet committee chaired by the Prime Minister which will " focus on catalysing growth, levelling up across the UK and driving public service performance and delivery."

25. The ISC's 2020 Annual Report found limited evidence of co-ordinated decision making between BEIS and other Departments when aspects of the Industrial Strategy overlapped with those Departments' policy areas. It argued the Grand Challenges in particular provided "an effective vehicle" for improved policy coordination given their scale and scope, but that this coordination was not yet happening.[30] Professor Dame Nancy Rothwell, a member of the Industrial Strategy Council, outlined the importance of policy being owned across all of Government:

> the industrial strategy has to be pervasive across Government Departments. I do not see it as being owned by any one Department, because it influences such important aspects of business, trade, health, skills and infrastructure across all of them.[31]

26. Many of our witnesses agreed with Dame Nancy's analysis. Heriot-Watt University reported "limited evidence of impact" where activity had required "engagement from other Government Departments".[32] Discussing the effectiveness of the Life Sciences component of the Industrial Strategy, the CBI said cross-departmental working could be improved as the "Life Sciences Council is well attended by the Department of Health and Social Care and BEIS but not the Treasury or DfE."[33] The Productivity Insight Network offered a stark critique of cooperation across Whitehall:

> The Industrial Strategy is not really taken very seriously in HM Treasury, and MHCLG are not quite sure exactly where it fits in with their remit, as is the case for the Department for Work and Pensions, the Department for International Trade, the Department for Education and UKRI.[34]

27. Gareth Stace from UK Steel told us that the steel industry's efforts to negotiate a sector deal had failed due to a lack of cross-Government buy-in. In particular, policy modifications UK Steel argued for in relation to electricity prices and business rates were "within the gift of Treasury" but BEIS was unable to persuade the Treasury to introduce changes which could have helped stimulate a sector deal.[35]

28. Addressing concerns about the effectiveness of cross-departmental working, the Secretary of State's comments were somewhat equivocal. He argued that Government departments had worked well together in the past but that they could do better.[36] It was telling, however, that in introducing the benefits of the Plan for Growth, the Secretary of State observed that the Industrial Strategy "had no real Treasury buy-in."[37]

29. Prior to confirmation that the Industrial Strategy in its existing form would be scrapped, former Secretary of State, Rt Hon Greg Clark MP, suggested all government policy need not reference the Industrial Strategy, but there should be an ambition to "internalise" the Strategy within government so that it becomes "part of the wiring of Whitehall and policymakers, because they have been convinced and it has been embedded".[38] He identified

30 Industrial Strategy Council, *Annual Report*, (February 2020), p 5
31 Q215
32 Heriot-Watt University (INS0018)
33 Confederation of British Industry (CBI) (INS0016), p 6
34 Productivity Insight Network (INS0048)
35 Q75
36 Oral evidence taken on 13 April 2021, HC (2019–21) 301, Q157
37 Oral evidence taken on 13 April 2021, HC (2019–21) 301, Q153
38 Q22

skills policy as an area where he had found this difficult to achieve and explained that "to truly join this up, it sometimes means budgets from one Department being deployed in a way that might not have been among the narrower priorities of that Department."[39] Mr Clark added that it was always a "struggle" to persuade the Department for Education and its predecessors that joining in a "full-hearted way with the agenda that the industrial strategy set out, rather than preserving its autonomy, was in its interest."[40]

30. Addressing the Government's skills proposals set out in the Plan for Growth, the ISC emphasised that cross-government working must complement co-production with the private sector and third sector groups. They concluded that to make progress there would have to be much closer working between the Department for Education, the Department for Work and Pensions and BEIS as well as "strong engagement with private businesses, the education sector and trades unions."[41]

31. **Coordinated and strategic industrial policy is required if the Government is to meet its growth, levelling up and net zero ambitions. It appears that many aspects of the Plan for Growth will be overseen by a cross-cabinet committee chaired by the Prime Minister and the Committee welcomes this opportunity to apply the highest levels of political priority to the problems the Industrial Strategy was trying to solve.**

32. ***Whether labelled Industrial Strategy or Plan for Growth, industrial policy in the UK will require scale and a long-term commitment from Government to be successful. In response to this report the Government should set out:***

- ***How it will improve coordination of relevant polices across its Departments and ensure a strategic, long-term approach to industrial policy within Government, including clarifying the respective roles of HM Treasury and the Department for Business, Energy and Industrial Strategy in delivering the Plan for Growth;***
- ***The specific features and policies of the 2017 Industrial Strategy that will be retained, including clarity on the future of the Grand Challenges and missions and their applicability to future policy;***
- ***The objectives of its revised approach to industrial policy and how delivery against these will be measured and monitored;***
- ***How it intends to engage with sectors and seek external expert policy evaluation, to ensure robust future industrial policymaking processes.***

39 Q22
40 Q22
41 Industrial Strategy Council, *Annual Report*, (March 2021), p 29

2 Abolition of the Industrial Strategy Council

Purpose of the Industrial Strategy Council

33. The Industrial Strategy Council (ISC) was established in November 2018 as an independent non-statutory advisory group, with membership drawn from representatives of business, academia and civil society.[42] It was chaired by Andy Haldane, Chief Economist at the Bank of England. The Council's remit was to provide impartial and expert evaluation of the Government's progress in delivering the aims of the Industrial Strategy. It also had a responsibility to report regularly to government on progress against the Industrial Strategy and the Strategy's impact on the economy and society.

34. The membership of the ISC was drawn from across industry which afforded it credibility and the ability to provide a transparent and comprehensive assessment of industrial policy. A key element of the ISC's remit had been to develop and maintain a set of success metrics. The metrics helped the Council to assess the impact the Industrial Strategy was having in meeting its longer-term goals of increased productivity and earnings power. The ISC also produced a significant quantity of high-quality research into 'best practice' approaches to key aspects of industrial policy, including through its Insight Projects work programme.

35. Alongside the publication of the Plan for Growth in March 2021, the Government confirmed that the ISC would be disbanded with no direct replacement.[43] In abolishing the ISC, the Government has also scrapped the carefully developed set of success metrics which could cast light on the success or failure of the Government's approach, in favour of broader provisional priority outcomes and metrics for UK Government Departments originally published alongside the 2020 Spending Review.[44] There do not appear to be any current plans from Government to retain or replace this detailed independent analysis, or produce a tailored set of success metrics for the Plan for Growth.

Independent oversight

36. Evidence to our inquiry was largely positive about the role of the ISC and the resources at its disposal. Witnesses pointed to its Annual Report 2020 as a positive example of the Council's scrutiny function in action. The Institute of Directors said implementation of Industrial Strategy policies, and consistency and longevity of Industrial Strategy policymaking, could be further improved if the Council were made into a statutory institution, along the lines of the Office for Budget Responsibility.[45] Andy Haldane noted that the ISC did not have the same statutory footing as other bodies in the UK or similar councils in other countries. Furthermore, he made the case that independent, authoritative analysis and advice can have teeth and shape policy, including encouraging Governments to act with the scale and longevity required for successful industrial policy.[46]

42 Department for Business Energy and Industrial Strategy, *Industrial Strategy: Building a Britain fit for the future*, Cm 9528, November 2017, p 11
43 Letter from the Secretary of State to the Chair on the Industrial Strategy
44 HM Treasury, *Build Back Better: our plan for growth*, CP 401, March 2021, p 106
45 Institute of Directors (INS0034)
46 Q221

37. The Council's 2021 Annual Report, published after it had been confirmed that the ISC would be abolished, made the case that the Government's shift from the Industrial Strategy to the Plan for Growth would benefit from statutorily independent oversight:

> best practice internationally, and indeed domestically in other areas of policy, calls for arms-length, independent and rigorous oversight and evaluation of delivery and success. The Council believes the Government should set up an independent body, ideally in statute, tasked with providing impartial and expert evaluation of the Government's progress in delivering the Plan for Growth.[47]

38. The Secretary of State acknowledged that the Industrial Strategy Council had done "a really good job" with "many excellent people on it" but could offer little explanation for disbanding the Council beyond stating that we are now in a different era.[48] Arguing that independent oversight is not a necessary part of evaluating the effectiveness of the Government's policy, the Secretary of State told us that the Government has its own evaluation processes and that metrics will be used to measure outcomes with "some degree of transparency."[49]

39. **Abolition of the Industrial Strategy Council suggests that the Government's commitment to coordinated industrial policy that can withstand and benefit from independent scrutiny has waned. The Council's abolition risks expanding the gap between Government and the industries that must deliver productivity improvements, economic growth and achieve the UK's net zero target, as well as limiting the transparency of the Government's industrial policy objectives and progress.**

40. **The Secretary of State's decision to axe the Industrial Strategy Council is difficult to reconcile with his conclusion that the Council did a good job - a conclusion with which we agree. The more challenging context today enhances the necessity of independent oversight. The abolition of the Council is not consistent with the Secretary of State's wider contention that the Plan for Growth is, in effect, an evolution of the Industrial Strategy.**

41. **Abolishing the Industrial Strategy Council was a retrograde step. We are concerned that the Government has disregarded and rejected the benefit of independent long-term analysis and evaluation. Without independent scrutiny implementation of industrial policy will be compromised at best and ineffective at worst. The Council's analysis and expertise in interpreting the strengths and weaknesses of the Industrial Strategy informed our inquiry, which is just one illustration of how independent oversight can be harnessed for wider scrutiny.**

42. **The abolition of the Industrial Strategy Council removes the opportunity to provide independent analysis over industrial policy in the long term. The Government must ensure that effective scrutiny is put in place in another form in order to measure outcomes and constantly evaluate the strategy. The Council's abolition removes the opportunity to provide independent analysis that allows an iterative approach to optimising industrial policy over the long term.**

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47 Industrial Strategy Council, *Annual Report*, (March 2021), p 5
48 Oral evidence taken on 13 April 2021, HC (2019–21) 301, Q155
49 Oral evidence taken on 13 April 2021, HC (2019–21) 301, Q155

3 Foundations and missions

Support for the Foundations and Grand Challenges

43. The Industrial Strategy was built on five Foundations—People, Ideas, Infrastructure, Business Environment, and Places. Witnesses from across a range of sectors including transport, energy, and cross-sector representative bodies were supportive of the principle of the 2017 strategy's Foundations.[50] KPMG, for instance, thought that the five foundations were broadly the right issues to focus on and that changing them would risk adding confusion to the Industrial Strategy at "precisely the time that we need more businesses to engage with it".[51]

44. Witnesses were also supportive of the four Grand Challenges—artificial intelligence and data ageing society, clean growth, and the future of mobility. Peter Ellingworth, Chief Executive Officer of the Association of British Healthtech Industries (ABHI), told us they had been "well-chosen"; Nick Owen, Co-Chair of the Professional & Business Services Council, (PBSC) said they were "inevitable consequences that we could anticipate the country facing" and suggested that the Covid-19 pandemic "has done nothing but accelerate all of the need for those changes".[52] There was particular support among witnesses in the environmental, energy and transport sectors and from representative bodies such as the CBI for the clean growth challenge and its potential to support the UK green economy.[53]

45. However, while there was support in principle for the Grand Challenges, the Industrial Strategy Council suggested they had not been well translated into policy delivery. The Council's 2020 Annual Report concluded "only modest progress" had been made in turning the Challenges into policy proposals, and "much less in implementing these proposals". It argued "much greater policy focus, action and co-ordination are needed to match the scale of those challenges … [with] meticulous planning and careful monitoring of delivery".[54]

46. In addition, it is not clear that the Foundations and Grand Challenges significantly resonated with, or cut through to, business on the ground. For many in business the Industrial Strategy, its core components and its purpose could not be easily described—we heard at our industry roundtable discussions that many people understood the Government had an industrial strategy but were unsure as to what it was or how it worked.[55]

47. Witnesses based in the devolved nations expressed a specific concern that the process of establishing the Foundations and Grand Challenges had not benefitted from co-production with the devolved Governments and that there remained substantial barriers to the effective delivery of these fundamental building blocks of the Industrial Strategy in the devolved nations.[56]

50 British BIDs (INS0019), Confederation of British Industry (CBI) (INS0016), Railway Industry Association (INS0027) Carbon Capture and Storage Association (INS0036)
51 KPMG UK (INS0041)
52 Q43, Q49
53 See for example the submissions from: Environmental Services Association (INS0040), E.ON (INS0011), Porterbrook (INS0050), Confederation of British Industry (CBI) (INS0016)
54 Industrial Strategy Council, *Annual Report*, (February 2020), p 20
55 Industry roundtable note
56 Scottish Government (INS0006), SRUC, Scotland's Rural College (INS0007), Heriot-Watt University (INS0018)

48. The Scottish Government said it was "not always clear" how the almost 150 Whitehall-led Industrial Strategy policies should interact with devolved administrations' policies, and called for greater "co-production" and "consistent engagement" between the UK Government and devolved administrations, especially on the Grand Challenges and Foundations.[57] It also called for consistency in the devolved administrations' participation in developing sector support, noting that while Scottish Government officials were invited as observers to the Creative Industries Council, they and the other devolved administrations were excluded from the Aerospace Growth Partnership.[58]

49. SRUC (Scotland's Rural College) stated that it was unclear what "obligations are put on the devolved administrations as well as Whitehall departments to deliver on the IS" and suggested the Industrial Strategy Council "appears almost invisible in Scotland".[59] Heriot-Watt University identified a "mismatch between ability and ambition to deliver the IS equally across all of the UK".[60] They said this was partly caused by devolved administrations not having capacity to engage with the Industrial Strategy, and argued that the Strategy's thematic challenges should be more closely tailored to the devolved administrations.[61]

50. **Uncertainty about the relevance or content of the Industrial Strategy suggests that, in combination, the strategy's multiple overlapping features made it overly complex and obscured its purpose. The extent to which the strategy's Foundations and Grand Challenges shaped the day-to-day experience of the business people who participated in our roundtables was limited, as was their understanding of granular elements of the strategy. Stakeholders in the devolved nations also noted insufficient opportunities for engagement with the Government on these fundamental aspects of the Strategy.**

51. ***The UK Government should clarify how the devolved Governments will be involved in the design and delivery of future policies and strategies associated with the Plan for Growth. The UK Government should implement lessons from the devolved Governments' experience of engaging with the UK Government on policies relating to the Industrial Strategy's Foundations and Grand Challenges.***

52. ***In addition to co-production with the Devolved Administrations, the Plan for Growth should be developed with regional and local leaders in England with a focus on promoting local engagement with industrial policy, and not merely a strategy document for consumption in Whitehall.***

Horizontal, vertical, and mission-oriented policy

Missions

53. Mission-oriented industrial policy identifies key societal challenges and to tackle them encourages investment and innovation across different sectors of the economy. Professor Mariana Mazzucato, Founder and Director of the UCL Institute for Innovation and Public Purpose, has described mission-oriented industrial strategy as caring "not only about the rate of growth, but its direction [...] tilting the playing field so that key

57 Scottish Government (INS0006) paras 12, 21, 26
58 Scottish Government (INS0006)
59 SRUC, Scotland's Rural College (INS0007)
60 Heriot-Watt University (INS0018), section 3
61 Heriot-Watt University (INS0018), section 3

investments steer the economy towards its goals".[62]

54. The four Grand Challenges in the UK Industrial Strategy were underpinned by five 'missions', which were developed by the Government working with the UCL Commission on Mission-Oriented Innovation and Industrial Strategy. These provided a clear mission-oriented policy element to the strategy. Professor Mazzucato has been highly critical of the Plan for Growth which, she said, scrapped the mission-oriented Grand Challenges despite their continued relevance.[63]

55. The CBI said businesses saw the Industrial Strategy's Grand Challenges and missions, together with associated public sector investments, as a helpful focal point for developing their own innovation strategies and allocating resources to long-term investments.[64] Professor Chris Day, Universities UK, said that from an academic perspective the missions, together with associated funding sources, like the Industrial Strategy Challenge Fund, had given researchers direction and purpose for industrial collaboration.[65]

Balance between horizontal and vertical policies

56. The Industrial Strategy also contained a range of interventions designed to support economic growth and productivity on a non-sectoral, cross-cutting basis - known as 'horizontal' policies - as well as interventions designed for specific sectors, often referred to as 'vertical' policies. Witnesses debated whether the focus of the government should be on horizontal or vertical policy interventions in encouraging post-pandemic growth.[66]

57. We heard that, in particular, digitisation should be predominant in any refreshed strategy and the search for areas of post-pandemic growth. Nicholas Owen of the Professional and Business Services Council said the impact of digitisation on productivity, and the use of technology in the workplace, was a "cross-cutting theme" that "needed more attention … in terms of infrastructure and skills in particular".[67] Anthony Walker of techUK said:

> The process of digitisation is a horizontal process, happening right across sectors and right across the economy […] whereas the industrial strategy still feels to us a bit more vertical than horizontal, with a strong focus on the sector deals in particular.[68]

58. ADS, the body representing aerospace and defence, told the Committee that the Government should offer businesses financial support to upskill workers for the shift towards workplace technologies and a low-carbon post-pandemic recovery.[69] The Coalition for a Digital Economy (COADEC) which represents technology start-ups and scale-ups expressed concern that the skills base is insufficient for economic recovery because there is "an enormous gap between the skills British businesses need to recover and compete, and the skills that workers have at the ready, particularly in digital and tech."[70]

62 Mariana Mazzucato, *A challenge led recovery: the role of mission oriented industrial strategy*, (July 2020)
63 UCL Institute for Innovation & Public Purpose, *Building Back Worse*, 23 March 2021 (accessed May 2021)
64 Confederation of British Industry (CBI) (INS0016)
65 Q163
66 We consider sector deals - the formal structures through which these vertical policies were pursued and organised under the Industrial Strategy - in more detail in Chapter 4
67 Q45
68 Q44
69 ADS (PEG0082) para 7.5
70 The Coalition for a Digital Economy (Coadec) (PEG0080) para 67

59. Nevertheless, none of the evidence we received explicitly suggested either sectoral or cross-cutting issues should be entirely discounted from industrial policy. Dr Anna Valero, Senior Policy Fellow and ESRC Innovation Fellow, London School of Economics, argued a balance between vertical and horizontal policies was required:

> Fundamental to solving our productivity crisis are the horizontal aspects and, for the most part, the levelling up agenda … [but] clearly, there are areas now where we see sector-specific issues, like retail and hospitality. You need a balanced approach.[71]

60. The Government's evidence considered the balance between horizontal and vertical policies, noting that the 2017 strategy had balanced cross-cutting interventions with sector specific approaches.[72] They indicated that consideration is being given to an overtly vertical policy which would mean a "more focused approach to sectors and explicit sectoral prioritisation, as balanced against whole-economy interventions."[73]

61. **Overall, the Industrial Strategy's blend of horizontal policies with vertical sector-based interventions and a mission-oriented approach offered significant flexibility for policymakers. The mission-based approach helped to provide direction of travel and focus for both the Government and industry on a set of objectives, though converting the missions into discrete and specific policy programmes that spanned government departments and delivered meaningful engagement in local economies proved challenging.**

62. **When launched in 2017, the fundamental purpose of the Industrial Strategy was to address poor productivity in the UK, particularly outside of the South East. However, improved productivity was not itself a Grand Challenge or mission of the strategy. This may have contributed to a sense of the Strategy's complexity and lack of clear purpose.**

63. **We are concerned that the Plan for Growth lacks mission-based structures (beyond references to net zero and levelling up) or formal mechanisms for strategic sectoral engagement and support. The reduced emphasis on these elements lessens the formal complexity of the Plan for Growth compared to the Industrial Strategy, but risks making it harder to realise the strategic balance of vertical and horizontal interventions witnesses called for, or the benefits of mission-driven policy for academic engagement with industry.**

64. ***While we recognise it has chosen not to replicate the Industrial Strategy's formal structure of Sector Deals, Foundations, and Grand Challenges and missions, the Government should clarify what balance it has sought between vertical, horizontal and mission-led policy in the Plan for Growth. Doing this would ensure the Plan for Growth appropriately captures and balances the benefit of each approach.***

71 Q6
72 Department for Business, Energy and Industrial Strategy (PEG0287) para 24
73 Department for Business, Energy and Industrial Strategy (PEG0287) paras 24–25

4 Sector Deals

The value of targeted sector support

65. Co-production between the public and private spheres was a central feature of the sector deals agreed across industry with the objective of increasing productivity, employment, innovation and skills. This type of partnership working is regarded as central to achieving 'mission' orientated industrial policy goals.[74] In their 2021 annual report the Industrial Strategy Council noted that the focus on public–private co-production, which was well illustrated by the sector deals, was a strength of the 2017 Industrial Strategy.[75]

66. The Environmental Services Association and Energy UK stressed support for the principle of sector deals, describing them as a good approach to develop or boost sectors of the economy, especially if the sectoral focus helped to achieve wider goals such as net zero and sustainability.[76]

67. Several sectoral bodies stressed that while sector deals had initially been successful, Covid-19 had altered the context in which deals were operating. ADS (aerospace, defence, security, and space industries) and UKSpace, for example, said that there was a need for the Government to intervene further to support the UK's supply chain and the SMEs that depended on it.[77] UK Hospitality also pointed to the particular problems facing the Tourism Sector Deal, which had been agreed in June 2019, noting the precarious position of 3.2 million people employed in the industry.[78]

68. Some witnesses said that the Government should look to agree new sector deals and prioritise sectors that would help deliver net zero goals, clean growth,[79] or address issues such as fuel poor households and levelling-up.[80] The Chartered Institute of Management Accountants argued that there was a need for new sector deals, for instance for the professional services sector which would provide essential support for UK businesses but which was also a key sector in its own right in terms of employment and contribution to the UK economy.[81]

69. Other witnesses, such as the organisation for Business Improvement Districts, questioned whether the sector deals had actually made progress in boosting productivity, employment, innovation and skills.[82] The University of the West of Scotland feared that

74 See for example UCL Commission for Mission-Oriented Innovation and Industrial Strategy (MOIIS) co-chaired by Mazzucato, M. and Willetts, D. (2019). *A Mission-Oriented UK Industrial Strategy*. UCL Institute for Innovation and Public Purpose, Policy Report, (IIPP WP 2019–04).

75 Industrial Strategy Council, *Annual Report*, (March 2021), p 27

76 Energy UK (INS0038), Environmental Services Association (INS0040), The ESA pointed to transformative aims such as the circular economy.

77 Chartered Management Institute (INS0030)

78 UKHospitality (INS0042)

79 See Nuclear Industry Association (INS0035), Carbon Capture and Storage Association (INS0036)

80 See: Durham Heat Hub, Durham County Council (PEG0303), Cornwall and the Isles of Scilly Local Enterprise Partnership (INS0039); Energy Intensive Users Group, (INS0009); E.ON (INS0011); Energy UK (INS0038); Railway Industry Association (INS0027). The latter thought that the UK should seek to increase exports opportunities around its low/zero carbon expertise.

81 Chartered Institute of Management Accountants (CIMA) (INS0049). It noted, for instance, that the financial and related professional services sector represented 7.3% of total UK employment and contributed over £184bn to the UK economy, 10.4% of total UK GVA. While figures from the Department for Business, Energy and Industrial Strategy show that the UK is a major exporter of PBS, providing 27 percent (£66bn) of the UK's services exports.

82 British BIDs (INS0019)

the Industrial Strategy was focused on a few niche sectors, as shown by the range of agreed sector deals, and needed to diversify to support wider sustainable growth.[83]

70. Witnesses agreed that there should be greater joined-up thinking between sector deals and the wider Industrial Strategy to ensure "greater congruence and complementarity" which was "exemplified by the Professional Services Sector Deal, where the drivers are not sufficiently consistent with objectives of related IS challenges".[84]

71. Dr Anna Valero highlighted that whilst horizontal policies will ultimately improve productivity 'vertical' sectoral policies can interact with horizontal initiatives to support industries which experience rapid change or that are in decline.[85] Sir Charlie Mayfield, a member of the Industrial Strategy Council, observed that sectoral policies can be a necessary defensive feature of industrial policy. He said "the industrial strategy can play an important role in helping with transitions where, perhaps, one sector in the economy is suffering greatly and having an impact on a lot of people."[86] Sir Charlie described how horizontal policies can ultimately contribute to the defensive aspect of industrial policy:

> If you take retail as an example, it would be, frankly, a fool's errand to try to sustain retail at its current level of employment. […] The thing that you are concerned about is the vast number of people who work in a sector like retail. Part of a defensive strategy would be to help transition them from that area into an area where there are opportunities and prospects. One of the key aspects of that is about skills.[87]

Effectiveness of the sectoral approach

72. In March 2019, our predecessor Committee published its report *Industrial Strategy: Sector Deals*. It called for the Government to ensure that all the sector deals were fully funded and confirm whether sector deals were still open to every sector of the economy, and be clear on the level of engagement and funding a sector pursuing a deal can expect from Government.[88] It also called for better, more transparent criteria on how sector deals operated and better data and reporting on their success and achievements. However, that Committee called for some conditionality in terms of sectors meeting basic employment standards and achieving a more diverse and effective workforce.[89]

73. Guy Newey, Director of Strategy and Performance for the Energy Systems Catapult, Anthony Walker of techUK, and Peter Ellingworth of the ABHI said the sector deals had had a "galvanising effect" in sectors such as offshore wind, life sciences and artificial intelligence, helping to unlock new commercial activity. However, it was also noted that these sectors were "already pretty well-organised".[90] Sir Charlie Mayfield said a uniform approach would not be successful and the term 'sector deal' could imply a degree of universality that does not exist within the agreements because there is "a world of

83 University of the West of Scotland (INS0045) See also Universities Scotland (INS0047)
84 Productivity Insight Network (INS0048)
85 Q6
86 Q235
87 Q235
88 BEIS Select Committee, Seventeenth Report of Session 2017–19, *Industrial Strategy: Sector Deals*, HC 663, para 22.
89 BEIS Select Committee, Seventeenth Report of Session 2017–19, *Industrial Strategy: Sector Deals*, HC 663, pp 41 to 45.
90 Q48

difference between advanced manufacturing and retail, as an example, and you cannot take a homogenous approach to all these things."[91]

74. Dick Elsy from the High Value Manufacturing Catapult framed the existing Sector Deals as "opportunistic" and largely favouring sectors where collaboration between firms was already present.[92] He identified the construction industry as a significant exception to this, where a sector deal had allowed firms to pool their research and development resource and work together on "big systemic innovation challenges".[93]

75. On the basis of the evidence we heard it is not possible to reach a comprehensive assessment of the effectiveness of the sectoral approach. Few specific impacts, trends or positive economic outcomes were identified and we heard, from amongst others the Industrial Strategy Council, that a longer timeframe was needed before evidence of this impact would be seen.[94]

76. Evidence from Heriot-Watt University and the 2070 Commission noted that a lack of clear measurable goals in the Government's initial 2017 White Paper limited the extent to which judgements of the success or otherwise of Industrial Strategy interventions could be made. For example, the 2070 Commission, while describing many Industrial Strategy projects as "individually worthwhile", noted "[i]t is not possible to measure the success of the IS because it has only a limited number of targets or outcomes for the economy, society or the environment".[95] Heriot Watt University concluded that some sector deals, though "certainly sound in terms of supported sectors and pursued goals, seem to be only moderately effective in achieving the promised deliverables".[96]

77. It was not clear from the evidence we gathered that sector deals were effectively targeted at sectors which were strategically important, faced the greatest productivity challenges, or had the most potential to underpin long-term growth. Furthermore, the Industrial Strategy Council published analysis which indicated that the existing sectoral approach is not of sufficient scale to significantly change the experience of businesses within sectors.[97] The Council also said that sector deals would benefit from clearer objectives.[98]

78. The extent to which the sector deals influenced the daily operation of businesses in the UK is questionable. Peter Ellingworth said that the strategy had altered the direction of the life sciences industry but conceded that business leaders were unlikely to keep a copy of the strategy on their desk.[99] Guy Newey, however, made the case that the sectoral approach could be influential without businesses having to maintain a keen appreciation of the strategy's finer details. A consistent theme across the three roundtable discussions we held with industry, however, was that the strategy was remote to the daily work of businesses, a point particularly emphasised by SMEs.[100]

91 Q226
92 Q168
93 Q168
94 Q216
95 UK2070 Commission (INS0022)
96 Heriot-Watt University (INS0018)
97 Industrial Strategy Council, *Effective Policy Approaches to Sectoral Issues*, October 2020
98 Ibid p 7
99 Q43
100 Industry roundtable note

79. The Government said that the existing sector deals will be maintained within the Plan for Growth.[101] The Secretary of State commented that the sector deals would remain in place but also said they were "morphing into other things".[102] Subsequent to the abolition of the Industrial Strategy the Government announced a new sector deal called the North Sea Transition deal which demonstrates that, for at least the short-term, the sectoral approach has been retained.[103]

80. **A fundamental flaw of post-2017 industrial policy is that the Industrial Strategy failed to embed itself as touchstone for British industry. Each foundation and mission of the Strategy was appropriate in its own right, but in combination the Industrial Strategy was complex and remote. The 'opportunistic' nature of the agreed sector deals and their lack of 'complementarity' with the wider Industrial Strategy may have exacerbated this problem, given the role the deals may have played in shaping perceptions of the wider strategy among businesses in those sectors.**

81. **While some businesses in some sectors were aware of the strategy's purpose and objectives, for many it was distant, did not provide clear direction nor influence decision making. We would like Government to ensure that future industrial policy is easily understood at the grassroots of British industry and translatable to the everyday experiences of businesses in the UK.**

82. **Sector deals can have a galvanising effect across industries, bringing to bear an industry-wide focus on enhancing skills and advancing research and development. We are mindful, however, that multiple sector deals can spread resources too thinly and that 'horizontal' mission focused interventions can be effective across multiple sectors.**

83. **The Secretary of State's commitment to maintain the existing sector deals does not fully address long-term concerns about the Government's approach to sectoral policy. Whether the Government intends to refocus and prioritise its sectoral approach, as suggested in its evidence, remains unclear. We are concerned that the Government's current approach is providing business with neither clarity nor certainty.**

84. **Each sector deal is different, some are new whilst some established in 2017 built on cross-sector working already in place. There is value in maintaining the sectoral approach – but clear measures of success and failure are required.**

85. **The Government should maintain sector deals, not least to ensure an appropriate and strategic balance between vertical and horizontal policy interventions as described in Chapter 3. However, we are concerned that outside the structure of the Industrial Strategy, sector deals should not lose their strategic purpose—either for pursuing comparative advantage, or as a defensive intervention—and instead become piecemeal solutions to sectoral problems.**

86. ***In response to this report the Government should set out how it intends to take forward a sectoral approach to industrial policy. The Government should explain how reprioritisation may be consistent with maintaining the existing deals and whether a coordinated process will be established for agreeing new sector deals.***

101 Letter from Secretary of State to the Chair regarding the Work of the Department
102 Q154
103 Department for Business, Energy and Industrial Strategy, *North Sea Transition Deal*, March 2021

87. ***In light of the shocks experienced across the economy and society the Government should establish a plan to review each sector deal to account for the impact Covid-19 has had on employment, pay and productivity.***

88. ***Government should develop clear 'defensive' interventions for sectors going through rapid change, to prepare workers and communities for the loss of jobs and/or businesses that will inevitably occur in their local communities, and to support them in taking advantage of new work and business opportunities. These interventions should be delivered locally so that workers and businesses are aware of the opportunities for support available to them and can therefore effectively engage with industrial policy in their local economy.***

5 Local Industrial Strategies

Industrial policy and local insights: a co-creation approach

89. As part of the Industrial Strategy's Places Foundation,[104] the Government committed to work with local areas to produce Local Industrial Strategies, to be developed locally and agreed with the Government. These local strategies were intended to build on local strengths and deliver on local economic opportunities, but also be aligned to the national Industrial Strategy.

90. The development of Local Industrial Strategies was led by Mayoral Combined Authorities (MCAs) and Local Enterprise Partnerships (LEPs). The LEP Network defined the purpose of local Strategies as being to "promote the coordination of local economic policy and national funding streams and establish new ways of working between national and local government, and the public and private sectors".[105]

91. The Government's 2018 policy prospectus for Local Industrial Strategies outlined that they should set out how areas will maximise their contribution to UK productivity, and inform a strategic approach to any future local growth funding deployed via LEPs. Specifically, it said:

> Local Industrial Strategies will help local areas in England decide on their approach to maximising the long-term impact of the new UK Shared Prosperity Fund once details of its operation and priorities are announced".[106]

92. The Local Industrial Strategy model is not the first initiative to encourage local areas to develop bespoke local growth plans. For example, LEPs had also been encouraged to develop Strategic Economic Plans for their area since 2013. However, Local Industrial Strategies also offered a mechanism for local strengths and priorities to inform national industrial policy, and for national industrial priorities (e.g. the Grand Challenges) to be translated to a local level.[107]

93. Andy Haldane told us that the Industrial Strategy Council had originally intended to look for common themes or clusters of expertise identified in Local Industrial Strategies, and use this information to help ensure national industrial policy was consistent with local priorities and initiatives.[108] Mr Haldane argued there was value in incorporating both central Government and local actors in a "co-production" approach to industrial policy and the Council's 2021 Annual Report concluded that an emphasis on this approach was "a particular strength of the 2017 Industrial Strategy".[109] Andy Haldane concluded that "a well-functioning Industrial Strategy" would be the product of a "combination of local insights and intelligence overarched by a national strategy".[110]

104 As set out in the Introduction, the Industrial Strategy was built around five Foundations, of which 'Places' was one, along with Business Environment, Infrastructure, Ideas and People.
105 LEP Network, *Local Industrial Strategies*, accessed 7 June 2021
106 Department for Business, Energy, and Industrial Strategy, *Local Industrial Strategies: policy prospectus*, October 2018
107 See also our Post pandemic growth sub inquiry: Levelling up - local and regional structures and the delivery of economic growth
108 Q218
109 Industrial Strategy Council, *Annual Report*, (March 2021), p 5
110 Q219

94. Local Industrial Strategies were only ever intended to be developed in England, although Mr Haldane suggested the 2017 Industrial Strategy had also “envisioned that there would be some iteration between devolved Administration strategies […] and the national [Industrial] Strategy”.[111] However, evidence submitted to the Committee questioned the extent to which this had occurred in practice. For example, Heriot-Watt University argued the strategy’s thematic challenges were not well-tailored to the devolved nations’ context.[112] The Scottish Government called for consistent engagement and greater co-production between the UK Government and devolved administrations, especially on the Grand Challenges and Foundations, suggesting it was “not always clear” how Whitehall-led elements of the Strategy should interact with devolved administrations’ policies.[113]

Impact of Local Industrial Strategies

95. We identified broad support for the Local Industrial Strategy model as a way of promoting collaboration among local stakeholders. The Industrial Strategy Council concluded the development of Local Industrial Strategies was mostly seen by local actors as a constructive exercise that had focused minds on agreeing local priorities and achieving common goals.[114] It found that local stakeholders were supportive of the process of developing Local Industrial Strategies and the role of LEPs in coordinating sub-national economic policy.[115] The Council also said the published local strategies “drew on extensive research, and involved intensive collaboration between local actors”, generating valuable insights and helping to establish networks of local stakeholders.[116]

96. However, only seven Local Industrial Strategies have been agreed and published, with no new strategies agreed and published since July 2019. The fact that so few strategies have been produced not only limited the potential benefits of their implementation to a handful of areas, but also suggests their potential to usefully inform national thinking on industrial and economic policy has not yet been realised. As Andy Haldane told us:

> It is certainly true, though, that [iteration between local strategies and the national strategy] has rather stalled in terms of progress over the last 12 to 18 months and probably should be fired up, if we are to make good, broadly speaking, on the levelling-up agenda.[117]

97. The Industrial Strategy Council concluded that the process of developing and implementing Local Industrial Strategies was in part hampered by a lack of capacity within some LEPs to undertake data analysis and policy evaluation to inform the development of their local strategies. It suggested disparities between areas could even increase if LEPs and MCAs were not adequately supported in designing and implementing their Local Industrial Strategies.[118] In response, the ISC called for actions including measures to strengthen the institutional capacity of these bodies, such as long-term Government

111 Q219
112 Heriot-Watt University (INS0018)
113 Scottish Government (INS0006)
114 Industrial Strategy Council, *Understanding the policy-making processes behind local growth strategies in England*, July 2020
115 Industrial Strategy Council, *Understanding the policy-making processes behind local growth strategies in England*, July 2020
116 Industrial Strategy Council, *Annual Report*, (March 2021), p 32
117 Q219
118 Industrial Strategy Council, *Annual Report*, (February 2020)

funding to support greater analytical capacity, and improvements in access to local data and academic research that could support effective monitoring and evaluation of local policies.[119]

98. Other barriers identified by the Council to the effective development of Local Industrial Strategies included uncertainty around future central government policy and funding that would be made available, and limited co-ordination and co-production of Local Industrial Strategies between LEPs and central government.[120]

99. Our witnesses echoed the suggestion that many local areas did not have the resource to effectively develop and implement a Local Industrial Strategy. British BIDs, suggested delays to Local Industrial Strategies being agreed were in part due to variation in LEPs' capacity to coordinate policy in their area and work with Government to co-produce the strategies, and argued central Government should commit long-term funding to support LEPs in building policymaking capacity.[121] The Institute of Directors said "LEPs can be at the heart of driving local business productivity growth if they are adequately resourced [and] made more accountable for local growth/productivity outcomes".[122]

100. However, evidence from the Sheffield City Region MCA suggested capacity was also a problem within central Government, in terms of the priority given to working with local areas to co-produce their local strategies.[123] The MCA does not have a published Local Industrial Strategy, and commented its experience of the process of working with Government to develop one had been "long and arduous". It suggested there was

> limited capacity within Government to work with multiple areas simultaneously on developing LISs, despite these documents being deemed key to delivering the national Industrial Strategy.[124]

101. Sheffield City Region MCA also echoed the ISC's conclusion that uncertainty around future central government policy and funding had hindered the Local Industrial Strategy model. It suggested a lack of resources available to local areas meant the strategies' potential impact was limited by the lack of new investments they could include, observing: "the published LISs are lengthy policy documents but light on financial commitments".[125] British BIDs likewise pointed to "uncertainty related to future funding and government policy" as impeding the development of Local Industrial Strategies.[126]

102. We also received evidence suggesting that national Industrial Strategy objectives did not always translate to the local level, and that the Local Industrial Strategy model did not give areas enough freedom to (re)interpret the national strategy's vision in line with regional strengths and challenges. For example, the Sheffield City Region MCA said local areas should have more flexibility to adapt the Grand Challenges to focus on the major challenges in their area.[127] KPMG said local areas had been "looking to fit a

119 Industrial Strategy Council, *Understanding the policy-making processes behind local growth strategies in England*, July 2020
120 Industrial Strategy Council, *Understanding the policy-making processes behind local growth strategies in England*, July 2020
121 British BIDs (INS0019)
122 Institute of Directors (INS0034)
123 Sheffield City Region Mayoral Combined Authority (INS0024)
124 Sheffield City Region Mayoral Combined Authority (INS0024)
125 Sheffield City Region Mayoral Combined Authority (INS0024)
126 British BIDs (INS0019)
127 Sheffield City Region Mayoral Combined Authority (INS0024)

nation-wide strategy to their own region" and "local businesses have switched off from the process as a result of limited local funding being available".[128] They concluded that many local strategies look "similar across the country" and regions have been discouraged in "prioritising activity based on their unique strengths" because the funding that has been available "has incentivised businesses and local structures to coalesce around the same agendas."[129]

103. Even where Local Industrial Strategies have been successfully agreed and published, evaluating their impact is complicated by the lack of clear 'success metrics' and independent oversight of their delivery, equivalent to the ISC's role for the national Industrial Strategy.[130] The Government's policy prospectus for Local Industrial Strategies requires areas to "set out clear plans" to evaluate the progress of their local strategy, defining "what success looks like" and to build in "a transparent mechanism for monitoring how it is being achieved", but it is not clear that there has been a consistent approach to how this requirement has been followed up.[131] We are therefore unable to point to any evidence that suggests Local Industrial Strategies have had a significant impact on regional economic growth and productivity to date.

104. **The process of developing Local Industrial Strategies was a useful exercise for many areas, even where no strategy was ultimately agreed with central Government. However, it is unclear what impact they have had in practice at either increasing local growth and productivity, or contributing to specific aims of the national Industrial Strategy such as the Grand Challenge missions.**

105. **We are concerned that so few local strategies were agreed and published, and at evidence which calls into question the varying ability of local institutional structures to take forward industrial policymaking. Regardless of whether the specific Local Industrial Strategy model is continued, Government should consider the lessons that can be learnt from their rollout to support future local industrial policymaking.**

106. **The Local Industrial Strategy model faced key limitations, including: a lack of associated long-term funding that could help unlock local investments; variable local institutional capacity to develop, implement and evaluate local strategies; limited priority and capacity within central Government to support the development of local strategies; and a lack of clarity on how far the national vision could be adapted to local circumstances, or by what criteria the local strategies' success could be judged. Many of these limitations are related to the powers, funding and support available to local areas to effectively develop and implement strategic local economic policies, appropriately informed by national priorities.**

107. ***We conclude that Local Industrial Strategies are useful and should be continued in the future, but that the Government should set out how it will ensure that local areas are equipped with the skills, resource and incentives needed to produce and deliver effective local industrial policy. It should make engaging with and supporting local***

128 KPMG UK (INS0041)
129 KPMG UK (INS0041)
130 The Industrial Strategy Council's "Success Metrics" cover Headline Outcomes, and the Foundations, Grand Challenges and Sector Deals. There are no metrics specifically relating to the success of Local Industrial Strategies either individually or overall. See Industrial Strategy Council, *Success Metrics*, accessed 7 June 2021
131 Department for Business, Energy, and Industrial Strategy, *Local Industrial Strategies: policy prospectus*, October 2018

areas to develop such strategies (including in the devolved nations) a higher priority and should publish a national assessment of the opportunities and challenges in each region and potential points of collaboration across the country. Government should confirm whether it sees LEPs as the relevant delivery body for local industrial strategies in England and, if so, provide additional dedicated support for LEPs to build greater analytical, evaluation and policymaking resource.

Future of local industrial policymaking

108. Following the publication of the Plan for Growth at the 2021 Budget, the future of Local Industrial Strategies is unclear. They are not mentioned by name in the Plan for Growth,[132] and the Industrial Strategy Council's 2021 Annual Report described their ongoing status as "uncertain".[133] In correspondence with the Committee, the Secretary of State has confirmed that as part of the recovery from the Covid-19 pandemic and the Government's wider levelling up agenda, the Government is working with LEPs and MCAs to build on "the strong evidence base and the brilliant work done to date by places across the country on the design of Local Industrial Strategies".[134]

109. In evidence to our inquiry on Levelling up,[135] the Minister for Small Business, Consumers and Labour Markets Paul Scully MP confirmed that as part of the transition from the Industrial Strategy to the Plan for Growth, the Government was "encouraging places to consider their key local strengths or weaknesses as they develop plans to support their long term growth ambitions". In an apparent break with the Local Industrial Strategy model however, he confirmed that:

> We are not going to expect or require places to produce strategies in a prescribed format or timescale. They are not going to be co-created with HMG; we want to be in a more supportive place with them […] Rather than having a single local industrial strategy, it is about working out that local economic plan that fits into the Plan for Growth and our other strategic documents that we have, like the R&D places strategy.[136]

The Minister observed that while the Government wanted to ensure local areas' place strategies build on the priorities that were identified through the local industrial strategies, "we also want to make sure they are addressing the new issues that have come out as a result of the crisis, which those industrial strategies were not designed to consider."[137]

Local strategic development

110. With the future of local industrial policymaking uncertain, it is unclear what structure can now underpin strategic conversations about industrial policy at the local level, and support focused engagement between local areas and national Government. The ISC has noted that "sustained local growth needs to be rooted in local strategies,

132 HM Treasury, *Build Back Better: our plan for growth*, CP 401, March 2021
133 Industrial Strategy Council, *Annual Report*, (March 2021), p 27
134 Letter from Secretary of State to the Chair regarding the Work of the Department
135 Business, Energy and Industrial Strategy Committee, *Post pandemic growth sub inquiry: Levelling up—local and regional structures and the delivery of economic growth*, accessed 7 June 2021
136 Oral evidence taken on Tuesday 18 May 2021, HC (2021–22) 115, Q1, Q4
137 Ibid Q5

covering not only infrastructure but skills, sectors, education and culture",[138] and that while many areas have Strategic Economic Plans in place which can serve as a framework for local growth, they are not equivalent to Local Industrial Strategies as they do not incorporate the elements of joint agreement between local and national policymakers, and the public and private sectors.[139] The ISC has concluded that the model of co-creation of industrial policy, between local government, local stakeholders and central Government, is "significantly under-emphasised in the Plan for Growth".[140]

111. Evidence we received suggested there remains an appetite for this engagement and co-creation from local areas. The Sheffield City Region MCA concluded that they:

> would welcome future closer working on our economic strategies, implementation plans and other policy priorities with civil servants within Government departments, as long as these do not become strait jackets.[141]

112. In particular, as observed above, both the LEP Network and the Government's own policy prospectus said Local Industrial Strategies were intended to play a key role in helping local areas build their case for central Government funding grants, and allocating this funding strategically within their area. Currently, central funding pots of this kind include the Levelling Up Fund, the Towns Fund, the Community Renewal Fund, and the forthcoming Shared Prosperity Fund. Uncertainty over the future of the Local Industrial Strategy model is not conducive to helping local areas effectively prepare for the allocation of this funding.

113. **The Government's recognition of the value of the insights generated through the process of working with local areas to design, and in some cases agree, Local Industrial Strategies is welcome. However, it does not address the fundamental uncertainty regarding the future status of local strategies which are already published, and those which remain in development.**

114. **The process of designing Local Industrial Strategies effectively underpinned strategic conversations about industrial policy at the local level. In particular, the insights and networks they generated among local stakeholders could support the effective use of central Government funding for levelling up and community investment. Discontinuing this underpinning structure could hinder this objective and may be especially disruptive as the Government prepares to launch the Shared Prosperity Fund. It is also unclear through what mechanism coordination and co-creation of industrial policy between local business, local government, and central Government will be achieved in future.**

115. ***The Government should clarify whether a new structure will replace Local Industrial Strategies, or what form local growth plans will take in future. This would help to ensure a strategic approach can be taken to distributing funding through levelling up and community investment programmes including the Shared Prosperity Fund. Local growth plans should serve as a focal point for future strategic conversations about industrial policy—both at a local level, and between local and national government.***

138 Industrial Strategy Council, *Annual Report*, (March 2021), p 6
139 Industrial Strategy Council, *Understanding the policy-making processes behind local growth strategies in England*, July 2020
140 Industrial Strategy Council, *Annual Report*, (March 2021), p 5
141 Sheffield City Region Mayoral Combined Authority (INS0024)

116. **The paucity of agreed Local Industrial Strategies ultimately limited the contribution of local insights and intelligence into national industrial policy. However, co-creation of industrial policy at local and national level is the right approach and was a strength of the Industrial Strategy. We share the Industrial Strategy Council's concern that mechanisms for such co-creation are absent from the Plan for Growth. The Government's levelling up agenda will be stronger if local insights and intelligence continue to inform national-level industrial policy, but the move away from the Local Industrial Strategy model will make this more difficult.**

117. ***The Government should clarify through what mechanism it intends to incorporate local industrial and economic insights and intelligence into future national-level policies—in particular, into the Plans, Strategies and Reviews listed in the Plan for Growth which the Government has said will be published within the next 12 months.***

6 Funding the Industrial Strategy

R&D and innovation

118. Accelerating research, development and innovation was central to both the horizontal and vertical interventions within the Industrial Strategy. The Industrial Strategy Council's Annual Report endorsed the Government's target for 2.4% of UK GDP to be spent on R&D by 2027 to support innovation and the Industrial Strategy missions, but said that "a step-change" in expenditure would be required from both the public and private sectors to meet it.[142] The Council noted the Government's plans to publish an R&D Roadmap and suggested this should provide "an ambitious and detailed delivery plan, against which the Council can assess progress".[143]

119. The Council's report also listed a number of other factors the Government would need to address to ensure a strong UK science and innovation landscape, including:

- Fostering partnerships between academia and industry;
- Reducing barriers, and providing incentives, for commercialisation of research; and
- Promoting innovation through government procurement.[144]

120. The Government launched the UK Research and Development Roadmap in July 2020. This reiterated the commitments to increase UK investment in R&D to 2.4% of GDP by 2027 and to increase public funding for R&D to £22 billion per year by 2024/25.[145] It also included new commitments, including setting up an Innovation Expert Group to review the links between research, innovation and commercialisation, and launching a UK R&D Place Strategy. The Government said it would develop the proposals in the Roadmap into a comprehensive R&D plan, working closely with the devolved administrations.[146]

121. The evidence we heard suggested the Industrial Strategy has had a positive but not transformative overall impact on the UK R&D landscape. Former Secretary of State for BEIS Greg Clark, for example, suggested the analysis behind the strategy continues to be a key driver of increased investment by the Government in R&D. He highlighted that the Government's R&D spending

> is going to go from the £12 billion a year that I had agreed it should be taken up to, to £22 billion a year—by far the biggest increase that we have ever had. That is an illustration that the analysis seems to be shared.[147]

122. Professor Chris Day of the University of Newcastle discussed the impact of the Industrial Strategy on universities' approach to R&D. Professor Day said that while the objectives of the strategy, and the funding attached to it via the Industrial Strategy Challenge Fund, had not fundamentally changed researchers' and universities' research

142 Industrial Strategy Council, *Annual Report*, (February 2020)
143 Ibid
144 Ibid
145 Department for Business, Energy and Industrial Strategy, *UK Research and Development Roadmap* (July 2020), p 5
146 Ibid
147 Q21

priorities, it had "provided a really strong mechanism for those researchers who have been looking for the application partners and the translational opportunities".[148] He added:

> In the academic world, [the Industrial Strategy Challenge Fund] has very much been seen as a route to getting some academics working closely with business and seeing applications that they would not otherwise have seen, because many of them who have not had that more applied end to their research until now would have stayed with their research council grants and been doing the pure science.[149]

R&D tax credits

123. Over the course of our inquiry we heard starkly contrasting evidence regarding the effectiveness of R&D tax credits as a means of encouraging additional private investment in R&D and innovation. The arguments we heard were well rehearsed in the House of Common's Science and Technology Committee's 2019 report, *Balance and effectiveness of research and innovation spending*, but the tax credits scheme has not yet adapted to address the criticisms raised in the 2019 report.

124. At our industrial roundtable discussions advocates of R&D tax credits told us that the scheme can influence board level decisions by multi-national companies in favour of investments in the UK.[150] Dr Jeremy Silver, Chief Executive of the Digital Catapult, said that for early-stage businesses the tax credit scheme "represents a very helpful lifeline" when businesses "are reaching the end of the runway provided by investors and still need to prove the point before they can raise the next round."[151]

125. UKRI summarised the benefits of the R&D tax credit in written evidence and said that the scheme generates additional private investment in UK based R&D:

> An HMRC study modelled the effect of a marginal change to tax credit rates. It estimated the additionality ratio for large companies to be 2.35. This indicates that £2.35 of R&D expenditure is stimulated for every £1 of tax forgone. For SMEs, it indicated that £1.53 to £1.88 of R&D expenditure is stimulated for every £1 of tax forgone. As the SME scheme is more generous, this suggests that there are decreasing, but still positive, marginal benefits.
>
> The HMRC research concluded that "R&D tax credits are effective in incentivising additional R&D investment". UKRI supports this view.[152]

126. David Connell of the Cambridge Judge Business School argued the opposite case, saying that the generosity of R&D tax credits has supressed additional private investment. He said the "the key measure of performance" is "business R&D as a percentage of GDP" and concluded that:

148 Q183
149 Q183
150 See annex 2 - summary of roundtable discussions
151 Q173
152 UK Research and Innovation (INS0057)

> the money that R&D tax credits have put into the system has merely resulted in a slightly larger decrease in the money that businesses have been prepared to spend out of their own generated funds.[153]

127. Furthermore, Mr Connell highlighted an imbalance in the mechanisms for incentivising innovation. He said that Industrial Strategy Challenge Fund funding which reaches businesses is worth approximately £600 million per annum whereas R&D tax credits cost the Treasury £6.2bn each year.[154]

Financing commercial innovation

128. Witnesses told us that accessing finance is a significant concern for fast-growing businesses. Stephen Phipson, Chief Executive of Make UK, said that the problem manufacturing businesses face is accessing capital to scale up once R&D is complete. He said for many years there had been "a problem of scale-up" and once smaller companies "get through the R&D and innovation stage" it becomes apparent that they are not able to access "capital available for them to grow, and then many of our innovative ideas go offshore and are invested in in other places."[155]

129. Stephen Phipson said the challenge faced by manufacturing businesses was the international competition for capital with US businesses. He told us that businesses in the US have "a very clear route to a domestic market" for innovative products making it "easier for banks and financial institutions to invest.[156]

Growth capital gap

130. In August 2020 the ScaleUp Institute, Innovate Finance and Deloitte published the report, *The Future of Growth Capital*, which identified a £15bn gap—the difference between demand for and supply of growth capital—in capital available to businesses that are looking to grow. The Institute noted that there is a "long-standing, structural problem of a lack of available capital for scaleup companies" and added that this had been exacerbated by the effects of Covid-19:

> The gap […] stood at £5bn-£10bn a year before the Covid-19 crisis. The pandemic has significantly exacerbated the issue and effectively doubled the gap, with it now reaching £15bn[157]

131. Launching the report, the ScaleUp Institute highlighted comments made in support of the report's conclusions by Stephen Welton, Executive Chairman of the Business Growth Fund (BGF). Mr Welton said the report highlighted "the inadequacy of UK growth capital flows compared to other countries and the rapid deterioration, due to Covid-19, of a long-standing market failure".[158] To avoid a "devastating impact on future growth, innovation and job creation" and to create confidence Mr Welton said there should be a "scaling up of

153 Q172
154 Q164
155 Q72
156 Q102
157 The ScaleUp Institute, *Call for Greater Coordination between Private and Public sector to address Growth Capital Gap* (August 2020) accessed 7 June 2021
158 The ScaleUp Institute, *Call for Greater Coordination between Private and Public sector to address Growth Capital Gap* (August 2020) accessed 7 June 2021

the investment vehicles that already exist."[159]

132. A potential consequence of the capital gap is that scaleups seek investment from outside the UK. The ScaleUp Institute has reported research undertaken by the British Business Bank (BBB) which found that UK scaleups are becoming reliant on international venture capital. They said that the BBB research noted that "UK companies seeking larger rounds of equity finance tend to be reliant on overseas investors to provide this capital, which could be a result of UK VC fund size lagging behind US VC funds".[160]

133. Over the course of our inquiry we heard warnings that innovation and the development of fast-growing businesses should not rely on improved access to venture capital. David Connell of Cambridge Judge Business School said that a reliance on venture capital may leave UK businesses more vulnerable to overseas acquisitions, ultimately limiting the extent to which the UK can capitalise on their intellectual property and growth. He observed that "the UK is probably the most attractive country in which to make acquisitions" which is significant for "venture-capital-backed start-ups, on which we put a lot of emphasis in policy." Mr Connell concluded that successful venture capital backed businesses:

> are almost inevitably sold to large corporate acquirers, and those corporate acquirers are almost inevitably overseas. This means that further growth in the UK is truncated, and you can see this in all the main high-tech centres around the country.[161]

134. In our examination of the challenges facing scale-ups we heard that innovation and growth is clustered in certain areas such as biotech in Cambridge, e-commerce in Manchester and fin-tech in London.[162] However, we also heard that there is significant regional variation in access to capital and one participant at a roundtable discussion said that it is easier for a business outside the south east of England to access funding from US venture capital than it is from UK-based funds.[163] The CBI emphasised this concern and said access to venture capital to support start-up and scale-up growth varied across the country, "with many firms struggling to access funding if they are based outside the capital".[164]

British Business Bank investment

135. In its assessment of the Industrial Strategy published in February 2020, the Industrial Strategy Council called for more British Business Bank funding to be allocated across the UK if growth, productivity and job creation were to be more evenly spread. The Government has invested specific funds in the British Business Bank to catalyse later stage venture capital investments by the private sector, which it hopes will unlock £1 billion of equity funding in later stage venture capital.

136. Peter Elingworth, Chief Executive of the Association of British HealthTech Industries,

159 The ScaleUp Institute, *Call for Greater Coordination between Private and Public sector to address Growth Capital Gap* (August 2020) accessed 7 June 2021
160 The ScaleUp Institute, *The Future of Growth Capital* (August 2020) p 13
161 Q165
162 Q114 (James Wise)
163 Q113
164 Confederation of British Industry (CBI) (INS0016)

said the Industrial Strategy should be a vehicle for Government to help businesses that are looking to scale up to attract investment. He said early in their development businesses "need the right mechanisms that are easy to access" and the Government should ensure not that "the hoops are easier to jump through but that the processes are easier."[165] Mr Ellingworth argued that the Government could provide funding through public funding bodies and that Industrial Strategy policies should drive investor confidence in small business. He observed that accessing funding is "a very difficult process for a small business that is trying to run its business at the same time" and that early stage grants for small businesses would then attract "further investment".[166]

137. Professor Diane Coyle, Bennett Professor of Public Policy at the University of Cambridge, said that the big gap in the Industrial Strategy was the "government financial vehicles", arguing that "The British Business Bank does not have the right structure. We used to have 3i, which is a terrific vehicle for equity stakes."[167] Professor Coyle said international evidence has shown the significant role public bodies can play in providing long-term confidence:

> it is the long-term arm's length nature of public entities such as KfW [German state-owned development bank] and SBA [US Small Business Administration] that has driven consistent and sustainable impact as well as scaled interventions. Giving UK institutions sufficient runway and arm's length empowerment with permanency and flexibility at a regional level under clear national frameworks will generate enhanced results and put us on a footing to our international competitors.[168]

138. The ScaleUp Institute said that public bodies are central to maintaining consistent levels of investment and that the British Business Bank had been effective in delivering returns on investment. It reported that "the BBB in 2018/19 generated a 3.6% adjusted return on capital employed to Government in its investments".[169] The Institute said that "scaling up" the existing infrastructure that already works with the private sector would be "more efficient than standing up new entities that would drain time, resource and prove an unnecessary distraction".[170] The Institute also said that the British Business Bank could be central to addressing persistent regional imbalances in access to equity. Although data from 2018 shows that the number of deals and investment levels in areas outside the South East have increased, the ScaleUp Institute was concerned that there are areas when scale up growth is slow.[171]

Industrial Strategy Challenge Fund

139. Although the Plan for Growth has replaced the Industrial Strategy there is no indication that the Industrial Strategy Challenge Fund (ISCF) will be altered as part of the Government's new policy. The ISCF has a budget of £3 billion for the period 2017–18 to 2024–25 and the Industrial Strategy Council identified the ISCF as being an important element of the Government's planned increase in R&D expenditure.[172] It concluded,

165 Q64
166 Q64
167 Q27 (Professor Coyle)
168 Ibid
169 The ScaleUp Institute, *The Future of Growth Capital* (August 2020) p 13
170 Ibid
171 The ScaleUp Institute, *ScaleUp Annual Review 2020*, November 2020, Chapter 1, Accessing Finance
172 C&AG's Report, *UK Research and Innovation's management of the Industrial Strategy Challenge Fund*, Session 2019–21, HC 1130, 5 February 2021

however, that there was a further opportunity to use this funding to "crowd-in" additional private sector R&D co-investment given the ISCF's focus on the later stages of the innovation process.[173] Mike Biddle, Programme Director, Industrial Strategy Challenge Fund, Innovate UK, underlined this conclusion noting that the ISCF had "roughly a 1:1 leverage, so £1 of public money generates £1 of private. Some parts of the portfolio are more one way or the other."[174]

140. Discussing the resource available to Innovate UK, James Wise from Balderton Capital said that "Innovate UK has just started on its journey and has huge potential here but, compared with international markets and other competitors of ours, it is certainly under-resourced."[175] The Industrial Strategy Council in its 2020 Annual Report made the case for increasing the funding available through the ISCF:

> The ISCF is one of the only innovation funds that is explicitly supporting delivery of the Grand Challenges. Given the scale of these challenges, their limited progress to date and their need for sustained funding over a prolonged period, this suggests the ISCF (or similar innovation funds) may need to be scaled-up, perhaps significantly, if the Grand Challenges are to make significant progress.[176]

141. This conclusion was supported in evidence to this inquiry. For example, the 2070 Commission said the scale of funding committed towards the Grand Challenge missions across Government policymaking was insufficient, arguing "the danger is that the IS will end up having supported a number of worthwhile projects but which collectively do not deliver the scale of change needed."[177] Nesta likewise said the ISCF "is spread too thinly over too many challenge areas".[178]

142. Beyond the scale of the resource available via the ISCF, we heard that the ISCF had helped to enhance the interaction between academia and industry and operates at a scale greater than any previous funding mechanism.[179] Dame Ottoline Leyser, Chief Executive Officer, UK Research and Innovation, told us that attaching funding to missions had brought a sharper focus to bear on the purpose of funding and its intended outcomes. Dame Ottoline said that the ISCF had changed ways of working for UKRI and "more generally in the UK and there is now "a really substantial investment in funding to target particular challenges."[180]

143. We note the conclusions of the House of Commons Public Accounts Committee (PAC) which flagged concerns regarding the operation of the ISCF in their April 2021 report which examined the operation of the fund. The PAC found good performance in the use of the fund against the Grand Challenges and ISCF funding had generated £600m in private investment.[181] However, the PAC was concerned that the approvals process for

173 Industrial Strategy Council, *Annual Report*, (February 2020), p 6
174 Q205
175 Q131
176 Industrial Strategy Council, *Annual Report*, (February 2020), p 27
177 UK2070 Commission (INS0022)
178 NESTA (PEG0245)
179 Qq163–164
180 Q194
181 House of Commons Committee of Public Accounts, Fifty-Sixth Report of Session 2019–21, *Industrial Strategy Challenge Fund*, HC 941, p 3

securing private co-investment was too lengthy and said structural reforms are required.[182] UKRI's objectives for the fund were excessively input focused which, PAC said, made it difficult to evaluate whether the fund had achieved a positive economic impact.[183] The Committee recommended that the Government "should clearly set out, by October 2021, what it expects the Fund to deliver. This should include its impact on jobs and economic impact in the short, medium and long term."[184]

144. In a striking parallel to the regional inequity of access to venture capital, PAC's report identified a concentration and imbalance in the allocation of ISCF funds which favoured London, the South East and the West Midlands. PAC recognised that this may reflect "the location of existing centres of R&D activity" but said the "geographical distribution of funding, however, is not necessarily explained by the distribution of businesses undertaking R&D activities in the economy" and noted that "UKRI does not assess the regional balance of bids in assessing awards."[185]

145. Furthermore, PAC highlighted evidence which called in to question the extent to which the ISCF was supporting small and fast-growing businesses. They reported that in the "most recent wave of funding, the proportion of projects awarded to large companies increased from 20% of the total number of projects in the second wave to 29%" which had "taken place at the expense of micro and small-sized enterprises, whose participation in the Fund has fallen from 44% to 31%."[186] To address this concern PAC recommended that by October of this year UKRI should "set out how it will increase SMEs involvement in the next wave of support from the Fund."[187]

146. In conclusion the PAC said it was not clear how UKRI would contribute to meeting the Government's wider R&D spending objectives and expressed concern about the ISCF's "clarity of purpose including the multiple projects now being funded, the length of time it takes for a project to be approved and the lack of clear evaluation about the impact."[188]

147. **The growth capital gap is a brake on the ability of small businesses to innovate and accelerate their growth. Venture capital in the UK does not always fill the gap and support the right businesses in the right places at the right time. There remains a sectoral and geographic vacuum which is filled by investors from outside the UK.**

148. **International investment in British businesses can support growth and is positive on an individual basis. The flow of businesses and IP out of the UK, however, as a consequence of the international venture capital model is cause for concern. The drift towards foreign investment illustrates that scale ups and innovative businesses require alternative sources of investment to achieve the maximum long-term benefit for the UK economy in addition to short-term rewards for entrepreneurs.**

149. **On this basis, we share the concerns of the Public Accounts Committee (PAC), which called into question the extent to which the Industrial Strategy Challenge Fund (ISCF) supports research-orientated small businesses. Given the scale of the funding attached to the ISCF, the fund should represent a realistic source of alternative funding**

182 Ibid
183 Ibid p 5
184 Ibid p 5
185 Ibid conclusion 5, p 5
186 Ibid conclusion 4, p 5
187 Ibid conclusion 4, p 5
188 Ibid Summary

for small businesses seeking to innovate. However, if the ISCF funding becomes ever more concentrated in certain parts of England, and the flow of support trends towards larger businesses, the ISCF will not be regarded as a viable alternative to traditional sources of growth finance.

150. **We are concerned that the ISCF as a source of public finance should not reinforce the trends seen in access to private finance, in particular venture capital. In addition, we are concerned that difficult approval processes and the challenge of providing finance to satisfy the collaborative approach disincentivise small, innovative businesses from engaging with the ISCF.**

151. ***We recommend that UKRI put in place an action plan which:***

- ***sets out how they will ensure that the ISCF stimulates innovation in all the nations and regions of the UK;***
- ***details how UKRI will reverse the trend of funding moving sharply away from SMEs to larger businesses;***
- ***addresses concerns that the collaborative co-investment bid process is not appropriate for SMEs which are unable to meet co-financing requirements.***

Advanced Research Invention Agency

152. In an environment where innovative businesses can struggle to access capital, and those that do may attract venture capital investment from outside the UK, the Government's proposed Advanced Research and Invention Agency (ARIA) could represent a significant development.[189] We were told the agency's only purpose "will be to fund ground-breaking research" that leads to "transformational societal change through the creation of new technologies and new industries."[190] Outlining the resource available to ARIA, the Government said that there would be "£800 million committed to ARIA up to 2024/25."[191]

153. It is the Government's intention to establish ARIA as a statutory body and to free it from aspects of scrutiny to which other agencies are required to adhere. In correspondence, the Secretary of State said that ARIA will have "a singular focus on high-risk, high reward research" would make a unique contribution to R&D because it "will not be restricted in whether it funds pure science, applied science, or technological development – in fact, it may do aspects of each within a single programme."[192]

154. In addition, the Government has committed to ARIA having a "high tolerance for risk and failure" and the new agency "will not shy away from high risk, in the pursuit of high rewards."[193] Describing how ARIA will deliver funding the Government told us that it will have " unique, but proportionate, freedoms to reduce administrative burdens" and will take

189 The Advanced Research and Invention Agency (ARIA) Bill, 2019–21 [Bill 264] was introduced in the Commons on 2 March 2021, had its Second Reading on 23 March 2021 and its Committee Stage ran from 14 - 22 April 2021.

190 Letter from the Secretary of State and the Minister for Science, Research and Innovation on the Advanced Research and Invention Agency

191 Ibid

192 Ibid

193 Ibid

> an innovative approach to funding, with the ability to use mechanisms such as seed grants and prizes to ensure the best support for the best ideas. ARIA's programme managers will be able to pull in scientists on projects within in a matter of weeks.[194]

155. The Government's intentions for ARIA suggest a step away from the challenge orientated approach of the ISCF. They said that within the scientific community there is an "appetite" to empower scientists to decide on project funding away from the "strategic priorities of Government". The Government said it "will not prescribe a research focus for the agency" but will, instead, "attract and retain world-class talent to identify projects, start and stop them quickly and redirect funding efficiently."[195]

156. The extent to which the Government's plans for ARIA tally with the views of witnesses to our inquiry is contentious. Professor Mazzucato said that by "steering policies towards using the full power of Government" the Government should create an environment that encouraged longer-term and often riskier investments.[196] This would include using grants, loans, and redesigning procurement.[197] Discussing how the Government should respond to the economic shock caused by Covid-19, Professor Mazzucato told us that the strategic approach of the Industrial Strategy "can help catalyse business investment" by making "higher-risk long-term investments" which then "crowd in the business sector" and mitigate any fall in investment.[198]

157. Professor Mazzucato pointed to two key elements which should be central to the operation of a new research agency: firstly, an institutional focus on big challenges, which allow not only direct solutions to these challenges to be developed but also wider spillover innovations; and secondly, Government seeing itself as a purchaser (not just an investor) and using smart procurement to scale up innovative start-ups through mission-oriented public programmes.[199]

158. Reporting in 2021, the House of Commons Science and Technology (S&T) Committee investigated the Government's proposals for a new science research and funding agency. The S&T Committee said that ARIA is a "brand in search of a product" and suggested that its form may have been put ahead of its of function.[200] They concluded that it should focus its research on no more than two strategically important missions aligned with the long-term needs of the nation and serve a specific client within Government with the Department of Health and Social Care, the Department for Business, Energy and Industrial Strategy or the Ministry of Defence highlighted as suitable candidates.[201]

159. ARIA, however, has been created without a conscious focus on a specific mission or challenge which the Government said is consistent with models applied to similar agencies in other countries:

> ARIA will depart from the DARPA model, but align with other ARPA-inspired bodies around the world such as Germany's SPRIN-D and Japan's

194 Ibid
195 Ibid
196 Q14
197 Ibid
198 Q14
199 Q5
200 House of Common Science and Technology Committee, *Third Report of Session 2019–21*, A new UK research funding agency, HC 778, para 45
201 Ibid, paras 72, 50

> Moonshot R&D. We want to leave the door open to ARIA to forge links with multiple government department customers, unlocking new ways to tackle a range of societal problems, and boosting UK industry in a range of sectors.[202]

160. **The Advanced Research and Invention Agency (ARIA) could provide a mechanism to contract for innovation by driving public-private collaboration and encouraging competition between commercial organisations to secure alternative sources of investment for growth. We believe that an agency which can take risks and be flexible in the way it supports commercial innovation has the potential to accelerate progress against the Government's policy objectives.**

161. **We note the conclusion of the House of Commons Science and Technology Committee that ARIA is a "brand in search of a product" and share concerns that its function remains uncertain. ARIA's remit and objectives are very broad and we are concerned that its potential should not be diluted by a lack of clear focus.**

Enhancing public procurement

162. We heard that an agency that acts as a purchaser could, potentially, play a significant role in filling the gaps left by inadequate growth capital in the UK. In addition to his reservations about the implications of venture capital funding, David Connell of Cambridge Judge Business School argued that contracting could be a more effective way to drive innovation in commercial businesses than the collaborative grant model used by Innovate UK to allocate the Industrial Strategy Challenge Fund. The Public Accounts Committee noted that SMEs have "limited resources to participate in collaborative bids"[203] and Mr Connell explained that the collaborative approach is not workable for many SMEs because:

> The companies get only 45% to 70% of the money, so they have to find the rest and, for many companies, unless they have a pot of money from venture capital in the bank, that simply does not work. The result is that many of the companies that we would like to support cannot be supported through that process. It has to be through 100% funded contracts.[204]

163. David Connell proposed a 'soft start-up' which could avoid the pitfalls of the grant funding and venture capital models and enable growth by agreeing consulting and R&D contracts which become progressively more demanding. This approach, he said, has supported successful British based businesses in the Cambridge cluster which have used both public and private contracts to grow and develop products. Mr Connell argued that the STEM-based companies which have become the "the most economically significant" were not in sectors with a significant policy or funding focus.[205] He said that in "each case, they managed to avoid or defer venture capital, so that the founders had sufficient control

202 Department for Business, Energy and Industrial Strategy, *Advanced Research and Invention Agency (ARIA): policy statement* (March 2021)

203 House of Commons Committee of Public Accounts, Fifty-Sixth Report of Session 2019–21, *Industrial Strategy Challenge Fund*, HC 941, conclusion 4

204 Q172

205 Q165

to grow a substantial business." These companies were able to achieve this, Mr Connell contended, because "they relied on customer R&D funding through contracts for a lot of their early funding."[206]

164. In David Connell's reasoning commercial innovation and the successful development of new products is achieved by contracting processes rather than collaborative processes. He said that the US Defense Advanced Research Projects Agency (DARPA) operates in this way and concluded "the best way is to encourage companies at the top of chain to fund, as customers, potential suppliers and catapults through contracts".[207] He said that businesses which use contracts to innovate products "are much more likely to be focused on the customer's needs and their ultimate willingness to buy product in volume."[208]

165. It is too early to judge whether ARIA will have the freedom to contract with businesses in the way David Connell envisages, although the Government has said that ARIA will be able to utilise a range of funding mechanisms which could range from prize awards to taking equity stakes in companies.[209] In our inquiry, however, it was clear that witnesses felt that industrial policy could better harness the power of public procurement to encourage innovation. The Industrial Strategy Green Paper highlighted that the public sector as a whole spent around £268 billion per year on procurement, equivalent to around 14% of GDP.[210]

166. Peter Ellingworth of the ABHI said the US model of support for R&D and scale up through government pre-procurement contracts, often awarded by DARPA, was attractive for many small businesses and could be used more in the UK.[211] Discussing the impact of procurement on the development of scaleups, Irene Graham, Chief Executive Officer of the ScaleUp Institute, also highlighted practice in the US that could be replicated in the UK noting that approximately "£111 billion is spent by Government in the private sector" and at both national and local level the UK could seek to replicate "what the Small Business Administration does well in the US."[212]

167. Reflecting the comments made by Greg Clark and the Industrial Strategy Council (discussed in chapter 2) regarding cross-government buy-in for industrial policy, David Connell made the case that a change of attitude within Government departments is required if Government spending is to promote commercial innovation. He said that "spending Departments do not regard it as their job to fund innovation in companies."[213] To change the approach of central Government departments Mr Connell argued that they should be funded with the intention that they then fund "the development of technologies that will meet their own requirements from a policy point of view and improve their cost-effectiveness as lead customers."[214] Acknowledging the impact of Covid-19, Mr Connell told us that the Government should ensure that it has "appropriate staff and mechanisms to do that in a strategic way, rather than just when there is a national crisis."[215]

206 Q165
207 Q172
208 Q172
209 Department for Business, Energy and Industrial Strategy, *Advanced Research and Invention Agency (ARIA): policy statement* (March 2021)
210 HM Government, *Building our Industrial Strategy: Green Paper* (January 2017)
211 Q68
212 Q147
213 Q179
214 Q179
215 Q179

168. The Government has consulted on the rules and governance of a new state aid regulator and it appears that following Brexit there may be more freedom for Government to support industries and businesses within them.[216] David Connell referred to the EU's regime as "a relic of the 1980s" which "constrained what we were able to do in the past" and encouraged the grant-based collaborative model.[217] The Institute for Government has noted that the UK not rolling over pre-existing EU rules may indicate a more interventionist approach, but complexity of the legal position and future trading relationships create uncertainty.[218]

169. **The post-pandemic and post-Brexit environment will provide the Government with an opportunity to reshape how public procurement can be used to drive innovation by British businesses. Whilst there was no appetite amongst witnesses for industrial policy to be used to prop up failing businesses, beyond support for defensive policy to support change, it was clear that there is a desire for the power of government to be more effectively harnessed to meet the Grand Challenges established by the 2017 Industrial Strategy.**

170. **Whilst the future of the Grand Challenges is uncertain the fundamental issues which underpinned them remain pertinent. A growing R&D budget channelled through the Industrial Strategy Challenge Fund and the Advanced Research and Invention Agency, in combination with a modification of state aid rules and procurement, has significant potential to promote the growth and innovation required to meet the Grand Challenges. However, there remains a pervasive sense of uncertainty regarding the future funding environment and how industrial policy and the Plan for Growth will interact with commercial innovation.**

171. ***British business should be provided with a clear picture of the landscape in which it will operate in the post-Brexit and post-Covid-19 era. We recommend that the Government publish an overview of the scale and nature of its future relationship with industry to clarify the mechanisms it will use for investing in commercial innovation. This overview should set out principles by which the Government will seek to support businesses, particularly SME's experiencing rapid growth. Further, the Treasury should set out its plans—as a co-owner of the new Plan for Growth—for modernising government procurement rules in the future.***

216 Department for Business, Energy and Industrial Strategy, *Subsidy control: Designing a new approach for the UK* (February 2021)
217 Q185
218 Institute for Government, *The government must bring an end to the UK subsidy control system limbo* (February 2021)

7 Where now?

Opportunities

172. The 2017 strategy, whilst comprehensive and established with the best of intentions, was too complicated, under-financed and under-resourced across government. It failed to achieve its outcomes due to lack of leadership from the top of government. It was never clear whether the fundamental ambition of the 2017 strategy was to improve productivity, meet the objectives of the five Foundations or address the four Grand Challenges. Meeting the Grand Challenges may have been a pathway to achieving progress against the Foundations and improving pay and productivity, however, it was not always clear how the pieces of the jigsaw fitted together.

173. The 2017 strategy also meant little outside of Westminster. It was too optimistic to expect businesses across the UK to incorporate into their decision making a strategy that required careful study simply to comprehend the interaction between multiple objectives. Local industrial strategies were not fully adopted and were not afforded the time required to understand the value they could offer to local economies. The Plan for Growth could enable the publication of a simpler, clearer strategy focused on outcomes that businesses and local economies can understand and buy into. In addition, the Plan for Growth provides an opportunity for the nations and regions of the United Kingdom to come together and co-produce a shared industrial policy that brings the Union together with a shared purpose.

174. For the Plan for Growth to succeed the Government must demonstrate that it is genuinely strategic, builds on the mission-oriented principles of the 2017 strategy, and at its centre has locally developed and agreed industrial plans. Andy Haldane and his colleagues emphasised the importance of making interventions which work across the whole economy to ensure that industrial policy is not reduced to a narrow set of sectoral policies. Providing sectoral support via industrial policy is not inappropriate, but it should complement cross-cutting initiatives. A fragmentary approach that simply responds to special pleading will achieve little.

175. It is just as necessary today as it was five years ago for Government to stimulate British research and innovation to meet the challenges of climate change, an ageing population and fundamental technological change. Industrial policy should use the power of Government to incentivise and encourage competition amongst private companies to meet the UK's shared environmental, economic and societal goals. There now exists an opportunity for the Government to reconfigure its relationship with business on the principle of public / private co-production. Rather than acting as an occasional and remote investor the Government could become a driver of innovation by utilising its purchasing power, reforming public procurement rules and establishing a credible post-Brexit state aid policy. This approach, however, would only be valid if connected to a defined set of strategic national objectives.

Government commitment

176. That the 2017 Industrial Strategy which promised so much, and required such engagement from business groups and academia, could be abolished by one sentence in a

document accompanying the Budget is a measure of the Government's careless approach to industrial policy.[219] Industrial strategy is inherently a cross-government venture, but it will always be vulnerable if ministers and departments can metaphorically shrug their shoulders and choose not to engage with its objectives.

177. The benefits of industrial policy will take many years and, in some cases, decades to be realised and it cannot be left at risk of revision or abolition on the basis of ministerial whim or the demands of the electoral cycle. The Industrial Strategy Council played an important role as a counterweight to any such short-term thinking, both through the fact of its existence as a body providing independent oversight and through its emphasis on the importance of policy longevity in its reports, but it too has been abolished, again at short notice and with Ministers unable to provide a convincing rationale for the decision, and with no clear plans for any replacement.

178. Over the course of our inquiry the Government's approach to industrial policy shifted rapidly but without establishing a clear direction of travel. The Government said they were revising the 2017 strategy before announcing its abolition. They indicated a shift towards horizontal interventions, but sector deals have been retained and added to. The Secretary of State said circumstances have changed, but it is evident that Covid-19 has only elevated the challenges identified in 2017. He criticized the 2017 strategy but told us that many of its elements would be retained. A new flagship research agency has been launched but without a mission-based focus. The Industrial Strategy Council did a good job, but it was scrapped.

179. Perhaps most significantly the Government has not convincingly explained why it made the decisions it did and how they fit in to a strategic industrial policy. But that may be because it is far from clear that Ministers are committed to a strategic industrial policy at all.

180. ***To provide clear direction the Government should present to the House an updated industrial policy statement which sets out the Government's strategic assessment of industrial policy in the UK. The Government should provide:***

- ***Confirmation of who is leading industrial policy in the UK—is it the Prime Minister as Chair of the National Economy and Recovery Taskforce, the Chancellor of the Exchequer as author of the Plan for Growth, or the Secretary of State for Business, Energy and Industrial Strategy?***

- ***Confirmation that officials in each relevant department will be assigned responsibility to lead on industrial policy in their area.***

- ***A commitment to publishing the dates and minutes of the cross-cabinet National Economy and Recovery Taskforce which will coordinate industrial policy.***

- ***A commitment to publish industrial policy metrics and to report on those metrics on an annual basis at local as well as national level. The Government should support relevant departments and national agencies in collecting and publishing this data.***

219 See HM Treasury, *Build Back Better: our plan for growth*, CP 401, March 2021, p 20

- ***A commitment to co-producing industrial policy with the devolved governments and regional and local leaders. The Government should set out the process and timeframes by which this will be achieved.***

Conclusions and recommendations

The end of industrial policy?

1. The economic outlook has been fundamentally altered by the Covid-19 pandemic and by Brexit, and today's circumstances therefore require a revised focus in industrial policy. However, some of the foundations and long-term challenges that the 2017 strategy sought to address are still relevant today and should be carefully considered in the new Plan for Growth. (Paragraph 22)

2. The Government now has an opportunity via its Plan for Growth to deliver a more narrow and focused set of polices than the 142 that emerged from the 2017 strategy. We note that the Industrial Strategy Council's analysis suggests the Government has not started well in this regard. *The Government should refine a set of prioritised policies which have sufficient scale and scope to make progress against the Government's strategic objectives. Government should publish the metrics it will measure to show progress in the delivery of these strategic objectives. (*Paragraph 23)

3. Coordinated and strategic industrial policy is required if the Government is to meet its growth, levelling up and net zero ambitions. It appears that many aspects of the Plan for Growth will be overseen by a cross-cabinet committee chaired by the Prime Minister and the Committee welcomes this opportunity to apply the highest levels of political priority to the problems the Industrial Strategy was trying to solve. (Paragraph 31)

4. *Whether labelled Industrial Strategy or Plan for Growth, industrial policy in the UK will require scale and a long-term commitment from Government to be successful. In response to this report the Government should set out:*

   - *How it will improve coordination of relevant polices across its Departments and ensure a strategic, long-term approach to industrial policy within Government, including clarifying the respective roles of HM Treasury and the Department for Business, Energy and Industrial Strategy in delivering the Plan for Growth;*

   - *The specific features and policies of the 2017 Industrial Strategy that will be retained, including clarity on the future of the Grand Challenges and missions and their applicability to future policy;*

   - *The objectives of its revised approach to industrial policy and how delivery against these will be measured and monitored;*

   - *How it intends to engage with sectors and seek external expert policy evaluation, to ensure robust future industrial policymaking processes.* (Paragraph 32)

5. Abolition of the Industrial Strategy Council suggests that the Government's commitment to coordinated industrial policy that can withstand and benefit from independent scrutiny has waned. The Council's abolition risks expanding the gap between Government and the industries that must deliver productivity improvements, economic growth and achieve the UK's net zero target, as well as limiting the transparency of the Government's industrial policy objectives and

progress. (Paragraph 39)

6. The Secretary of State's decision to axe the Industrial Strategy Council is difficult to reconcile with his conclusion that the Council did a good job - a conclusion with which we agree. The more challenging context today enhances the necessity of independent oversight. The abolition of the Council is not consistent with the Secretary of State's wider contention that the Plan for Growth is, in effect, an evolution of the Industrial Strategy. (Paragraph 40)

7. Abolishing the Industrial Strategy Council was a retrograde step. We are concerned that the Government has disregarded and rejected the benefit of independent long-term analysis and evaluation. Without independent scrutiny implementation of industrial policy will be compromised at best and ineffective at worst. The Council's analysis and expertise in interpreting the strengths and weaknesses of the Industrial Strategy informed our inquiry, which is just one illustration of how independent oversight can be harnessed for wider scrutiny. (Paragraph 41)

8. The abolition of the Industrial Strategy Council removes the opportunity to provide independent analysis over industrial policy in the long term. The Government must ensure that effective scrutiny is put in place in another form in order to measure outcomes and constantly evaluate the strategy. The Council's abolition removes the opportunity to provide independent analysis that allows an iterative approach to optimising industrial policy over the long term. (Paragraph 42)

Foundations and missions

9. Uncertainty about the relevance or content of the Industrial Strategy suggests that, in combination, the strategy's multiple overlapping features made it overly complex and obscured its purpose. The extent to which the strategy's Foundations and Grand Challenges shaped the day-to-day experience of the business people who participated in our roundtables was limited, as was their understanding of granular elements of the strategy. Stakeholders in the devolved nations also noted insufficient opportunities for engagement with the Government on these fundamental aspects of the Strategy. (Paragraph 50)

10. *The UK Government should clarify how the devolved Governments will be involved in the design and delivery of future policies and strategies associated with the Plan for Growth. The UK Government should implement lessons from the devolved Governments' experience of engaging with the UK Government on policies relating to the Industrial Strategy's Foundations and Grand Challenges.* (Paragraph 51)

11. *In addition to co-production with the Devolved Administrations, the Plan for Growth should be developed with regional and local leaders in England with a focus on promoting local engagement with industrial policy, and not merely a strategy document for consumption in Whitehall.* (Paragraph 52)

12. Overall, the Industrial Strategy's blend of horizontal policies with vertical sector-based interventions and a mission-oriented approach offered significant flexibility for policymakers. The mission-based approach helped to provide direction of travel and focus for both the Government and industry on a set of objectives, though

converting the missions into discrete and specific policy programmes that spanned government departments and delivered meaningful engagement in local economies proved challenging. (Paragraph 61)

13. When launched in 2017, the fundamental purpose of the Industrial Strategy was to address poor productivity in the UK, particularly outside of the South East. However, improved productivity was not itself a Grand Challenge or mission of the strategy. This may have contributed to a sense of the Strategy's complexity and lack of clear purpose. (Paragraph 62)

14. We are concerned that the Plan for Growth lacks mission-based structures (beyond references to net zero and levelling up) or formal mechanisms for strategic sectoral engagement and support. The reduced emphasis on these elements lessens the formal complexity of the Plan for Growth compared to the Industrial Strategy, but risks making it harder to realise the strategic balance of vertical and horizontal interventions witnesses called for, or the benefits of mission-driven policy for academic engagement with industry. (Paragraph 63)

15. *While we recognise it has chosen not to replicate the Industrial Strategy's formal structure of Sector Deals, Foundations, and Grand Challenges and missions, the Government should clarify what balance it has sought between vertical, horizontal and mission-led policy in the Plan for Growth. Doing this would ensure the Plan for Growth appropriately captures and balances the benefit of each approach.* (Paragraph 64)

Sector deals

16. A fundamental flaw of post-2017 industrial policy is that the Industrial Strategy failed to embed itself as touchstone for British industry. Each foundation and mission of the Strategy was appropriate in its own right, but in combination the Industrial Strategy was complex and remote. The 'opportunistic' nature of the agreed sector deals and their lack of 'complementarity' with the wider Industrial Strategy may have exacerbated this problem, given the role the deals may have played in shaping perceptions of the wider strategy among businesses in those sectors. (Paragraph 80)

17. While some businesses in some sectors were aware of the strategy's purpose and objectives, for many it was distant, did not provide clear direction nor influence decision making. We would like Government to ensure that future industrial policy is easily understood at the grassroots of British industry and translatable to the everyday experiences of businesses in the UK. (Paragraph 81)

18. Sector deals can have a galvanising effect across industries, bringing to bear an industry-wide focus on enhancing skills and advancing research and development. We are mindful, however, that multiple sector deals can spread resources too thinly and that 'horizontal' mission focused interventions can be effective across multiple sectors. (Paragraph 82)

19. The Secretary of State's commitment to maintain the existing sector deals does not fully address long-term concerns about the Government's approach to sectoral policy. Whether the Government intends to refocus and prioritise its sectoral

approach, as suggested in its evidence, remains unclear. We are concerned that the Government's current approach is providing business with neither clarity nor certainty. (Paragraph 83)

20. Each sector deal is different, some are new whilst some established in 2017 built on cross-sector working already in place. There is value in maintaining the sectoral approach—but clear measures of success and failure are required. (Paragraph 84)

21. The Government should maintain sector deals, not least to ensure an appropriate and strategic balance between vertical and horizontal policy interventions as described in Chapter 3. However, we are concerned that outside the structure of the Industrial Strategy, sector deals should not lose their strategic purpose—either for pursuing comparative advantage, or as a defensive intervention—and instead become piecemeal solutions to sectoral problems. (Paragraph 85)

22. *In response to this report the Government should set out how it intends to take forward a sectoral approach to industrial policy. The Government should explain how reprioritisation may be consistent with maintaining the existing deals and whether a coordinated process will be established for agreeing new sector deals.* (Paragraph 86)

23. *In light of the shocks experienced across the economy and society the Government should establish a plan to review each sector deal to account for the impact Covid-19 has had on employment, pay and productivity.* (Paragraph 87)

24. *Government should develop clear 'defensive' interventions for sectors going through rapid change, to prepare workers and communities for the loss of jobs and/or businesses that will inevitably occur in their local communities, and to support them in taking advantage of new work and business opportunities. These interventions should be delivered locally so that workers and businesses are aware of the opportunities for support available to them and can therefore effectively engage with industrial policy in their local economy.* (Paragraph 88)

Local industrial strategies

25. The process of developing Local Industrial Strategies was a useful exercise for many areas, even where no strategy was ultimately agreed with central Government. However, it is unclear what impact they have had in practice at either increasing local growth and productivity, or contributing to specific aims of the national Industrial Strategy such as the Grand Challenge missions. (Paragraph 104)

26. We are concerned that so few local strategies were agreed and published, and at evidence which calls into question the varying ability of local institutional structures to take forward industrial policymaking. Regardless of whether the specific Local Industrial Strategy model is continued, Government should consider the lessons that can be learnt from their rollout to support future local industrial policymaking. (Paragraph 105)

27. The Local Industrial Strategy model faced key limitations, including: a lack of associated long-term funding that could help unlock local investments; variable local institutional capacity to develop, implement and evaluate local strategies; limited priority and capacity within central Government to support the development of

local strategies; and a lack of clarity on how far the national vision could be adapted to local circumstances, or by what criteria the local strategies' success could be judged. Many of these limitations are related to the powers, funding and support available to local areas to effectively develop and implement strategic local economic policies, appropriately informed by national priorities. (Paragraph 106)

28. *We conclude that Local Industrial Strategies are useful and should be continued in the future, but that the Government should set out how it will ensure that local areas are equipped with the skills, resource and incentives needed to produce and deliver effective local industrial policy. It should make engaging with and supporting local areas to develop such strategies (including in the devolved nations) a higher priority and should publish a national assessment of the opportunities and challenges in each region and potential points of collaboration across the country. Government should confirm whether it sees LEPs as the relevant delivery body for local industrial strategies in England and, if so, provide additional dedicated support for LEPs to build greater analytical, evaluation and policymaking resource.* (Paragraph 107)

29. The Government's recognition of the value of the insights generated through the process of working with local areas to design, and in some cases agree, Local Industrial Strategies is welcome. However, it does not address the fundamental uncertainty regarding the future status of local strategies which are already published, and those which remain in development. (Paragraph 113)

30. The process of designing Local Industrial Strategies effectively underpinned strategic conversations about industrial policy at the local level. In particular, the insights and networks they generated among local stakeholders could support the effective use of central Government funding for levelling up and community investment. Discontinuing this underpinning structure could hinder this objective and may be especially disruptive as the Government prepares to launch the Shared Prosperity Fund. It is also unclear through what mechanism coordination and co-creation of industrial policy between local business, local government, and central Government will be achieved in future.(Paragraph 114)

31. *The Government should clarify whether a new structure will replace Local Industrial Strategies, or what form local growth plans will take in future. This would help to ensure a strategic approach can be taken to distributing funding through levelling up and community investment programmes including the Shared Prosperity Fund. Local growth plans should serve as a focal point for future strategic conversations about industrial policy—both at a local level, and between local and national government.* (Paragraph 115)

32. The paucity of agreed Local Industrial Strategies ultimately limited the contribution of local insights and intelligence into national industrial policy. However, co-creation of industrial policy at local and national level is the right approach and was a strength of the Industrial Strategy. We share the Industrial Strategy Council's concern that mechanisms for such co-creation are absent from the Plan for Growth. The Government's levelling up agenda will be stronger if local insights and intelligence continue to inform national-level industrial policy, but the move away from the Local Industrial Strategy model will make this more difficult. (Paragraph 116)

33. *The Government should clarify through what mechanism it intends to incorporate local industrial and economic insights and intelligence into future national-level policies—in particular, into the Plans, Strategies and Reviews listed in the Plan for Growth which the Government has said will be published within the next 12 months.* (Paragraph 117)

Funding the industrial strategy

34. The growth capital gap is a brake on the ability of small businesses to innovate and accelerate their growth. Venture capital in the UK does not always fill the gap and support the right businesses in the right places at the right time. There remains a sectoral and geographic vacuum which is filled by investors from outside the UK. (Paragraph 147)

35. International investment in British businesses can support growth and is positive on an individual basis. The flow of businesses and IP out of the UK, however, as a consequence of the international venture capital model is cause for concern. The drift towards foreign investment illustrates that scale ups and innovative businesses require alternative sources of investment to achieve the maximum long-term benefit for the UK economy in addition to short-term rewards for entrepreneurs. (Paragraph 148)

36. On this basis, we share the concerns of the Public Accounts Committee (PAC), which called into question the extent to which the Industrial Strategy Challenge Fund (ISCF) supports research-orientated small businesses. Given the scale of the funding attached to the ISCF, the fund should represent a realistic source of alternative funding for small businesses seeking to innovate. However, if the ISCF funding becomes ever more concentrated in certain parts of England, and the flow of support trends towards larger businesses, the ISCF will not be regarded as a viable alternative to traditional sources of growth finance. (Paragraph 149)

37. *We are concerned that the ISCF as a source of public finance should not reinforce the trends seen in access to private finance, in particular venture capital. In addition, we are concerned that difficult approval processes and the challenge of providing finance to satisfy the collaborative approach disincentivise small, innovative businesses from engaging with the ISCF.* (Paragraph 150)

38. *We recommend that UKRI put in place an action plan which:*

- *sets out how they will ensure that the ISCF stimulates innovation in all the nations and regions of the UK;*
- *details how UKRI will reverse the trend of funding moving sharply away from SMEs to larger businesses;*
- *addresses concerns that the collaborative co-investment bid process is not appropriate for SMEs which are unable to meet co-financing requirements.* (Paragraph 151)

39. The Advanced Research and Invention Agency (ARIA) could provide a mechanism to contract for innovation by driving public-private collaboration and encouraging

competition between commercial organisations to secure alternative sources of investment for growth. We believe that an agency which can take risks and be flexible in the way it supports commercial innovation has the potential to accelerate progress against the Government's policy objectives. (Paragraph 160)

40. We note the conclusion of the House of Commons Science and Technology Committee that ARIA is a "brand in search of a product" and share concerns that its function remains uncertain. ARIA's remit and objectives are very broad and we are concerned that its potential should not be diluted by a lack of clear focus. (Paragraph 161)

41. The post-pandemic and post-Brexit environment will provide the Government with an opportunity to reshape how public procurement can be used to drive innovation by British businesses. Whilst there was no appetite amongst witnesses for industrial policy to be used to prop-up failing businesses, beyond support for defensive policy to support change, it was clear that there is a desire for the power of government to more effectively harnessed to meet the Grand Challenges established by the 2017 Industrial Strategy. (Paragraph 169)

42. Whilst the future of the Grand Challenges is uncertain the fundamental issues which underpinned them remain pertinent. A growing R&D budget channelled through the Industrial Strategy Challenge Fund and the Advanced Research and Invention Agency, in combination with a modification of state aid rules and procurement, has significant potential to promote the growth and innovation required to meet the Grand Challenges. However, there remains a pervasive sense of uncertainty regarding the future funding environment and how industrial policy and the Plan for Growth will interact with commercial innovation. (Paragraph 170)

43. *British business should be provided with a clear picture of the landscape in which it will operate in the post-Brexit and post-Covid-19 era. We recommend that the Government publish an overview of the scale and nature of its future relationship with industry to clarify the mechanisms it will use for investing in commercial innovation. This overview should set out principles by which the Government will seek to support businesses, particularly SME's experiencing rapid growth. Further, the Treasury should set out its plans—as a co-owner of the new Plan for Growth—for modernising government procurement rules in the future.* (Paragraph 171)

Where now?

44. *To provide clear direction the Government should present to the House an updated industrial policy statement which sets out the Government's strategic assessment of industrial policy in the UK. The Government should provide:*(Paragraph 180)

- *Confirmation of who is leading industrial policy in the UK—is it the Prime Minister as Chair of the National Economy and Recovery Taskforce, the Chancellor of the Exchequer as author of the Plan for Growth, or the Secretary of State for Business, Energy and Industrial Strategy?*

- *Confirmation that officials in each relevant department will be assigned responsibility to lead on industrial policy in their area.*

- *A commitment to publishing the dates and minutes of the cross-cabinet National Economy and Recovery Taskforce which will coordinate industrial policy.*

- *A commitment to publish industrial policy metrics and to report on those metrics on an annual basis at local as well as national level. The Government should support relevant departments and national agencies in collecting and publishing this data.*

- *A commitment to co-producing industrial policy with the devolved governments and regional and local leaders. The Government should set out the process and timeframes by which this will be achieved.*

Annex

Summary of Roundtables with Committee and Business groups[220]

Dates: 19th November 2020, 10th December 2020, 14th January 2021

Brexit

For participants in the first two roundtables regulatory divergence (and alignment) was cited as one of their biggest concerns for Brexit and stated that the lack of clarity about this has prevented them from being able to fully plan and prepare. Several businesses said that if there is regulatory divergence then SMEs in Europe will decide to stop selling products to the UK as the UK market is not large enough to make product customisation viable. This could mean on the UK missing out on new technology and products. Companies having to customise their products for differing regulations would also lead to price rises for consumers. They also raised concerns that registering new products under Reach is already an expensive process without companies having to register twice if there is non-alignment. One health company said that, at the time of the event, the UK has committed to accepting pharmaceuticals tested in EU markets, but this has not yet been made reciprocal, and if it is not then they may move their plant to Europe. Another company said that if CE marking and CA marking was not made parallel then UK companies could end up with millions of pounds worth of obsolete stock.

In the January session, regulatory divergence was not as prominent a theme though participants did repeat calls for regulations to not diverge too far, and that UK regulatory bodies should look at how the EU and rest of the world operate so as not to disadvantage EU industries. An aviation company also raised that now a deal had been agreed they hoped that the 'de-politicised' environment would allow them to work with their European counterparts, to discuss how they could continue trading and collaboration within the new regulations. Some people were not confident that UK regulators had the capacity to cover the work of EU regulators. One highlighted the CAA and the prolonged delay in approving commercial drone licenses which will impact innovation and growth.

Companies also stated that lack of clarity had also led to EU and international companies not wanting to run R&D collaboration with the UK as it's seen as too risky. Even though UK companies have the skills and ideas, investors will go with second choice companies because they are viewed as less of a risk.

Other businesses did raise that there is a positive in moving away from EU regulation. One called for "more effective and intelligent regulation in finance" and hoped that the Government would work on the City on this. A building company also said that the current OJEU has been a difficult process so being able to move away from this would be a positive outcome for UK contractors. Another building company said that they hoped this would lead to less competition for public, and private sector building projects, from EU firms.

Lots of attendees in the first two sessions raised concerns around "chaos at Ports" at the beginning of 2021 and the disruption this will have on their supply chains. To alleviate

220 More information about the roundtables can be found on our website

this some businesses had altered their supply chains to divert away from the "short-straits" of the Dover crossing. Companies had also worked to avoid any of their lorries being on the road on the 31st December/1st January to ensure they were not stranded. Many companies have had to stockpile goods to cover 3 months' worth of manufacturing and supply, to offset this risk, but this has come at a cost to businesses. A pharmaceutical company added that they had spent £18 million on additional inventory to cover the costs of expected delays, which came in addition to other preparation costs which had had an impact on the company's cash-flow. In addition, companies have had to transport their products overseas to maintain supply, one medical SME has sent 3 months' worth of stock to their European distributers on consignment to ensure continuity which has been a significant cost to the company.

However, some companies stated that they had not been able to stockpile due to their manufacturing process relying on a 'just in time' model. If there were delays in the ports this could cause plants to shut down and lead to significant delays in production. It could also lead to increase costs for consumers. Those working in sectors that supply to hospitality also noted that their warehouses were full with stock they had not been able to deliver during the lockdown. Trade bodies said that they were worried that if there were delays and too much added administration then 'it could be another tick in the cons box' when it comes to parent companies deciding where to invest.

Attendees in the January session noted that they were happy that a deal had been reached and that the predicted extreme delays at port had not occurred. However, there were some who raised that it was early days and that the picture may change once companies had worked through their stockpile.

Workforce was cited as another big concern for companies. A construction company noted that 48% of construction workers in London are from the EU, and they were now starting to leave and not return. This skills shortage could lead to a significant delay on key programmes. It was also noted that there is a shortage of skills in the UK, and that even with training, these gaps could take a while to fill. One electronic innovation company sais "I think our ability to access the best talent globally, or certainly in Europe, seems to be hampered and that's my biggest concern moving forward- the ability to hire the best people that I can to drive the business forward".

In terms of preparation it was noted that some companies were less prepared for the end of the Brexit transition period than others. Some said that this was due to some SMEs not realising that the new trading arrangements would impact them. Others stated that this was a result of the nature of the negotiations. Many had spent time and money preparing for the previous expected leave dates that they had decided to prevent extra costs and 'wait and see what happened'. They also highlighted that the deal had been very last minute and during the holiday period when businesses were closed.

COVID

The furlough scheme was generally praised by attendees with one business stating that it had been an "absolute saviour to our business, our supply chain, retailers and our customers." Around 50% of participants stated that the scheme had been used by their businesses, or within the trade group they represent, during part of the pandemic. Companies who had not made use of the scheme directly, appreciated the support it had provided to businesses in their supply chain.

However, many cited concern at the furlough scheme coming to an end at the end of March. There was a general belief that companies will have to make redundancies in their businesses in April as many companies will not be back to their normal capacity. Some also highlighted that it had been difficult to decide who to furlough as they don't know what the coming months will look like. For example, they are furloughing facilities staff, but are unsure whether to keep them on once furlough ends in the hope that people will return of the office in the summer or early autumn. Others also noted that those on furlough should be encouraged to undertake training to develop skills which will be important in the recovery. Some companies did ask for the government to commit to a two year furlough scheme similar to ones in France and Germany. The attendees felt that having this commitment would encourage investment and certainty for companies who would have a system on which they could rely.

Participants also said that businesses needed more clarity over what was to come over the next six months if their business was to survive. This included guidance on future lockdowns, tiered restrictions, predicted dates for widespread return to offices, social distancing particularly in the way they impact the hospitality, aviation and the creative sector. They added that the constant opening, closing and reopening was more damaging to businesses then if they remained closed and that they would rather know they were going to be closed for 6 weeks than be open one week and closed the next. The lack of certainty was said to have damaged the morale of good businesses that were choosing to cash in whilst they can, rather than constantly having to restructure their business.

VAT cuts and business rates breaks were well received, however there was concern that businesses would struggle when these came to an end, especially as for many these would end at the time that repayments for COVID loans would begin. Many called for extension to cuts and the rates breaks for those working in the worst affected sectors i.e. hospitality, hair and beauty.

There was a mixed reaction to CBILs with some seeing them as a useful tools for companies with others saying that to get them you had to go through a long, complicated process and that banks had not made it easy for businesses to access them. Smaller SMEs were concerned that they had taken loans out with the assumption that by January 2021 they would be trading normally and were now concerned of the implications. Some concern was expressed that those CBILs would impact people's credit rating and a company's financial health rating. Some participants asked for the government to introduce a scheme where companies could divorce their COVID gearing out of accounts to attract investors and that the loans should have 100 year repayment period and be government backed.

Throughout the sessions there were discussions around the money given to local authorities to assist businesses during the pandemic. Some noted the inconsistencies amongst different local authorities, for example whilst in Nottingham a business had to have 3 employees to receive a grant but in Leicestershire you could be a sole trader. Another inconsistency was that businesses in hospitality and the health and beauty sector that could not trade for 5 months were given the same amount of money as those that could trade after 3 months. There was also concern that large number of small businesses had missed out on grants because they didn't know they existed and that application process was too difficult. Another barrier to grants was that local authorities did not have lists of the businesses operating in their area. One group strongly recommended HMRC share data with local authorities to overcome this challenge in the future.

Whilst businesses understood the need for a blanket approach at the outset of the pandemic (and highlighted some of the larger companies that had given money back) many agreed that going forward the focus of funding and government support should be more granular and target those in industries that are particularly struggling, and who will not be able to trade as normal in the coming months, such as hospitality, tourism and beauty.

Some participants did raise that they had seen growth in the pandemic, particularly those in the technology industries. Manufacturers who had been able to diversify their production to produce PPE or ventilators. The service sector had seen a lull in the beginning of the year, but since the first lockdown had seen demand in their business grow as people were spending more time at home and want to make improvements.

Industrial Strategy

Within the sessions there were varying levels of awareness on the Industrial Strategy. Some participants had significant knowledge of the strategy and were able to speak confidently and to provide some positive feedback on the current strategy. Positive feedback generally revolved around committees, networks and bodies that were established as a result of the Industrial Strategy Challenge Fund. This included the Future Flight Consortium, which through its network managed to galvanise investors to matched ICSF funding in 6 months. The Life Science Sector Deal was also highlighted as a positive, due to the fact that it had positive governance which recognised what global companies need to invest in the UK.

Others, however, spoke less positively of the strategy. There was a general agreement that whilst tier 1 companies had an awareness of the Strategy, SME companies did not, had not engaged with it, couldn't access it and felt that it had no relevance to them. Some felt the focus on high-tech was not inclusive and that it alienated more mature companies. One of the biggest criticisms of the industrial strategy was that it lacks a joined-up, cross departmental approach which many felt is vital if the UK is going to recover from the pandemic, improve infrastructure to stimulate investment. Another criticism, was that there are currently 11 strategies being used by the government, including the Industrial Strategy, which are not joined and makes it difficult for business to focus their priorities.

Participants agreed that reskilling and upskilling is vital to post-pandemic recovery and growth and that international bodies and companies will not invest in UK companies and infrastructure if the UK does not have the relevant skills. This need for skills had increased since the end of the Brexit transition period to fill expected gaps in the workforce. Some participants voiced concerns of a belief in government that businesses do not want to pay for skills investment and argued that this is not true. It was generally felt that if the UK is going to see the reskilling and upskilling necessary there needs to be joined-up working with the DfE and BEIS and that the current way of working means that the skills agenda is not getting the focus and support that it needs.

Many participants noted that due to pandemic there will be a large number of unemployed, in addition to a large number of young people either finishing school or university who have seen their career path halted. There was general agreement that there should be a coordinated, widespread investment in reskilling and upskilling workers, particularly towards the green economy (including the transition from oil and gas) and the digital infrastructure. Participants were concerned that if there was not investment in skills then significant infrastructure projects, which are vital for future growth—including the move to full fibre broadband—would be severely delayed.

The apprenticeship levy was criticised as being difficult or clumsy and that for SMEs it could often become another overhead. Participants said that the scheme should be restructured with more incentives for businesses to take on apprentices. One participant also said that there should be more promotion amongst big businesses of the ability to transfer some levy funding to local authorities which can in turn be reallocated to small businesses.

Participants felt that there should be closer collaboration between industry and universities and schools. Universities should collaborate with local employers to give students first-hand experience of workplaces and introduce them to key skills including communication and teamwork. This will increase employability of students which will in turn drive productivity. It was also felt that industry linking with universities will encourage researchers to enter industry rather than remaining in academia. Participants also said that one of the reasons why innovation can be stifled in public bodies—particularly the NHS—is that people do not always feel comfortable with the process of innovation, so universities and training bodies need to do more to foster an innovate culture.

The attendees felt that investment in infrastructure should be a priority to allow businesses to grow and to also encourage private investment. Some noted that the UK infrastructure is years behind other nations and investment must be made to remain competitive. A company based in the North East highlighted that, because of deficient infrastructure, they had lost out on two major contracts around tidal power which would have bought a significant number of jobs to the region and Scotland. Digital infrastructure, namely faster and more reliable broadband was identified by attendees as a particular priority, especially outside of London. However, it was noted that unless there are is an increase in people skilled in this area then the UK will not meet the government's target of full fibre broadband everywhere by 2025.

There was a general agreement from attendees that the green economy, and the path to net zero, should be at the centre of the industrial strategy and that they provided the biggest potential in terms of post-pandemic growth. The day prior to one of our roundtable events the Government had announced the 10 point green plan and this was welcomed by participants particularly as there were concerns that progress on this had stalled during the pandemic.

Though welcomed participants, they felt that they needed more commitment from the government as to how businesses will be expected to achieve net zero. This included the technologies that they will need to develop and the contribution and investment the government will make to stimulate innovation and growth. To secure investment they said they will need long-term guarantees and clarity from the government. They also felt that this was an opportunity for the UK to become a world leader, for example in the hydrogen economy, but to achieve this a rapid commitment from Government would be required.

There was a general belief that the government should not directly invest in businesses but should be creating conditions which give private investors' confidence. These conditions include infrastructure investment, commitment to green economy and net zero and long-term stability in terms of policy making.

There was agreement that grants, and loans help businesses to grow (which in turn leads to private investment) should be available not only to new businesses, but also to those that are looking to expand and grow their business. One participant cited research which had found that within 6 months of receiving a small government grant companies can realise in order of 10–20 times the financial support.

Some felt that access to capital in the UK is not long term enough, is not patient enough and that returns are needed very quickly which deters a lot of people from innovation. Many felt that most investment capital was focused in London which put those outside London at a disadvantage. Other expressed concern that there was only limited risk appetite amongst UK based investors and venture capital investment could more easily be sourced from the USA. Some participants felt that Innovate UK did not sufficiently invest in innovation because it only supports up to 70% of costs and there is only 1 in 20 chance of securing funding which puts people off spending time writing applications.

There was debate over the role local authorities should play in the industrial strategy with some noting they do not have the necessary capacity and skills, and that the variation in local government structures could make it inaccessible particularly to smaller businesses. Others felt that local authorities will be able to recognise the needs of the communities and provide tailored support which is vital to implementing the levelling up agenda. Many also argued that the UK should be responsible for producing essentials like PPE, rather than relying on other nations, and that these manufacturing plants should be shared around the regions.

There were also different views on the roles of LEPs. Some spoke positively in the way that they had supported local businesses and promoted grants and training available to small businesses. However, it was often said that there is variation in the quality of support offered by LEPs and this inequality should be addressed. Furthermore, some LEPs have a narrow sector focus which could exclude small businesses that do not fit in this sector.

R&D was regarded as vital to securing economic growth. One participant noted that the Industrial Strategy sees R&D as a component of the strategy rather than an underlying driver of the economy and this focus should change. Businesses said that due to COVID there had been a delay in planned R&D and government should support R&D over the coming months. Some participants felt that whilst the recent spending review had made a commitment to research, they had not done the same for innovation. Another viewpoint was that businesses should have more say on the direction of R&D funding rather than translational organisations that do not know relevant markets as well.

R&D tax credits were praised for driving long-term investment in the UK. Participants said that multinationals that undertake significant R&D in the UK have said they drive investment whilst one participant said that he knows when he mentions them in a board room it wins him the project every time.

Formal minutes

Thursday 17 June 2021

Virtual meeting

Members present:

Darren Jones, in the Chair

Alan Brown	Mark Jenkinson
Judith Cummins	Charlotte Nichols
Richard Fuller	Sarah Owen
Ms Nusrat Ghani	Mark Pawsey
Paul Howell	Alexander Stafford

Draft Report (*Post-pandemic economic growth: Industrial policy in the UK*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to [179] read and agreed to.

Annex agreed to.

Summary agreed to.

Resolved, That the Report be the First of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 22 June at 9:45am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Thursday 24 September 2020

Rain Newton-Smith, Chief Economist, Confederation of British Industry (CBI); **Kate Bell**, Head of Rights, International, Social and Economics, Trades Union Congress (TUC); **Dr Anna Valero**, Economic and Social Research Council Innovation Fellow, London School of Economics (LSE) Q1–18

Rt Hon Greg Clark MP, Chair, House of Commons Science and Technology Committee Q19–40

Thursday 8 October 2020

Peter Ellingworth, Chief Executive Officer, Association of British HealthTech Industries; **Guy Newey**, Director of Strategy and Performance, Energy Systems Catapult; **Anthony Walker**, Deputy Chief Executive Officer, techUK; **Nick Owen**, Co-Chair, Professional and Business Services Council Q41–70

Stephen Phipson CBE, Chief Executive, Make UK; **Gareth Stace**, Director General, UK Steel; **Paul Everitt**, Chief Executive, ADS Group; **Mike Hawes**, Chief Executive, Society of Motor Manufacturers and Traders Q71–106

Tuesday 15 December 2020

Catherine Lewis La Torre, Chief Executive Officer, British Business Bank; **Irene Graham**, Chief Executive Officer, ScaleUp Institute; **James Wise**, Partner, Balderton Capital Q107–158

Tuesday 26 January 2021

Dick Elsy CBE, Chief Executive Officer, High Value Manufacturing Catapult; **Dr Jeremy Silver**, Chief Executive Officer, Digital Catapult; **Professor Chris Day**, Vice-Chancellor, University of Newcastle; **Dr David Connell**, Senior Research Fellow, Centre for Business Research, University of Cambridge Q159–188

Amanda Solloway MP, Minister for Science, Research and Innovation, Department for Business, Energy and Industrial Strategy; **Jessica Skilbeck**, Director of Industrial Strategy, Department for Business, Energy and Industrial Strategy; **Dame Ottoline Leyser**, Chief Executive Officer, UK Research and Innovation; **Mike Biddle**, Programme Director, Industrial Strategy Challenge Fund, Innovate UK Q189–2112

Tuesday 2 March 2021

Andy Haldane, Chair, Industrial Strategy Council; **Dame Kate Barker CBE**, Member, Industrial Strategy Council; **Professor Dame Nancy Rothwell**, Member, Industrial Strategy Council; **Charlie Mayfield**, Member, Industrial Strategy Council Q213–359

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

INS numbers are generated by the evidence processing system and so may not be complete.

1 ADS (INS0029)

2 AMP Clean Energy (INS0033)

3 Association of British HealthTech Industries (INS0054)

4 Bristol + Bath Creative R+D Partnership (INS0044)

5 British BIDs (INS0019)

6 Carbon Capture and Storage Association (INS0036)

7 Chartered Institute of Management Accountants (CIMA) (INS0049)

8 Chartered Management Institute (INS0030)

9 Chemical Industries Association (INS0028)

10 Confederation of British Industry (CBI) (INS0016)

11 Confederation of Paper Industries (INS0008)

12 Cornwall and the Isles of Scilly Local Enterprise Partnership (INS0039)

13 Design Council (INS0026)

14 Disability Resilience Network (INS0055)

15 E.ON (INS0011)

16 E3G (INS0043)

17 Energy Intensive Users Group; and n/a (INS0009)

18 Energy UK (INS0038)

19 Engineering Construction Industry Training Board - ECITB (INS0032)

20 EngineeringUK (INS0010)

21 Environmental Services Association (INS0040)

22 FandC Investment Trust PLC (INS0053)

23 Heriot-Watt University (INS0018)

24 Information Commissioner's Office (INS0046)

25 Institute of Directors (INS0034)

26 KPMG UK (INS0041)

27 LawBite (INS0015)

28 Nuclear Industry Association (INS0035)

29 Octopus Group (INS0012)

30 Office for Life Sciences (INS0059)

31 Office for Zero Emission Vehicles (INS0058)

32 Pact (INS0052)

33 Porterbrook (INS0050)

34 Productivity Insight Network (INS0048)
35 RSPB (INS0014)
36 Railway Industry Association (INS0027)
37 SRUC, Scotland's Rural College (INS0007)
38 Scottish Government (INS0006)
39 Sheffield City Region Mayoral Combined Authority (INS0024)
40 Shelford Group (INS0013)
41 The Office for AI (INS0060)
42 UK Research and Innovation (INS0057)
43 UK2070 Commission (INS0022)
44 UKHospitality (INS0042)
45 UKspace (INS0031)
46 Universities Scotland (INS0047)
47 University of the West of Scotland (INS0003)
48 University of the West of Scotland (INS0045)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2021–22

Number	Title	Reference
1st	Post-pandemic economic growth: Industrial policy in the UK	HC 385
1st Special	The impact of Coronavirus on businesses and workers: interim pre-Budget report: Government Response to the Committee's Second Report of Session 2019–21	HC 1264
2nd Special	Net Zero and UN Climate Summits: Scrutiny of Preparations for COP26—interim report: Government Response to the Committee's Third Report of Session 2019–21	HC 120
3rd Special	Uyghur forced labour in Xinjiang and UK value chains: Government Response to the Committee's Fifth Report of Session 2019–21	HC 241