

A MODERN INDUSTRIAL STRATEGY: UK 2030

CBI response to the Government's green paper on industrial strategy

A modern industrial strategy is a landmark opportunity to build a leading-edge, highly competitive economy that underpins an open, innovative and inclusive society.

The CBI welcomes the Government's intention to develop a new industrial strategy and its commitment to do this in partnership with business. The CBI speaks for 190,000 businesses of all sizes across the UK and we have long called for this strong partnership between industry and Government.

The UK must remain a leading global economy by putting in place a focused set of measures which will make us one of the most open, innovative and inclusive societies in the world. As we exit the EU and redefine our role in the world we must ensure we remain globally competitive. The UK has exceptional strengths such as easy access to finance, a world-class science base, an enviable track record in creativity and innovation, a strong reputation for rule of law and values of honesty and predictability. However, the UK's productivity currently lags major competitors such as the US and Germany by well over 20% and has one of the most uneven regional distributions of income among Western economies. A modern industrial strategy will allow the UK to address its weaknesses and build on its strengths.

The urgency is all the greater as we stand on the threshold of a new wave of technology development. Artificial intelligence and the advance of robotics represent huge opportunities for productivity and growth but also challenges to the modern workplace and the relationship between Government, society and business. Innovation has to be at the heart of the new strategy.

Since the publication of the green paper, the CBI has consulted with over 500 members, large and small, from different sectors up and down the country. The response was overwhelming – CBI members are extremely supportive of a modern industrial strategy. They agree with the high level goals, and believe the Government has identified the right issues and asked the right questions. The 10 pillars outlined in the green paper were broadly welcomed as the starting point for a transformative industrial strategy.

For CBI members the next challenge is to harness the momentum now gathering in business and Government to shape the implementation of the strategy. The next steps need to be practical, delivery-focused and with clear actions assigned to both business and Government. For example, the CBI believes that the strategy should target closing the productivity gap between the worst and best performing regions of the UK by 15% points¹, using better business practices, more agile and flexible working and more inclusive regional growth. The CBI also believes that, if this industrial

¹ See Annex One for more explanation

strategy is to be truly long-term, it needs to be properly monitored by an independent unit modelled on the Office for Budget Responsibility.

This paper therefore aims to move the Government's 10 pillars on with a number of recommendations to focus attention and resource, and a number of action points assigned to both business and Government.

We have six main recommendations, with detailed proposals for action under each.

1. Build a clear UK2030 vision: a uniting long-term sense of purpose

The industrial strategy needs a clear vision supported by tangible key performance indicators and a brand that galvanises all parts of the economy.

2. Fix the foundations: skills, infrastructure, energy, a pro-enterprise tax environment

Government can help businesses of all sizes and sectors by improving skills policy, delivering infrastructure projects (small-scale and large-scale), establishing an affordable plan for emissions reductions and maintaining a stable tax framework.

3. Put innovation at the heart of the strategy

Our competitive advantage depends on our ability to invest in R&D and develop and commercialise new ideas as well as our ability to adopt technology and better ways of working to become more productive at a firm level.

4. Empower devolved nations, London and regions and hold them accountable

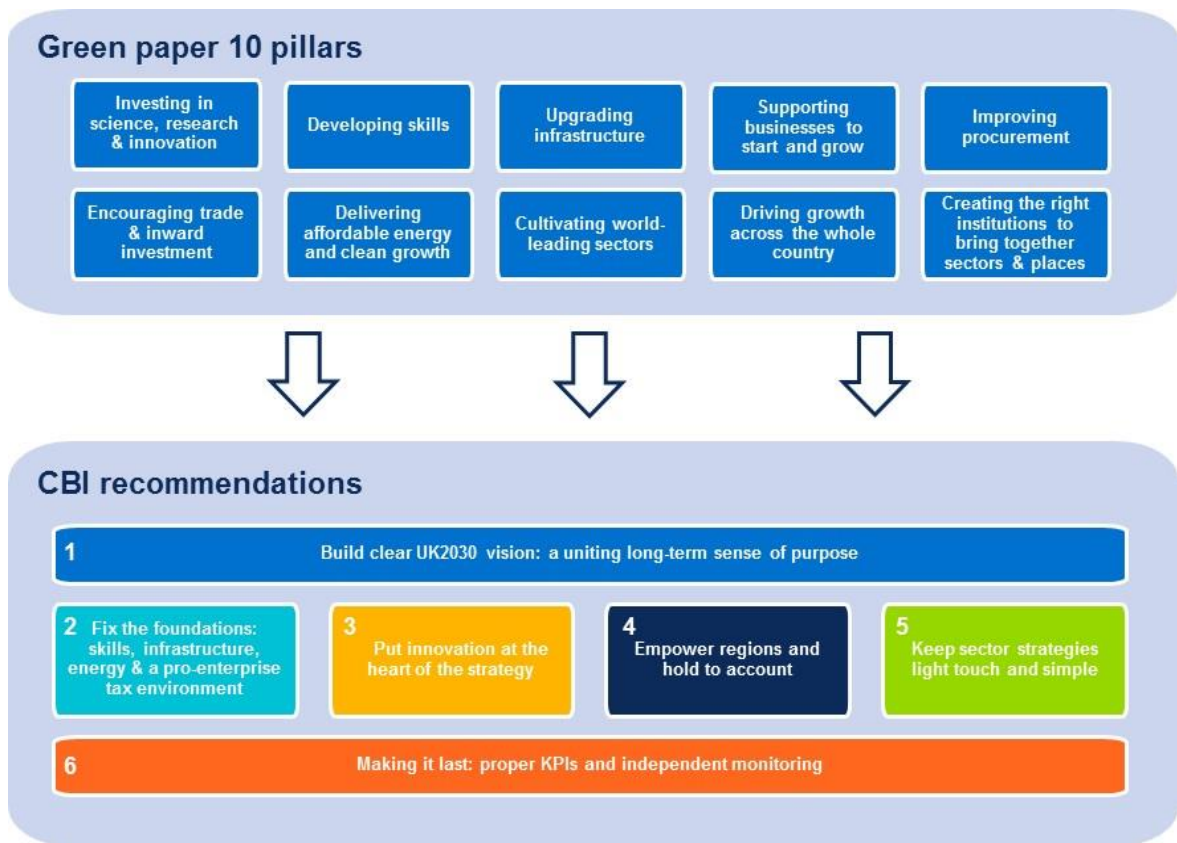
The industrial strategy must increase living standards for everyone living in the UK and enabling all regions to develop and champion their own economic strengths is the best way to deliver it.

5. Keep sector strategies simple and effective

Support for sectors should be based on clear criteria to ensure collaboration is genuinely productive.

6. Make it last: clear indicators and independent monitoring

To be successful the industrial strategy must be long term in its outlook, measure progress against clear key performance indicators and be independently monitored to help ensure that it survives changes of Government.



To deliver success, two additional considerations came through strongly from business.

Firstly, underpinning all of the above recommendations must be a globally-leading framework for business engagement. To deliver a transformative industrial strategy business and government must work together both on development and implementation. The role of Government is indisputable in providing a top-down framework, bringing stakeholders together and measuring success. The role of business is equally fundamental, both in delivering a modern industrial strategy and ensuring we remain a leading global economy. CBI members welcomed the opportunity to contribute to the development process – and did so in great numbers - and are equally committed to driving its implementation.

Secondly, we must secure a deal with the EU that supports trade, investment and skills and provides a stable business environment. A no deal scenario would have significant implications for industrial strategy priorities.

1. Build a clear UK2030 vision: a uniting long term sense of purpose

The objectives of the green paper on industrial strategy are clear and welcomed by business – to improve living standards and economic growth by increasing productivity and driving growth across the whole country. The 10 pillars, linked together, are seen as the pieces of the puzzle that will drive this. However, missing from the green paper is a clearly stated, positive and ambitious vision for what we want the UK economy to look like in 5, 10 or 20 years' time.

“A good industrial strategy should have focus”

- **Mid-sized engineering firm**

Develop a clear, shared vision and indicators

The Government should lay out a compelling vision for the UK 2030 that engages both business and society – this shared vision is essential in creating motivation, ownership and ambition. The CBI believes that there is the opportunity for the UK to be the most open, innovative and inclusive economy in the world. We must build on our leading knowledge base and sectors, drive a renaissance in our tradition heartland of manufacturing and create a new wave of entrepreneurship by making the UK the easiest place to start and grow a business, domestically and internationally. By doing this we can boost productivity in London and the regions and improve lives in every community.

But this vision should not be created solely by business, nor by Government. It must be created and owned by business, government and society together. Underpinning this with the business engagement framework outlined above will be a significant driver of competitive advantage for the UK. We have the foundations in place; the industrial strategy should move us forward to full collaboration.

This vision should be agreed ahead of launching an industrial strategy and be supported by a clear and largely measureable set of objectives that will drive decision-making over the long-term. This will ensure clarity and coordination for all involved with – and affected by – the UK's future growth.

We recommend the objectives focus on two main outcomes:

1. **Improved living standards.** Our efforts to improve the economy, make sure we are more competitive internationally and have growth right across the UK should ultimately result in improved living standards. This should be the principal measure of whether the industrial strategy succeeds and targets against all of the measures in Figure 1 will be important in assessing progress.
2. **Increase national productivity by narrowing the productivity gap between different regions of the UK.** Productivity levels are an important part of assessing our economic success and international comparisons suggest we still have some way to go to become more competitive. The CBI believes a reasonable lead target for UK productivity should be to reduce the gap between the worst performing regions and the best performing regions by 15% points by 2030.

Figure 1 shows how the UK currently ranks on a range of outcome measures that could be considered.

Figure 1: Industrial strategy success indicators

| Industrial strategy - success measures | | | UK | US | Japan | Germany | France | Italy | Canada |
|--|---------------------------------|--|--------|--------|--------|---------|--------|--------|--------|
| A | Income | GDP per head, 2016*, \$ current prices, current PPPs | 42,898 | 56,066 | 38,401 | 48,908 | 41,945 | 37,964 | 44,201 |
| B | Employment | Employment rate, all ages, %, Q4 2016* | 73.4 | 69.3 | 74.4 | 74.5 | 64.2 | 57.0 | 72.6 |
| C | Productivity | GDP per hour worked, US\$, 2016* | 47.5 | 62.9 | 41.4 | 59.7 | 61.6 | 47.4 | 48.6 |
| D | Income distribution | Gini coefficient (0=perfect equality, 1=perfect inequality), 2014* | 0.36 | 0.39 | 0.33 | 0.29 | 0.29 | 0.33 | 0.32 |
| E | Dispersion of economic activity | Main city's share of GDP, %, 2013* | 28.4 | 7.7 | 32.0 | 5.5 | 30.7 | 11.7 | 18.9 |

*or latest available data

These outcome measures should be backed by key performance indicators (KPIs) that underpin them. The CBI would therefore urge the Government to develop a range of national indicators that are critical to productivity, alongside international comparisons (see section 6 and Annex Two for more details).

The strategy should have a realistic timeframe against which to measure its objectives. Consensus among CBI members suggests that 2030 would be a realistic first milestone – far enough in the future to be ambitious and near enough to make a credible plan.

Launch a UK2030 brand to promote and coordinate action

We would also recommend the government considers developing a recognised brand that extends the relevance of the industrial strategy to all sectors and unites stakeholders.

The term industrial strategy has become synonymous with unsuccessful policies of the past. A brand such as UK2030 would provide a fresh, forward-looking banner which would unite a diverse range of activities and stakeholders from all parts of the economy, services as well as manufacturing, challengers as well as incumbents, and society towards building a more prosperous UK. An inclusive approach is critical – many CBI members, for example those in the services sectors, have expressed concern that an industrial strategy will miss their sector.

“It’s difficult to see where some sectors fit in if they’re not in a traditional sector or supply chain.”

- **Mid-sized tech firm**

The Government’s Great Britain campaign has shown in recent years how a powerful UK brand, initiated by the Government, can have a significant impact in terms of promoting our strengths abroad, and we believe a UK2030 brand (or similar) could do the same domestically for an industrial strategy.

Summary of recommendations

A uniting long term sense of purpose

- 1 Government to set out UK '2030 vision' with measurable objectives for growth in living standards, productivity and regional equity.
- 2 Government to develop a compelling brand to unite sectors and regions and communicate a sense of ambition and energy to the wider public.

2. Get the foundations right: skills, infrastructure, energy and a pro-enterprise tax environment

The green paper rightly recognises the importance to the UK economy of these foundations – a significant portion of the 10 pillars are dedicated to improving these in some shape or form.

Furthermore, in the last year alone the Government has committed an extra £2bn a year for innovation by 2020, given the green light to Hinkley Point C and a third runway at Heathrow airport as well as made a commitment to overhaul technical education. These are positive steps that pave the way for further national policies to support growth in all parts of the economy.

CBI members welcome the detail and manner with which the green paper covered the drivers of prosperity. However, they feel that now is the time to concentrate efforts and tackle deep-seated problems. Doing a few things well rather than spreading resource too thin will yield the most in terms of bringing the UK in line with its neighbours' prosperity and productivity growth.

In addition, CBI members have long been calling for a prolonged period of stability in relation to tax and regulation. This is not something specifically covered in the green paper and CBI members would welcome this as part of a modern industrial strategy.

To build a solid foundation on which the UK economy can thrive, CBI members believe the Government should therefore focus on: building a skills base for the next generation; investing in infrastructure to support business and communities; developing a 'future-fit plan for the UK's energy system and ensuring a stable pro-enterprise tax and regulatory environment.

2.1 Build a skills base for the next generation

People are at the heart of any industrial strategy – they drive the success of companies and benefit from it. Those with higher, more relevant skills have better employment and pay prospects. A lack of the right skills affects individual prospects, as well as growth. Addressing the skills gap is, for business and society, the priority issue.

Technological trends have the capacity to create more and better jobs at higher skill levels if we get the transition right. At the same time, the profile of the workforce is changing as people live longer and healthier lives, so adult training will matter as well as supporting young people. This is a shared challenge for government and business and must be underpinned by collaboration, with businesses needing to step up and play their part alongside Government.

Businesses welcome the recognition of skills in the green paper - in particular the focus on STEM subjects and technical skills - and welcome the recent announcement in the Budget to invest in technical education. Now, strategic planning is needed for the UK to navigate the next decade.

“(Without a long term skills strategy) there is a risk of layering change on change.”

- Higher education provider

CBI members recognise the huge breadth of this issue, and recommend concentrating on a discrete number of priority areas that would make the most difference in a manageable timeframe:

First, a long-term skills policy is needed that incentivises high quality, work-relevant learning. A comprehensive, modern industrial strategy presents an opportunity to address long-standing shortcomings in skills policy. This has too long been an area of perpetual change, where policies are developed and delivered in siloes, and systemic issues are neglected.

Second, we need to ensure that schools focus on ‘future-proofing’ the next generation. Education has gently improved over the past 20 years and schools and teachers do an important job well, but there is more to do if we are to ‘future-proof’ the next generation and prepare them for life in a working environment where skills needs are changing more rapidly than ever.

And finally, firms must draw on the widest possible range of talent. High rates of employment and growing skills shortages make progress on inclusion, and the development of more inclusive workplaces, a commercial priority as well as a societal issue – especially as diversity of thought and approach in a workplace where people feel comfortable boosts productivity.

The CBI recommends an integrated programme of six actions to deliver these priorities:

Establish a stable framework for more business-responsive training

Recent changes in England to a more employer-led skills system on apprenticeships and technical education, are positive and have the potential to be transformative. There is still some way to go to get these right, and businesses want to make sure that new initiatives last for the long-term, while

allowing issues to be identified and addressed in formal consultation with business. Business must work in partnership with Government as any new system is developed to ensure that the employer voice in this skills system is heard effectively and would welcome a consistent framework within which to do this. By working together, vital stability and sustainability can be locked into a system that has been subject to frequent change.

“A good relationship between business and schools are key to meet the skills demand and government should recognise it.”

- **National professional services firm**

Effective local engagement is also vital in delivering an industrial strategy that improves living standards in all regions of the UK. There is some good practice taking place, including data-led local funding mechanisms and collaboration through Local Enterprise Partnerships (LEPs), but it is not widespread. The CBI is undertaking new work on this and looks forward to working with Government on this agenda.

“The skills manufacturing firms now need are changing and this means local training opportunities - in areas such as 3D printing, robotics, cyber security and new media literacy”

- **Automotive manufacturer**

Finally, much of the focus on skills is on young people, but adult skills matter more than ever. Two-thirds of the 2030 workforce is already in employment² and, as jobs change, in-work training and learning outside employer spend will be vital. The lifelong learning pilots should shape a comprehensive approach to adult training. But this must go beyond apprenticeships, including other relevant quality courses. Improved support through loans and a reduced Equivalent or Lower Qualification bar would be welcomed by CBI members.

Instill a greater commercial understanding within the DfE and its agencies

To create and manage a successful skills market the government must raise market and commercial acumen in DfE and its agencies. CBI members reported that policy can be too process-based with the impact of discouraging business investment. Avoiding this kind of outcome means acknowledging employers and providers are the key deliverers of skills and so Government's role is to steward a market in high quality training, rather than dictate which skills or courses are appropriate.

The Institute for Apprenticeships and Technical Education (IFATE) can change this by driving greater levels of market and commercial awareness within DfE (and other areas of government responsible for skills) in the interests of better delivery.

² Skills 2030: Why the adult skills system is failing to build an economy that works for everyone, IPPR, February 2017

Improve school leadership and teaching practices, and reward schools for more than just exam results

Evidence from schools demonstrates the most important factor in improving education is high quality school leadership and teaching. This should be the first government priority in schools. *Opportunity Areas* could pilot new approaches, as areas of particular need – an initiative warmly welcomed by CBI members.

A key facet of the best teaching is that it ensures young people have a good grounding in knowledge from a rigorous curriculum, but also the right attitudes and aptitudes for success. This combination helps them navigate a world where they will reinvent their role regularly - two-thirds of primary school children will have a job in future which does not currently exist. Currently, the Ofsted framework and Progress 8 focus on exam results, mean accountability measures look at only half of this challenge. CBI members would therefore like to see incentives for schools reformed to reward both development and life chances of young people and exam results in a new balanced scorecard, enabled by big data.

Guarantee high quality careers advice for all students

Young people need ambitious, and guaranteed support that helps them interact with adult life, including careers and social action. These are often optional extras. CBI members recognise that government is beginning to address this with the Careers and Enterprise Company, but see further progress as essential - without it formal provision opportunities are restricted to children from more advantaged families.

Work with business to develop an immigration system that works for all

CBI members spoke loudly during the consultation about the need to continue to be open to the rest of the world to resolve specific skills and labour shortages, while also being an attractive destination for investment. The post-Brexit approach to immigration must enable companies in the UK to resolve key shortages and attract the best and the brightest and the CBI will continue to engage with Government on this issue.

Business and government need to work together to improve inclusion in the labour market

The CBI will commit to take the lead in promoting inclusive business practice through our work with businesses around the country focused on three key themes – visible leadership, effective recruitment and integration and better employee progression – but will require the support of Government to ensure success.

Summary of recommendations

Build a skills base for the next generation

3. Government to establish a stable framework for more business-responsive training that encourages private investment
4. Government to instill a greater commercial understanding within the DfE and its agencies
5. Government to improve school leadership and teaching practices, and reward schools for more than just exam results
6. Government to guarantee high quality careers advice for all students
7. Government to work with business to develop an immigration system that works for all
8. Businesses and Government need to work together on boosting inclusion in the labour market

2.2 Invest in infrastructure to support business and communities

From the roads and railways that connect us, the places people live in, to the energy supply that powers our homes and businesses, infrastructure provides the essential foundations business needs to deliver jobs, growth and prosperity for all. But the UK's infrastructure is creaking and compares poorly to competitors, ranking 24th in the world for the quality of its infrastructure³. This, must be addressed as part of a modern industrial strategy focused on creating more prosperous places for people to live and work.

This was recognised in the green paper, and business welcomes recent efforts by Government to increase investment in infrastructure. As noted above, approving Hinkley Point C and the third runway at Heathrow were very welcome steps forward. The creation of the National Infrastructure Commission (NIC) to deliver a long-term strategic approach to delivering the UK's infrastructure needs was also a significant development.

The National Infrastructure Assessment (NIA), will set out how to deliver our infrastructure needs for the next 30 years in the most sustainable and resilient way, while securing maximum economic gains, especially from technological innovations. Both the NIC and NIA should prove effective ways of ensuring a long-term approach to the UK's infrastructure needs.

³ The global competitiveness report 2016–2017, World Economic Forum, September 2016

But the NIC can only provide the framework. Government and business must also have a relentless focus on delivering and enabling high quality, sustainable infrastructure. CBI members recognised the following priorities as being essential to any modern industrial strategy

Improve transport connections right across the UK and with the rest of the world

The Government's plans for transport have been progressing with the green light given to a new runway at Heathrow last autumn and the HS2 hybrid bill receiving Royal Assent – and CBI members are keen to acknowledge this. We know that better-connected cities have increased productivity: the CBI's work on regional growth found that every 1m increase in the population that is within 60 minutes travel time of a postcode area corresponds to an additional £0.50 in GVA per hour. Yet there is still a great deal to be done, urgently, to improve connectivity right across the UK. We simply cannot afford to stand still or get stuck in process when the size of the prize on offer is so substantial.

The government must continue to focus on delivering much needed major infrastructure projects. As a first step it should ensure that progress is made to deliver a third runway at Heathrow alongside a broader aviation strategy, including maximising the role of regional airports, which ensures our long-term capacity needs are met. It must also quickly develop plans for other major projects such as Crossrail 2 and Northern Powerhouse Rail, both of which would provide a major uplift to our economy and future competitiveness.

“East-West Midlands links are vital to make a success of the Midlands Engine”

- Small engineering firm

As well as delivering large scale projects the Government has listed £60bn of planned projects to improve our road and rail networks up to 2020, which are just as critical to the UK's economic outlook. This is hugely welcome, but to ensure timely delivery of these projects business is looking to Government to provide much more granular detail about their plans. Meanwhile the CBI will set out regional infrastructure priorities, which should help Government set its priorities for the post-2020 Road Investment Strategy and rail investment period, ensuring improved economic opportunities for all regions of the UK.

“Infrastructure is a long term investment and needs a stable policy environment to thrive.”

- Large construction firm

Delivering improved connectivity right across the UK will be costly, so it is clear that greater levels of private sector investment will be needed alongside Government investment, particularly in the UK's road and rail infrastructure. To achieve this government and business must work together to identify and remove any barriers where possible. The CBI is developing recommendations for how to unlock private financing for our infrastructure needs, which will be delivered in the autumn.

Ensure digital connectivity can support growth

Digital technology is transforming how businesses operate. The growth of the Internet of Things, cloud computing, artificial intelligence and blockchain are poised to unleash a new wave of innovation.

Future business needs for better connectivity will only grow with the adoption of these new technologies and UK businesses are ambitious to be at the forefront of this global revolution. The CBI's 2016 Innovation Survey⁴ shows that artificial intelligence is already affecting 23% of business sectors and over half (56%) of companies expect it to impact their industry in the next five to ten years.

However, the opportunities from these transformational technologies are entirely dependent on the availability of agile, flawless and widespread digital connectivity. In the CBI's 2016 infrastructure survey⁵ a third of firms revealed that digital infrastructure does not meet their needs and three quarters reported a lack of speed as the primary concern.

The National Infrastructure Commission's NIA is an important opportunity to review the UK's digital infrastructure needs to 2030 and beyond. To ensure our digital connectivity supports growth, the NIA should determine the investment needed, the technologies to be prioritised and how they should be paid for.

In addition, CBI members would like action to prioritise quality, business-dedicated broadband, alongside consumer broadband. This includes making sure that we can make the most of 5G. The Government has already taken the first steps to turning the UK into a digital highway, with the announcement of a new National 5G Innovation network and dedicated investment in full fibre. There is a global race to become the standard setter of 5G, the UK must be bold and look to be at the forefront of this to become a global leader.

Government should also join the dots across the UK by intertwining digital infrastructure with physical infrastructure, such as road and rail, working with local government to ease the rollout of new network builds. Today's digitally enabled businesses are on the move and prize mobility. Connecting up the major arteries of road and rail will help keep UK businesses on the front foot.

Deliver homes which work for people and firms

As set out in the CBI's 2016 report, No Place like Home, the longstanding housing crisis is one of the greatest challenges we face as a country and, left unresolved, will continue to be a drag on prosperity. This is a critical business issue too, with many firms reporting that a lack of affordable homes is undermining their ability to recruit and retain staff and hitting productivity. With the UK's population set to increase by almost 10 million in the next 25 years the status quo is unsustainable. The government's housing white paper was a welcome step in the right direction.

⁴ CBI Innovation Survey 2016 http://www.cbi.org.uk/cbi-prod/assets/File/CBI%20Innovation%20Survey%202016_%20results.pdf

⁵ Thinking globally delivering locally cbi/aecom infrastructure survey 2016, November 2016

http://www.cbi.org.uk/index.cfm/_api/render/file/?method=inline&fileID=B10959A0-E066-4BFC-B656F0DBEDA483C9

Looking to the future, CBI members would like to see the government build on this success by adopting an integrated and joined up approach to housing and infrastructure. The government's strategy should be fully aligned with the work of the NIC, with housing as a key strand in the NIA. It is crucial that housing needs are also linked up with local and regional infrastructure needs and public services, critical to driving regional growth and boosting productivity. The Housing Infrastructure Fund was a welcome step and further progress could be made by linking housing plans with future policies for household energy efficiency so that planning can incorporate the affordability of running a home as well as buying it.

It is important that we are not just providing more homes, but also meeting demand through more of the right homes, to suit different people's needs both now and in the future. The government should therefore encourage diversity and innovation in the homes we build and how we build them, focusing beyond home-ownership and drawing in more SME housebuilders and new players into the market.

Finally, scaling up delivery requires getting the basics right, therefore it is important to address the perennial barriers that have been holding back the delivery of more homes – for example, the availability of plots on which to develop, the planning system and the lack of skilled workers within the industry. While considerable progress has been made in tackling all three of these challenges in recent years, it is crucial that both government and business keep their feet on the accelerator in order to drive further improvement.

Summary of recommendations

Improve transport connections right across the UK and the rest of the world:

9. Government to make progress on transformational infrastructure projects
10. Government to focus on delivery and long-term planning for the wider transport pipeline
11. Government and business to work together to attract more private investment into UK infrastructure

Ensure digital connectivity can support growth:

12. The National Infrastructure Commission should build a strategy for the UK's digital infrastructure to 2030 and beyond
13. Government to prioritise the roll out of quality, business-dedicated broadband, alongside consumer broadband
14. Government to join the dots between physical and digital infrastructure

Deliver homes which work for people and firms:

15. Government to adopt an integrated and joined up approach to housing and infrastructure
16. Government to encourage and support diversification of the housing market
17. Government to tackle long-standing, systemic barriers to development

2.3 Develop a ‘future fit’ plan for the UK’s energy system

The UK’s energy system is undergoing a complete transformation with the country on a long-term path to decarbonisation out to 2050 and new technologies creating a dynamic system where everyone can generate, store and share power. As set out in the CBI’s recent report, *Stepping up to the Challenge*⁶, a long-term, stable and pro-market policy framework is needed to continue to drive change; this is what CBI members would like to see from the Government’s forthcoming emissions reduction plan.

The low-carbon transition should not be seen in isolation, but be a core thread running through the industrial strategy, with relevant policies integrated into departmental strategies. This will be important if we are to translate business investment into competitive advantage by linking up national low-carbon policies, regional ambition and industry strengths, with offshore wind an excellent example of such joined-up thinking.

British companies have already won over 100 contracts to provide services for 50 projects abroad, and with around 250 offshore wind farms now in development globally, this represents a major opportunity for UK plc. Thinking more ambitiously, with a global green market of over £3 trillion, low-carbon products and services have the potential to be a core part of the UK’s ‘calling card’ in an outward looking, post-Brexit world.

CBI members identified the following priorities:

Enable large-scale investment and innovation

Significant levels of investment are needed to secure and decarbonise our power system into the 2020s and beyond, but the current Levy Control Framework for investment comes to an end in 2020. The Government is right to review the framework for beyond 2020, as well as setting a long-term carbon price trajectory and should clarify the future system as soon as possible so that investment decisions can be taken.

Long-term investments will also be needed in other parts of the economy, such as transport and heat, where the way we travel and how we heat our homes and businesses in 2030 could be very different to today, with huge implications for the UK’s energy system. While we don’t know which technologies will provide the most cost-effective path to decarbonisation, CBI members would welcome an indication of the long-term direction of travel in the Government’s emissions reduction plan.

Prioritise energy efficiency to deliver affordability

The Government’s green paper rightly highlights affordability as a key outcome for our energy system, and the CBI welcomes the plan to set out a roadmap to minimise business energy costs. For both businesses and households, CBI members believe this should include (but not be restricted to) a clear focus on energy efficiency, innovation and reforming network and

⁶ *Stepping up to the challenge*, CBI (2017)

transmission charges. It is also important to have an honest conversation with consumers about both the costs and benefits of the low-carbon transition.

“Energy costs will continue to be a challenge for our business, with UK prices higher than those in Europe. A focus on minimising these costs will be very important to us going forward.”

- **Large manufacturer**

Take a ‘whole system’ view

With companies and communities now producing as well as using energy, the linkages across the energy system are complex and wide ranging, and this trend is only likely to continue into the future. It is crucial, therefore, that interdependencies are identified, and synergies exploited, in order to keep costs down, supplies secure and allow a range of new technologies and business models to come through. This should be underpinned by cross-cutting technologies and infrastructure, such as energy storage and Carbon Capture and Storage/Utilisation.

Summary of recommendations

Develop a ‘future fit’ plan for the UK’s energy system:

18. Government to provide clarity on the long term plans for beyond the Levy Control Framework and deliver the emissions reduction plan to incentivize large scale investment
19. Government to prioritise energy efficiency in driving affordability and work with business to deliver and communicate this
20. Business and Government to identify interdependencies in the energy system and take advantage of synergies

2.4 Ensure a pro-enterprise and stable tax environment

Throughout the consultation, a stable framework for tax and regulation was deemed to be an important part of a modern industrial strategy. Firms already contribute over £184 billion to the Exchequer⁷ (around 30% of government tax revenues) so it is important to recognise the role of a clear, long term tax policy creating the right conditions for a successful industrial strategy.

The Chancellor’s recommitment to the Business Tax Roadmap and planned pathway to a 17% headline rate of Corporation Tax from April 2020 are welcome first steps. However, business

⁷ Infographic: Business tax contribution: <http://www.cbi.org.uk/insight-and-analysis/infographic-business-tax-contribution/>

taxation is not just about the corporate tax rate and firms have immediate as well as long term concerns – for example that the growing burden of business rates is weakening the competitiveness of all businesses with a physical presence, particularly those in the retail and manufacturing sectors. Similarly, the current value of capital allowances in the UK is the least competitive among G7 economies. This is a costly shortcoming in a competitive international environment for capital investment. HMRC also has an important role to play in ensuring the policies HMT designs are implemented and enforced in a way in which is consistent with the UK being open for business. At a time of economic uncertainty, government must prioritise stability and work with business to design and commit to a stable and simple tax system across the range of taxes businesses face that reflect modern economic trends, while providing a clear and consistent framework for the future.

“We are an industry with long term investment cycles, and as such need long term investible policy frameworks”

- Large oil and gas firm

Summary of recommendations

Ensure a pro-enterprise and stable tax environment now and in the long term

21. Government to commit to reviewing the effectiveness of business rates and the UK capital allowances regime as part of their efforts to build a stable long term tax environment that reflects the changing nature of the economy and lock in the competitiveness of the UK
22. Government to empower and resource HMRC to ensure that efforts to improve the competitiveness of the UK tax environment are reflected in compliance and do not impede business investment

3. Put innovation and productivity at the heart of the strategy

Focusing and improving on the core priorities of skills, infrastructure and a stable tax and regulatory environment will help to make the UK ‘match fit’ to deal with challenges ahead. However, CBI members also recognise that there are other things that the Government can do to tilt the playing field in the UK’s favour – making the UK, and individual sectors and regions within it, truly competitive. Two consistent themes emerged in the CBI consultation process; if the UK wants to develop a truly modern industrial strategy we have to become world leaders in innovation and find ways to unlock business productivity to drive growth.

This is recognised in the green paper, particularly in relation to innovation. CBI members warmly welcomed the strong commitment to investing in science, research and innovation in the green paper and the Government’s intention to help drive innovation through procurement. However, once again implementation will be key and CBI members were keen to suggest practical steps the Government could take to really drive this forward.

CBI members were also keen to draw on the CBI's 2016 report, *Unlocking Regional Growth*, particularly around business productivity. That report identified business practices as a key driver in regional productivity differences – the need to drive rapid adoption of better management practices is something that both Government and business need to work together to address as part of an industrial strategy.

3.1 Make the UK a world leader for innovation

Innovation drives improvements in productivity and sustainable economic growth, and raises living standards. At the firm-level, innovative businesses increase their competitive advantage and are more likely to export goods and services successfully. From new medicines to fuel-efficient technologies, innovation can make a huge impact on the way we live, as well as the way we work.

The UK's innovation ecosystem is world leading in terms of its research base, but lags behind international competitors on both overall R&D spend and the successful commercialisation of ideas. Developments such as the creation of Technology Strategy Board, now Innovate UK, the development of the Catapult centres and steady improvements to the R&D tax credit have helped with commercialisation, but with increasing competition from overseas, it is more important than ever that the UK raises its game on innovation by increasing overall spending on R&D to 3% of GDP and using Government procurement to drive innovation even further.

The green paper recognises all of this and sets out a number of ways it will seek to address these issues, including additional funding. While welcoming these measures, set out below are some ways CBI members believe the government could go even further.

Develop a roadmap to increase R&D spend to 3% of GDP

Developing a roadmap to ensure that investment in R&D in the UK increases, with a particular focus on commercialisation, will be critical in shaping the economy of years ahead. UK R&D spend is already stagnant at 1.7% of GDP while international competitors continue to pull ahead. Sweden now spends 3.3% of GDP on R&D, Germany 2.9% and the United States 2.8%. We believe the UK should have a clear roadmap to increase investment to 3% of GDP.

Reaching 3% will require additional investment by both Government and business. The government's commitment to an extra £2bn a year for R&D by 2020 is a very positive move in the right direction, but funds such as the new Industrial Strategy Challenge Fund (ISCF) must be spent effectively so that they crowd in private investment and support commercialisation and collaboration, to avoid spreading limited funds too thinly

Businesses also have a huge role to play in reaching this target, not just by increasing their own investment, but by ensuring they have the right in-house skills to make the most of innovation opportunities and are in a position to collaborate with other businesses and universities to de-risk investment in research.

UK Research and Innovation (UKRI) has an important role to play in engaging with business to design, promote and evaluate the ISCF, including to ensure that applicants bid for challenges with

sufficient scale to be effective. This is essential to the reaching the target of 3% of GDP expenditure on R&D. In addition, UKRI should:

- leverage its strategic role within the innovation ecosystem to stimulate businesses-to-business and business-university collaboration, including within the supply chain, with the catapults and research organisations to help commercialise ideas and research
- ensure that its oversight of the UK's science and innovation landscape helps to deliver a joined-up approach that is greater than the sum of its parts, including working with partners in the UK's devolved nations and ensuring the ISCF compliments existing initiatives
- develop metrics for the ISCF to ensure the funds effectively crowd in business R&D expenditure

Use public procurement to drive innovation even further

Through the industrial strategy Government has the opportunity to make sure that the public sector's commercial behaviours support their strategic aims – again something recognised by the green paper. The opportunity to drive innovation is especially strong, given the need to adopt new approaches to meet challenges faced by public services. Attracting private sector bids requires good public sector commercial practice, such as pre-market engagement and business retention of IP or in the construction sector tendering for production and design together, which the Cabinet Office tries to encourage through guidance and civil service professional development.

Yet the Cabinet Office is chiefly a value for money regulator and asking it to also champion competitive supplier markets sends mixed signals, especially when the business department has historically had limited engagement with this £278bn marketplace. This lack of committed sponsorship diminishes appetite for bidding for contracts at a time when public services need innovation more than ever.

To realise this opportunity Government should designate a BEIS minister as “minister for government suppliers”, with a brief to attract greater interest in contracts by championing companies that support public services, and work across government to support a vibrant and competitive contracting environment. This role should be complementary to the Cabinet Office, which should focus on its quasi-regulatory functions.

Summary of recommendations

Make the UK a world leader for innovation

23. Government and business to work together to ensure UK investment in R&D reaches 3% of GDP by 2025

24. Government to appoint a BEIS minister to champion government suppliers

3.2 Unlock business productivity to stimulate growth

Within the G7 the UK went from being the fastest in productivity growth to the second slowest following the financial crisis⁸. Having set out recommendations for improving the business environment it is equally important to recognise initiatives that should will help individual firms realise their potential.

The CBI's 'Unlocking Regional Growth' project explored these regional differences in productivity and has produced scorecards showing the performance of 173 local areas and all UK regions on key drivers of productivity. This position was further reaffirmed during the consultation process and is an area CBI members feel that Government and business should tackle together through a process of education and identifying barriers to good behaviour. Some smaller UK firms, often termed micro-multinationals, excel in this area and due to their smaller size, lean management structures and smart use of technology have the agility to take advantage of commercial opportunities domestically and internationally.

The following issues were identified during the consultation:

Increase awareness of best practice in management and leadership

The first step in addressing lagging productivity at a firm level is through benchmarking against industry best practice to show where strengths and weaknesses are. Very often firms can improve their performance and productivity through better leadership and management skills. Initiatives such as 'How good is my business really?' set up by the Productivity Leadership Group (PLG) are vital in providing an easily accessible first-stage tool in assessing the performance of a business, which is freely available for any company to tap into. The CBI will play its part by actively promoting the PLG's toolkit, to make sure more businesses make the most of the opportunity.

More in-depth leadership training and transformation programmes are available within specific sectors and can offer huge benefits as the case study below from the aerospace sector demonstrates. The scope for mid-sized companies to benefit from such schemes is immense and CBI members believe the Government should look to roll them out through further sector initiatives.

⁸ How good is your business really?, Productivity Leadership Group (2016)

Case study: Sharing in growth - Icon Aerospace Technology Ltd

Sharing in growth (SiG) is an ambitious initiative to help mid-sized companies in the aerospace sector scale up their operations and turnover by raising their productivity and competitiveness.

SiG provides a 4 year training and transformation programme, worth £3million to each company almost half of which comes from public funds, with significant success - the first 37 beneficiaries have already secured contracts worth almost £1.75bn.

Tim Pryce, Chief Executive of Icon Aerospace Technology Ltd joined the scheme in 2016 because he knew his company a '145 year old start-up' based in Retford, Nottingham needed to transform in order to scale up.

By taking part in SiG Tim has been able to ensure that his leadership team understand his vision for the company over the next 10 years and can lead their teams effectively and efficiently to deliver that strategy. This means Tim can concentrate on being an entrepreneur and on leading rather than managing the business.

The scheme has been an intense experience for Tim and his leadership team, with some tough decisions to make along the way but it is delivering huge benefits. Icon Aerospace will grow 60% in 2017, adding 125 jobs into the business, and will double in size within 3 years.

Increase adoption of technology

In a recent CBI survey⁹ 94% of businesses stated that digital technologies are a crucial driver of increased productivity. For some businesses this will mean adopting a new CRM system, or building extra functionality into their websites, while for others it will increasingly mean adopting greater automation, robotics and artificial intelligence.

The UK ranks 5th in the availability of technology¹⁰, but only 14th on company level adoption, which suggests that there is significant scope for UK firms to invest in new technology to raise their productivity and to stay competitive this is the direction that UK firms must take. The CBI therefore strongly supports the programme of work on Industrial Digitalisation being led by Juergen Maier to identify ways in which Government can support the manufacturing sector make the most of these developments in technology.

The CBI is also undertaking a new piece of work to explore how technology, innovation and best practices get diffused throughout the supply chain, particularly in smaller companies to help increase productivity and will be publishing recommendations for business and government in autumn 2017.

Improve availability of finance for investment

The UK has a world leading financial services sector which helps provide the finance necessary for the UK's business community and the wider economy. Many businesses which have reached the scale-up stage will require patient capital in order to fulfil their long term growth plans. The UK financial services sector offers a myriad of financing options for a growing business, both debt and equity based, with equity relatively under-utilised by SMEs. CBI members look forward to participating in the Government's patient capital review to see what more can be done to make finance available for growing firms and in raising awareness about the available options.

⁹ Embracing Digital in Every Sector, CBI Survey 2016

¹⁰ World Economic Forum's Global Competitiveness Report 2015-16

It is also important to remember the success of initiatives that have already been set up to address this problem, such as the British Business Bank (BBB) which now lends £7.5 billion and generates a 2.0% return on taxpayer money, as well as the private sector-led Business Growth Fund. The Government should continue to fund the BBB and consider whether it should increase its scope to fill the gap which may be left by the European Investment Fund, which specifically targets the needs of small and medium sized businesses, as the UK exits the European Union. As of December 2015, the EIF had supported 27,700 SMEs in the UK¹¹.

Programmes like the Seed Enterprise Investment Scheme and the Enterprise Investment Scheme which incentivise investment in start-ups are also important in providing finance to early stage businesses which investors deem to be more risky. The government should continue to provide this tax incentive and consider how to better promote it.

Support businesses to export

The CBI's recent work on regional productivity also found that firms which export are also more likely to be productive, but there remains a significant cohort of companies which have the potential to export but haven't yet tapped into that opportunity¹². The industrial strategy needs to encourage these businesses to take advantage of international trading opportunities to improve productivity. This link between the domestic economic agenda and a new independent international trade policy will need to be recognised in the refreshed industrial strategy.

For many firms exporting is a costly and risky exercise, so providing the right finance to help firms export is important, especially as we prepare to exit the EU. The financial services sector provides a great deal of export finance but can only do so when operating under the right conditions, which requires Government to ensure that the collective impact of financial services regulation is both consistent and clear for firms.

Government also has a role to play in continuing to help firms export – a key driver of regional productivity. In order to fulfil its recent commitment to double the provision of export finance, the government will have to undertake a dramatic revamp of its use of online platforms, business networks and LEPs to raise the profile of financing available through UK Export Finance. Government could also improve their own efficiency of financing by digitalising the process and set new standards that the whole sector can follow.

¹¹ The European Investment Fund: EIF in the United Kingdom, 2016

¹² Unlocking regional growth, CBI, December 2016.

Summary of recommendations

Increasing awareness of best practice in management and leadership

25. CBI to continue promoting the work of the PLG

26. Government to consider further sectoral initiatives like Sharing in Growth

Supporting the adoption of new technology

27. CBI to continue supporting the Industrial Digitalisation programme

28. CBI to produce further recommendations in Autumn 2017

Increasing the availability of finance for investment

29. Government to continue funding the British Business Bank and look to increase its scope

Support more firms to export

30. Government to revamp platforms for promoting the services of UK Export Finance

4. Empower devolved nations, London and regions and hold them accountable

We know from the CBI's work on regional growth that there are huge differences in productivity across and within all areas of the UK. These differences underpin the UK's imbalances in living standards and are therefore absolutely critical to the idea of building a more prosperous UK by 2030.

Having a regional approach to the industrial strategy should be complementary to a top-down focus on delivering the right national policy framework, and should work hand in hand with sector deals given the importance of key sectors in regions across the UK such as financial services in London, Leeds and Edinburgh, aerospace in and nuclear in the south west and north west and automotive in the West Midlands and North East. The coordination with sector deals will also be important to continue to unlock the value businesses can add to a region through strong supply chain leadership.

More needs to be done to support regions which have a huge role to play in delivering the industrial strategy, while protecting London's role as a global hub that is critical to the whole of the UK. The CBI believes there are three key areas that need to be addressed in order to empower all regions in the UK: creating a level playing field for all UK regions to deliver the industrial strategy; ensuring regional leaders understand regional and local productivity performance and inspiring regional leaders to develop their own UK2030 strategy

Create a level playing field for all UK regions to deliver the industrial strategy

All areas of the UK should have the opportunity to raise their productivity and benefit from a strategy that creates a more prosperous UK by 2030. However the political geography of the UK is very mixed, which means that some areas will have a greater capacity to make the most of a regional approach to industrial strategy than others, which in the long run will make it more difficult for all areas of the UK to prosper.

Devolution to local areas has been a huge success in some areas of the country, complemented by a strong private sector where businesses of all sizes work together to bring prosperity and contribute to community life. However in too many places city or devolution deals have struggled to get off the ground, and business and community life is not as vibrant.

“We can’t let only the best-funded, best-organised regions get ahead”

- Utilities provider, East of England

While we don’t expect to have a one size fits all approach to regional and local government, there should be a level playing field in terms of each area’s ability to develop a strategy, to obtain funding which is competitive (e.g. through the National Productivity Investment Fund) and deliver it if the Government is to raise living standards across the whole of the UK.

For example, the Government is investing significant sums in the decommissioning of the Sellafield site and the local workforce is gaining new expertise in nuclear waste management, but there isn’t a coherent economic strategy for the area in terms of how to make the most of this investment so that there are economic growth opportunities for the community beyond Sellafield.

Similarly LEPs are present across most of the country but with mixed successes and reputations. Many firms have invested significantly in making LEPs a success so it would be counterproductive to start all over again, but we believe there is scope for improvement and recently collaborated with other business organisations to recommend three priorities for action, summarised in Figure 2.

Figure 2: Reforming LEPs – improvements on data, guidance and transparency

1. Business population data to be made available at LEP level to better inform their strategic growth plans
2. Improved corporate governance within LEPs to lead to better decision-making and increased confidence in their operations
3. Transparency of key information and accountability through proper consultation to lead to improvements in reputation with the business community, local/national government, and the public

(Developed jointly by the CBI, British Chamber of Commerce, Federation of Small Business, EEF and Institute of Directors, Feb 2017)

Government should not let these regional imbalances in devolution impact on delivery of the ambition to create a more prosperous UK by 2030. The CBI therefore recommends that the Government appoints an independent commissioner to map the areas that haven’t got devolution

deals and then to discuss with local political and business leaders how best to put those local areas and regions on the devolution map. If additional efforts to arrive at a devolution deal are not successful the commissioner should have the power to intervene to ensure that no local area is left out of the UK's strategy for 2030.

Such 'special measures' powers would allow the commissioner, supported by a team of experts to develop an economic strategy for the area so that it's local population can prosper alongside other regions.

Ensure regional leaders understand regional and local productivity performance

It is also vital that local and regional leaders understand the scale of productivity differences in their region and what the key drivers are so that they can prioritise action effectively. The CBI's 'Unlocking Regional Growth' project explored these regional differences in productivity and has produced scorecards showing the key drivers of productivity across all regions of the UK and covering 173 local areas within those regions.

Each scorecard shows how the region and local area performs relative to other regions and how they perform on a range of drivers which are critical to productivity such as education and skills, connectivity (both physical and digital) and business performance and aspiration. Such data is vital if only to start a local conversation about what actions might be taken to raise productivity, recognising that different actions are needed in different areas. These scorecards are available on an open source basis via the CBI's website¹³ and we have provided an example as Annex 3.

Inspire regional leaders to develop their own 2030 strategy

Government should use the UK2030 brand (or similar) to inspire regional leaders to develop their own long-term strategies to deliver prosperity to their regions. The strategies should share the same overall aims as the Government's national strategy in terms of delivering a more prosperous UK by 2030, but should seek to exploit and nurture the sectoral strengths of each region, maximise supply chain collaboration and use local decision-making to address gaps in skills and connectivity to drive up productivity and living standards.

Regional leaders will need to work closely with universities in their area, who have a huge role to play in terms of skills and innovation and business relationships, and work with sectors that are important to rural economies such as agriculture and its upstream and downstream elements. Successful regional strategies should carry the UK2030 branding to demonstrate the alignment of objectives with the national strategy.

“Regional leaders should champion their region's sectoral strengths and competitive advantage”

- Utilities provider, North of England

¹³ <http://www.cbi.org.uk/business-issues/regional-growth/scorecards/>

Summary of recommendations

Create a level playing field for all UK regions to deliver the industrial strategy

31. Government to appoint an independent commissioner to ensure all regions of the UK have appropriate levels of devolution to deliver the industrial strategy

Ensure regional leaders understand regional and local productivity performance

32. Business to use the CBI's regional scorecards to start discussions with local leaders about how to raise productivity

Inspire regional leaders to develop their own 2030 strategy

33. Government to offer UK2030 branding to regional projects that help deliver the strategy

5. Keep sector strategies simple and effective

Bold national policies should help all sectors of the economy to thrive. However CBI members believe that a sectoral approach remains an important aspect of a modern industrial strategy to facilitate growth and competitive advantage where Government intervention can be productive.

Sectoral support should recognise the UK's emerging and uncategorised strengths in areas such as fintech and the sharing economy as well as more established success stories such as financial services, automotive, aerospace, life sciences, universities and creative industries, with successful deals wearing the UK2030 badge.

However, CBI members were also keen to stress that any sectoral approach should be light touch – the Government should see its role here primarily as a facilitator for the private sector – and should avoid picking winners.

In order to deliver a successful sectoral approach to the industrial strategy CBI members believe the Government should retain and refresh existing sectoral commitments and take a flexible but focused approach to new sector commitments

Retain and refresh existing sectoral commitments

The CBI believes that a traditional approach to sector support remains important as part of a modern industrial strategy for a number of reasons. Firstly, it is a way of tackling the UK's lagging productivity at a national level, where initiatives exist to engage the supply chain as well as primes (as noted in the case study in section 3.2 on the Aerospace Growth Partnership's Sharing in Growth initiative). Secondly it is a way of ensuring that we are a first choice location for world-leading businesses. Thirdly, we know that having a sectoral approach can work and the Automotive Council and Aerospace Growth Partnership are two partnerships between industry and Government that have survived changes in government simply because they are successful.

At the same time the launch of the Government's new industrial strategy provides a good opportunity to refresh the relationship between Government and industry in these areas, and ensure that both parties are aligned to the objectives of the new strategy.

Take a flexible but focused approach to new sector commitments

From talking to businesses around the UK we also know that the Government's approach must be flexible. Many CBI members don't feel that they fit in a traditional sector, but still believe that they represent an important part of the UK economy and a particular UK strength. In other cases there are sectors of the economy that are important either nationally or regionally that haven't yet been identified as a sector, such as the heat cluster in the West Midlands.

We support the approach set out in the green paper to have an open door policy to sector deals, with the emphasis on industry coming together to suggest how it can work with the Government to help deliver the industrial strategy. However there is a risk that without some controls the Government could become overloaded with requests for sector deals, which it will struggle to facilitate.

In the interests of business and Government we urge the Government to produce criteria for what might make a successful sector deal so that its efforts can be more focused and industry groups can collaborate effectively. Figure 3 shows the type of criteria that Government could use to judge which sector deals it supports.

In the unlikely event that any sectors meet these criteria but don't come forward with a sector deal, we believe it will be important for the Government to provide a 'safety net'. This would involve the relevant Government department being the convenor of players within a sector and working with those firms to pull together a strategy for the future success of the sector.

Figure 3: Sector deals should meet at least one of the following criteria to get support

1. Strengthening one of the UK's world-leading sectors
2. Potential to become a world-leading sector
3. Demonstrate strategic importance to the UK economy
4. Collaboration across sectors to take on economic challenges
5. A clear plan to help achieve the UK 2030 vision at scale

Summary of recommendations

Focused and simple sector strategies

34. Government to retain and refresh existing sectoral commitments
35. Government to publish clear criteria for sector deals in white paper
36. Government to take a special measures approach to strategic sectors if they don't come forward

6. Making it last: clear indicators and independent monitoring

Businesses are almost unanimously in favour of an industrial strategy for the UK, but are naturally sceptical that it can be delivered effectively or that it will last for the long term. So the final piece of the jigsaw of a successful industrial strategy is to ensure that it is led and managed effectively and lasts for the long term. To achieve this, CBI members believe the following actions are essential:

Empower Secretary of State for Business to align priorities across Whitehall

It should be the role of the Secretary of State for Business, Energy and Industrial Strategy to sponsor the strategy, with authority from the Prime Minister, to put appropriate mechanisms in place to ensure that all relevant Government departments have the industrial strategy at the heart of their aims and objectives.

Establish a rigorous system of key performance indicators and targets

In addition to a number of targets that measure what we want to achieve in terms of productivity and income distribution by 2030 (as explained in section 1), we believe the industrial strategy should have a rigorous framework of key performance indicators and targets that measure the inputs to a successful strategy e.g. skills and infrastructure, and track progress.

The CBI has developed a table of national indicators, all with international comparisons, to show what might be done (see Annex Two). The indicators illustrate the strengths and weaknesses of the UK business environment both internationally and locally, and mirror the key elements of the CBI's prosperity agenda¹⁴. This demonstrates the potential for benchmarking, which if expanded appropriately for the Government's industrial strategy would provide a basis for ensuring that the Government is focusing on the right areas to drive progress.

Appoint an independent monitoring body

The Institute for Government's recent report 'All change'¹⁵ shows the extent of policy churn that businesses have to accommodate, with three industrial strategies in the last decade alone. We therefore recommend establishing an independent monitoring body (or at a minimum allowing an existing government body to take responsibility) to provide transparency, give regular updates on the KPIs and provide independent and impartial advice on where Government should concentrate

Figure 4: Modelling an independent industrial strategy unit on the Office for Budget Responsibility (OBR)

The OBR could serve as a model for an independent industrial strategy monitoring unit. The responsibility for establishing an industrial strategy and the policies that sit under it like overall fiscal policy should be set by democratically elected politicians. However, an independent monitoring unit can have a critical role in adding credibility to the process of delivering a strategy.

Although the Chancellor appoints members of the OBR, it has operational independence in compiling its economic and fiscal forecast and assessing if the government is on course to comply with its fiscal mandate. This independence ensures consistency and analysis that is free from political bias. It would be relatively straight forward for a similar system to be set up by the Secretary of State for Business for industrial strategy, with the same principles of reporting and accountability.

¹⁴ <http://www.cbi.org.uk/business-issues/prosperity/>

¹⁵ 'All change: why Britain is so prone to policy reinvention and what can be done about it', Institute for Government (2017)

its efforts to meet the overall objectives of the strategy, and most importantly to ensure that it remains a long-term industrial strategy which survives changes of Government.

Business leaders to get behind the strategy and make it a success

It is also a responsibility of business and in the interests of business to ensure that the industrial strategy is a success and lasts for the long-term. Business leaders must get behind the Government's ambitions to have a modern industrial strategy and use their influence and expertise to ensure that opportunities are correctly identified and initiatives are delivered effectively. The best way of ensuring that the strategy has longevity is by working in partnership with elected leaders to ensure that it is a success that future leaders will want to retain and build on. We believe that the Government should set up an advisory group of key stakeholders, including some from the business community that can show leadership within their various communities as well as advise the Government on the development of its strategy. The CBI will support all Government efforts in this area.

Summary of recommendations

The right machinery of government and measuring success

37. The Prime Minister should empower the Secretary of State for Business to align priorities across Whitehall
38. Government to establish a rigorous system of key performance indicators and targets
39. Government to appoint an independent monitoring body

Conclusion

The CBI and our members welcome the commitment to build a new industrial strategy. The time is right – as we redefine our relationship with Europe and the rest of the world, the UK must focus on being competitive in a fast moving global environment. Business are clear: to do this Government and industry must work together in a new era of partnership. This partnership must focus on improving fundamentals including skills, infrastructure, energy and a pro-enterprise tax environment. But it must go further, driving innovation across the economy and supporting London, the regions and sectors to thrive.

By working together with a shared vision, business and Government can make this an industrial strategy that lasts and delivers tangible benefits to people and communities across the UK. The CBI and our members are committed to stepping up to the challenge.

Summary of recommendations

A uniting long term sense of purpose

1. Government to set out UK '2030 mission statement' with measurable objectives for growth in living standards, productivity and regional equity.
2. Government to develop a compelling brand to unite sectors and regions and communicate a sense of ambition and energy to the wider public.

Build a skills base for the next generation

3. Government to establish a stable framework for more business-responsive training that encourages private investment
4. Government to instill a greater commercial understanding within the DfE and its agencies
5. Government to improve school leadership and teaching practices, and reward schools for more than just exam results
6. Government to guarantee high quality careers advice for all students
7. Government to work with business to develop an immigration system that works for all
8. Businesses and Government need to work together on boosting inclusion in the labour market

Improve transport connections right across the UK and the rest of the world::

9. Government to make progress on transformational infrastructure projects
10. Government to focus on delivery and long-term planning for the wider transport pipeline
11. Government and business to work with business to attract more private investment into UK infrastructure

Ensure digital connectivity can support growth:

12. The National Infrastructure Commission should build a strategy for the UK's digital infrastructure to 2030 and beyond
13. Government to prioritise the roll out of quality, business-dedicated broadband, alongside consumer broadband
14. Government to join the dots between physical and digital infrastructure

Deliver homes which work for people and firms:

15. Government to adopt an integrated and joined up approach to housing and infrastructure
16. Government to encourage and support diversification of the market
17. Government to tackle long-standing, systemic barriers to development

Summary of recommendations

Develop a 'future fit' plan for the UK's energy system:

18. Government to provide clarity on the long term plans beyond the Levy Control Framework and deliver the emissions reduction plan to incentivize large scale investment
19. Government to prioritise energy efficiency in driving affordability and work with business to deliver and communicate this
20. Business and Government to identify interdependencies in the energy system and take advantage of synergies

Ensure a pro-enterprise and stable tax environment

21. Government to commit to reviewing the effectiveness of business rates and the UK capital allowances regime to reflect the changing nature of the economy and lock-in the competitiveness of the UK as a place to investment
22. Government to empower and resource HMRC to ensure that efforts to improve the competitiveness of the UK tax environment are reflected in compliance and do not impede business investment

Make the UK a world leader for innovation

23. Government and business to work together to ensure UK investment in R&D reaches 3% of GDP by 2025
24. Government to appoint a BEIS minister to champion government suppliers

Increasing awareness of best practice in management and leadership

25. CBI to continue promoting the work of the PLG
26. Government to consider further sectoral initiatives like Sharing in Growth

Supporting the adoption of new technology

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28. CBI to produce further recommendations in autumn 2017

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29. Government to continue funding the British Business Bank and look to increase its scope

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30. Government to revamp platforms for promoting the services of UK Export Finance

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Focused and simple sector strategies

34. Government to retain and refresh existing sectoral commitments
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36. Government to take a special measures approach to strategic sectors if they don't come forward

The right machinery of government and measuring success

37. The Prime Minister should empower the Secretary of State for Business to align priorities across Whitehall
38. Government to establish a rigorous system of key performance indicators and targets
39. Government to appoint an independent monitoring body

Annex One: The 15% point productivity target

Our suggested target builds on the “size of the prize” analysis which featured in the CBI’s “Unlocking Regional Growth” report where the CBI calculated what the economic impact could be by 2024 if each local area could improve at the same rate as the top performer in their respective region or nation.^[1] For this submission, the CBI has extrapolated the analysis to 2030 and proposed an achievable target based on the findings.^[2] The productivity gap is calculated as the difference between the least productive and the most productive NUTS3 region in terms of their percentage share of UK GVA per hour.

^[1] For a detailed description of the methodology, please see page 54 of the report.

^[2] Since the report was published, productivity figures for 2015 have been released and the history of the series has been revised. We have incorporated these more up-to-date figures into our analysis.

Annex 2: Industrial Strategy Indicators

| Industrial strategy - success measures | | | UK | US | Japan | Germany | France | Italy | Canada | Spain | Nlands | Switz | Sweden | Belgium | Poland | UK RANK |
|--|---------------------------------|--|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|--------|---------|--------|---------|
| A | Income | GDP per head, 2016*, \$ current prices, current PPPs | 42,898 | 56,066 | 38,401 | 48,908 | 41,945 | 37,964 | 44,201 | 36,144 | 51,136 | 62,500 | 49,490 | 46,800 | 26,513 | 8 |
| B | Employment | Employment rate, all ages, %, Q4 2016* | 73.4 | 69.3 | 74.4 | 74.5 | 64.2 | 57.0 | 72.6 | 59.6 | 74.6 | 80.8 | 76.2 | 61.9 | 64.1 | 6 |
| C | Productivity | GDP per hour worked, US\$, 2016* | 47.5 | 62.9 | 41.4 | 59.7 | 61.6 | 47.4 | 48.6 | 47.3 | 61.8 | 56.5 | 56.4 | 64.4 | 28.5 | 9 |
| D | Income distribution | Gini coefficient (0=perfect equality, 1=perfect inequality), 2014* | 0.36 | 0.39 | 0.33 | 0.29 | 0.29 | 0.33 | 0.32 | 0.35 | 0.28 | 0.30 | 0.28 | 0.27 | 0.30 | 12 |
| E | Dispersion of economic activity | Main city's share of GDP, %, 2013* | 28.4 | 7.7 | 32.0 | 5.5 | 30.7 | 11.7 | 18.9 | 19.2 | 16.3 | 18.6 | 31.0 | 31.0 | 16.5 | 9 |
| F | Trust in business | Edelman Trust Barometer, 2016/17 | 45.0 | 58.0 | 41.0 | 43.0 | 50.0 | 55.0 | 50.0 | 46.0 | 60.0 | NA | 46.0 | NA | 40.0 | 8 |
| 1. Access to the people and skills needed for growth | | | UK | US | Japan | Germany | France | Italy | Canada | Spain | Nlands | Switz | Sweden | Belgium | Poland | UK RANK |
| 1.1 | Education | Average of PIAAC scores for mean literacy and mean numeracy 16-24 year olds, 2012 | 260.9 | 260.5 | 291.3 | 277.0 | 269.2 | 256.1 | 272.0 | 259.5 | 290.0 | NA | 280.5 | 283.9 | 275.0 | 9 |
| 1.2 | Skills system | % of the 25-64 year old population qualified to intermediate level (highest achieved), 2015 | 35.6 | 44.9 | 50.0 | 59.2 | 43.8 | 42.3 | 35.2 | 22.4 | 41.1 | 46.5 | 42.2 | 37.8 | 63.0 | 11 |
| 1.3 | Training | Average of score for extent of staff training and extent of on-the-job training, score 1-7 (7=best), 2016-17 | 4.9 | 5.1 | 5.3 | 5.2 | 4.8 | 3.4 | 4.6 | 3.7 | 5.4 | 5.7 | 5.5 | 5.2 | 4.0 | 8 |
| 1.4 | Youth participation | Youths not in employment, education or training, % of total 20-24 year olds, 2015* | 15.6 | 15.8 | 10.1 | 9.3 | 20.9 | 33.9 | 14.4 | 27.2 | 8.8 | 12.2 | 11.8 | 15.8 | 18.5 | 7 |
| 1.5 | Female participation | Female labour participation, all ages, %, 2015 | 57.6 | 56.7 | 49.6 | 54.7 | 51.7 | 40.2 | 61.2 | 53.7 | 58.8 | 63.1 | 69.5 | 48.0 | 48.4 | 5 |
| 1.6 | Access to childcare | Cost of childcare, % of average wage, 2012 | 45.0 | 35.1 | 21.7 | 11.2 | 13.1 | NA | 31.2 | 7.9 | 24.0 | 29.5 | 5.8 | 12.8 | 6.9 | 12 |
| 1.7 | Gender equality | Gender pay gap, %, 2015* | 16.9 | 18.9 | 25.9 | 17.1 | 13.7 | 5.6 | 18.6 | 8.7 | 14.1 | 16.9 | 13.4 | 3.3 | 11.1 | 8 |
| 2. World-class enabling industries and infrastructure | | | UK | US | Japan | Germany | France | Italy | Canada | Spain | Nlands | Switz | Sweden | Belgium | Poland | UK RANK |
| 2.1 | Infrastructure | Quality of overall infrastructure, score 1-7 (7=best), 2016-2017 | 5.15 | 5.71 | 6.19 | 5.68 | 6.03 | 4.28 | 5.21 | 5.51 | 6.21 | 6.50 | 5.50 | 5.08 | 4.18 | 10 |
| 2.2 | Transport infrastructure | Inland transport infrastructure investment, % of GDP, average 2010-2015 | 0.6 | 0.6 | 1.1 | 0.6 | 1.0 | 0.5 | 1.1 | 1.0 | 0.6 | 1.3 | 0.8 | 0.6 | 1.4 | 8 |
| 2.3 | Connectivity | World Bank's Logistics Performance Index, 2016, Higher score = better rank | 4.07 | 3.99 | 3.97 | 4.23 | 3.90 | 3.76 | 3.93 | 3.73 | 4.19 | 3.99 | 4.20 | 4.11 | 3.43 | 5 |
| 2.4 | Energy | Average of industrial and domestic electricity prices, pence per kWh | 12.5 | 6.4 | 12.7 | 15.4 | 9.5 | 14.6 | 6.0 | 13.8 | 9.7 | 10.7 | 7.5 | 10.8 | 8.3 | 9 |
| 2.5 | Energy | Average of industrial and domestic gas prices, pence per kWh | 3.5 | 1.5 | 5.2 | 3.7 | 3.8 | 4.4 | 1.2 | 4.3 | 3.7 | 5.4 | 5.6 | 3.1 | 3.0 | 5 |
| 2.6 | Digital | World Bank's Digital Adoption Index: Business score 0-1 (1=best) | 0.67 | 0.69 | 0.65 | 0.66 | 0.63 | 0.50 | 0.63 | 0.56 | 0.83 | 0.86 | 0.74 | 0.64 | 0.57 | 5 |
| 2.7 | Access to finance | World Bank's Financial development index, 2013 | 0.88 | 0.88 | 0.83 | 0.75 | 0.76 | 0.79 | 0.85 | 0.86 | 0.71 | 0.95 | 0.75 | 0.69 | 0.48 | 2 |
| 2.8 | Access to finance | % of SMEs using/considering equity capital | 16.6 | NA | NA | 13.1 | 21.2 | 2.0 | NA | 2.5 | 27.7 | NA | 58.0 | 16.1 | 3.5 | 4 |
| 2.9 | Housing affordability | House price-to-income ratio, relative to long-term trend (%), Q4 2016* | 31.5 | -4.9 | -26.9 | -3.8 | 21.4 | -0.7 | 43.7 | 9.5 | 17.2 | 4.6 | 54.1 | 41.8 | NA | 9 |

| 3. Globally competitive tax, fiscal policy & regulation | | | UK | US | Japan | Germany | France | Italy | Canada | Spain | Nlands | Switz | Sweden | Belgium | Poland | UK RANK |
|---|--------------------------------------|---|-------|-------|-------|---------|--------|-------|--------|-------|--------|-------|--------|---------|--------|---------|
| 3.1 | Regulatory quality | Average of OECD indicators of regulatory policy and governance, score out of 4, 2014 | 3.1 | 2.0 | 1.4 | 2.3 | 1.5 | 1.6 | 2.8 | 1.4 | 1.4 | 2.3 | 2.0 | 2.2 | 1.9 | 1 |
| 3.2 | Competition | OECD Product Market Regulation index 2013, score 0-6 (0=least restrictive) | 1.08 | 1.59 | 1.41 | 1.28 | 1.47 | 1.29 | 1.42 | 1.44 | 0.92 | 1.50 | 1.52 | 1.39 | 1.65 | 2 |
| 3.3 | Public debt | Gross general government debt. % GDP, 2015* | 112.6 | 125.8 | 246.6 | 78.0 | 121.0 | 157.3 | 107.2 | 116.9 | 77.9 | 45.2 | 61.9 | 126.5 | 66.3 | 7 |
| 3.4 | Tax burden | Effective marginal corporate tax rate, %, 2017 | 17.1 | 23.2 | 19.2 | 18.2 | 19.9 | -7.7 | 14.9 | 24.0 | 8.1 | 7.1 | 13.0 | 14.4 | 10.7 | 8 |
| 3.5 | Ease of paying taxes | PwC ranking, 2017 | 10 | 36 | 70 | 48 | 63 | 126 | 17 | 37 | 20 | 18 | 28 | 66 | 47 | 1 |
| 4. The climate and capabilities to innovate | | | UK | US | Japan | Germany | France | Italy | Canada | Spain | Nlands | Switz | Sweden | Belgium | Poland | UK RANK |
| 4.1 | Importance of knowledge economy | Contribution of skills, ICT capital and TFP to growth, % points, average 2011-2015 | 0.52 | 0.34 | 0.29 | 0.60 | 0.33 | -0.22 | 0.21 | 0.25 | 0.18 | 0.37 | 0.42 | 0.01 | 0.57 | 3 |
| 4.2 | Science base | Share of national publications cited in the top 10% most-cited publications, % of all national publications, 2015 | 16.1 | 16.4 | 8.8 | 14.1 | 13.2 | 13.3 | 15.7 | 12.0 | 19.2 | 19.4 | 16.6 | 16.5 | 6.1 | 6 |
| 4.3 | Spending on R&D | Government-financed expenditure on R&D, % of GDP, 2015* | 0.48 | 0.67 | 0.54 | 0.83 | 0.77 | 0.56 | 0.56 | 0.51 | 0.67 | 0.75 | 0.93 | 0.59 | 0.42 | 12 |
| 4.4 | Spending on R&D | Business enterprise expenditure on R&D, % of GDP, 2015* | 1.1 | 2.0 | 2.7 | 1.9 | 1.5 | 0.7 | 0.8 | 0.6 | 1.1 | 2.1 | 2.3 | 1.8 | 0.5 | 9 |
| 4.5 | Innovation performance | The innovation output indicator, EU average 2011=100, 2014 | 106.4 | 101.5 | 131.9 | 116.4 | 106.8 | 86.6 | NA | 80.7 | 102.7 | 115.1 | 120.0 | 96.1 | 78.3 | 6 |
| 4.6 | Technological diffusion | SMEs introducing product or process innovations as % of SMEs, 2015 | 27.8 | NA | NA | 42.4 | 32.4 | 38.8 | NA | 18.4 | 40.9 | 32.6 | 39.9 | 42.3 | 13.1 | 8 |
| 4.7 | Technological diffusion | SMEs introducing marketing or organisational innovations as % of SMEs, 2015 | 39.1 | NA | NA | 46.2 | 41.2 | 44.7 | NA | 22.6 | 35.2 | NA | 38.2 | 36.7 | 14.2 | 4 |
| 4.8 | Early-stage entrepreneurial activity | % of adult population engaged in start-up activity, 2016 | 8.8 | 12.6 | 3.8 | 4.6 | 5.3 | 4.4 | 16.7 | 5.2 | 11.0 | 8.2 | 7.6 | 6.2 | 10.7 | 5 |
| 4.9 | Business dynamics | Share of high growth firms, %, 2014 | 12.9 | NA | NA | 8.5 | 8.5 | 6.8 | NA | 9.5 | 9.6 | NA | 12.3 | 8.0 | 9.5 | 1 |
| 5. Easy and open access to world markets | | | UK | US | Japan | Germany | France | Italy | Canada | Spain | Nlands | Switz | Sweden | Belgium | Poland | UK RANK |
| 5.1 | Export performance | Gap to predicted export share (% of GDP) given size of economy, 2015 | 0.96 | 0.91 | 0.69 | 1.46 | 1.00 | 0.85 | 0.95 | 0.87 | 1.97 | 1.15 | 1.00 | 1.91 | 1.07 | 8 |
| 5.2 | Trade barriers | Trade tariffs, % duty, 2016-2017 | 1.04 | 1.38 | 2.11 | 1.04 | 1.04 | 1.04 | 2.81 | 1.04 | 1.04 | 3.98 | 1.04 | 1.04 | 1.04 | 1 |
| 5.3 | Trade barriers | Non-tariff trade barriers, score (1-7, 7=best), 2016-2017 | 4.9 | 4.8 | 4.2 | 4.6 | 4.2 | 4.7 | 4.5 | 4.5 | 4.9 | 4.5 | 5.2 | 5.0 | 4.6 | 3 |
| 5.4 | Participation in GVCs | Backward & forward linkages, % of gross exports, 2011 | 33.0 | 30.2 | 40.9 | 39.9 | 37.1 | 38.8 | 33.5 | 34.7 | 28.4 | 34.8 | 40.2 | 39.8 | 45.2 | 11 |
| 5.5 | Manufacturing competitiveness | Services VA content of manufacturing exports, %, 2011 | 37.1 | 32.2 | 33.2 | 37.5 | 47.1 | 41.7 | 34.2 | 38.6 | 41.7 | 43.2 | 42.0 | 44.3 | 39.9 | 10 |
| 5.6 | Links to EMs | Goods exports to emerging markets, % of total exports, 2015 | 23.7 | 45.9 | 43.6 | 28.5 | 26.7 | 29.7 | 16.0 | 26.0 | 16.5 | 29.1 | 20.3 | 18.3 | 18.5 | 8 |

*or latest available data

Annex 3: Regional Scorecard Example

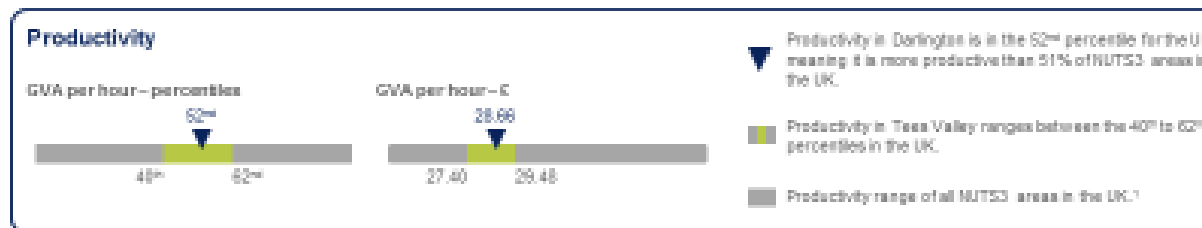


Local Area
Darlington

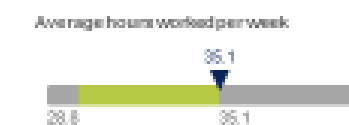
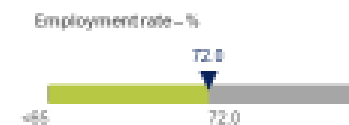
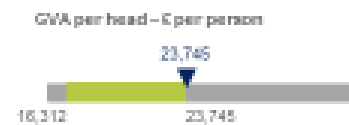
LEP¹ Region
Tees Valley
North East

In partnership with:





Economic outcomes²



¹ Outside England, special sub-regions have been created to capture economic ecosystems, approximating the geographical size of the 38 LEPs in England.

² Economic outcomes are plotted on an absolute scale showing the 5th – 95th percentile of NUTS3 areas in the UK. Productivity drivers are plotted on a percentile scale of all NUTS3 areas in the UK.

