

WRITTEN SUBMISSION TO THE BUSINESS, ENERGY AND INDUSTRIAL STRATEGY COMMITTEE INQUIRY INTO POST-PANDEMIC ECONOMIC GROWTH: INDUSTRIAL STRATEGY SUB-INQUIRY

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Across the UK, the CBI speaks on behalf of 190,000 businesses of all sizes and sectors, employing nearly 7 million people between them. That's about one third of the private workforce. With offices in the UK as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

Key Points

- The fundamental building blocks of the Industrial Strategy remain the right ones for the UK's long-term competitiveness, but the challenges facing the UK economy as a result of the Covid-19 crisis put an emphasis on **urgency and pace of delivery**
- Businesses and international investors are looking for a **bold vision for the UK**, which the Industrial Strategy can help to provide, pointing to areas where the UK can lead on the global stage in areas such as clean growth, life sciences and AI and data
- **Grand Challenges should sit at the heart of the Industrial Strategy**, with each challenge having a clear goal akin to 'net zero by 2050' to inspire action. Research and innovation will underpin progress on the challenges so it's important that the Industrial Strategy is closely aligned with government's developing R&D strategy.
- **Sector Deals remain critically important.** They should build on the work already underway but they must be adapted to reflect the specific challenges facing individual sectors to ensure the UK retains capability in its many world-beating sectors as they recover from the Covid-19 crisis.

The Industrial Strategy may require minor amendments including stronger focus on building back better, but most importantly it should be delivered with urgency.

Covid-19 provides an opportunity to take stock of what the Industrial Strategy has achieved already and set out how it can more quickly be implemented in the future. The pandemic has led to an unprecedented economic shock and therefore it's appropriate to revisit what elements of the Industrial Strategy should be strengthened in this new context. Many of the fundamentals remain the same, however, the CBI believes renewed focus on vision, partnership and implementation is urgently needed. By quickly applying lessons from the past couple of years, we can ensure the UK recovers as quickly as possible while tackling regional inequalities and leading the way on the global stage on issues like clean growth.

Building back better provides an opportunity for government to adjust the Industrial Strategy as appropriate, before becoming even more committed to its implementation. To build back better the focus must be on green and sustainable recovery, the creation of green jobs, mass energy efficiency programmes and building

new sustainable transport infrastructure. There must also be a focus on skill-building and opportunities for young people. This should help kick-start demand and unleash competitiveness.

A key aim of the Industrial Strategy is to improve productivity, the economic situation has changed since it was devised and these changes should be taken into account. The impact of Covid-19 on the previously high levels of employment but low levels of productivity in some areas may present a new challenge. Short-term policy may need to adjust to account for high unemployment because of the pandemic, however, longer term ambitions linked to the strategy's foundations remain pertinent.

A clear vision from government can galvanise action and unite stakeholders behind the strategy.

Uncertainty is a barrier to successful implementation of the Industrial Strategy. The government should take ownership of the Industrial Strategy to give confidence to business. It must also be joined up across all government departments and other initiatives including trade policy, levelling up, and recovery efforts.

The strategy has helped ministers zero in on interventions in response to Covid-19 i.e. Net Zero, however, further clarity is needed. This is an opportunity for government to set out a strong vision for all to understand and work on building strong partnerships so that implementation can be rapidly achieved. Earlier this year we called for increased bandwidth across government, and for businesses and regions to build upon the Industrial Strategy and this is more important than ever.

Businesses frequently point to the Industrial Strategy as providing a helpful focal point for developing their internal innovation strategies. For example, clear signalling on the missions, moonshots and emerging technologies where the government intends to invest, drive progress and build competitive edge provides the certainty business need to look ahead and allocate resources to long term research and innovation projects. The Industrial Strategy, with government's full commitment, must continue to provide clear signalling on these priorities to galvanise industry investment.

Partnership enables strong collaboration and a joined-up approach, with all parts of government and business pulling in the same direction.

The Industrial Strategy must be relevant to the whole economy including businesses regardless of size, sector, region or nation. All sizes of business must see value in engaging with the Industrial Strategy. This joined up approach isn't easy under existing circumstances, but the UK's ability to bounce back stronger than before the pandemic would be aided in doing so. The existing foundations of Ideas, People, Infrastructure, Business Environment and Places remain appropriate. However, a renewed emphasis on the horizontal enablers should be focused on people and skills, infrastructure, tax and regulation, innovation, and trade. Alongside the existing Grand Challenges, it's also appropriate to focus on emerging longer-term challenges such as how to ensure young people have the skills they need to succeed in the future.

The Industrial Strategy should continue to appear in single departmental plans across Whitehall going forward. All departments must engage with Local Industrial Strategies. Local strategies have components relevant to a range of departments and the more difficult it is to engage in the process the less likely the strategy will succeed. Success must not be handicapped by lack of engagement from government departments.

Now is the time for true partnership. All parts of the UK should have an agreed Local Industrial Strategy in place alongside recovery plans, to help accelerate recovery and the levelling-up agenda. Each local area, including the devolved nations, should also play to its distinct strengths and have action plans for delivery with the necessary support from central government to make them a reality.

In addition, the Industrial Strategy needs to be linked to the UK's international ambitions including inward investment, reducing carbon emissions, trade promotion and trade policy given the importance of export and investment to the UK's domestic recovery. It aims to help the UK lead in R&D internationally with a commitment to raise total UK R&D investment. With BEIS now in the process of developing a standalone R&D strategy it's important that the Industrial Strategy works in tandem including; improving UK support for

development, commercialisation and adoption activity, widening the UK's base of R&D active companies, and developing a compelling global pitch and package to attract international investors.

Once a bold vision has been set out and partnerships are strengthened, Government should intently focus on implementation by making clear the role of Local Industrial Strategies as well as exploring the need for stronger financial infrastructure supporting start-ups and scale-ups.

Local Industrial Strategies

Consistency, clarity and collaboration are key, especially with Local Industrial Strategies. There is a continued lack of clarity over the role of Local Industrial Strategies in terms of the recovery from Covid-19 and the need for local economic recovery plans.

The work undertaken for Local Industrial Strategies is not only of value during economic recovery planning, but much of the content will remain relevant especially the longer-term strategic priorities. For example, the Industrial Strategy highlights the ability of cities to drive up productivity in surrounding regions, however interconnectedness of cities across regions is not addressed in the strategy.

A successful transition to net-zero will also be reliant on local delivery of infrastructure and support for behavioural change. Local Industrial Strategies could be used to support national efforts to transition to key sectors and industries, including the development of net-zero industrial clusters, electric vehicle charging infrastructure, energy efficiency investment and the switch to low-carbon heat.

The Industrial Strategy must encourage growth everywhere and should help encourage inclusive and regional growth. Whilst the Industrial Strategy has been designed as a UK-wide policy, the devolved administrations in Scotland, Wales and Northern Ireland have pursued their own independent strategies, to varying degrees. There is now an opportunity to make sure the Industrial Strategy is truly a UK-wide initiative as success will depend upon partnership and strong collaboration, especially across the devolved nations.

Financial infrastructure

The British Business Bank has played a crucial role in response to the Covid-19 crisis. It must have an expanded regional role in the recovery. The UK needs to support the growth of dynamic start-ups and scale-ups in every region of the UK by building on existing funding structures of the British Business Bank as well as exploring novel channels like a new Industrial and Commercial Finance Corporation or a new 3i to address gaps such as the low mid-market (building on the expertise of the likes of BGF and Foresight Group) so that the UK has a scalable, stable and flexible financial infrastructure with long term horizons.

The UK needs to build more resilience through a stronger financial infrastructure. The demand for the Future Fund has illustrated how vulnerable this population so critical to a future dynamic economy are. Local Enterprise Partnerships report that access to venture capital to support growth remains a problem regionally with many firms struggling to access funding if they are based outside the capital.

One challenge business has highlighted is that the Industrial Strategy Challenge Fund competitions can come out on short timeframes with limited foresight making it difficult for businesses to respond or source match funding requirements. Businesses also cite challenges with the scale of match funding requirements of calls – an issue which risks becoming more accentuated as businesses facing financial difficulties reassess their R&D spend. In this context the government should reassess the gearing ratio of programmes to make them more attractive to industry.

Grand Challenges should sit at the heart of the Industrial Strategy with each challenge having clearly defined goals.

The Grand Challenges would benefit from being placed at the heart of the Industrial Strategy, with each challenge having a clear goal akin to 'net zero by 2050' to inspire and galvanise action. These Grand

Challenges should have a strong focus on the major challenges facing our society over the next decade, whereas, shorter term interventions i.e. shoring up industries in need following Covid-19 should be separately considered.

Renewed commitment to the Grand Challenges can galvanise action.

Clarity is needed over the government's commitment to the Industrial Strategy and Grand Challenges. There is an opportunity to embrace the Grand Challenges and for them to provide the catalyst to galvanise action and unite stakeholders. Clear communication, and clarity over the relationship between Grand Challenges and Sector Deals is needed to give the clarity business needs to focus on implementation.

A clear direction provided by government on what's needed from business will encourage wider buy-in and support. There is a role for government in directing formal collaboration between departments and businesses, and they should do more to establish task and finish groups focused on delivering Grand Challenge missions.

It is vital that the Grand Challenges remain relevant and are updated in response to more recent policy developments. For example, the Clean Growth and Future of Mobility Grand Challenges both need to develop in order to facilitate progress to the net-zero emissions target legislated for last year, and the government's decision on bringing forward the phase out date for new petrol, diesel and hybrid cars and vans from 2040 to 2035 or sooner. As more ambitious policy outcomes are developed, the Grand Challenges must continue to evolve to help deliver the business and government partnership that they were designed to create, particularly now as we prioritise action that can support a green and sustainable recovery from the pandemic.

The steps that the government is taking through the AI and data Grand Challenge and AI Sector Deal are vital to put the UK at the forefront of the data revolution, leading to greater regional growth and driving solutions to society's biggest challenges. They have unlocked funding for AI, and more strategically set out the actions that will lead to its development and uptake. However, some businesses have found it difficult to access funding.

CBI research shows that AI has been widely deployed across sectors, with 33% of CBI/Accenture Tech Tracker respondents having already applied it to their business operations.¹ The technology is being used in increasingly complex ways, with huge potential for businesses: UK organisations embracing AI in October 2019 outperformed the competition by 11.5%.² To ensure the UK leads the way, funding for each of the Grand Challenges should be targeted and systematic.

Government should ensure that the cross-governmental work on trade deals, market access and supply chains are linked to Grand Challenges and the wider Industrial Strategy.

The UK should champion market access and future regulation in the industries covered by the Grand Challenges in its trade deals and market access work, following through to ensure that trade deals are implemented, marketed to business back home, and utilisation rates monitored. For example, an AI cluster in a region will grow faster if there is a developed international investment pitch and export promotions linked to opportunities in new trade deals.

Government should ensure that the cross-governmental work on supply chains should be linked to the Industrial Strategy, if government wishes to promote diversification of supply chains these can be underpinned by policies which make onshoring competitive on a market basis in critical sectors and also use the Grand Challenges e.g. AI and data to facilitate smarter supply chains.

The establishment of the cross-departmental Office for AI was welcomed and should continue to engage closely with a broad range of industry and civil society stakeholders. However, there is an opportunity to increase the business representation of both the AI Council and the associated sub-groups. Cross-

¹ CBI, *Tech Tracker* (2019).

² Microsoft, *AI Skills in the UK* (2020).

departmental working beyond BEIS and the Department for Digital, Culture, Media & Sport is also vital for the UK to lead on AI and data, for example further collaboration with the Department for Education (DfE) on skills would be welcomed.

Closing the skill gaps can help lead to the successful implementation of the Grand Challenges.

Growth Hubs have identified the need to act as a broker between business and skills and training suppliers – identifying areas where employers are recruiting, and the skills required to fill those gaps. Seven Mayoral Combined Authorities, plus the Greater London Authority, now have devolved adult education budgets giving them some flexibility to address local needs and skills shortages but there is scope to go further.

The UK's domestic pipeline for digital skills is at a tipping point. Business demand outstrips supply and millions lack basic digital skills.³ The government has taken positive action on AI skills, for example introducing funding for AI and data science postgraduate courses through the AI Sector Deal. Government should now continue measuring the advanced digital skills gap, particularly as it pertains to AI and data analytics, and increase support for conversion courses to address this need. Empowering people to harness the benefits of AI won't rely on highly technical skills alone, but also widespread basic digital skills (such as computer literacy and handling digital information and content).⁴ Existing action on digital skills such as 'The Skills Toolkit' must be extended and incorporated into wider UK skills system reform that has digital skills at its heart.⁵

Sector Deals require further clarity and emphasis on net zero, skills and training and levelling up to encourage business investment.

Sector support, and the associated Sector Deals, remain important. Sector Deals should build on the work already underway but they must be adapted to reflect the specific challenges facing individual sectors to ensure the UK retains capability in its many world-beating sectors as they recover from the Covid-19 crisis.

By building upon what has already been achieved through the existing Sector Deals the government can ensure that the UK builds back better.

Momentum, where it exists, must be maintained. All Sector Deals should include a focus on achieving net zero, skills and training, and levelling-up the country. A Sector Deal provides much needed support, especially relevant for sectors that are thinly capitalised and find it difficult to invest for the future.

Government and businesses need to ensure that Sector Deals positively link to other aspects of the Industrial Strategy, to help focus on meeting the Grand Challenge missions.⁶ Through collaboration and strong partnership business and government can ensure the right steps are taken, propelling the Industrial Strategy forward. For example, the UK needs to connect regional sectoral work to the UK's global investment pitch alongside the Department for International Trade's export promotion work, and trade policy.

By focusing on upscaling Made Smarter and creating Accelerate UK, implementation of the Industrial Strategy can be turbocharged.

The CBI's Manufacturing Council is keen to see key Industrial Strategy initiatives like Made Smarter upscaled so that more manufacturers can benefit – currently the program is only operating as a North West pilot. Greater technology adoption has the potential to drive up productivity levels and unlock £100bn of untapped funds to the economy. Initiatives such as Made Smarter, Be the Business and the Government's Productivity Review have proved positive interventions committing resources to addressing the challenge, but we must go further.

³ *Tech Tracker*.

⁴ CBI 2019, *Delivering Skills for the New Economy*

⁵ CBI, 2020, *Building a World-Class Innovation and Digital Economy: recommendations for an innovation and technology-led recovery*

⁶ *All Together Now: Uniting the UK through a modern Industrial Strategy*, CBI, 2020

For instance, the new Productivity Institute should consider the interventions set out in the Productivity Review in light of Covid-19 and publish timelines and actions to deliver each. BEIS should also establish a new UKRI council, Accelerate UK, with strategic responsibility for innovation adoption, to enhance the implementation of the sector support in the Industrial Strategy. Accelerate UK would establish a clear home for innovation adoption in government, sitting alongside Innovate UK as a primarily business facing council. Its creation would signal the importance of innovation adoption, addressing a policy blind spot and the missing component needed for an end-to-end research and innovation system.

We can build upon successes of existing Sector Deals by picking up the pace and maintaining cross-departmental support.

It is important to acknowledge progress from sectors to date, including linkages to international trade, and continuing to champion sectors that are still doing well despite Covid-19. Greater collaboration between Sector Deals and Grand Challenges will assist in building back better.

The Construction Sector Deal was welcomed by businesses in 2018, setting out a clear roadmap of areas where government would support and collaborate with the sector on longstanding important issues. Limited progress has been made on the ambitious targets, however, Sector Deal funding has kickstarted vital work on making UK construction more competitive and innovative, fixing broken business models, accelerating the adoption of digital technology and low-carbon research projects. These all remain essential challenges for the sector to overcome in the next three decades.

Sector Deal funding shouldn't be siphoned off to support the sector with cashflow, but the government must remain aware that businesses will be managing cash simply to stay afloat and protect employment in the months ahead. The pandemic offers an opportunity to disrupt the slow pace of change and refocus the sector on achieving the improved performance ambitions in the Sector Deal. Progress must be maintained as construction is a primary national employer and driver of GDP. CBI analysis in 2020 shows that every £1 invested in UK construction delivers £2.92 to the wider economy. The sector needs to survive so it can deliver the programme of 'build build build' the country needs to level up and return to economic growth.

The Life Sciences Industrial Strategy (LSIS) provides a solid basis for growth and a clear ambition for the UK to be a world-leading destination for the sector. This will be increasingly important as global competition for life sciences investment is set to intensify following Covid-19. It is essential that momentum is maintained on its implementation and more should be done to ensure implementation is joined-up across government and is properly integrated with other aspects of the Industrial Strategy. Cross-departmental working to progress the ambitions of the LSIS within the machinery of government could be improved. The Life Sciences Council is well attended by the Department of Health and Social Care and BEIS but not the Treasury or DfE.⁷

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⁷ HM Government, Press release, 'UK life sciences sector brings record growth as new Life Sciences Council meets for first time', 2018, <https://www.gov.uk/government/news/uk-life-sciences-sector-brings-record-growth-as-new-life-sciences-council-meets-for-first-time>