

Business, Energy and Industrial Strategy Committee

Oral evidence: Post-Pandemic Economic Growth: Industrial Strategy, HC 674

Thursday 8 October 2020

Ordered by the House of Commons to be published on 8 October 2020.

[Watch the meeting](#)

Members present: Darren Jones (Chair); Judith Cummins; Richard Fuller; Ms Nusrat Ghani; Paul Howell; Mark Pawsey; Alexander Stafford; Zarah Sultana.

Questions 41 - 106

Witnesses

I: Peter Ellingworth, Chief Executive Officer, Association of British Healthtech Industries; Guy Newey, Director of Strategy and Performance, Energy Systems Catapult; Anthony Walker, Deputy Chief Executive Officer, techUK; Nick Owen, Co-Chair, Professional and Business Services Council.

II: Stephen Phipson CBE, Chief Executive, Make UK; Gareth Stace, Director General, UK Steel; Paul Everitt, Chief Executive, ADS Group; Mike Hawes, Chief Executive, Society of Motor Manufacturers.

Examination of witnesses

Witnesses: Peter Ellingworth, Guy Newey, Anthony Walker and Nick Owen.

Q41 Chair: Welcome to this morning's Business, Energy and Industrial Strategy Select Committee hearing on the industrial strategy. I am pleased to welcome our witnesses for the first panel today: Guy Newey, the strategy and performance director at the Energy Systems Catapult; Peter Ellingworth, the chief executive at the Association of British Healthtech Industries; Anthony Walker, the deputy chief executive at techUK; and Nick Owen, the industry co-chair of the Professional and Business Services Council. Good morning to all four of you.

The session today is building on our work on the industrial strategy in light of the announcement from the Department that it is seeking to review the current industrial strategy to ensure that it is fit for the future. I am very keen to hear from all of you today, both from your own perspectives but also on the voice of your members within industry, around what the industrial strategy really means in practice outside of Westminster and what it means to the businesses that you work with on a day-to-day basis. Does it assist them in identifying opportunities to grow their business, create, innovate, produce new jobs and distribute wealth across the country, or is it just a policy document that we talk about here in the Westminster bubble? Equally, given that we are going to be reviewing the industrial strategy, we want to hear your feedback on how you think it might be improved for the future.

I am afraid that both of our sessions today are all-male panels. We try to avoid that as a Select Committee. I apologise to our Committee and to our witnesses for that. It just reminds us of the importance of diversity, especially in the manufacturing, technology and energy sectors, where we still have a predominance of male leadership.

We will go straight into the questions. My first question builds on my opening. Is the industrial strategy fit for purpose? Does it mean anything in the real world to your members?

Guy Newey: Just as a brief introduction, the Energy Systems Catapult is not a membership organisation; we are an innovation agency set up by the Government but independent of Government. We spend all our time thinking about the hardest challenges on the way to net zero and working with companies and innovators—SMEs and big companies—that are thinking about meeting that enormous challenge.

One of the key focuses of the industrial strategy is on clean growth. Since the industrial strategy was published, we have also had the parliamentary commitment to net zero. Both of those things have had a galvanising effect on the industry, particularly net zero. When it was 80%, a lot of the industry was thinking, "We could hide in the last 20%", as it were; net zero has been absolutely transformative.



There are particular elements of the industrial strategy that have been really important for people in our sector. On sector deals, we saw the Prime Minister's announcement on offshore wind. The sector deal on offshore wind a couple of years ago has had a galvanising effect on an already pretty well-organised industry. I would say that is a characteristic of sector deals. If you have a good sector that is thinking through these things, it can really help.

Probably the most important factor for people working in my sector, thinking about the industrial strategy, was the serious commitment to increasing the amount of research and development money that happened in a particular sector. It was one of those announcements, when it was made, that got completely buried, partly because people did not realise how significant an increase it would be, and there have been further commitments beyond that. That shows that the Government are serious about the particular area.

The wider test of any industrial strategy, and indeed this industrial strategy, is how that bit of innovation and commitment, which we are focused on at the Catapult, fits into the wider sector. Think of the transformation we need: the doubling of the power system in 30 years; a new hydrogen economy that barely exists in a low-carbon way at the moment; 150 terawatt-hours of district heating, up from 12 terawatt-hours; 20,000 homes a week that you are going to have to make low-carbon, and we are doing about 30,000 a year; 30,000 EVs a week. The scale of that transformation cannot take place without everything working in tandem: innovation spending, policy design, regulation, markets and skills development. The industrial strategy set out the importance of clean growth and made lots of the steps to do that, but we are still a long way from a strategy that is going to get us to net zero.

Q42 Chair: The industrial strategy sets that economy-wide mission but you have already set out how we have not really been making sufficient progress. Why do you think that is the case? Why has it not delivered?

Guy Newey: An industrial strategy is your umbrella approach to this. The very fact the Government were prepared to have an industrial strategy after years of avoiding that question is a big thing. If you are thinking, "Am I going to retool my workforce to retrofit tens of thousands of homes a year?" saying that clean growth is one of the pillars of the industrial strategy is important but is not going to get you to, "I am going to invest in different training and in skills in the supply chain". That comes back to detailed policy and detailed support or regulation in that particular way.

As you would always expect, that is the umbrella. The hard detail, which is the big challenge over the next year with net zero, is about whether the Government are going to come up with the really clear roadmap to allow people to go, "This is a great signal". The industrial strategy sets a good signal. It is obviously spending significant money. How does that



turn into real, tough decisions on the ground about incentives and regulation and a thing that really drives innovation and investment?

Q43 **Chair:** Peter, do the businesses you work with have a copy of the industrial strategy? Do they read it? Does it provide them with opportunities to grow their businesses? What do they think about it?

Peter Ellingworth: That is an interesting take on that. Yes, the healthtech industry, which is medical devices and diagnostics, are aware of it. Do they all have a copy? Probably not. It is a critical tool for business and vitally important for the health of this country. I do not want to compare us to other industries but, frankly, medical technology is there to support the doctors and nurses who are doing a sterling job right now. They are tremendously important people and, without the tools and technologies that we can give them, they would find it impossible to do that job.

The life sciences industrial strategy has been incredibly well led by Sir John Bell. It has been excellently supported by the Office for Life Sciences in BEIS. They have been involved since the beginning. What has marked it incredibly well is the fact that industry and Government have been consistent collaborators here. The grand challenges we have had have been well chosen. Data and artificial intelligence, as we have seen through Covid, have been really critical to enabling the health service to adapt quickly to facing the scale of the pandemic.

Healthy ageing is the centre of the life sciences industrial strategy. We have an ageing society. How we address the needs of that particularly and maintain a healthy and efficient health service is there too. You will find that we are very supportive as an industry and very pleased with the progress it has made. However, we need to think about new challenges and we also need the rest of Government—this is an important point—and the other policies to recognise that the industrial strategy is important; the other policies should align behind it. There is no point whatsoever in us creating a life sciences industrial strategy that focuses on health and the industry if we then do not support it with the right funding when we come to a crisis. Frankly, the CBILS loans are not meeting the need of industry at the moment. I have spoken to several small businesses this week in the UK that have struggled to access that finance.

In terms of the future and these new challenges, yes, we have to look at them; we have to learn from where we are. Health and supply security in the supply chain is really necessary, whether that is local supply chain resilience or making sure that global companies want to invest here.

There are other areas that have come to the fore through the current crisis, such as regulation. Our regulator, the MHRA, has been incredibly nimble. You would not ordinarily link the words “regulator” and “nimble”, but that is exactly what they have been across life sciences, and they are going to be an asset for the future.



The other lens that we need to consider this through is 1 January and, when we are leaving Europe, how this industrial strategy for life sciences will support the UK as a great place to do business.

Q44 **Chair:** Anthony, the narrative of the technology industry is that it is booming and innovating at such a pace. Does the industrial strategy provide enough flexibility to be supportive of that speed of innovation?

Anthony Walker: First of all, as a sector, we have spent a long time arguing the need for an industrial strategy, so the fact that we have one at all is really significant and important. The thing that we want most is long-term cross-party support for the very concept of having an industrial strategy, because it really does help businesses to understand both the ambition and purpose of Government in relation to the economy. It is very helpful in terms of providing clear signals that can really matter in terms of attracting, supporting and directing investment and so on. From that perspective, the industrial strategy itself is very valuable and certainly something that we want to build on.

I fully agree with previous witnesses that a lot depends upon the documents that come in and support the industrial strategy in areas of more detail that sit underneath it. It is fair to say that landscape is a bit patchy. There are some areas that, as has been described, are well thought through and very clear. One of the things that we really welcome in the industrial strategy is the commitment to 2.4% of GDP going to R&D investment. We have had the R&D roadmap but, in many ways, we would view the R&D roadmap as a roadmap to a roadmap, as it were. There is still a huge amount of detail missing there. The underlying detail is a bit patchy.

We support the industrial strategy. It is incredibly important. We want to see long-term political, cross-party support for the concept of having an industrial strategy, but it is also the right time to review and refresh the document that we have. If you think of what has happened in the last three years, we have had two general elections, a change of Government, we have left the EU and have had a global pandemic. We have also had some significant geopolitical shifts that have had some quite profound impacts on global supply chains, so the macro context has changed quite a lot.

Our critique of the industrial strategy from a technology perspective is that we still think that it is a bit too siloed and, in that respect, almost a little bit 20th century rather than 21st century, in that it still does not recognise quite the extent to which digitisation is driving change globally. The process of digitisation is a horizontal process, happening right across sectors and right across the economy, in the public sector and in the private sector, whereas the industrial strategy still feels to us a bit more vertical than horizontal, with a strong focus on the sector deals in particular. When we look at where innovation happens, we believe very firmly that it happens at the intersection between knowledge and



HOUSE OF COMMONS

specialisation, so the intersection between sectors. More could be done to look at those intersections and where we could support innovation.

Q45 Chair: Last but not least, Nick, from the professional and business services' perspective, which is a significant part of the British economy, what does the industrial strategy mean to you and your members?

Nick Owen: Most people will recognise certain elements of the professional and business services sector—the accountants, the lawyers, the architects and the surveyors—but what people sometimes do not appreciate is that it also reaches into other areas, such as event organisers, advertisers, call-centre operating units, et cetera. Whilst a big sector, as you say, in our own right—10% of GVA was delivered by the 4.5 million people who work in professional and business services sectors—that activity only comes about because we are serving clients; i.e. the rest of the real economy, whether that be public sector or private sector. We are interested in the industrial strategy both in terms of what it means for us but, importantly, what it also means for setting the direction for all of our clients to operate successfully, to innovate and to deliver value back into the economy.

Our members, across the board, support the concept of the industrial strategy. It was a very welcome release when it was first put out there in terms of trying to acknowledge some of the structural challenges that the country would face from a business perspective over the next 10 or 20 years, and trying to build those into something of a strategy that would give us advantage in those rather than suffer from those shapes.

It was, as I say, very well structured to start with but, as has been said already by Anthony, a lot of events have happened since that was launched in terms of new Government and Brexit, et cetera, and it does need revisiting and revitalising. We do not have a sector deal yet but we were very close to announcing one back in March of this year, which we pulled for obvious reasons a couple of weeks beforehand because of the progress of the pandemic. We remain committed to supporting the industrial strategy, partly for what it does for the professional and business services sectors themselves but, much more importantly, for the rest of the economy that we serve every day.

I would just like to draw a couple of things, probably building on points that have been made. Most of those grand challenges are still true. As I say, these were trends that people could see coming three years ago. If we know one thing about pandemics, they accelerate trends that are already in progress. Most of the things that we are addressing there are more needed now. The most obvious and what perhaps might need more attention is the cross-cutting theme—the horizontal, as Anthony called it—of digitisation. Clearly, most businesses and most walks of life have really understood more about how to enhance their productivity and how they use technology in their lives and in their work, and there is more that needs to be done on this in terms of infrastructure and skills in particular.



This leads me to the second cross-cutting around skills and jobs, really focusing on the need to make our country a learning population that is capable of reskilling itself. The meta-skill, as we call it, that needs to be taught now is how to learn, because people are going to have to continue their learning journey through their lives, and particularly what this means for jobs for the under-25s, which, as we all know, along with other currently disadvantaged parts of our population, are probably feeling the impacts of Covid more.

I would encourage continuing to reform and revitalise that industrial strategy and try to make sure that it builds in a lot of the other things that have become much more apparent around this growing skills need, with a further focus on digitisation, clarity around what we are doing on levelling up and the path to net zero together, and bringing them all into an overarching strategy that can address that and our place in an international trading world.

Q46 Judith Cummins: We have heard about industry's view of the importance of the industrial strategy. I have a very simple question to you all: do you think the Government take the industrial strategy seriously? Is it adequately resourced and promoted?

Guy Newey: To be honest, I do not know the new Government. There are elements of the industrial strategy that they have absolutely supercharged. If you look at the R&D roadmap document, with the commitment to 2.4% and the focus on science and innovation, that was absolutely four-square behind it. We have talked about some of the grand challenges in terms of clean growth and net zero. The Prime Minister just made his conference speech, and the centre-point of it was offshore wind, which was very welcome in our sector as a starting point. The other witnesses have talked about how the work continues in that area.

They are not particularly using the phrase "industrial strategy" a lot, and you can argue about whether that matters, but it seems like the commitment is to go forward. Net zero and the direction of travel is very strong, but certainly what I worry about and the companies we work with worry about is that the next layer of details of policies that I talked about is going to be important. Again, does it matter whether they use the phrase "industrial strategy" and wave around a copy of the industrial strategy? I am not sure. There has not been a very significant change of direction in terms of the sector I think about all the time.

Peter Ellingworth: BEIS and its subset, the Office for Life Sciences, have been very well resourced. They are adding resource right now. It is well led. There is good buy-in from Ministers in both the Department of Health and BEIS. We have a very broad sector of people involved in this. The acid test really is in the future. It is not so much in the resourcing right now but in the funding related to the R&D, supporting the grand challenges and putting it in the real context that, on 1 January, we are a sovereign nation on our own and we need to compete in a global world.



HOUSE OF COMMONS

That is going to require us to do two things: make sure we are properly investing in small businesses in this country and, at the same time, make this a very attractive place to bring new technology and new innovations across life sciences, doing the real-world evidence here that will make this, despite our relative size in the world, the place that companies want to come and invest. We have seen, through the Covid challenge, that we are not adequately invested in our diagnostics industry. That was a failing. Now we are starting to address that, again with the help of the life sciences strategy. We have been able to swivel and focus on that, but we do need the investment. I am going to restate it because it is really important: we have to make the UK a great place to do business.

Anthony Walker: I would agree with my colleagues. At a political level, politics has been focused on other things over the last three years but, as I was saying, certainly in the speeches, rhetoric and actions of this Government, there is a lot of focus on the elements of the strategy, even if they do not often use the term itself.

In terms of officials in Departments, we certainly find that officials will frame their policy ideas and policy programmes in terms of the industrial strategy, so it is definitely helpful from that perspective. I also agree with Peter that, looking forward, the key test will be in the commitment to funding and the mechanisms for ensuring that the investment comes through to the areas that are going to need investment at scale.

Nick Owen: I agree with other speakers that you can see the commitment in the conversations you have both with Ministers and officials. Sometimes the overarching narrative and the expression "industrial strategy" is not being used as much. It is important to have a clear vision that you can express as your strategy for the country, et cetera. What then becomes important, as others have said, is how that drops down into the execution and the follow-up from those points. It is understandable that, with a change of administration and Covid, we perhaps have not had as much focus on that as we would have had had we not had those other challenges to deal with.

One thing I would say, which probably comes from my background more than anything else, is that when you set a strategy it has to be long term. For some of the things we are talking about, these are very long-term investments that need to be made in energy transition, et cetera. We are talking at least 10 years and probably 20 years for many of these things. When you set strategies for 20 years, the building blocks need to be of such scale and substance that they are timeless but not so baked in that you cannot deal with the changes that blow you off course every day from events that happen. Never have we seen that more clearly than over the last six months with Covid. You have to then respond and reflect that in your strategy moving forward, and that is what needs to come about now.



The one thing I would say, particularly for this audience, is that it is really important that, as the industrial strategy gets baked down for this revitalised and reshaped look, it is one that gets real cross-party support. If we have an industrial strategy that always has the risk of lasting only for five years or the term of Government, that would not be very helpful for 10 and 20-year investments, so we need to get something that Parliament as a whole is behind and can buy into, so we do not have too many changes of direction in those big building blocks.

Q47 Richard Fuller: We get a CV for each witness. For each of you, it is full of the success of the businesses that you represent and the tremendous value that your sector has created for the country. All of those have been achieved over the years with no industrial strategy. To what extent would any of you put your hands up now and say that you are sceptical of the need for an industrial strategy now, or are you all hooked on the fact that we ought to have one?

Peter Ellingworth: This is not sugar. We are not hooked on an industrial strategy, but it is vital, in a global world, that we have the Government's alignment and support. In our industry, companies essentially have one customer: the NHS, which is a Government-funded body. The alignment between Government policy and how our NHS treats and focuses on innovation is absolutely vital to those businesses. Yes, there is a world out there to export to, but you cannot export if your home health system does not adopt and diffuse your technologies.

The industrial strategy is important. It is vital going forward to enable us to compete worldwide, because that is how we are going to join up the various Government policies and ensure that our health system, which is world-class—it takes too many knockings; it is world-class and is doing a fantastic job—has the tools and technologies to help it. Data is at the point of that. Anthony Walker spoke earlier about the need for digital to cross-cut across industrial strategies. It is inevitable that these are siloed because you have to group things in some form and by industrial sector; that is important. It is an enabler, Richard.

Q48 Richard Fuller: No one is going to vote against enabling and doing things better and more efficiently, but the sugar here is the demands that seemingly inevitably flow for additional funds to come to those sectors that gain the ordainment of Government as being important for the future of the country. Do you feel ordained and is it right that taxpayers' money should flow to you?

Peter Ellingworth: Yes, because, inevitably, it is helping grow the businesses that make this economy successful. The health service is a major contributor to an economy in any region. The opportunity is to make sure not only that it flows to industry but that it is there across the regions. This is not a political statement about levelling up because our industries are right across the UK, but it is making sure that that health economy is exactly what it says: health of citizens, health of industry.



Q49 Richard Fuller: Let me just pick up on this. Nick made the important point about strategies needing to be there for the long term. We know that the ink on Greg Clark's industrial strategy is barely dry, and already we have the Government looking at changing it. We also now have these two very significant strategic issues: the issue of Covid-19, and now we will soon know what our future relationship with Brexit is. Nick and other members might want to think of one idea or one aspect of the tweaking of this industrial strategy to take into account those things. How do you think the strategy ought to be tweaked, given those two things, and still be consistent with your long-term vision and need?

Nick Owen: To the specific, the strategy that we have was all built around these four grand challenges. They were inevitable consequences that we could anticipate the country facing and, therefore, needed to navigate and turn to our advantage. I suspect the pandemic, as I said earlier, has done nothing but accelerate all of the need for those changes. Many of those things stay the same. It is important to get the cross-cutting pieces, as I mentioned earlier, around digital and what we really need to do to enable a faster, more adaptive business and society in the use of digital, so that we can compete on the world stage, particularly in a world where we are outside of the EU and looking to build on that.

The other thing is about the skills of the nation. We should think about the things that have already made this country great in terms of our rule of law, the trust that people have in us and skills and education, and just work out whether we are still living off the successes of the past or whether we are reinvesting in that depleted set of assets, because they will deplete over time. I do not think the tweak is massive but it would be helpful to, therefore, set the signal on certain trends that we want to be at the forefront of. Which industries do we want to really predominate in? If we are going to create a few incentives or disincentives to create a bit more or a bit less in a free market economy, getting those incentives clear to support those things is pretty important.

You raised a really interesting point about us not having an industrial strategy for some years until three years ago, and whether it really mattered. It probably mattered less then because there were some clear things in the Government of the time about what was important and therefore what businesses needed to do to move forward. Political leadership, like any other sort of leadership, is all about making the people you lead more successful than they would have been without your leadership.

At the moment, the reason for the industrial strategy and that lead from a business point of view is to help galvanise all the people who work really hard in this country to be more successful as a result of having it. It is needed now more than ever before because there are many more uncertainties that have just hit most people. They are still dealing with the impact of Covid on their jobs and their livelihoods. Most people have not quite yet worked out what the implications of leaving the EU are



HOUSE OF COMMONS

going to be. There is a lot of uncertainty and, for people who live in this country and our global partners and people who want to invest in this country, having a clear statement of where we are headed and what we want is probably more important, because no one ever asked about the UK before.

Q50 Richard Fuller: Anthony, you have heard clearly from many witnesses that digitisation seems to be an important cross-cutting thing, with this re-tweaking of it because of Covid-19 and Brexit. Secondly, Nick has added that, when you have these big changes, it is useful to have clarity. What would you add to what the Government should be thinking about tweaking, given these two major changes in the last six months?

Anthony Walker: A previous witness to this Committee, Professor Diane Coyle, talked about the problem of Government zigzagging in response to these issues. What we definitely do not want is zigzagging; we need to build on and layer on the basis of the original industrial strategy. We have to recognise, though, that profound changes have happened in the last three years in terms of the UK leaving the European Union, the impact of Covid-19, which continues to play out, and these quite significant shifts at a geopolitical level, which have a big implication on global supply chains. We need to bear those three things in mind.

We would like to see a stronger focus on this issue of the process of digitisation across the economy, and then the other point about how you focus a little bit more, as I was talking about earlier, on those intersections between specialisations and how you get those spill-over effects. That is where we see innovation happen. With financial services and tech, you get fintech and then you get innovation; with life sciences and tech, you get medtech innovation. The crossovers are really important.

There is one big question for me, which is about the long-term impact of the changes that will arise out of Covid, and that is about the impact that it has on cities. We know that, historically, cities have been profoundly important as places where innovation happens because of the agglomeration effects. We know, over the last six months, that we can all work from home, but there is a really big question about whether we can innovate from home, because we are much less confident about that. If we have scenarios coming out of Covid that mean that you have a moving away from cities and lower density in places like the centre of London on a daily basis, because more people are working from home, what does that do to our innovation capability and capacity? That is one question that we should be thinking about deeply when we are thinking about the industrial strategy, because that is going to be a question that will have impact globally.

Q51 Mark Pawsey: I want to follow on from some of the points that Richard has just raised by asking about the practicality and value of an industrial strategy at a time when things are changing very quickly, particularly if we look at the pace of change in digital technology and in energy policy. I



HOUSE OF COMMONS

really want to focus my questions on Anthony and Guy. Anthony, first of all, you said that the industrial strategy frames policy. Can you tell us how it does that?

Anthony Walker: It very much guides, at a detailed level, the way in which officials and Departments think about how they are developing policy in their areas. They very much seek to make what they are doing consistent, which is really helpful and provides that framework.

Q52 **Mark Pawsey:** Is it flexible enough? Is it a template that they look at for direction and, if something is sensibly done in another direction, the industrial strategy is rigid and does not permit it, or is it flexible enough to adapt?

Anthony Walker: Our experience is that it is flexible enough. I do not think we have come across instances where we see important things not happening because it is deemed that, somehow, they do not fit into the industrial strategy.

Q53 **Mark Pawsey:** Is it still relevant today? It is two or three years old. We have just heard you talking about the massive changes. You talked about the “zigzagging” of policy as well, so how should a strategy be updated? How regularly should it be updated?

Anthony Walker: The last three years have been exceptional in terms of the profound changes that have happened, so it is inevitable that we need to look at it again. As I said, we should be building on the structure that we have there rather than suddenly ditching large parts of the existing strategy. It is adding to it; it is adding depth and detail. It is that key thing of looking at the context.

We have to recognise particularly the fact that we have left the European Union. China has a very clear strategy and industrial policy. The European Union is building a very ambitious digital industrial policy. The US has incredible power in terms of a combination of the private sector and the state, particularly through defence spending and so on. If, as an independent, sovereign nation, we are going to be globally competitive, we have to look at how we are going to scale the use of transformative digital technologies to drive our economy, and those are the things that we need to be looking at in this next iteration.

Q54 **Mark Pawsey:** I am going to move on to Guy on energy. Anthony said that the industrial strategy frames policy but, on energy, we have not had one, have we? For more or less the life of the industrial strategy, we have been waiting for the energy White Paper, so how can it frame strategy in the sector you are involved in?

Guy Newey: It will depend on what comes out.

Q55 **Mark Pawsey:** Let us go back. Historically, industrial strategy has not framed policy, because the policy has been absent.



HOUSE OF COMMONS

Guy Newey: Yes. Policy has definitely been absent, with the energy White Paper delayed a couple of years and various other things. I have described it as an umbrella way of thinking about it, and framing is the same way. The question is about the Government direction that is going to happen over the next year in terms of the energy White Paper, the transport decarbonisation strategy, the heat in buildings strategy and, crucially, the update to the clean growth strategy, and the spending review, if that goes ahead. That is the test of a credible package that delivers what is committed to in the industrial strategy. It is the policies on the ground, the regulation, the market incentives and the investments that are the important things for translating that into something real.

Q56 **Mark Pawsey:** Are there examples in the sector you are involved in where people have looked at the industrial strategy before making investment decisions?

Guy Newey: Offshore wind is the best example. At the moment, you have a mixture of a credible long-term pipeline over 10 years, competitive auctions, innovation support and market signals. Therefore, what you have is people investing in turning that around, but not enough, by the way, in the UK context. That is one of the areas that need the focus.

Q57 **Mark Pawsey:** In offshore, our policy has not been stable enough for UK companies to manufacture the turbines. My constituency's traditional industry is power generation. We have seen moves away from the old methods of generating power but we have not benefited from the manufacture of those. The Prime Minister spoke about that in his speech yesterday. We have built a very substantial quantity and missed out on that opportunity. How does the industrial strategy frame an opportunity for us to get into that sector as manufacturers?

Guy Newey: There is lots of debate, because the big push in offshore wind came before an industrial strategy, as it were.

Q58 **Mark Pawsey:** But with a strategy in place beforehand, we might have had the opportunity to have got the manufacturing of that change in that technology, which we totally missed out on.

Guy Newey: We missed out on it being British companies but there is certainly manufacturing in the UK from overseas investment that has happened. You are right: there was not enough of a focus early on, when we pushed it. It was all about, "Let us get the price of this stuff down so that it works for consumers". That will be the challenge going forward.

Foreign direct investment and employing British people in that particular way should be a welcome part of any industrial strategy. I do not want to say that every job has to be British, but we did not capture enough of that benefit, and that will be the challenge when we are talking about floating offshore wind, digital technology in energy, building innovation or advanced nuclear—all of those things that you are going to need to do for net zero. Are we capturing enough of that? That should be one of the



HOUSE OF COMMONS

tests of your industrial strategy: is this leading to proper value-added growth that we are then able to export?

Q59 Mark Pawsey: I want to move on now to talk about the importance of place and the regional variations that we see across the country. Nick, you spoke about skills and drew our attention to the challenge of young people and the impact of the service sector. We have a huge variation in the number of young people going to university across the country, for example, which often perpetuates those areas that have been struggling and continue to struggle. In many cases, they also suffer from poor connectivity and other links and have not had the right level of investment. How can the industrial strategy work with the levelling up agenda?

Nick Owen: I am a strong believer that place is a critical part of the industrial strategy, not just because of the levelling up agenda. There was a huge amount of talk, when the internet became advanced in terms of penetration, that it would be the death of distance. You could live anywhere in the world and be part of working with any organisation, et cetera. That is not what we have found happened.

Take one of our groups in the professional and business services sector: the advertising industry: 62% of their people live and work outside London but 38% are inside London—massively disproportionate and very heavily concentrated around the West End of London and Soho. That is all because of place. It is the agglomeration effect, as someone mentioned earlier on. Place-based economics is much more than just which businesses are there; it is about housing, education, access to opportunity, culture and everything else that goes with it. That is why place is so important, because you need to get a lot of things working together.

You can encourage a business to invest somewhere where it would not otherwise invest through incentives and grants, et cetera, but if there is not a ready supply of labour, if it is not an attractive place for people to build their careers and live and work for other reasons, it tends to not work, so you need a very joined-up approach around housing, health, education and business to make place-based economics work. It is critical.

You are absolutely right: there are huge inequalities and we all fear, although it is not showing through in the polling data yet, as I understand it, that the Covid crisis will really have extenuated the inequalities that already exist. Educational inequality is probably one of the biggest factors that we need to get right in the country, as you say, because it is not just about access to university but about how those skills get nurtured and developed once they leave school and/or university.

Q60 Mark Pawsey: Anthony, if I could come to you on digitisation, your organisation promotes that but Made UK, which we are going to hear from in the next session, brought out a report showing that 48% of



businesses will not adopt digital technology because of a lack of skills. Where is that lack of skills more evident than the places where we desperately need manufacturing businesses to adopt them? How can industrial strategy help us with getting over those regional imbalances?

Anthony Walker: We have a huge challenge in terms of skills but the experience of the last few months in terms of Covid also presents a tremendous opportunity, and I will explain that a little bit. First of all, between June and August, we saw a 30% increase in advertised tech job vacancies, second only to the healthcare sector. That sends very strong signals out to the market that, at a time when we have rapidly rising unemployment, there are good jobs out there in the digital and tech sector.

Secondly, we have seen a massive increase in people showing interest in acquiring digital skills through various channels. All the data is showing that people suddenly recognise the importance of digital skills.

Q61 **Mark Pawsey:** Anthony, could I just press you? Are we training people in the right parts of the country?

Anthony Walker: That is the challenge now. We very much welcome the Prime Minister's speech last week in relation to the skills strategy. What we need are a whole new set of pathways into these digital jobs that are based on short courses and short inductions that are properly accredited, and recognised and valued by businesses, so that we can provide rapid pathways for people into these roles. It is doable but there is a lot that we need to do in order to make it happen. Do we have it right now? No, but I am confident that, in a relatively short period of time, working with industry, FE colleges and so on, we can put it in place. It will be hugely beneficial because it will help to drive the diversity within the tech sector and within digital roles that we need for lots of other reasons as well.

Q62 **Chair:** I want to very briefly pick up on sector deals. We have already had quite a bit of commentary on the offshore-wind sector deal, for example, from Guy. This may be a daft question, Guy, but I am going to ask it anyway: what is the difference between a sector deal under the industrial strategy and the Government just saying that something is a priority? The reason I ask that is because, of course, under the clean growth strategy, under the net-zero transition and, presumably, in the energy White Paper, we are going to be talking about lots of different types of technologies other than just offshore wind. Are we going to end up with a sector deal for small modular nuclear? Are we going to end up with a sector deal for hydrogen? Are we going to end up with a sector deal decarbonising heat? What is the value of a sector deal in that context?

Guy Newey: To your point, sector deals are, in many ways, just a formalisation of things that happened anyway. The point about sector deals and where they will be successful is where you get something more out of both the Government side, if you are industry, and the industry



HOUSE OF COMMONS

side, if you are Government, than you would have done if you had not been in that process. That is either a commitment to, "You give us a pipeline of X gigawatts", or whatever it is, "and we will make sure that it has UK content and we will put a factory here". It is making sure that process works. That is the test of whether both of those sides have been translated.

You should be having them in areas where both sides have to make a bit of a leap of faith. It is just giving each other that trust, especially in heavily regulated sectors and heavily Government-driven sectors like energy. It is not just about money; it could also be about deregulation. If you want to unlock the potential of digital technology in energy, a lot of that is about understanding what new rules might be changed, et cetera. It is exploring those issues in a particular way.

It is back to this point that Mr Fuller made about the industrial strategy. We have had an industrial strategy for banking for the past 20 or 30 years. Canary Wharf was set up as a place that people could go and we built the Jubilee Line extension and all of those kinds of things. They were not called industrial strategy but they were industrial strategy. They are giving you the best context to enable potential industries to grow and thrive.

Q63 Chair: Anthony, has the AI sector deal performed? What value has that added that would not have happened but for having an AI sector deal?

Anthony Walker: Generally, on sector deals, there is one downside that we perceive about them, which is that they did encourage sectors to organise and focus very much vertically on supply chain issues. That then means that you get a proliferation of sector deals that each individually have a focus on digitisation, for example, or digital skills, rather than digitisation or digital skills being a horizontal that cuts across. That was one of the downsides that we saw of the sector deal approach.

In terms of the AI sector deal, it has been positive and helpful. It has been supportive in terms of helping us to attract global investment. It has been useful as a very clear signal in terms of the UK's ambitions around AI. Having said that, go around any developed economy in the world and you will find ambitious Government strategies to be a world leader in AI, so it is a pretty competitive field. We just have to keep pushing forward, particularly in a field that is as fast-moving as AI is, so there is a lot more to do in terms of building the linkages across the policies and across the economy, and also just building confidence in the positive role that AI can play in an economy and a society, where Government have a key role.

Chair: Thank you for that. We have already heard that you are pretty happy with the life sciences sector deal, Peter, so I will not come to you and, Nick, you are still negotiating yours.

Q64 Richard Fuller: I would like to pick up a point that Peter was talking about a little earlier on, about the need to invest in small businesses,



which gets us back to how people think risks in these sectors should be dealt with, with private investors being attracted to great business ideas and investing in start-up businesses and businesses that are going through the scale-up phase. Peter, how well is that working in your particular sector in terms of attracting capital? What improvements should we be making, if any?

Peter Ellingworth: Richard, that is a great question.

Richard Fuller: It was the Clerk's question. It is down on my list. I am not that smart.

Peter Ellingworth: It is very difficult to attract investment. That is the bottom line. Part of that is to do with the speed of adoption and diffusion through the NHS. That has been the focus of the industrial strategy, whether you call it the industrial strategy or industrial liaison and collaboration, since Lord Paul Drayson, under the previous Labour Government, came up with the term "life sciences". It is difficult to attract investment. It is really important that Government, particularly at the early stage, provide the right mechanisms that are easy to access. I am not saying the hoops are easier to jump through but that the processes are easier. Innovate UK deploys a lot of cash. It is a very difficult process for a small business that is trying to run its business at the same time. It is hard to get the finance. It is important for Government to provide some grants at an early stage, and the industrial strategy, where it links adoption and diffusion for small businesses, is really crucial because that will then attract investment behind it and then link the international piece together with it.

Q65 **Richard Fuller:** In the States, the east coast has focused on life sciences going back into the 1990s, starting the string of businesses. You then had larger businesses that themselves had people spin out to do stuff. A large part of that was venture-funded to achieve that growth. Why have we not been able to replicate that to the same extent in the UK? Should the Government be looking at ways to strengthen that? We will start with you, Peter, but there may be comments from other sectors too about this.

Peter Ellingworth: It comes down to the fact that you can get early-stage funding to do your R&D and to prove the concept of a technology.

Q66 **Richard Fuller:** Is that from the private sector or from the state?

Peter Ellingworth: From the private sector, and there are some funds available. However, it is when you come to scale that up. This has been one challenge that has been identified in our life sciences industrial strategy: that, at that scale-up stage, you do not get private capital to help you sell to the NHS, because it is a very complex process. If you are a large corporate with hundreds of people, you are scaled to do it. If you are a small business with five, 10, 20 or 30 people, it is incredibly difficult.



Q67 **Richard Fuller:** Why? Why is hard to attract capital? Is it because the business ideas just are not that great? Is it because the market size in the UK is not big enough to support the risk of capital? Is it because investors here are reluctant or they just want to keep their money in their pocket? Why?

Peter Ellingworth: They do not want to keep their money in their pocket. They would like to give it, if the scale-up process with the NHS was not as long. It takes 17 years—and the Royal College of Surgeons will tell you—to change clinical practice. That is not the kind of investment timeline that any private money is going to go into. We have had a number of initiatives and some of them are very good. The Accelerated Access Collaborative, now being chaired by Lord Ara Darzi, is a good initiative but it is limited. We have talked to the NHS. They have to find a way of helping small businesses.

This comes back to one of the questions from Mark about place. If you can utilise the health system on a city—take Leeds, Manchester or Birmingham—and diffuse technology across a population of 3 million to 5 million, that will encourage more investment because you are then starting to scale, rather than selling to one hospital, then a second and then a third. It is very different to going to Tesco, doing a deal and getting 75% dollar-weighted distribution.

Q68 **Richard Fuller:** So it is speed, with the tremendous asset of being able to use the NHS to assist life-changing new drug discoveries and new therapeutics, et cetera. Are you making the point that the Government ought to be focused on trying to get the NHS to focus on opening itself up to enable that to take place? Do you think the experience of Covid, where, in many cases, the NHS has had to move at a faster pace, has opened it up to being more likely to do that, or do you think people say, “Private sector, bad; public sector, good”?

Peter Ellingworth: No, we have got beyond, “Private sector, bad; public sector, good”. Your point is right: we do need to get the NHS to open up. Someone mentioned earlier the US procurement process, with DARPA and the defence industry out there. If you have a good idea, they will invest in the R&D and give you a pre-procurement contract, which then allows the company to get more investment. That allows them to scale up. Some more of that pre-procurement would be very helpful. Looking at how the NHS procures is going to be necessary.

It is one of the reasons that small businesses often go overseas to scale, because they can go to the US. We are taking a lot of companies right now to the US through our accelerator programme, and they can scale there. Once they get that, it attracts.

The other point here, Richard, that is important to note is regulation. Regulation is a barrier, again, for investment, if regulation is seen to be inordinately complex and disproportionately lengthy. The FDA, US-side, is doing some interesting stuff now, particularly in the digital space, to look



at how you accelerate development of product. We have an opportunity after 1 January to start mirroring some of that, not making regulation more complex. Make regulation complex and money tends to run away.

Q69 Richard Fuller: Guy and Anthony, your areas are also significant areas of growth. Would you point, particularly as you are getting the funds in to help grow, to the issues of regulation and better use of the assets we have, or is it more about the financing system and the incentives on the investor side?

Guy Newey: The way I characterise it, if you look at successful innovation ecosystems in different sectors, including energy, across the world, the whole point is that it is an ecosystem of things working in the same direction. It is not one bit of public money coming up with something. If you look at the ecosystem around Silicon Valley, it was originally, although not anymore, about cheap land and world-class research institutions such as Stanford and Berkeley all near there. It was about procurement. It was about the defence industry that was spending a lot of money in that particular area. It was able to grow quickly.

Certainly in energy, the biggest barrier to innovation in the energy sector broadly is policy and regulation, so you have to be thinking, "How do we make sure we have the outcomes-based regulations so that people are going to make an investment in something?" Lobbying and policy is high risk, with a low likelihood of success. If you are in the energy sector, you might come up with a great new widget, which is great and people are willing to pay more for it, but Government might turn round and go, "Actually, we do not want people paying any more for anything to do with energy, so off you go", et cetera.

The public-sector bit of it—the innovation support, which is where we focus—should be a relatively small part of it. It should be that, if you have a significant market, and if you have the market rules right, then innovation will flow into that, but again you need a bit of confidence in the products there for politicians to make the changes that are required. It is almost like a bit of a dance on innovation, as it were.

Anthony Walker: I agree with previous speakers. In terms of the NHS, you have to, first of all, conceive of it as a very complex accounting system, and very rarely does that accounting system view problems and solutions in the same way that technology suppliers do. There are very few organisations or bits of the NHS that own a single problem end to end; therefore, supplying into the NHS and finding a customer for solution is incredibly difficult. I have rarely met a healthtech company that says it does not have problems selling to the NHS, so there are issues there about how the NHS can be a platform for scale solutions in that sector.

On energy, absolutely, it is driven by policy in terms of what can be done. More broadly, tech has been incredibly successful in attracting investment globally, but every company that we talk to, the same message comes



through: when you get to the scaling stage, there is a real lack of patient capital in the UK.

Q70 **Richard Fuller:** What would you do?

Anthony Walker: There are proposals around a British development bank. We have lots of different funding routes but they are quite fragmented. How do we bring all that together and bring greater scale to the provision of patient capital in the UK? That is a fundamental question that we need to resolve.

Nick Owen: I have nothing to add to the comments that colleagues have made, but one of the things I would encourage the Committee to take a look at is a recent report from the ScaleUp Institute and Innovate Finance exactly on this topic of access to scale-up and growth capital and it has some good ideas in that.

Chair: I will note that we have heard evidence, not just on this Committee but on other Committees, for what must be years now that scale-up and commercialisation of innovation and new ideas has been a problem. Going to Richard's question, I wonder what has been done about it and why we have not got better, when we have been saying that we have identified the problem over quite so many years. We will certainly take a look at that report from the ScaleUp Institute, so thanks for mentioning it, Nick. If there are any other ideas that colleagues have, feel free to send them to us.

Thank you to our four witnesses for your time and your contributions this morning. We appreciate it.

Examination of witnesses

Witnesses: Stephen Phipson, Gareth Stace, Paul Everitt and Mike Hawes.

Q71 **Chair:** We are now moving on to our second panel. We have Stephen Phipson, the chief executive of Make UK, representing a lot of manufacturing businesses; Mike Hawes, the chief executive of the Society of Motor Manufacturers and Traders, from the automotive sector; Gareth Stace, director general of UK Steel; and Paul Everitt, the chief executive of ADS, which is the aerospace, defence and security sector. They are familiar faces to us on the Committee. We are pleased to have you back with us. You will hopefully have heard some of the initial session around our interest in the performance of the industrial strategy in terms of growth and jobs, not least in the context of the Government's intention to rewrite it in line with its own policy ambitions, levelling up now being an important part of that.

My first question to all of you, to open up, is whether you could translate for me, in the real world, how the industrial strategy has helped you and your members to grow manufacturing jobs, to grow exports and maybe even to grow the number of things that we make and export? Has it



helped or has it not?

Stephen Phipson: On the overarching question of the industrial strategy, it helps to have an overall plan. We have been pushing, for many years, as well as many other business groups, representing our members, on having some sort of overarching plan for the industrialisation of the country, and the industrial strategy is a good example of that.

There are some very good pointers in there, which people have taken some very good direction on, for example on net zero. Some of the sector deals have come through; others have been frustratingly longer term. Of course, there has been a very high focus on R&D and innovation, which is very important for certain sectors.

However, having said all of that, the big issue in this country, which was alluded to in the previous session, has always been scale-up and commercialisation. We are very good at innovating but not good on the scale-up side, and we can come on to some of that more. There are some challenges around joined-up thinking in Government to support some of the ambitions in the industrial strategy, particularly around skills and particularly around joined-up thinking in terms of tax incentives from Treasury and those sorts of things to support it from the business point of view. It is this implementation part that would cause the most concern.

Has it helped? It helps to have an overarching strategy. Is it flexible for the current environment? We will probably come back to that question in this session. Would I say that many people have a copy of it under their bed for reading in the evening? Probably not. Communication has been another challenge for this, but the concept of having an overall plan is a good one and something that we support.

Q72 **Chair:** Is there an adequate focus on British manufacturing in the industrial strategy? Presumably, given your interests, you will say no, but I am keen to hear your views anyway.

Stephen Phipson: Many of my members would say, "No, there is not", and that there needs to be a lot more joined-up thinking. We very regularly survey thousands of manufacturing companies, and the number one issue is always around skills and the provision of skills. We have many different, complex schemes for that in this country. That needs thinking about and bringing together to support the ambitions that we have in the industrial strategy. Really, we need to solve this problem of scale-up. This is a real problem that we have had for many years, and many smaller companies will complain that they get through the R&D and innovation stage but there is no capital available for them to grow, and then many of our innovative ideas go offshore and are invested in in other places. That is a great shame for our manufacturing base in this country.

Q73 **Chair:** I am going to come back to skills in the second question, because



I have some more questions on that. Mike Hawes, from the automotive sector, has the industrial strategy helped you increase exports and create more jobs?

Mike Hawes: It is hard to put a number on that, and we have faced a number of other challenges over the last four or five years, which I am sure we will come to shortly. The first point to make, though, is that we have an industrial strategy that recognises manufacturing. I am old enough to have worked in manufacturing and gone abroad, and the question was asked of me, "Do the UK Government actually care about manufacturing?" No one has asked that question of me over the last five or six years, so that is the first point to make: there has been a shift in perception, which is very important when you are trying to attract inward investment. There is always something to attract someone there in the first instance, but they want to be sure that there is long-term commitment to support that particular sector, so the industrial strategy has undoubtedly done that.

If you go back to its origins and so forth, we are the beneficiaries of a sector deal, which has been incredibly important in trying to generate some additional R&D, especially in some of grand challenges and especially in terms of transition to zero and things like that. We still have some flaws in it. For us, it does not address skills anywhere near as much as it should do, which I know we will come to. From its birth through to where we are now, it has been led by the Department for Business, and I do sometimes question whether it has the cross-Government alignment and support that such a strategy needs. Again, if you look abroad, what do other countries do? They tend to be much more interventionist, in terms of our direct competitor countries. The key, given the challenges we face around Covid, Brexit and the road to zero, is that co-operation and collaboration between different policy hubs. That would be the second comment.

The third point is probably a relatively obvious one. If we did not have it, we would demand that it is invented, because it is undoubtedly something that we need to meet the future challenges. On the amount of support it currently has within Government, I am not sure. I have been reassured that, when you walk past 1 Victoria Street, it still says "the Department for Business, Energy and Industrial Strategy" and they have not removed the "IS" from the name board over the last year or two, but we need to know exactly what the future refresh is going to look like.

Q74 **Chair:** You touched upon the international angle there. For probably all of your members, these are global supply chains and multinational companies. The UK competes with other countries to secure investment in production lines. Does the industrial strategy, or indeed Government policy that flows underneath it, adequately capture how the UK can remain competitive compared to other countries around the world that are bidding for the same work that we are?



Mike Hawes: It helps but the biggest challenge, as you will probably guess, is the ongoing uncertainty about what the future trading relationship is going to be. You can have a policy that seeks to support and enhance the manufacturing base and, in our case, automotive in particular, but there are a number of other issues that are probably more important right now in terms of future competitiveness and the long-term viability of manufacturing. It is difficult to extract the industrial strategy from that perception of the UK, because there are bigger issues, not least Covid, and some other one that I mentioned before, which would probably take precedence right now.

Q75 **Chair:** Gareth Stace, from your perspective, has the industrial strategy helped in job creation and exports?

Gareth Stace: I could answer it in one word: no. We are a big supporter of proactive, interventionist industrial strategies. They are a great concept and give an ability to really focus on what the Government are trying to achieve there. For us in the steel sector, let me think of the positives here in terms of the current industrial strategy started by the Theresa May Administration.

It has helped on R&D and innovation and the funding there. We are part of the industrial strategy challenge fund for foundation sectors. That is £66 million that is there as a fund for us to decarbonise, to become more efficient and to spend more on R&D. That is really welcome. Also, going forward, as we fully leave the EU, there is a European Research Fund for Coal and Steel, and we have £190 million of that money coming back to the UK. Let us work with the Government within the industrial strategy to make sure that that benefits the steel sector in the UK. It is our money. We, as a sector, put that in over decades.

However, the problem for us, which is very much a problem that we face as a steel sector that probably other witnesses will not be facing, is our sector deal proposal that we put in as part of the industrial strategy was focused on the vision that steel as a material globally and the consumption of it is going to increase and is increasing. It will increase in the UK. Covid has temporarily disrupted that but it will increase. We see that, by 2030, there is a £6 billion opportunity for the UK steel sector to grab and take more of that market share.

Our sector deal proposal had four things: innovation, which I have touched upon; the business environment and how we can be more competitive, and it will not surprise you that we had electricity prices and business rates in that; public procurement, which could be a massive win both for the Government and for local economies and the UK economy as a whole; and industrial decarbonisation.

The reason why I feel that our sector deal proposal did not get accepted and failed—we presented it in 2017 and worked with BEIS on it for the next 18 months—was the crucial bit that, although an industrial strategy is across Government, it really was BEIS. When we were asking for a



better business environment, that was not within the gift of BEIS; that was within the gift of Treasury. If BEIS cannot convince Treasury to pull those levers on industrial electricity prices and business rates, et cetera, then it is going to fail at the first hurdle, and that is where ours failed. For us, while the industrial strategy is enormously welcome, there is still much to do going forward.

Q76 Chair: Paul, in terms of aerospace, defence and security, there has been a fair amount of research and development funding and focus on composite materials and future flight. Are you happy with how the industrial strategy has helped your sectors grow and create jobs and IP?

Paul Everitt: So far, so good. We need to reflect the fact that the aerospace industry and the defence industry, through the aerospace growth partnership and the defence growth partnership, have been engaged in a close dialogue and relationship with Government, in aerospace terms, over the last 10 years. We have a number of enduring mechanisms. The most important for us, which you highlighted, is the Aerospace Technology Institute, which now has, since 2013, a portfolio of Government and private-sector investment of close to £2.5 billion into some of the cutting-edge technologies.

We can identify examples where investment has been made, where technology has been developed, and where we have won work in the UK as a consequence. Even in what we would see as being a very long-term industry, we have been able to create new opportunities. Whilst it is not perfect and we need to perhaps delineate what was happening before March this year from the point afterwards, we were seeing employment, output and exports grow in the UK, albeit probably not quite as quickly as we would like.

The challenge—we have seen it very clearly in defence—is that the relationship there has developed over time, but we have moved from a situation where, perhaps in 2012, the public procurement and the Ministry of Defence's view was, "We are not really interested in what happens in the UK. We are only interested in driving the best possible value for money and the lowest possible price", to a situation where we are today, where there is a very different outlook. We are waiting for the integrated review and the defence and security industrial strategy to encapsulate that in a way that demonstrates that there will be a better influence on public procurement decisions, guided by what is in the UK's industrial and economic best interests, as well as securing value for money.

The encapsulation of the industrial strategy 2017-18 was good and has helped. I would echo what Mike said: it is easier if Government write down that they are in favour of UK manufacturing and in favour of seeing certain sectors as being of strategic importance, as well as backing that up with resource, but there is a whole new set of challenges that we will need to tackle, and tackle quite urgently.



Q77 Chair: My second question is just to get a bit more depth on the skills debate. I am keen, again, to know, in the real world, what that has meant in terms of the delivery of training, the transition of workers from working in one way to working in a new way, and partnerships with colleges or further education providers or trade unions. What is the real, tangible output from the industrial strategy, in terms of skills and maintaining skills in the workplace, that has helped drive businesses forward? I will come to Mike first, because the automotive sector has had to innovate quite quickly. What is the tangible outcome of a focus on skills in the industrial strategy?

Mike Hawes: Ironically, within the sector deal, skills do not form part of it. We have been in discussion since the sector deal was launched to try to have a skills element to it, because, undoubtedly, we need to address the skills challenges that are before us and look at how we can have different skills to meet the different technologies of the future. We do need to build on what we already have in terms of the sector deal, and lead much more into skill development.

There are a couple of issues around it. Where we are at the moment, with some companies on short-time working, now is the perfect time to see what we can do to try to upskill, because you often need to take people off the line, as it were. If you are doing short-time working, here is the opportunity to do so.

We still have a commitment to apprentices. We have concerns about the apprenticeship levy. It is perhaps not for this inquiry but our major manufacturers are paying into that levy. They do not get all the money back, by any stretch; in fact, they pay back into Government much more than we need to be able to address some of those skills challenges.

There are probably three phases of activity that need to take place: we need to define what the existing training grid is, develop the training content and then deliver the content on the work-floor. Now is a good time. If you think about some of the technological challenges that we face, we need to have a programme that addresses some of them. You are thinking batteries, electric motors and drives, data analysis, digital twins and so forth, as well as the digitisation of manufacturing and the internet of things. All these things are global paradigm shifts that we need to make sure the UK sector embraces, so this is how we would like to see the industrial strategy develop for our sector.

Q78 Chair: Has it not been obvious for some time that the skills transition from combustible to electric vehicles would have required a skills investment? Why were skills not included in your sector deal?

Mike Hawes: It is a good question. We were one of the first out of the blocks. Part of the sector deal is about that transition. It is about the technological transition. You have to get the technological transition happening first and happening in the UK, and then get your workforce to be able to have the requisite skills to do that. It was not as if it was



forgotten or ignored, but it is about developing it. I go back to the comment I made earlier: when you are thinking about skills, it is not just in the gift of the Department for Business; when you think about the apprenticeship levy, there are other Departments of Government that would have a stake in how that would potentially be funded.

Q79 Chair: Stephen, I will come to you and Make UK next. You guys have been talking about digital skills and advanced manufacturing for a long time. Have you seen any tangible outputs from the industrial strategy to help you deliver on that?

Stephen Phipson: The honest answer is that we have not seen a lot of improvement. There is a chronic skills gap in terms of manufacturing in this country. Around 64% of manufacturers currently would report that their biggest impediment to growth is the skills gap and addressing that as being a top priority.

The point that Mike was making is a good point: it is about joined-up thinking. We spend a lot of time with BEIS on the industrial strategy but also with DfE in terms of the skills agenda, and then, of course, with Treasury on funding things like the apprenticeship levy. If we think about the skills challenge that we have in manufacturing at the moment, vocational skills and the basic skills that come as a result of the apprenticeships are really critical to manufacturers. However much we digitise, we still need CNC operators, toolmakers and all the rest of it, and those core skills are absolutely critical.

We have challenges around the curriculum in universities, where we are producing many high-calibre graduate engineers, but a lot of them are coming out of university without the right digital skills at the moment, because the curriculum has not kept pace with the changes that are happening in the sector, and we find many companies having to upskill graduates to give them digital skills.

Then, of course, we also have a large retraining priority ahead of us as we evolve many of these jobs; production engineers, for example, become data-analytics specialists over time as we progress through the I4.0 agenda, which is articulated well in the industrial strategy, but it is this joined-up thinking to make sure that we are producing the right skills in this country that can execute those strategies. It is really important. We have not yet solved this problem.

Q80 Chair: Paul, from the aerospace sector's perspective, has it been helpful on skills?

Paul Everitt: I would echo the others. The basic problem is that skills has sat with the Department for Education, and the apprenticeship levy has sucked the life and interest out of most other businesses. As a consequence, the BEIS team have done their best within what they can do, but people have been diverted elsewhere. In the real world—and certainly we see it—if you are a well-resourced business, you get on and



HOUSE OF COMMONS

do the things you need to do. We see the apprenticeship schemes and the progress that those large businesses make, particularly in the manufacturing sector, are great and they continue to roll on, irrespective of some of the administrative noise that is going on in the background.

The challenge is very much down into the supply chain, where smaller businesses, which are only perhaps recruiting a limited number of apprentices in any year and are using further education facilities or some of the facilities that perhaps Make UK provide, are in a much more difficult position because they are confused by the chopping and changing of the funding regime and uncertain as to whether or not they are going to find their investment pays off for them over the course of the three-to-five-year period that you would normally see an apprentice, as a minimum, wanting to be within a business.

It has done what it can in terms of providing a big signal but there is a lack of coherence within Government and a set of supporting measures that make it as impactful as it could be.

Q81 Chair: Gareth, I am assuming you are going to say the same as the others. Is it your experience that Treasury is not willing to change things like the apprenticeship levy and that the Department for Education may not be in the same space as the Department for Business?

Gareth Stace: Yes and, not to use up any of the valuable time here, I, as UK Steel, support and concur with Mike, Stephen and Paul on this issue.

Q82 Mark Pawsey: I want to follow on with a line of questioning in the previous panel about the flexibility that exists within the industrial strategy and perhaps the situation that businesses and manufacturers face right now. When the industrial strategy was put together, the challenges of Brexit would not have expected that we would be three months away without a deal, and we would have expected that we would have known what the future was going to be there. That is one area. Another area is that, clearly, in the last six months, businesses have been faced with Covid. Is the industrial strategy a sufficiently flexible document to be able to adapt to the many changes?

I would like to come to Mike first. I was very taken with your remarks that, if the industrial strategy did not exist, we would still be asking for it. You have it. Is it flexible enough to adapt to the circumstances that your sector finds itself in today?

Mike Hawes: As you know, this sector works on the principle of kaizen or continuous improvement, so it is a good approach to take to any policy as well as operations. It needs to be developed. There are still major elements that are entirely appropriate to some of the challenges we face: underscoring the importance of the sector and trying to ensure the sector is competitive. Never has that been more important, if you are trying to attract investment, given these challenges and uncertainty. The grand



challenge around the future of mobility is four-square exactly where this industry faces itself.

Yes, we understand the strategy is potentially having a refresh and we look forward to seeing where that sense of priority remains, but if you were to address some of the big issues that the Government have identified as priorities, be that levelling up or committing to net zero and so forth, you need to have the industrial strategy flex towards where it needs to, with more emphasis on those key issues that are already in there but that need to continue to evolve.

Q83 Mark Pawsey: Mike, you spoke about a refresh. Do you feel as engaged on the refresh as you did in the original document?

Mike Hawes: Probably not but we can go back to the origins of the industrial strategy. We had that sector deal in place already, going into the support. You can go back to that sense of 2009 industrial activism which became morphed, under Vince Cable, into an industrial strategy. We were very engaged with and involved in the development and launch of the industrial strategy.

Given the difficulties Government face with managing a global pandemic, I would probably suggest that their ability to engage has been constrained, and certainly the ability of business to engage on some of these big issues has equally been constrained. We hope that there will still be an adequate opportunity to engage in any future change in consultation.

Q84 Mark Pawsey: In terms of the flexibility of business to adapt and the strategy, we hear about the OEMs and the big companies at the top of the chain, but how about the supply chain? Is enough regard taken within the strategy to deal with the supply chain, and has the supply chain been able to react to changing circumstances in the way that the OEMs have?

Mike Hawes: The two flow from one another. In the supply chain in the UK, pretty quickly you are into SMEs. There are not many really large multinational supply chains in the UK. They are often SMEs. Their ability to shift and transform to different technological and policy challenges and so forth is not as great as the large manufacturers, but they will follow the lead of the large manufacturers because they need to do that. With the technological transition, clearly a major manufacturer wants to be at the cutting edge of that, so a supply chain has to respond quickly. We also need to make sure, in terms of industrial strategy, that you are fit for purpose and thinking of exports, and an industrial strategy and an export strategy have to go hand in hand.

Q85 Mark Pawsey: Paul, can I come to you on the flexibility of the industrial strategy and the impact on the supply chain to the aerospace industry?

Paul Everitt: I am with Mike. The refresh really needs to sharpen up and intensify support in a number of key areas, particularly around R&D and productivity, because those are things we are going to need in order to



HOUSE OF COMMONS

be competitive over the longer term. There is a challenge around the supply chain. In aerospace in particular, and similarly in defence, we have some very large businesses but the majority of the businesses in those supply chains are relatively small. There are not that many larger, top-tier suppliers. I am sure someone will be offended by that but there is a very wide base that we are dealing with.

The challenge that they face is about how they translate or how they adopt the manufacturing technology and good practice that is flowing down from some of those larger players, as well as being able to create new opportunities for themselves through developing their own technology. We have some good examples, as I say, through the Aerospace Technology Institute, of small businesses being able to, effectively, get support through relatively small amounts of money but, more importantly, mentoring from some of those larger businesses or some of the experts from our universities and elsewhere, to develop their own products.

What we are not seeing so much of is help and support for those companies to adopt the manufacturing technologies at a rapid rate that would help them be more competitive. We are trying and we have tried lots of different things. Certainly, aerospace and automotive have been working together on a number of schemes to use the best practice that our top players have adopted, in order to try to bring those to those larger number of smaller players, but it would be fair to say that the onset of the pandemic has halted the momentum that we were developing. That is something that we really need to start to pick up again at greater pace because, with Brexit and with Covid, the emphasis will be on not just those who are able to survive but those who are able to deliver the world-class capability and productivity that companies will need.

Q86 Mark Pawsey: Gareth, we know that steel faces some very serious challenges at the moment, and you said earlier that you felt that the existence of the industrial strategy was helpful in respect of attracting funding for R&D and innovation. Is it helpful in the bigger challenge that your sector faces? Is it flexible enough to adapt to the changing circumstances that you face?

Gareth Stace: I hope it is because, if it is not, as you say, we as the steel sector face some really difficult challenges; that is not going to get any better anytime soon, with Covid and with Brexit coming up. I hope that it is flexible enough to recognise this, and not even just short-time working and the ability to address the low levels of demand that we are going to see in the short term.

I would like to come back to the issue that I talked about of procurement. We are seeing this Government Administration saying they are going to invest the most enormous amount of money in infrastructure, the largest amount in 65 years. Therefore, is this not the time to be really bold and



HOUSE OF COMMONS

say, "This has to benefit UK jobs and the UK economy"? If it is not now, then we have lost forever.

It is really easy to say, "Of course it is. Why are you, as UK Steel, even saying this?" If you ask the person on the Clapham omnibus, "Do you want for offshore wind here", because that is very topical this week, "all of the large castings in the turbines to be made in China, as they currently are? Are you happy with that?" the answer would be no, but they are, and what is going to change at the moment?

Q87 Mark Pawsey: Gareth, what does the industrial strategy say about that? Is it completely silent or does it have an aspiration that this investment should give rise to more jobs and investment in the UK?

Gareth Stace: The intention is there and the words are there, but this is what I am getting to, and I am glad you have brought me back to that point: it is the culture change. When we heard the Prime Minister, in Prime Minister's Questions a few weeks ago, say that steel from the UK would be at the front of the queue with HS2, that is fantastic, but then, when we saw the first tenders go out for HS2, it is business as usual. It goes to a particular company and that company then buys its steel from wherever it buys it, and 50% of that steel will be from abroad. There is no intention. There is no, "Let us do this. Let us make sure it benefits the UK economy".

That is why the industrial strategy now has to have more than those warm words. It has to have, right from the top, the Prime Minister saying, "I want this to happen". When people say, "It is state aid", it is not state aid. State aid does not stop this. You do not break state aid rules by wanting public money and taxpayers' money to benefit the UK economy.

Q88 Mark Pawsey: Gareth, on that example that you just gave, there is, presumably, a reason why the UK industry has not been able to be competitive, and that is the reason why that has happened. We could all agree that it may not be desirable but how does the industrial strategy help the sector to get to a position where, in the next batch, it will be competitive?

Gareth Stace: As I said before, for us, that would be ensuring that we have a business landscape that enables us to be competitive. When you have that, that then attracts investment. If you look at the steel sector, it is global investors. The steel producers in the UK are all multinational, so why would you invest in the UK when your cost base in the UK is so much higher than elsewhere? You would invest elsewhere, and you will see a slow erosion.

An industrial strategy would give that vision, that belief and that Government support that, yes, this is the vision going forward. As I said before, steel demand in 2030 is going to be so much higher. We need a Government strategy now that says, "We are going to get that size of the



prize, we are going to look at those sunny uplands and we are going to get that steel from the UK supplying steel demand in the UK rather than it being met by imports”, which could easily happen.

Q89 Mark Pawsey: Stephen, how do the very broad range of manufacturers that you represent see the industrial strategy? Do they see it as being a flexible document that is adapting to the very changing circumstances that they are having to deal with right now?

Stephen Hipson: The general feeling is that there is a missing element, and the missing element is around resilience. There is a lot in the industrial strategy on the sustainability agenda: green technology, net-zero aspirations and those sorts of things—the big societal changes. That is right and that is good, but we have learnt the importance of resilience. We need to see, in an evolution of the strategy, things are resilience. People at the front-end of manufacturing are absolutely obsessed now with supply chains and resilience in supply chains: how do we evolve them? How do we change them? What is the strategy for doing that? How do we keep up with the innovation in technology?

If you look at the German Industrie 4.0 strategy, which is quite an interesting document to compare and contrast where we are with our industrial strategy, there is a very high focus on manufacturing technology in that. That is all about the flexibility of manufacturing technology to adapt to the new environment and to adapt to changes. There is also a thought process that we are in the middle of the Covid-19 crisis and there will probably be more of these types of events now, so how do we build in resilience to it? That is something that is on everyone’s minds at the moment.

Q90 Mark Pawsey: Is the industrial strategy lacking for not dealing with shocks to the system? We could not have expected it to anticipate this particular pandemic. Should we have a document that is more resilient and how would we make it so?

Stephen Hipson: It is all about this resilience agenda. It is really about process technology being agile. There is a high degree of focus in the industrial strategy on innovation, which is all good stuff. Not to take that away from it, it is not very explicit when it comes down to what our investments are in flexible manufacturing technologies. On Industry 4.0, we have just announced the Made Smarter industrial strategy challenge fund contribution last week, but we need to do a lot more than £300 million on a national programme there if we are going to be resilient enough in the future to adapt our technologies to be able to cope with whatever is being thrown at us.

There is a general sense, in large and small companies, around this thought, “How do we make my business now resilient to these shocks in the future?” and it would be good to see that articulated clearly in the industrial strategy.



Q91 Mark Pawsey: I want to move on, perhaps sticking with Stephen, to the issue of place. Part of the industrial strategy links into the levelling up agenda and attracting inward investment. Is it your sense that the industrial strategy has helped with bringing together the very diverse players in that field? We have national Government, local government, LEPs, businesses and universities, and they were all over the place. We heard accounts, within local areas, of people trying to compete with one another. The idea is to bring those together. Are we doing that better now?

Stephen Phipson: We are slowly doing it better. It is better on the academic side. The relationship between universities and manufacturing is better on a regional basis. I would say that manufacturing in this country is quite regionally based. The north-west has always been a powerhouse for manufacturing in certain sectors. The West Midlands is the centre of automotive manufacturing in many respects. London and the south-east is all about electronics. There is not quite enough join-up yet. When we look at the LEPs, the combined authorities and some of the other devolved deals between local councils and central Government that are designed to support it, you go and ask any typical manufacturer how they navigate that complexity to try to access the right advice or funding, and it is extremely difficult. We have not quite got the joined-up agenda right yet.

Q92 Mark Pawsey: Mike, if I could come to you in terms of attracting investment in automotive, are those agencies working together more effectively? I am a West Midlands MP and we have seen some investment in the West Midlands in recent years, and some work going on in batteries in Coventry right now. Has the industrial strategy helped with achieving that? Has it helped bring together the parties to make that an attractive proposition, or is the landscape much as it ever was?

Mike Hawes: It is better. There is still, like Stephen said, room for improvement. Coming out of the Automotive Council, we have a regional engagement forum, which brings together the LEPs and local authorities that have an automotive footprint in their region. There are a dozen or so of them. We have merged that with the similar aerospace group because there is that crossover, especially in supply chain, between aerospace and automotive.

Invariably, an industrial strategy needs local implementation, so you have to make sure that it is not just a policy and that it does work locally. I would probably characterise it that, where there is a strong regional body—and clearly, you have that one in the West Midlands with the combined authority—it works more effectively than if it is more disparate.

Q93 Mark Pawsey: Paul, have we done the right thing in creating metro mayors and combined authorities and having the LEPs? Is it bringing a business focus and helping to attract investment?



Paul Everitt: There are some good examples. Our own experience is that it has been a challenge to find the right people, certainly at the local level, to be engaged with and to ensure that there is a good understanding at a local level around what the national strategy looks like and the key elements within it, and how they can both support it and add to it.

Where we have those conversations—and this is true in the devolved Administrations as well—things go well, but it has been hard work across the piece, not because people do not want to do it but just because finding the right people and building the right relationships has taken a bit of time. I shared some other thoughts earlier on. That is why sticking with some of the basic constructs and the basic approach is really important, because it will allow us, over time, to create better and stronger relationships. To summarise—good so far, more to do.

Q94 **Richard Fuller:** As each of you think about the preparation and submission of your sector deals, how much were your members on the hook for additional private investment as a result of a sector deal? How many millions of pounds were you putting in of additional private capital in order to be part of a sector deal?

Paul Everitt: From an aerospace point of view, we had an aerospace sector deal signed off at the end of 2018. A lot of that was encapsulating work that was being done over the previous five or six years. We had a couple of enduring structures where people were already contributing match or plus-match funding, particularly on the R&D front.

In our sector deal, the big additions were around specific innovation funding. In our case, it was for the future flight challenge, which was leveraging some public-sector money with significantly greater private-sector money. The exact numbers are not at the top of my head at the moment but well above the 50-50 split that we were doing with the traditional ATI funding. What that did was capture and shape that, and we were asked collectively and individually that companies were signing up to make significant contributions. It was not categorised as a whole-sector specific but there was a recognition that, because of the specific nature of the R&D programme and the project-by-project approach, the requirements were going to be captured within that.

Q95 **Richard Fuller:** Let me drill down a bit on this, Paul. In your sector deal, did the Government say, “Guys, lay on the table how much additional new capital you are going to invest privately to support this sector deal”? Did they ask you that question?

Paul Everitt: It was sort of a question. It was an iterative process. We said, “What are the areas that we need to see progress in? What are the Government prepared to consider and support?” Then there is a bit of a shuffle negotiation around what Government were prepared to do over and above that which they were already doing.



HOUSE OF COMMONS

Q96 **Richard Fuller:** If they chipped in something, you would chip in something.

Paul Everitt: Yes, there was a recognition that we are a strategically important sector. At the time, we had been recognising that aerospace had probably done pretty well from the Government's approach over an extended period, so there was an existing structure around which we could have quite meaningful conversations. They were never quite contractual but there was a clear understanding by some of the very large businesses in a programme of activity that there were plenty of opportunities for Government to review whether people were delivering what they said they would deliver.

Q97 **Richard Fuller:** Perhaps you do not have the numbers directly to hand right now, but what is the clear understanding for British taxpayers about how much additional private-sector capital was going to be put in place as a result of the sector deal for your sector? Could you share that with the Committee at some stage?

Paul Everitt: Again, there is a general, high-level view, which I can absolutely share, which was characterised, and some projections on what the likely future trend would be in terms of additional jobs and additional investment. By and large, in the traditional R&D space, we are working on a 50-50 funding basis but, when you look at the longer-term analysis, the return to the UK taxpayer is pretty significant. The numbers that come to mind are, for every £1 of public money, we were leveraging £12.

Q98 **Richard Fuller:** We hear that for every single sector. That is a thing that gets thrown around. When people want taxpayers' money, they just say they can give us £12 back and, of course, no one ever bothers to check if that was a good use of taxpayers' money.

Paul Everitt: I would say that there has been quite a lot of in-depth work done.

Q99 **Richard Fuller:** One of the reasons we have sector deals, Mr Everitt, I assume, is that we can get better accounting for taxpayers' money and what the return of that is, and to ensure that, indeed, it is leveraging in additional private capital. That, I would have thought, would have been front and centre. It sounds like it was sort of there in your deal.

I want to move on to Mr Hawes. You mentioned a very interesting point about the funding needs, particularly in motor manufacturing and the supply chain, and the fact that the supply chain goes down to relatively small companies early on. Those companies are going to face lots of challenges: new product development, automation and data analytics—lots of additional things. What are the particular issues about funding in your sector that were coming to the fore in your sector deal, and what sort of solutions did you think would be the right remedies for getting private capital in as part of your sector deal?

Mike Hawes: There are two issues there. One is about attracting and getting funding in for R&D, and the other is, more recently, just operating



capital in meeting the challenges of Covid and so forth. I would probably characterise our sector by saying that some have taken advantage of the Government's schemes and others have not. It depends where they are on their balance sheets and their access to private sources of finance.

In terms of the industrial strategy, and similar to what Paul was describing, the main areas have been around the Advanced Propulsion Centre, which is seeking to help develop companies and make sure that the ideas and the technologies can grow, but also about positioning the industry, the sector and the innovation internationally. It is globally competitive and you need to attract the investment into the UK. There are some other barriers to investment at the moment. It is mainly around uncertainty. That is essential for the future of the industry. You do not want to be a market for some of these technologies in the UK; you want to have an industry for those sorts of technologies. That is what we have been trying to do.

The other element of funding was something called National Manufacturing Competitiveness Levels, and that is about improving productivity by helping companies improve their productivity. I must admit that has been a bit slow to start. It is probably needed now more than ever because, with the contraction that has been going on as a result of this, you need to do more with fewer people. That is particularly important. Those are always on the basis of matched funding.

Q100 Richard Fuller: Putting Covid to one side, which you have rightly mentioned as an additional factor that has come in, if I can just press you, as I did with Mr Everitt, about the specifics in your sector deal, in the discussions with Government, did Government initiate a clear discussion with you about how much private capital would be brought in as a result of this sector deal? Was that then enumerated in a quantity or an amount of pounds, shillings and pence?

Mike Hawes: You have to break it down. Within the eventual sector deal, if you look at the construct of something like the Advanced Propulsion Centre, that has invested around £1 billion since 2013. Like Paul said, some of that was in existence beforehand. Part of the sector deal was to enhance it and to try to make sure that we can continue to leverage that public-sector money to attract additional—

Richard Fuller: Sorry to interrupt. Just to be clear, that £1 billion was private-sector money that was put in to say, "We believe in it as private companies putting their money in".

Mike Hawes: Yes, exactly. Whether it is a large multinational company or a small and emerging company, you have to put something in. It is not free money.

Q101 Richard Fuller: Specifically on my question about smaller businesses and their needs to attract capital to meet the multiple challenges that they have, was there anything in there that was addressed in your sector



HOUSE OF COMMONS

deal about the current suitability and lack of sufficiency of capital for those types of businesses, or was that a broader issue?

Mike Hawes: That was a broader issue. The sector deal was very specific on certain key issues, like the transition.

Q102 **Richard Fuller:** Mr Phipson, earlier on you mentioned scale-up and funding for scale-up in one of your first answers to the Chair's questions. Let me ask you a bit about the issue of how you see part of this Government effort to support your sector. What should the Government be doing to address some of those issues? What is your solution to this persistent problem in the UK of funding for scaling up?

Stephen Phipson: The first thing to say is that, from my experience in the sector over decades now, we are competing for capital largely with the American market. If you look at it, it is a very good compare to us. If you look at the US, there is a massive number of SMEs there but the scale of their domestic demand is enormous and many times the order that we have here. Very often, it is easier for banks and financial institutions to invest in that because they have a very clear route to a domestic market for their innovations. They can get to market quite quickly.

The challenge here is much more that we do not have a large domestic market. We rely a lot on export markets for lots of those innovations, and it is really important for us to do that here. We often have quite a complicated regulatory environment as well, which constrains in certain sectors like medical devices and others. It is a much longer-term investment than it would be in other markets, so banks tend to be reluctant, very often, with this idea of patient capital, which is why this thought process about a national investment bank that is around at the moment, as we consider recovering from Covid, is linked together.

It is around recapitalisation but it is also about how we provide patient capital, long-term capital that is on a 10-year horizon. Most manufacturing projects are long term. Investment in equipment is often 10 years. If we look at Mike's automotive sector, seven to 10 years is often a cycle for a new model. If you are in the supply chain and you have innovative technologies, you need investment that takes a much longer-term view. We do not have that environment here with our banking sector, to be honest with you. It is something that we talk to them about all the time but we need to change it.

Q103 **Richard Fuller:** I was going to come back to you, Paul, because when it comes to the longer term, defence, which is one of the sectors that you cover, must have that long-term view. You may want to raise another point, but I was going to come back to you to ask specifically about the defence review, the funding and how that fits into your members' view about the funding that is available for delivering on your sector deal.

Paul Everitt: If I could just pick up on the small-business and capital issues, however much we like to depict ourselves as cutting-edge



HOUSE OF COMMONS

technology, we are regarded as a traditional manufacturing sector. Many Government support schemes that are there to help start-ups and scale-ups are not necessarily available to manufacturing businesses, and many of the private routes into that market equally do not really look at our types of business because they do not see them as being necessarily fast-growing. We see private equity or venture capital come in but they are acquiring businesses or shares in businesses. Some of that available resource does not see traditional manufacturing as being the right thing for them. We think that is wrong but that is the situation.

On defence, there is no specific reference to defence within the industrial strategy document but, similar to the aerospace growth partnership, we have a mechanism for capturing the dialogue between Government and industry around defence. We are clearly looking forward to the integrated review and particularly the defence and security industrial strategy, which we have understood to be part of that integrated review.

It really picks up on some earlier questions. In the defence sector, it is long term and lumpy. We need good understanding of what the Government's procurement approach is going to be. Irrespective of whether you are an international business based in the UK or a UK business wholly owned in the UK, having clarity on what the value in procurement decisions that UK footprint and economic activity is going to be is really important, as is, similarly, having clarity on what the pipeline of business is going to be.

I was struck in one of your earlier sessions that defence has similarities to health, which is that, if innovation and developments in the UK then make their way into use by the UK forces, they are then really easy to sell around the world. In situations where we invest in the initial technology but do not find a UK customer, it is really difficult then to sell that to other places around the world, because people go, "If your Government is not using it, why do you want to come and sell it to us?" Getting that procurement piece right is really important.

That does not mean to say that we should back off from value for money for the taxpayer, but we believe it is both deliverable to find value for money for the taxpayer and to support UK industrial activity. In some respects, we would say that domestic competition would be increased or intensified if Government were clear about the role that being in the UK played within procurement decisions.

Q104 **Chair:** Just very briefly before we finish, have any of the witnesses been called by the Department yet to engage on the rewrite of the industrial strategy? I am taking silence as a no.

Stephen Phipson: Not yet.

Chair: There is a sense of anticipation from you, Stephen, I can tell.

Stephen Phipson: There is indeed, yes.



Q105 Chair: Just whilst I have you, we have not seen you since the Chancellor gave his winter economy plan update. The Budget has been pushed back to some point in the spring. Just very briefly, because we really have timed out, could you just give us a short update about your view on the winter economy plan and what that means for you horizon-scanning over the next six months or so?

Mike Hawes: First of all, we welcome the job support scheme. We will see how it is going to be applied but that potentially can benefit manufacturers that are unable to operate at full capacity because of Covid restrictions. Overall, we still face a huge amount of uncertainty, like any other business sector, both in terms of demand and in terms of supply, both here and abroad. When you are 80% export-driven, it is not just what is happening but what is happening in other markets. There is still the potential, and we have to see how business and consumer confidence flows through in the next few months, but it is going to be a very choppy few months. In terms of those proposals, we need to be very alert to how things change, because they could change very quickly.

Paul Everitt: Like Mike, it is good news in terms of the job support scheme. What we need is the spending review, to be honest, because there is a whole bunch of stuff that we are looking at in terms of the short-term potential boost to demand that could come through some of our defence and space activities, if they were brought forward. We have also been pitching quite hard for an investment fund for small and medium-sized businesses to see them through not just the next six months but the next two to three years, where it is going to be tough in aerospace. Those are things that we need clarity on relatively quickly.

For us, getting the spending review done and published alongside the integrated review that Richard mentioned is part and parcel of having confidence in the future. At the moment, everybody is, understandably, focused on the short term but, in order for people to feel it is the right decision to keep their people in their businesses and it is the right decision to invest in technology, they need some kind of sense of what the Government's trajectory is going to be over the next 18 months to two years.

Gareth Stace: I concur with Mike and Paul. In terms of us looking forward in terms of the steel sector, it is very uncertain because there is this thing called EU steel safeguards, which we will not be part of anymore but will be subject to. Unless the European Commission plays ball, on 1 January we might see all UK steel exports into the EU, which is 80% of our exports, and we export 50% of what we make, subject to a 25% tariff. Today, when our members are talking to their customers about orders, those customers are already saying, "There is too much uncertainty. We will go with someone else on mainland Europe rather than deal with the UK".

As much as I have our spending review submission here and I want, like Paul says, to be really focused on that, there are some things nearer our



face in terms of uncertainty for our sector going forward over the winter and into next year.

Q106 **Chair:** Stephen, do you share the view that the Chancellor's winter economy plan is welcome and buys a bit of breathing room but is not going to buy us much?

Stephen Phipson: That is exactly right. As the others have said, there is good support with the JSS, and also the extension of some of the economic measures and the other financial packages for business loans. In our discussions with Treasury, of course, there is a focus on the fact that many companies have now taken on a lot of debt, so where are we going to go into the future with that? That is on our minds at the moment and something that we are working with financial institutions and the Treasury about as to what that looks like in the longer term.

It is also quite evident from our latest survey data that we are down about 53% on manufacturing output overall. People are recovering but it is a very much slower recovery than the V-shaped recovery that was previously thought. Of course, some of the uncertainties that others have mentioned are part of that.

It is welcome but we are probably going to need to do more as we go through the next few months.

Chair: Thank you, gentlemen, for your time. I am sorry to have kept you a little longer than we anticipated but we are grateful to all of you. Thank you to my colleagues on the Committee, as always.