HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Work of the Department of Business and Trade, HC 818

Monday 7 April 2025

Ordered by the House of Commons to be published on 7 April 2025.

Watch the meeting

Members present: Sir Geoffrey Clifton-Brown (Chair); Mr Clive Betts; Sarah Green; and Sarah Olney.

Member of Business and Trade Committee present: Charlie Maynard.

Gareth Davies, Comptroller and Auditor General, National Audit Office; Susan Clark, Director, Financial Audit, National Audit Office; Leena Mathew, Director, Value for Money, National Audit Office and David Fairbrother, Treasury Officer of Accounts, were in attendance.

Questions 1 to 88

Witnesses

I: Gareth Davies, Permanent Secretary, DBT; Carl Creswell, Director, Post Office Policy at Department for Business and Trade and Tara Smith, Chief Operating Officer, DBT.

II: Gareth Davies, Permanent Secretary, DBT; David Bickerton, Chief Strategic Business Adviser, DBT; Sean Jones, Director, Companies and Economic Security, HM Treasury; and Jaee Samant, DG Business Group, DBT.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General
Supporting the UK's Priority Industry Sectors (HC 744)

Examination of witnesses

Witnesses: Gareth Davies, Carl Creswell and Tara Smith.

Chair: Welcome to the Public Accounts Committee on Monday 7 April for our first panel today on the work of the Department for Business and Trade. The Department was created in February '23, bringing together parts of the former Department for International Trade and the former Department for Business, Energy and Industrial Strategy—BEIS—to create a single Department for economic growth.

In January '25 the Department published its first set of accounts, for 2023-24—10 months after the year end. The C&AG qualified his audit opinion due to the issues with data and a breach of spending limits in relation to the Post Office Horizon compensation schemes, which were set up to compensate postmasters and mistresses affected by the failings of the Horizon IT systems at the Post Office and associated miscarriages of justice.

Another area of financial risk for the Department is the bounce-back loan scheme, which was introduced to support small businesses during the pandemic. The previous Committee found that that scheme had exposed the taxpayer to potentially huge losses. The Department's accounts show that the fraud loss for this scheme is currently estimated at £1.9 billion.

Today, therefore, we will question the Department on its management of the Horizon compensation schemes, and examine its progress on recovering losses on the bounce-back loans and its plans for improving the timeliness of accounts. To help us with that, we are delighted to welcome Gareth Davies CB, permanent secretary at the Department for Business and Trade. Gareth has been in this role since the creation of the Department in February '23. Accompanying him is Tara Smith, who is the chief operating officer at the Department for Business and Trade. Tara has been in this role since July '23. Finally, but by no means least, we have Carl Creswell, director of Post Office policy and business engagement at the Department for Business and Trade. You have been in your role since June '24.

Carl Creswell: Actually, since April 2019—in the previous Department.

Chair: In BEIS, yes. You were previously director of business resilience, and you are now director of Post Office policy. Is that correct?

Carl Creswell: The Post Office has been a golden thread since 2019, and I have covered other things along the way.

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Chair: Thank you very much for that. We are also pleased to welcome as a guest on this Committee today, Charlie Maynard, who is a member of the Business and Trade Committee. Without any further ado, let us launch into a few questions on the matters we have talked about.

Q1 [1]**Mr Betts:** Horizon has obviously been a very big issue—I doubt many people in the country will not be aware of it as a significant problem. However, it has led to the C&AG qualifying your accounts, which is not a happy situation, is it? That is essentially because there is no confidence in the estimates you have done about what the likely level of claims will be, both in terms of volume and settlements. When will we be clear about that?

Gareth Davies: Thank you for the question. The Horizon compensation payments have obviously been a critical priority for the Department over the last year, but also, as my colleague, Carl, said, for many years now.

This is an incredibly complex set of interlocking schemes—as you know, there are four different schemes at different levels of maturity. The big change last year was twofold. First, there was the introduction of the Horizon compensation repayment scheme in January, which covered just over 800 people who had their convictions quashed by the 2024 Act. We had a minimum amount paid of £600,000, but obviously some of the potential liabilities could be far larger than that.

The second issue around the Horizon schemes was around the shortfall payments. The uncertainties, which were then reflected in the CAG's limitations, were essentially on two issues. On the shortfall schemes, it was a volume question. To date, we have paid over 5,000 people either interim or final payments. There is a question of how many people will come forward. The Government have asked the Post Office to proactively write out to postmasters who may have been affected—before it was demand-led—to make sure we are reaching as many people as possible. That creates large uncertainty in quite what the take-up rates of those letters will be. In terms of the number of people contacted, it is already just shy of 10,000, and is likely to double over the coming weeks and months. As you get further from people who have been significantly affected, the take-up rates are very unclear, so there is large uncertainty on the volumes. We know the value, because if you look at the experience through HSS, 98% of people have taken the minimum amount, the £75,000, which was brought in to provide a quick and rapid route, or a quicker and speedier route, to settlement. On HSS, the uncertainty is on volumes.

On HCRS, which is for the 840 people who have had their convictions overturned by the 2024 Act, the question is about the value. Because their cases are obviously far more complex and the spread of potential

[1]The Permanent Secretary wrote to the Committee to correct the transcript and link to the letter.

payments is far greater, it is harder to estimate the value. The question here is this: we know the volume, but what proportion of those affected will take the minimum payment of £600,000? There is a range of estimates that we have been working on with the NAO and the Post Office, but of course the scheme is still new and we have not had any experience to guide us. If you look back to the overturned convictions scheme, for people who do not take the £600,000, the average payment is, I think, £1.17 million. That gives you just a sense of the range.

Those are the reasons why we had the limitations this time round. As the schemes mature and we get more experience, we will be able to narrow that band of uncertainty and hopefully provide more assurance to the NAO.

Q2 **Mr Betts:** How quickly will it narrow?

Gareth Davies: That all depends on two things: on HSS, it will be as we get responses to the letters that are being written out now; and on HCRS—the scheme for the 840—it will be as we start to see settlements coming through. On HSS, I would be confident that that band will start to narrow over this financial year, ’25-26, although you may still have limitations on last year’s accounts. On HCRS, I think it will take longer; I might ask Carl to come in in a minute, but that will be longer. It is ultimately for the Comptroller to decide on the limitations, but this is a complex, highly unusual scheme with large variability in payments.

Q3 **Mr Betts:** On the HSS and the letters that have gone out, they are basically simpler claims, but there are a lot more people. Are we relying on the Post Office to resolve this? I ask because it has not got a great track record of resolving things in this matter, has it?

Carl Creswell: There are different aspects to the challenge around HSS. The Post Office is the organisation that has been writing out to people to say to them that the scheme is still open and to encourage them to apply. It has the contact details; it has that past relationship. But Ministers have had some concern about whether claimants are happy with the settlements under the Horizon shortfall scheme, and they have committed to launching an appeals system, to be run by this Department. Ministers will be announcing the details of that and opening it for applications soon. So the first contact point in relation to postmasters who might be eligible is coming through the Post Office. There is then an independent panel that looks at claims from those individuals; and if they have had a full assessment, in future they will be able to come to DBT for an assessment.

Q4 **Mr Betts:** Right, the Post Office is doing the writing out. Is it doing the chasing up as well?

Carl Creswell: Yes, it’s doing the writing out and contacting people.

Q5 **Mr Betts:** I know it is doing the initial writing out. How enthusiastic is it about doing the chasing up?

Carl Creswell: So far, the results seem to have been pretty successful. We have had thousands of people come in since the letters have been issuing.

Q6 **Chair:** When were the letters issued? I ask because I came across a lady, just by randomly knocking on doors about six weeks ago, who was not aware that she might be eligible. She had worked for the Post Office for 30 years. So when did those letters go out?

Carl Creswell: They started issuing in about September last year, and they have been issuing on a rolling basis. In some cases, the Post Office did not have contact details, because it was a family member on behalf of someone who had died or an estate. So in some cases, letters have issued much more recently, including last month; and as the permanent secretary was saying, more letters will issue soon.

Chair: I will chase up and see whether she has had a letter now.

Q7 **Mr Betts:** How many replies have been received to the letters sent out?

Carl Creswell: So far, about 25% of the letters issued have had responses. I think the permanent secretary mentioned the number of people who have had letters, which was about 18,000, and so far about 25% of people have responded to those letters.

Q8 **Mr Betts:** How many have had a chase-up?

Carl Creswell: I do not believe the Post Office has sent any chasers; I think it has done a one-off letter to those individuals. On the Horizon convictions redress scheme, the various justice authorities have issued letters and we are discussing with them at the moment the merits of sending a follow-up letter. There is a bit of a judgment about whether individual people might feel that they were being harassed if they had a series of letters asking them the same thing. There is a bit of a judgment about how many times you need to contact someone to say, "Why have you not applied?"

May I add to the point that the permanent secretary mentioned on the numbers for HCRS? They show that we have been making some progress. Of the around 800 people who might end up in the scheme, 536 have applied so far, and 339 have accepted the fixed sum of £600,000. Quite a big proportion have already come back. The claimant lawyers are indicating to me that probably about 85% of people in that cohort—the people whose convictions were overturned by Parliament—will accept the £600,000. That will give us more certainty. The full claims are unlikely to come to us until summer or early autumn, according to the claimant lawyers. The reason for the delay is that they want to seek external evidence.

Q9 **Mr Betts:** The Department has complete oversight of that process. To go back to the HSS, are you not suggesting to the Post Office that, given that only 25% of people have replied after several weeks, it might not be a bad idea to give them a reminder? Otherwise, this thing will just drag on and on, won't it?

Carl Creswell: We can reflect on that view, balancing it with what I was saying earlier about not wanting to be seen to be pestering people. I do not think that in any world we would expect all 100% of the people to whom they are writing to respond, because they are writing to everyone who was a postmaster throughout that period, and it is unlikely that 100% of people would have suffered a shortfall.

Gareth Davies: You make a very pertinent point. My reflection on this—and to be tested—is we will take that to the Horizon compensation advisory board, because there is a delicate judgment, as my colleague says, around making sure that people do not feel that we are chasing them too much, but making sure that we are reaching them at the same time. We will take that to the advisory board.

Q10 **Mr Betts:** Is there a cut-off point for claims to be received?

Carl Creswell: No. The advisory board that the permanent secretary mentioned has suggested that we should keep the HSS open for now. Part of the reason for that is the surge of interest ever since the ITV drama and documentary were launched. The rate is slowing a bit now, but Ministers have said that they will not take a view quite yet. Sir Wyn Williams, who is running the Horizon IT inquiry, has suggested that we should set a closure date but, again, there is a balance to be struck. When claims are still coming in and letters are still to issue, it seems a bit early to close the scheme.

Q11 **Chair:** Finally, to put this part to bed, one of the reasons that the C&AG qualified his accounts was over the potential number of claimants and the proportion who will choose the £600,000 fixed-sum offer. Are you likely to be able to resolve that problem before this year's accounts need to be audited?

Carl Creswell: My view on the proportion for HCRS is that it will be clearer in the next couple of months—certainly by the summer—because we are getting a lot of applications in at the moment. I think we will, proportionately, have quite confident numbers. The issue is that we do not quite know the amount that will be claimed by that smaller proportion of the 800. There will still be some uncertainty about the value, but I personally feel more confident that we will have a better forecast as a result of the higher numbers that have come in recently.

Chair: That is a very helpful answer, thank you.

Q12 **Sarah Olney:** Mr Cresswell, in the report and accounts that we are looking at, note 15 on provisions includes an £883 million provision for postmaster redress. It has been over a year since that provision was made. How are those outgoing payments progressing against that provision?

Carl Creswell: We have now paid out around £892 million to 6,200 people, using the end of March figures. That has been quite a significant increase—it is three and a half times the amount that had been paid out by the end of June.

Q13 **Sarah Olney:** So you had made a provision of £883 million; you have now paid out £892 million. Is there still more to pay out?

Carl Creswell: There certainly is. The Chancellor confirmed to Parliament that the estimate was around £1.8 billion—I think it was £1.75 billion rounded. The reason for the difference has been both the changes to the number of people who might apply for HSS—the decision to offer the £75,000 and to write out to thousands of postmasters—and also the Horizon convictions redress scheme that followed the overturning of the legislation. The provision that you mentioned was written before Parliament had intervened.

Q14 **Sarah Olney:** I want to make sure I have the right number, though. That £883 million has now gone up to £1.78 billion, albeit obviously due to events. That is the correct comparator?

Carl Creswell: Yes. It is £1.75 billion rounded.

Sarah Olney: Sorry, yes.

Carl Creswell: That includes claimants' legal fees of around £100 million, so the bases are slightly different. About £107 million of that £1.75 billion is claimants' legal fees, and the rest is redress across the different schemes.

Q15 **Sarah Olney:** I accept that overturning the convictions is a political decision that was made after this provision was put into the accounts, but there still seems to be a considerable amount that could have been predicted as required for redress that you have not included in this £833 million.

Carl Creswell: Well, £862 million of that £1.75 billion comes from the Horizon convictions redress scheme. If you were to remove that from the £1.75 billion—

Sarah Olney: It would be a lot closer to £883 million.

Carl Creswell: Yes, it would.

Q16 **Sarah Olney:** Understood. Thank you. The Department for Business and Trade is now taking over the administration of the overturned convictions scheme, and that obviously follows a request from the victims of the scandal. That will happen in June. What do you think will be the impact, particularly for victims, of the Department taking over the administration?

Carl Creswell: That change followed comments from the victims, but also from the Business and Trade Select Committee, who have encouraged us to play a more active role in the scheme. We are in a transition period.

DBT takes ownership of the scheme on 3 June, so we are trying to make sure that there is continuity of service.

There are 111 people in the cohort—people whose convictions were overturned by the courts prior to the legislation. The Post Office is still waiting for 25 people in that group to submit full claims. One difference I hope we will see is that claimants will feel more comfortable engaging with the process and submitting claims. We obviously cannot provide offers to people unless they actually submit claims, and the claimants' lawyers tell me that a large number of those 25 people are quite vulnerable and struggling to engage with the process—

Q17 **Sarah Olney:** So there are 111 in the cohort and 25 have not submitted claims, but there is nothing to stop you progressing the remaining claims.

Carl Creswell: That is right. Eighty-six of the 111 have submitted claims, 78 of the 86 have received offers from the Post Office—so there is a gap of eight who are still waiting for the Post Office to issue offers—and 70 have accepted offers. I hope that we will see more people submit their claims. To be honest, some of the claimant lawyers have said to me that we should not expect to see claims until early 2026, in part because victims want to wait until the Horizon inquiry completes its work.

Sarah Olney: That makes sense.

Carl Creswell: I think that a lot of the people who have accepted offers are those who are happy with the £600,000 fixed sum, so we will inherit the more complex cases, where people are more vulnerable, more medical expert evidence is needed, and so on. I hope that we will be able to break the back of it this year; we will be working with people like Sir Gary Hickinbottom, who has been praised by the Business and Trade Select Committee for helping with case management, but we are inheriting what you might call quite a sticky tail of claims under that scheme.

Q18 **Sarah Olney:** I interrupted you when you were saying that the 25 who have not submitted claims are more vulnerable claimants.

Carl Creswell: Yes. Claimants' lawyers have said to me that they are—to use their language—struggling to get instructions from those claimants, partly because some of them have said, "I can think only of one thing at a time, so I can engage with the Horizon inquiry and then, once that is done, I will submit my claims."

Others, frankly, are even now struggling with mental health problems caused by the horrific scandal of many years ago. We see that in the medical reports that come through. There are various reasons, but we are in contact with the lawyers in advance of us taking on ownership of the scheme. I am confident that more claims will come through for the OC scheme during this year; I just cannot promise that they will all come in—it is a bit of a demand-led system. As soon as we get them in, we will provide offers within 40 working days, in line with the service level agreement that we are applying to the GLO scheme we are already running.

Q19 **Sarah Olney:** Thinking about that purely from the perspective of needing to produce accounts, how easy will it be to have a provision for those 25 cases, given that it will be very challenging to estimate how much the eventual liability will be?

Carl Creswell: I think it will still be quite challenging. The number is smaller and—a bit like I was saying about HCRS—when you get further through a scheme, it becomes simpler because the variation in the averages—whether it was £1 million or £2 million—is less impactful if it is 25 people out of 111 than if it is half of that 111. So I think it will be easier on the overturned convictions side. I think the NAO's concerns last time were primarily around the HSS and the HCRS, rather than the OC scheme.

Q20 **Sarah Olney:** Finally, how effectively are you working with the Post Office to effect this transfer?

Carl Creswell: It has been very positive so far. We engaged with them for a while before it was announced, and we have signed all the various documents we need, such as disclosure, so we can get hold of the information we need from the Post Office. As I say, we are part way through a three-month transition, and all the signs are positive. We have good relationships with the claimants' lawyers already, because we have been working with them for a number of years.

Q21 **Sarah Olney:** Mr Davies, the Department has provided a letter of support to Post Office Ltd confirming that it will continue to provide financial support to enable the Post Office to meet its liabilities as they fall due for a period of no less than 15 months from December 2024. It feels like a bit of a blank cheque. What conditions are attached to that?

Gareth Davies: This is a rolling working capital requirement that we manage. It has been done historically, and there has been continual repayment of that working capital requirement over that time. The assurance that we have is essentially twofold. Within the Department, my colleague Carl and his team work day in, day out with the management team of the Post Office, including the chair and chief exec, to understand exactly how that was used. We also bring in UK Government Investments to provide assurance around the financial structures, and they give the assurance for me to be able to sign off the working capital requirement.

Q22 **Sarah Olney:** To what extent do you expect Post Office Ltd to need to draw on that letter of support?

Gareth Davies: I do expect them to; they use it every year. Essentially, it is a revolving financing provision from the Department for their working capital.

Q23 **Sarah Olney:** Are you confident that Post Office Ltd is financially sustainable, even though it needs to draw on this letter of support?

Gareth Davies: As I say, this letter of support is a historic structure of financing between the Department and the Post Office. It has happened over multiple years, so it is not something new this financial year. It is an ongoing way in which they fund their operations, and then they repay it over the course of the year. On that basis, in terms of short-term liquidity, yes, because I have the assurance coming through from UKGI, who act as my commercial advisers.

There is a longer question around the long-term financial viability of the Post Office, which you quite rightly hint at. As you know, given the falling volumes and use of the Post Office network, they need the network subsidy, which we continue to provide. As part of the work of the new chair, and through the spending review preparations, we are looking in the round at the policy objectives that we want from the Post Office—in other words, why we are funding them and providing a subsidy, and what is the most cost-effective way of doing that, in terms of value for money for the taxpayer. We want to make sure that we can put the Post Office on to a long-term footing.

Q24 **Chair:** I have two questions arising from what Sarah Olney asked you. First, the convictions of the 25 people who are vulnerable under the scheme have been overturned, so a legal process has already been undertaken. Is there any provision to pay them a substantial interim payment?

Carl Creswell: Yes, every one of those 25 people has received at least £200,000 as an interim payment. The NAO mentioned paying interim payments as an example of good practice when it did its recent Report on compensation schemes. They have at least had that amount of money. When a claimant submits a full claim—I recognise that those 25 have not done so yet—they receive £450,000, which is the minimum payment, and then their claim will progress through full assessment. So they have had some money along the way.

Q25 **Chair:** How will that claim proceed to full assessment? Will some of them end up back in the courts, or are you pretty sure that you will be able to settle them somehow?

Carl Creswell: My hope is that we can settle them all through the compensation schemes, but they have been set up in the legal context, as you acknowledge, whereby a claimant could choose to go to a court if they are unhappy with the offer. But we really hope that will not happen.

As I mentioned earlier, we have employed Sir Gary Hickinbottom, a former judge, who holds case management hearings and tries to crack through areas of disagreement between the claimant and the Post Office or, in the future, the Department. I feel confident, but I cannot rule out some individuals saying they would like their day in court, as they did recently in relation to the GLO scheme, and take the Post Office to court rather than participate with the compensation scheme.

Q26 **Chair:** On Ms Olney's other question about the letter of assurance, why did you go down that route rather than a contingency liability route, which would have given claimants greater assurance that they were going to get the money that was owed to them?

Gareth Davies: The letter of assurance is not about the compensation payments. All the compensation payments are in the contingent liabilities. This Government have shifted the payment of those compensation payments into annually managed expenditure, rather than our budget. We had a whole complex reconciliation thing before, but it is all in the contingent liabilities now. The letter of assurance is on the working capital for the Post Office operation. Apologies: I should have been clearer that that is about the operation of the Post Office and has zero impact on any compensation.

Chair: Thank you for that very helpful clarification. We now come to Charlie Maynard, our guest on the Committee today.

Q27 **Charlie Maynard:** I want to talk about the bounce back loan scheme—stop me if I go wrong. As of 31 March 2024, we have £1.941 billion as an estimate of lifetime fraud and error loss. Page 105 of the annual report and accounts acknowledges that the actual amount is likely to be quite a lot higher than that. In terms of what we are getting back in at the moment, the bounce back loan scheme funds recovered were £8.6 million in '23-24. So nearly £2 billion has gone out in fraud and error and we are getting back £8 million, which is a tiny amount. I want to try to take that apart.

As per the note that you very kindly produced, there are three tiers—I am looking at the bottom of page six and top of page seven. It says: "The approach included prioritising the fraud response by grouping loans into three tiers". The top tier, which is over £100,000, is dealt with by enforcement agencies, but all these loans are under £50,000, so it is left to the lenders to deal with and investigate the mid and bottom-tier fraud. The problem is that the lenders have a full guarantee from the Government, so they have no incentive to go and fish for that money—and it is £2 billion. That is evidenced by almost none of that £2 billion coming back into the Government each year, so we have a big problem.

On the plan for maximising the recovery of the fraud and error loss, there is mention of a programme of activity with three core pillars: the data and analytics programme, tackling fraud through lenders and tackling fraud through enforcement partners. But that does not tell us much. What are we going to do to get back as much as possible of that £2 billion? What are the clever ways of aligning incentives to get the money back?

Gareth Davies: I might bring in Tara in a minute to answer some of the details as to how we are working with the lenders, the Bank of England, the Treasury, UK Finance and others to make sure that these are aligned.

Often, even when it has been issued in terms of fraud, and people have gone bankrupt, we are able to recoup some of the money.

I want to step back on some of the overall numbers because it is important to look at the broader context. Bounce back loans were a large intervention in the middle of covid—an intervention in the form of the best part of £47 billion. To date we already have a repayment of the best part of £20 billion. As you say, a lot of these losses will not be about fraud and error: the vast majority will be when companies have failed during that period. In terms of the actual payments to date, most of them—around £14 billion—are due to company failure rather than fraud. That is at the heart of it.

We are expecting a lot of it to be recouped over the coming years. We have made a provision in the accounts for further losses because of the collapse of the companies. When it comes to the focus on the actual fraud element, although the incentives are not there because of the way in which the guarantees work—in other British Business Bank schemes, typical guarantees are around about the 70% level, for things like ENABLE, but this is 100%—we have worked through it with the banks and everyone else to recoup some of that, despite the 100%. Tara, do you want to come in on the detail?

Tara Smith: First of all, of the original loan guarantees, 75% either have been paid back or are being paid according to schedule. You are quite right that the remaining loan guarantees, which were outstanding at the date of these accounts, stood at about £26 billion, of which we have provided another £6 billion again. That is our expected losses, and we currently estimate £9 billion of that to be fraudulent.

There are a number of areas, and there are probably three different ways that we are attacking this. One way is our in-house fraud team in DBT that oversees all the counter-fraud activity, with the first and primary responsibility for chasing fraud being on the lenders. The British Business Bank also then does an audit and insurance process, which monitors the process of that.

A board meets monthly to review that, on which sits DBT, the British Business Bank, the Treasury and the Cabinet Office. When they are doing through that quality assurance process, we withdraw any guarantees where we think the lenders are not doing what they are supposed to in following up on fraudulent activity. Actually, we have withdrawn £1.1 billion of guarantees, so that is one way of incentivising lenders. We are quality-assuring their work, and where we do not feel they have done what they are due to do, which is follow up on all this and try to recover any fraudulent activity, we withdraw the guarantee.

We also outsource the most complex cases to a provider, who follows up on the most extreme and serious cases of fraud. Those things take a long time to go through, because they are very complex and detailed and they end up in courts, so it takes a while for that to appear as a recovery. You will also notice in the accounts that we have recovered £140 million of fraudulent payments to date, and we are continuing to work through this. We are not taking our feet off the pedal on this. We have a number of different ways to make sure that we are following up to the best of our ability on fraudulent cases.

Q28 **Charlie Maynard:** How does that £140 million connect with the £8.6 million? The £8.6 million is BBLS funds recovered in 2023-24, and it also has the previous two years, which add up to £15.9 million. You mentioned £140 million; does that £140 million relate to BBLS or to something else?

Tara Smith: The £140 million is the recoveries to date, across the four covid schemes.

Charlie Maynard: But BBLS is only £15.9 million. We received a sevenpager today, and that has the BBLS funds recovered. It goes through ’2122, ’22-23 and ’23-24, and that comes to about £16 million quid. As I understand, BBLS is where the vast majority of frauds happen. Well done on the other ones, but that is the problem one.

I am worried that there is no incentive for the lenders. Maybe I am being a little bit harsh, but they are guaranteed. We have £2 billion and climbing, and we are not getting that money back. It is great to see that there is a process, but the process is not yielding much fruit. It would be good if we had a plan, and frankly we could be a bit radical and say, “Hey lenders, you can get some of this money if you give some of it back.” Getting 100% of zero is not going to do us any good. They could get a percentage, or whatever, as there has to be some incentive to get that £2 billion back.

Tara Smith: We are continuing to chase down this fraud with the lenders through the assurance process. We have the monthly board that reviews this, working with lenders.

Charlie Maynard: The numbers are terrible.

Tara Smith: The numbers have improved.

Charlie Maynard: It is £2 billion and £8 million.

Tara Smith: We can take away how much more we can do with lenders. BBB and this board are looking at all opportunities for how we can recover the fraud. It is about working with agencies to make sure that we are thinking about how we manage this in the future. I would say that we have pretty good governance data analytics to try to maximise our returns on fraudulent activity. We know that at the outset, when these loans were going out and we had ministerial direction, because we knew there was going to be a high—

Q29 **Charlie Maynard:** There is a difference between failure of businesses and fraud. These are not instances of the failure of businesses: this is the fraud and the error. These are the ones we really do want to be going after. We are being ripped off. Respectfully, you may have great governance and everything else, but if the results are tiny—and they are tiny—then something is not working.

Tara Smith: As I said, we are still on recovery from many of the loans, but I take your point on how we can work with BBB on what more we can do on recovering some of that fraudulent debt that we have estimated in the accounts.

Q30 **Chair:** What does the £1.1 billion of guarantees withdrawn actually cover? Does it cover just fraudulent cases? Does it cover businesses that have gone out of business? What does it cover?

Tara Smith: The primary responsibility is for lenders to seek the recovery of any of those loans that have gone bad or are deemed to be fraudulent. Through this process, BBB is looking at data and analytics, and it is doing a post-audit claims review. Where it has been found that lenders have not done the activity we expected them to do, we withdraw the guarantee. Therefore, we do not have to cover those loans, and it does not cost anything.

Gareth Davies: To go back to your question, that is a sharp incentive back on the lender. You are right: because of the nature of how the 100% guarantee was set up, it sounds like, if I was a bank, I would just sort of passport it through and the taxpayer can pick up the tab. It is not perfect because you would like to have had that designed in, hence the ministerial direction, as Tara says.

The way we give it edge is by removing the guarantees when we have reviewed them and said, "These were not issued in the right way." That does give it some bite. I am not suggesting that I am comfortable with all these numbers. They are big. While covid schemes are big—mega interventions, of tens of billions—the numbers we are still talking about in terms of the run-off are material in terms of taxpayer interest.

Q31 **Chair:** In the work this Committee did on this whole business in the previous Parliament, we found quite a difference in the performance of the lenders' efforts to seek recovery, and that is presumably contained within that figure.

Gareth Davies: Exactly. That work was certainly a good prompt, or a catalyst, for the work that the BBB has done with the Treasury to go through and use both, as Tara says, the analytics but also then just removing cover. Removing cover is the simplest lever we have got, but of course we have to do that in a proportionate way, because it would not be right to remove cover from banks who purchased it in good faith.

Fundamentally, the original sin here is the scheme design and the way in which it was set up. That is not to say that nothing can be done now, but of course you are on the back foot given the way the scheme was designed. We understand the context of the macroeconomy at that point; the real worry at the time was the number of businesses that could go under. If you look at the BBB's estimates of the number of businesses that have been supported through the scheme, it has been incredibly positive—it thinks that up to around half a million businesses have been sustained as a result of that intervention. I think we have to recognise that it was a difficult time, but the scheme design does not help in terms of tackling fraud and error.

Q32 **Charlie Maynard:** I completely agree with that, and I am not arguing with any of it. It would be helpful to have a note or something to say, "Okay, so we have £2 billion outstanding, and it is climbing. This is what the DBT wants to do to address it." The withdrawal of the guarantee is one lever, but I am sure there are other possibilities out there—possibly aligning incentives or whatever it might be. It would good to have something that says, "Here are the options as to what we think we could do and this is what we recommend."

Gareth Davies: I would be very happy to provide a note for the Committee. If Members would be interested, we are happy to brief separately on that one and go through the details, maybe with Louis Taylor from the British Business Bank as well.

Chair: We had such a briefing before. I am grateful for the offer, Gareth. Can we take that away as a Committee? We may well want to come back to you on that. Did you want to ask further questions on registrations?

Q33 **Charlie Maynard:** I have a question on understanding identifiers. This was all done in a hurry, so would it be helpful for the DBT to ask the lenders what information they have about the individuals behind the companies that took out these loans? I could ask for a loan and say, "My ID is ABC 123"—how much of this is false? I do not think that information is inside DBT, but it is with the lenders. It would be helpful to ask the lenders for that information and for their opinions about duplicity and fraud.

Gareth Davies: Again, that is exactly the sort of thing that the bank is working with the lenders on. Just to provide some assurance, this was a process done at pace in the middle of the crisis, but while people selfcertified their eligibility, they did have to provide the normal ID checks, like the "know your customer" checks—they were all done. So there is relative confidence on who the individuals are. It is much more the scheme eligibility rather than the individual that is the issue.

Q34 **Chair:** Credit checks were not done. Presumably, that was on the basis of time available.

Gareth Davies: Speed, yes.

Q35 **Sarah Green:** Can I ask about the publication date of the 2023-24 accounts? They were published 10 months after the end of the financial year. Could you walk us through the reasons behind such a late publication date?

Tara Smith: There are probably three reasons why the accounts for 2023-24 were so delayed. The first is that it was the first set of accounts for the Department for Business and Trade. That meant a huge amount of work, bringing together and consolidating for the first time part of what was formerly BEIS with the Department for International Trade, for the opening balances.

When we talk about opening balances, you actually go back three years. The level of materiality that we now have in the Department for Business and Trade is massively different from the BEIS accounts. In BEIS, it would have been £500 million if those balances had been previously audited. In DBT, they have to be audited at a much higher level of precision, so it is £50 million. There is quite extensive disclosure from the C&AG on the amount of work, and the audit work that it took. For our team to do the work and for that work then to be audited was a huge endeavour.

The second thing is that it was a massive learning curve. The team who did this work were primarily people who were originally in the Department for International Trade. They had to understand the new complex balances that were coming across, such as BBB and Post Office. It was a very steep learning curve, and at the beginning we did not always have the people in the team. The machinery of government changes created three Departments and, in fairness to the other Departments, we had to make sure that each Department had some capability and capacity. We have built up that team since then and built up their experience, but that was definitely a steep learning curve for us.

The vast majority of the work was done by September. Between September and January, it was all about the Post Office and the Post Office provisions, and what we just discussed at length: how complex it was to come up with the provisions, make sure that we could justify the estimates and make sure that they aligned with Post Office. It was very difficult, as you can imagine. Now we know that we have the limitation in scope, but we had to use some estimates, look at modelling and justify how we were building up those provisions. Those are the three reasons that the accounts were so delayed.

Q36 **Sarah Green:** That is really helpful; thank you. What is in place to make sure that the next set of accounts does not take an extra 10 months? You have talked about it being a steep learning curve and said that you have built up the team. What has been put in place to accelerate the process this year?

Tara Smith: We have done quite significant lessons-learned, alongside the National Audit Office. The team are now experienced. We have recruited some great capability into the team: a new financial controller and a new head of accounts. Having gone through it once, the team who were in place at the time have learned a lot. I am really confident in the capability and capacity of the team. We have also worked really constructively with the NAO on a very detailed timetable and on expectations—what we need to support our balances.

We have a really good, joined-up plan for the 2024-25 accounts, but I will say that there has been a knock-on impact. The fact that our accounts were only laid in January delayed the work that we would usually do preChristmas on planning for the following year's accounts. I expect that, this year, we are working towards laying our accounts in September, but we aim to be back pre-recess for the 2025-26 accounts.

Q37 **Sarah Green:** So you are confident that you have resolved most of the issues; you are just playing catch-up slightly.

Tara Smith: Yes, we are playing catch-up. There is a knock-on impact from having to start straightaway after laying the accounts in January—start the planning, and getting all the work ready and the timetable agreed with the NAO for this set of accounts—so the expectation is September for this year, sadly, but back pre-recess for 2025-26, hopefully.

Gareth Davies: To build on that point, that is the challenge of a machinery of government change like this. Credit to Tara and her team for the work they have done with the NAO, but we created three Departments from two, and fundamentally that is where the capability and capacity is stretched. I have done these sorts of mergers in the private sector, and you would normally have a lot longer to plan. Here you had literally 24 hours, so you had those knock-on consequences. The team who were doing this were effectively the team who were doing the much simpler accounts for the old Department for International Trade. As you have already heard on the compensation payments and the British Business Bank, the complexity of the balance sheet now, compared with what it looked like for the old Department for International Trade, is different by orders of magnitude.

Q38 **Sarah Olney:** Ms Smith, the Government Internal Audit Agency issued a limited assurance opinion on the accounts. Can you explain why that was, and what the Department is doing to respond?

Tara Smith: A lot of this was down to it being the first year's accounts for the Department for Business and Trade. We were building the Department. As Gareth mentioned, you do not get much notice of these things. When the internal auditors provide their opinion, they look across the whole year and ask, "Have you got the right governance in place for the whole year?"

During the year, we were building some of the governance and the structures. The themes that they pulled out in their report were around the machinery of government change, and around our capacity and capability. We were building a lot of our teams up—we had a lot of vacancies at the beginning of the year—and we were working through our governance. That was in place by the end of the year, but it maybe was not in place for the whole year; we were still trying to build all that out. There were some themes on strategy and business planning as well.

Again, we are feeling much more confident about the year that we are just about to complete. Obviously, we are working with internal audit, but we have more or less completed all the internal audit actions that were raised. We have had a full year of being DBT, with our governance structures in place. The internal audit programme has been completed. The previous year, again, their work was disrupted by us being in a machinery of government change. They had a big end tail for their internal audit programme, but that has been completed more spaced out during the year. We have had all of our internal audit reviews completed this year. We are working with them now on what the picture looks like for the for the entire year, but I am feeling much more confident, in the position that we have, that we will hopefully—

Q39 **Sarah Olney:** So it is your expectation that the 2024-25 accounts will receive a clean bill of health.

Tara Smith: I would like to think it will be a moderate. It is the opinion of the internal auditors, at the end of the day, but we are working very constructively with them. I do think that, actually, the limited opinion was finely balanced. I think at the end of the year we were moving into moderate, but, in fairness, I could understand why they were at limited assurance for the entire year.

Q40 **Sarah Olney:** But there was nothing in that limited opinion that was not related to the machinery of government change, as far as you are aware.

Tara Smith: Other than, possibly, it was a bit of a distraction at the beginning of the year, when we were working very quickly to build out the Department, and build our governance structures, systems and processes.

That would not have been in place for the entire year. Probably by about July to September, we were in a much better place, but from March to July we were still working through on an interim-type model.

Gareth Davies: I think that is fair. I would almost be worried if internal audit were not concerned, on the back of the scale of the change that happened here, to be honest. The big risk whenever you do a machinery government change or a merger is that everyone suddenly becomes very internally focused. People are worried about who they report to and thinking, "Is my job safe?" Our challenge as a leadership team was ensuring that we kept focus on the delivery of business for Ministers and the public, while creating a small team to create the right structures, the lines of defence and a strategic plan for the Department. Essentially, we built that out of the old Department for International Trade.

Think about the difference between the DIT and the Department for Business and Trade. The old Department for International Trade essentially was free trade deals, work with the WTO, and investment and export promotion. We kept that, but then added in all the work we are doing on competition policy, regulation, employment law, the steel sector, Post Office compensation and the bank. To give you a sense of the scale of the challenge, the number of partner bodies went from one to 19. We needed to recruit literally a couple of hundred people into the finance function to provide the capability. Over that March to summer recess period, it felt like a build moment. As we hit the autumn, I personally felt much more confident that, while the organisation is not without its challenges, the Department was in more of a steady-state position from there on in.

Q41 **Chair:** I have one final question. Looking at the table of total number of exit packages by cost band on page 69 of the annual report and accounts, it is quite a big package in all, of £2.269 million. Is that as large as it is because of the machinery of government changes—the merger of your Department—or were there any other reasons?

Gareth Davies: No, this was not, actually. That was running into the prior year. In terms of the overall numbers, this was broadly in line with what you might expect over the period. Remember, this is not just the Department HQ—the Whitehall bit of it—but the total civil service reach, including partner bodies.

We had 22 staff exit packages in 2023-24. That was at a cost of £961,000, and only one exceeded £100,000 at that point. Eleven of those were in the Department, and that was mainly staff employed overseas, because we have 1,500 people based around the world. There were seven in an agency, and four in ACAS or the British Business Bank. In addition to that, there were three retirements on ill health grounds, one of which was in the Department and two in the Insolvency Service. Some of that was pension liabilities that were paid up.

Chair: Fair enough. Thank you. Unless colleagues have any more questions, we will bring this session to an end.

Examination of witnesses

Witnesses: Gareth Davies, Jaee Samant, David Bickerton and Sean Jones.

Chair: Welcome back to the Public Accounts Committee on Monday 7 April 2025. We now move on to our second order of business today, as part of our wider scrutiny of the work of the Department for Business and Trade. The Department for Business and Trade is the Department for growth, and it aims to provide more joined-up support for industry and to offer a front door to business in order to deliver economic growth across the country.

The new Government have announced five national missions, with the highest-priority mission being economic growth. This is part of the "mission-driven" approach to government, where Departments must work together to deliver key priorities in a more effective and efficient way. Last October, the Government announced a new industrial strategy to support this growth mission, which they are expected to publish later this spring. The Government have designated eight growth-driving sectors that they believe present the greatest opportunity for output and productivity growth over the long term.

However, delivering this mission and supporting these sectors in an increasingly volatile economic environment poses a huge challenge for the Government. We will therefore be questioning senior officials on DBT's current approach to support for priority industry sectors, and examining progress made in developing the Government's forthcoming industrial strategy.

To help us with that, we are pleased to welcome back Gareth Davies, the permanent secretary. I am looking for your biography, which is not there but never mind—sorry, we are not doing very well with papers today. We have it here somewhere. I hardly need to reannounce it, but you have been permanent secretary since the creation of the Department in February 2023. We are also very pleased to welcome Jaee—is that how you pronounce your name?

Jaee Samant: It is kind of you to ask; thank you. It is Jaee Samant.

Chair: Right, and you are the director of DBT's business group. You were appointed in January this year and you are responsible for priority industry sectors.

Jaee Samant: I am indeed. It is my three-month anniversary today.

Chair: Brilliant. I am sure you will remember this three-month anniversary.

Jaee Samant: I shall.

Chair: Also joining us is David Bickerton, the Department's chief strategic business adviser. You were appointed in January this year and you lead on significant business issues for the Department, including commercial opportunities and threats. Finally, we are pleased to see Sean Jones, director of companies and economic security. You have been in various roles with HMT since 2016. A warm welcome to you. Jaee, is it your first time?

Jaee Samant: I have been to the PAC virtually during covid, some years ago.

Chair: That is why I don't remember you. Sean, is it your first time?

Sean Jones: It is, yes.

Q42 **Chair:** Not you though, David—you have been before—and obviously so has the permanent secretary. I give the two of you, Jaee and Sean, a very warm welcome to the Committee for the first time. Thank you for coming today.

It is over to me to ask the first question. Just to get us going, permanent secretary, how would you evaluate the success of the merger that created DBT from the two previous Departments? Do you think it has settled down yet or is there more to go?

Gareth Davies: Talking about the complexities of the merger touches on the previous session. I will back up to touch on the rationale for the merger from the previous Prime Minister. As you will know, the Business Department has been through many different iterations over the years. It is hard to decide what things should be in a Business Department, because there are so many issues that touch business—from skills, to energy, to environmental regulations. Trying to get the right boundary around the Business Department often depends on the context at the time.

The main rationale for the creation of the Department, which you touched on yourself, was the complex geopolitical environment we are in. That is certainly the case now, but it was even the case two years ago, with increasing moves towards protectionism right the way across the world, and greater interaction between politics and some of the more regulatory decisions, which were maybe seen as more technocratic in the 90s and noughties.

For most businesses, it is very hard to split domestic and international issues, which is what had to happen in the old world. If you speak to someone like John Harrison at Airbus, he would say that prior to the Department being created he would need to go down the road to 1 Victoria Street to speak to the Business Department—BEIS—about domestic support, the skills need and what was happening in Broughton, then up to the road to the Department for International Trade for advice on market access or how we might negotiate contracts with the Indians. There was no place that brought a single sense of relationship management with Airbus, which is crazy. We wanted to make sure that the Government organised themselves around businesses' needs, rather than the other way around. For me, the clearest rationale for the Department was that integration of the international and the domestic.

In terms of how the merger is going, I have been involved in multiple machinery of government changes, both in government and in the private sector. These things take longer than you sometimes realise. The Committee has already looked at, say, the Foreign Office and the Department for International Development. I was in Price Waterhouse and Coopers & Lybrand. I think 10 years on, people still asked, "Are you Coopers or are you Price Waterhouse?" It is funny how the legacy happens.

Here, we had some wind in our sails. Because the Department for International Trade was a relatively new Department, only created in 2017, most of its staff were drawn from the old Business Department. I remember that on day one when I did the classic town hall and said, "How many people have worked in both Departments?", something like 70% of people put up their hands. You had a strongly similar cultural heritage, training and approach to the way of doing business, and people had relationships. That gave us a lot of momentum in terms of creating the new Department.

The biggest challenge for the new Department, as I said in the previous session, was that we were creating three Departments from two, which obviously meant that the core corporate functions—finance, security, HR—were effectively spread between those three Departments, and we had to rebuild some of the capacity that was needed. That from February or March 2023 through to summer recess—that was the real build phase for the Department.

Since the summer recess of 2023, it feels much more, essentially, that we are realising the benefit. No organisation is ever done—you have to constantly adapt to what is going on in the outside world. Obviously, there was an election and a change of Government in the middle of all of this.

However, it feels to me that the Department is stable and adapting, and has been able to focus on the new Government's priorities for the industrial strategy. The issues that I am facing at the moment, which are all reflected in the risk register for the 2023-24 accounts, are all the classic issues for Whitehall. We must make sure that we have a good employee value proposition; in other words, are we an attractive place to work? Have we got the right incentives to bring people in? Are we creating the right culture? Have we got the right skills and capability, particularly around business expertise, and have we got the right tech capability? Those are some of the issues we are focused on as we go into the spending review.

Q43 **Chair:** What does success in the Department look like? How do you measure success?

Gareth Davies: Quite simply, the clear priority of this Department is economic growth. You do not need me to go on and say why that is important; we know the poor performance of the UK economy, since the financial crisis, frankly.

Q44 **Chair:** That is your key priority.

Gareth Davies: That is what I call the north star and that is what teams should test themselves against. You have to make that more operational because it is too abstract, and sometimes some of the lags between the actions that teams will take and economic growth are too long and uncertain.

We break this into three parts. The first part is around how we get a strong domestic business environment. What are we doing on competition policy? How are we sorting out regulation? What does that mean for product safety and consumer support? We have metrics under all of those. But essentially, how is the UK positioned as a great place to do business, set up a company and flourish, with the right consumer protections and worker protections?

The second pillar—the second objective—is around how you can make sure that the UK is a good place to do business from. That is the outward focus because while we are still the sixth largest economy in the world, truly global businesses will never be able to be based here and serve only the UK market—it is just not big enough. You have to make sure that we have the right connections, be that into the European Union, the States, the middle east or the CPTTP. It is about free trade deals; it is about market access barriers. It is about making sure that—this is particularly challenging at the moment, obviously—that the global trading environment is supportive of businesses wanting to use the UK as a base.

The third pillar of our objectives is a much more operational pillar, because too often in the past the Business Department described itself as a policy Department—one that is good at analysis. There is actually a lot of doing in this Department. For example, we provide key services directly to businesses, such as investment promotion through the Office for Investment; you saw that through the international investment summit last year. There is export promotion work through the export support service, and support for small business. There is what we are doing on export controls, which is a growing part of our work.

Previously, we talked about the British Business Bank, Companies House and the Insolvency Service. These are direct services provided to businesses, where we have key metrics under each one to make sure that we are delivering.

Q45 **Chair:** If growth is your overriding priority, which it should be, how do you measure success in your Department when it comes to the Government as a whole—for example with the Treasury and with all the other Government Departments that you interact with?

Gareth Davies: My cascade is, as I say, growth, as measured by GDP per head and real household disposable income; they are the ultimate metrics that this Government says it wants to be assessed against. You then break that down—all components around the businesses. Within that, what we look at are jobs, wages, exports and investment, particularly now that we have an industrial strategy within those eight sectors.

Then we have a bunch of input targets, which will be things like response times and the number of businesses we have directly supported. Those are indicators that give you more real-time data, which then in due course should lead to the outputs that we are expecting to deliver.

That is what is difficult in the Government context: the map between the inputs, outputs and outcomes can often have long and variable lags, so you have to have proxy measures to be able to ensure that you are putting your faith—or spending your money—in the right places and holding your teams to account.

Chair: I am sure we will want to unpick some of that as we go through. I omitted to allow time for two top-of-the-session questions, which I think you have been warned about, so I am going to go first to my very able deputy, Clive Betts.

Q46 **Mr Betts:** There is quite a lot of talk about the future of the steel industry, which I am sure you have been having a few sleepless nights about over the last few days. In terms of the strategy for steel, which is clearly a key industry, can you have a successful steel industry if you cannot produce steel from raw materials?

Gareth Davies: This is a really important question, particularly in a world of increased geopolitical tension; you need to think through exactly what you need to make versus what you need to buy. I think all industrialised countries have some form of domestic steel production, but even when there are blast furnaces, we are still reliant on the inputs to those. There is no complete UK sovereign capability; there is always going to be a dependency externally. We are looking to publish the steel strategy, which will set out our overall approach, later this spring. That has already been informed by what we are doing with Tata in Port Talbot and the ongoing commercial negotiations.

Q47 **Mr Betts:** You mentioned the potential vulnerability of the economy to external forces. Is steel seen, then, not merely as a good thing in itself—producing in this country, creating jobs and creating growth—but as really important for energy security, because it contributes so much to energy industries, and our defence security?

Gareth Davies: As we have said in the industrial strategy, we see steel as an absolutely critical foundational sector for the UK. Obviously there are different types of steel, be it longs or flats, in Port Talbot or in Scunthorpe. On defence, you have Sheffield Forgemasters—I do not need to tell you.

Mr Betts: It is in my constituency.

Gareth Davies: Exactly. We use the words "unique capability" too often in industrial policy, but that truly is, and you know the history of that company and its criticality to defence. We cannot find a single industrialised nation that does not have sovereign steel capability. The question, of course, is whether it needs to use blast furnaces or electric arc furnaces. I will bring David, who is our steel expert, in on that, but we are working our way through it. The critical thing is that you can build resilience not necessarily just through total sovereign capability, but by having the right set of imports around either the raw materials or the renewable steel.

David Bickerton: Essentially, there was commitment in the Labour party manifesto before the election that the Government would invest £2.5 billion in the steel industry, on top of the up to £500 million that we granted to Tata Steel in south Wales. We did a consultation from the middle of February to the end of March, and the question was basically about establishing what the steel industry in the UK is to look like. To help us with that, we beefed up the Steel Council. That is led by the Secretary of State and has the steel companies, union members, and supply chain and R&D expertise on it.

Having gone through the consultation with the industry, with the steel strategy we are hoping to work out what the future is for the UK steel industry. What is it going to look like? Do we need to have virgin steel? Can we use DRI? You are absolutely right, of course, that we depend on the coke, the iron ore or both coming into this country. Given that the Government are committed to a strong steel industry, at what stage in the supply chain are we prepared to rely on external providers?

Q48 **Mr Betts:** That will be in the strategy, when it comes out.

David Bickerton: That will be in the strategy. It will all be there.

Mr Betts: Right, and I gather that we are not going to get any further answers today, because that is a political decision.

Q49 **Chair:** Thank you very much, Clive. I have a topical question to do with tariffs and the Government's easements on electric cars, and the effect in respect of steel on the automotive industry. Where are we with the automotive industry? We have seen Jaguar Land Rover suspend their exports to the United States. What is your take on the whole thing?

Gareth Davies: Obviously it is a very worrying situation on global trade more generally and on auto in particular, given the 25%. That is 25% on top of additional tariffs, which sometimes is not mentioned in the media; I say that to bring out the scale of the intervention here. You mention JLR. I think 75% of its exports go to the US. Some of the luxury brands, like McLaren and Aston Martin, are similarly exposed to US trade.

There are two things we are working very closely with the industry on. One is to understand the direct impact. A big question, frankly, is the price elasticity—if you are buying a luxury car, the extent to which you will be affected by the additional price premium or not. It is hard to work out, but we are working through, with embassies, intel from the dealership networks across the US to understand that.

We have been speaking to JLR. The focus there is on—everyone is really trying to take stock, because of course you have had the initial announcement, but in any trade deal and tariff situations, the devil really is in the detail: rules of origin, the product codes and the like. At the moment, companies I am speaking to are very much working their way through what the implications of this are, and understanding what that means for both supply chains and customers.

What we are conscious of, obviously, is that this is a headwind for the auto sector, which is absolutely vital for the UK, as we know, especially on the net zero journey or transition. I have been in here, so I do not know whether it has been or will be announced, but I know that the Department for Transport will be bringing forward announcements on the ZEV mandate—not changing the overall trajectory or the goal of moving to zero emission vehicles by 2030, but on some of the details of how that is implemented: for example, the size of the fines, the ability to trade between different years, and the exact ability for hybrids to be counted or not. I am talking about some easements within that—trying to keep the balance of the strategic intent with flexibilities, recognising some of the headwinds facing the industry.

As you heard from my Secretary of State in the Chamber last week, the focus is to take this calmly. There is always a risk with announcements of this sort of scale and the sort of movements we are seeing in the market. Plus, social media means there is a natural instinct to react in the moment. Essentially, we are very focused on this, but we do not want to overreact. We are working closely with industry. I, the Secretary of State and my teams have been speaking with businesses in all sectors, since the announcement from the President, to understand exactly what the implications for them are.

As I say, the vast majority of businesses I speak to at the moment are concerned about the scale of the impact and are working their way through what the practical implications of this will be. Obviously, concern is growing about the broader financial movements in the markets and what that means, and the potential secondary implications, because if you look at, say, the OBR forecasts that were published at the time of the spring statement, there is the potential direct impact on the UK—on the upside, I think most people were surprised about the level of the tariff compared with, say, that for the EU—but there is also the secondary impact, be that through supply chains or lower demand in the economy.

The main point I would like to leave the Committee with is just how seriously we are taking this and the amount of focus in the Department. This is a primary focus of our work at the moment.

Q50 **Chair:** I understand that. Are your embassies looking at and talking to these companies? I understand in relation to those inventories—for, say, Jaguar Land Rover—that the number of vehicles already in the States would not be covered by the tariff. Do you have any information on not just the car industry but the overall effect, or the immediate effect, that this tariff increase is likely to have because British companies have significant inventories in the United States? Or maybe they haven't. Do you have any feel for that?

Gareth Davies: I do not have numbers in front of me, but inventories tend to be short, because obviously there is a big working capital requirement if you have big inventories, and what we know about the auto sector is that it is a tough business to be in and they are very good at managing their working capital. I will not remember the dates, but I remember that if goods are in transit—if, in other words, you have some cars on ships—they will not be caught by tariffs; I think there is a cut-off date for that. The situation is similar for goods that are in the country at the moment.

What I do not think we are expecting to see—there is uncertainty, but my judgment at the moment is that there is not an acute crisis right now. This is much more likely to be a chronic issue that we need to monitor closely with the sector.

Chair: We will leave that for now, but that is obviously a very serious issue.

Q51 **Sarah Green:** I would like to ask about the Department being a front door for business. You gave a really good illustration of a previous regime, where a business would go to one Department and then walk up the road to speak to another. My question relates to that, because apart from five industry sectors, Government support for most sectors remains with other Government Departments, with DBT involvement. The NAO's Report says that the industry stakeholders that it spoke to said that "they would prefer a single 'front door' for support, and that DBT would be well-placed to do this." What are you doing to ensure that that happens? What should you be doing to ensure that you are an effective front door when people still have to go to two different Departments, in effect?

Gareth Davies: That is a really good question. As I was saying earlier, it is almost hard to think of a Department that does not have some work to do with business. The Department for Culture, Media and Sport is responsible for the creative industry sector; DEFRA's environmental regulation touches on pretty much all sectors; and the MOD obviously has a business interface. Every Department does, in some way, shape or form. With the creation of DBT, I have tried to be really clear that we are the Department for all business. It is not that we do some sectors; we cover the waterfront.

We have agreed a segmentation of businesses across Government. There are different ways you can divide up the economy, but we have agreed a 10-segment approach to businesses, with things like advanced manufacturing, creative, life sciences, tech, financial services, professional services and the like—I will not remember all 10 now. We are clear on which Department is in the box seat. With financial services, it is obviously the Treasury. For businesses that do not have an existing relationship in another Department or are not quite sure where an issue lands, we say that they can come to the Department for Business and Trade. They will not just be passed off; there is a team there that will support them and make that link.

All large organisations are complex, and there is always wiring, but too often we have shown the wiring in public rather than helping to manage those relations. What we now have under Jaee is a single team that covers all businesses, sometimes to a high degree of depth, where it is our responsibility. For creative ones, which are the DCMS's responsibility, it will be a smaller team. They are focused on exports and inward investment, but we will also make sure that if someone wants to talk to us, we can help them to resolve their issues.

Q52 **Sarah Green:** That is helpful. One aspect of the NAO Report refers to duplication of communication or contradictory communication when there are two Departments involved. What are you doing to address that? From the businesses' point of view, they just want a single point of contact and clarity. What are you doing to improve on that? There are so many Government Departments, so it cannot be perfect everywhere, but how are you working to make sure business owners are getting the clarity and consistency that they need?

Gareth Davies: I would say a couple of things on that. What has worked in Government? I think the creation of the Office for Life Sciences has been incredibly effective. Who should AstraZeneca or GSK go to? They needed to go to the Department of Health and Social Care, because drug pricing is a major issue, along with the use of technologies, data and the like. In the past, they also needed to go to the business and science Department, because spending on research and connections to universities were critical. They quite rightly complained, "Hang on, I'm going from pillar to post."

I think it was in the early 2010s that we created the Office for Life Sciences, a joint team between the then business Department and the Department of Health. It was a small team—I think it was about 30 people at the time—who would be the owners of that sector and, if you like, the voice of the pharmaceuticals and life science industry within Government. It was a way of integrating the different issues and views and providing a single conduit back out to business.

Personally, I would like to build on that, because it has been an incredibly effective model. In practice, we make sure that my team—for example, the team working on creative industries—is working hand in glove at working levels with DCMS. Could we go further? That is a really good challenge, and the NAO Report was very good at identifying that.

Q53 **Sarah Green:** Is the model that you have just described what you would like to see for every sector?

Gareth Davies: There is certainly potential for that. Ultimately, these things are for Ministers to decide, but that single front door for business is certainly something that we should be aspiring to.

Q54 **Sarah Green:** What is stopping you from doing that now?

Gareth Davies: It is partly just that this is advice that would need to go to Ministers. It is certainly something that you would want to look at through the spending review.

Q55 **Sarah Green:** What do you think businesses want from the Department? What do you think they need, and are you set up to give them that?

Gareth Davies: I think there are a couple of things that they need. Jaee, you are at the sharp end of this, so it would be good to get a sense of what you are hearing.

I think they want to have someone who understands what the industry dynamics are: not someone coming fresh to it, but someone with a depth of experience and expertise. They want someone who is a credible interlocutor, not just a post box who will say, "I will take the issues away." They will have a perspective and be able to give proper advice about where Ministers are on policy issues. It is not always about giving industry what it wants; it may be about giving some messages that are unwelcome but at least full and frank.

It is then about being able to guide those in the industry and help them, not by just passing them off, but by making sure they have the right introductions to the relevant teams in different Departments. With automotive, for example, I would expect the teams there to be able to say, "If you want to really understand how you can work with the university sector, here is the person; I will arrange a meeting for you with the person responsible for science policy," or "If you are worried about level 7 apprenticeships, here is the director general who is leading the work in the Department for Education, and we can sit down and work our way through it."

Sometimes, business engagement can be seen as just being nice to business. I do not think it is just being nice to business; it is about having full and frank conversations so we can align on the shared agenda. In my experience, looking in Whitehall but also at the history on industrial policy, it is about that awful phrase "co-creation": working with businesses to an agreed sense of how the industry will flourish in the UK. I think that was reflected in the NAO Report.

Jaee Samant: I agree with everything that the perm sec has said, but there is also the issue of follow-through. Businesses want to be able to speak to somebody in Government and know that something is happening as a consequence of that conversation, and that it has not just gone into a black hole. We are endeavouring to really step up on that.

There has been an issue that businesses end up having conversations, as the NAO has said, with various different Departments. They want some sort of clarity and consistency of the message that they are getting back. That is not always going to be possible, because there will be policies that are in flight or in development, where we in Whitehall are still working through which one will take primacy or where the policy solution will land. Sometimes it is inevitable that businesses might hear slightly differing views from different Government Departments, but we certainly want to minimise that in so far as it is possible. One way of doing that is by ensuring that colleagues across Government know about the conversations that have been happening with business among different interlocutors in Government.

One thing the NAO has talked about is that we have business intelligence products and so on, which we had not previously shared very well across Whitehall. We have started to do that in a much more comprehensive and consistent way. We now have business intelligence that is being shared with 2,500 colleagues across Government, including Ministers and 16 permanent secretaries. That is business intelligence that gives them insight about some of the senior-level conversations that have been happening with individual businesses, as well as some of the issues at a sectoral level.

Q56 **Chair:** May I ask a very simple question, Jaee? We will be coming back to the issue of data and sharing information across Government, but I gather that one of the impediments at the moment is a legal impediment about what data you are able to share between Departments. It seems to me that that should be a relatively easy problem to resolve: as long as you are giving out aggregated data, not personal data, it surely ought to be possible, where it is in the interests of business, to share data across Government.

Jaee Samant: Yes, and we are sharing aggregated data with key people in Government.

Gareth Davies: The biggest challenge, to be frank, is a bit like the one I faced when I was in PwC: how to share information with our clients. You have to create the right incentives. There are obviously some technicalities with the legal issues and the tech platform, but in my experience that is the easy stuff to get right.

The trickier stuff is making sure that it is in people's interest. If I have had a meeting with AstraZeneca, I should feel that there is a reason for me to share that with other colleagues. It is about creating the right community, creating the right incentives and improving our training. We recently held training right the way across Government for everyone involved in business engagement and account management. We brought in our lead non-exec, Paul Drechsler—you will remember him from the CBI, so he has been a customer of this—to set expectations about what good looks like.

The parallel that David mentioned to me a long time ago is that it is a bit like our embassies. When I go to the States, I always check in with the embassy and the ambassador—especially the ambassador now—to make sure I understand what is going on and the political context. If you are going off to speak to Barclays or HSBC, we need the equivalent there. You should think, "It is in my interest to check in with the account owner and to share information back." We need to be more disciplined across Whitehall on that, so we need to get those incentives right. We now have support from Downing Street and permanent secretary colleagues on this.

Q57 **Chair:** It is interesting that you mentioned the banks. After the ambassador, the banks probably know more about business in a country than anybody else.

Gareth Davies: Exactly. The people I find particularly helpful in giving real-time intel, not just about their own sector but elsewhere, are banks. Someone like Sir Mark Tucker has a broad perspective, not just about the UK but globally. The heads of advisory firms also have great reach right across the country through their local offices. I find that real-time information absolutely invaluable.

Chair: That is very interesting.

Q58 **Charlie Maynard:** The question I had prepared was to ask you to give a view on the Department's capability and capacity to support business across a variety of sectors. I think you have done quite a lot of that, but feel free to add to that.

I was going to add another question on top of that about regulation. DBT has an oversight role with responsibility for various regulators—Companies House, the CMA and the FCA, to name a few. How well does DBT's oversight of and input into regulators work? Is there room for improvement?

Gareth Davies: You are right: we are responsible for more than 19 partner bodies, ranging from Companies House and the FRC through to the Small Business Commissioner and the Pubs Code Adjudicator, and within that there are a large number of regulators. I will come back to your broader point, but there are two issues with regulators. One is with the ones directly under our control. The second issue is that we have responsibility across Government for regulation policy. You will have seen that we have been working closely with Sean and his colleagues on the approach to regulation that the Prime Minister announced recently.

Regulation is obviously not in the right place. I don't think anyone is happy with the regulatory environment in the UK at the moment. There are lots of reasons for that. Partly, it is because over the period of Brexit, a lot of powers needed to be repatriated from Brussels, and the speed at which we needed to work meant that they were given directly to regulators.

My previous job was in the Department for Transport, and we transferred a lot of aviation security powers from EASA into the CAA. That was a sensible place to put them because of the expertise, but we did not have the time that we needed to reflect on exactly which ones were the independent regulatory responsibility of that organisation, such as safety, and which were more for ministerial control, such as drones. Getting the balance between what is under ministerial control and what is operationally independent is important.

Right the way across the western world, there has been a growth of regulation. TheCityUK has done some very interesting work on the increased costs of financial services regulation—both the number of employees in regulators and the cost of that. James Palmer estimated that to be in the low single-digit billions.

Sometimes the debate on regulation can unfairly be divided between a bonfire of red tape and the need to protect consumers. It becomes a bit of a false dichotomy. The concerns that I hear from businesses are sometimes about the nature of the regulation, but often they are much more about how the regulators operate. For example, as feedback on the Competition and Markets Authority, some businesses have told me, "We totally recognise that we need to have strong competition rules, because we know that that is what drives a successful economy and protects new entrants, but it is about the pace at which decisions are made."

This is where the new chief executive has it exactly right with her four Ps. In some cases, it took over 22 months to adjudicate on a hostile takeover. As you know, that is just not the pace at which business decisions are made. Often, a quick no is what businesses are looking for, rather than a long, drawn-out process.

Through our work on regulation, which we are doing hand in glove with the Treasury, we are looking to make sure that we can upgrade the capability of regulators, which includes a number of things. It is about the leadership, and we have made some changes recently. It is also about our capability to ensure that we have the right level of pay flexibilities to attract the right people. A big challenge for the Competition and Markets Authority is the civil service pay constraints, which we know that we need to look at. You can see the difference with Ofcom, for example, where it has more flexibility because it is industry-funded.

We also have to consider duties. The multiplication of duties causes regulatory ambiguity for businesses, which is not always helpful. Ofwat, which I know is currently under a DEFRA review by Dan Corry and others, has over 21 duties as a regulator. When you have 21 duties, it is almost like having no duties. We need to ask whether we can simplify that to a system that is much clearer and more understandable.

Over recent months, we have tried to simplify some of those structures. I can point to some things that I think are a success. In the FRC, the appointment of Jan du Plessis, as well as Richard as chief exec, has made a big difference to the feedback on how the FRC is operating. That feels like a step change. The CMA feels like a very different organisation now with Doug Gurr, and with the focus of the chief exec on the pace and simplicity of work. We are looking through the way in which we do duties and economic regulation more generally.

Q59 **Mr Betts:** I have a question that relates to an answer you gave earlier. The issue of civil service pay comes up so many times in our hearings, whether it be for IT specialists or construction specialists. Where the private sector is clearly a competitor and requires exactly the same skills, why do Departments not just get on and deal with it?

Gareth Davies: I feel like asking a civil servant whether they would like a pay raise is one of the easier questions.

Mr Betts: I was not offering you all a pay raise. I was saying that where you need to attract someone in particular, and you have to pay them, why should a framework get in the way of it?

Gareth Davies: There is always a difficult and delicate balancing act to do on this one. Obviously, we have to make sure that we provide value for money for taxpayers; that is absolutely critical. I cannot think of a civil service outside Singapore that offers top decile pay or anything approaching it.

Of course, it has to be competitive, but there are lots of advantages to work in the public sector. I made the move across from the private sector, and we should not underestimate the importance of the impact you can have, the breadth of experience, the complexity of the issues and the purpose you get from the work. I often find that people come at different stages of their career. Sometimes, they will have worked in the private sector and then come in to do a period of public service, and we can tap into that.

It is right that we have flexibility over how we attract people and how we design jobs. With some roles that are very comparable to those in the private sector, such as the financial roles, programme management specialists and digital, it is harder to attract. Sometimes, on digital, it is about the complexity and the challenge, and the Government Digital Service was very successful in pitching to people a sense of purpose. I think the Cabinet Office has successfully brought in some pay flexibilities around the way in which some of the commercial structures operate. I

hesitate, because this is a difficult balance.

Q60 **Mr Betts:** Do they ask for your input in that?

Gareth Davies: They do. I am very conscious of both my budget and my flexibilities. What you do not want is to have Departments competing against each other. One of the slightly unusual things I find in Whitehall is that each Government Department is its own employer, rather than the civil service as a whole, which means you have to co-ordinate between them. The way the Cabinet Office works, through the permanent secretary there, is that we input where we see difficulties and shortages in recruitment. Tech is the obvious one, and we have an ambition to increase the number of digital staff in the Department. I certainly would like to grow our digital function over the spending review, even as our overall headcount is likely to reduce. Ensuring we can be competitive within the bounds of public acceptability, frankly, as well as value for money for the taxpayer, is critical.

Q61 **Mr Betts:** To come back to the Department that was created, having just carried on with the allocation of staff to deal with different industries and their needs, have you had an overall look at where your priorities should be and then moved staff around to fit that?

Gareth Davies: I will bring in David, who led this work. The key thing we did when we created the Department was that we had essentially two sets of sector teams. In the old Department for International Trade we had sector teams focused on export promotion and inward investment advice. In the old Business Department, we had teams focused on the domestic issues, such as advanced manufacturing, steel and the like. We brought those two sets of teams together and then restructured them around the 10 sectors of the economy, as I mentioned earlier.

The calculation we made on where we would put our resource was based on two questions: the scale of those sectors—how important they are as a share of GVA—and also where Government can make a difference. In some sectors there is limited scope for Government intervention, other than through the broader business environment. With sectors such as steel, there is a closer working relationship with the Government than the share of GVA might suggest. David, do you want to take us through how you approach this?

David Bickerton: The machinery-of-government change happened in February 2023. In that first phase of the merger, which Gareth was talking about, we put together the sector teams—the ones from the former DIT, dealing with exports and investments, and the team from former BEIS, dealing mostly with policy and engagement with the sectors. We were trying to ensure that, from the team's perspective, they had a common goal. Rather than focusing on the input side—which was a lot more of what we were doing on the exports and investments side—we were trying to work out the desired outcome.

The desired outcome, whatever the colour of the Government at that stage, was economic growth. We established so-called sector views, where we took the business intelligence, engagement and analysis to work out which were the particular drivers that would drive growth in that sector the most. Remember, at that time there was, deliberately, no industrial strategy. We then said that, in order to deliver that—given that a lot of the levers that sit behind that growth sit in other Government Departments, such as DCMS with creative and DESNZ for clean energy—we need to ensure that they share our view, and we share their view, on what it is that will bring growth into that sector.

Coming back to the point about how you make sure people do not trip over each other, we started trying to stand up what we called handshakes, which was basically agreeing what it was that each Department was going to do—whose responsibility was which—and then we came up with socalled sector action plans. The idea was that you had an agreed, resourced shared plan with those other Government Departments about how you were going to deliver.

That essentially meant that we looked through all the 10 sector categories we had, and we basically looked at these questions: do we own the policy on that sector? Is that sector in a period of significant transition, like the automobile or aerospace industries? What is our level of responsibility? Is there public money involved, and what level of programme delivery do we need to put around that? We then sized the teams to meet those needs, and to match the obligations that we were taking on to do sector action plans.

The NAO Report—fairly—says that all the directorates are about the same size, which is absolutely true; that was because we were trying to make sure that the directors essentially had the same team sizes to manage. Actually, the specific sector teams were very different. They varied from 35, in terms of advanced manufacturing, which would probably be the biggest, because we have big programmes in there, the ATF and the APC, to some of the smaller teams, which were around creative. That was a sort of first step towards where we have got to today. I don't know whether Jaee wants to come in on how we have done that.

Jaee Samant: I have been continuing to review the structure since I started in January, because the changes that were made last year were made in advance of the new Government and in advance of the industrial strategy. I am quite clear that, although it has taken us part of the way there, it has not taken us all of the way there. I am currently reviewing and trying to clarify our boundaries and priorities in relation to other parts of DBT, as well as other Government Departments. I am also quite clear that we have to allocate resources to the top-priority sectors, and have fewer resources in those that are not the top-priority sectors. We also want to be efficient and effective to business, as we discussed earlier. So we are still—I am still—reviewing all of that and making changes.

Q62 **Mr Betts:** But it still very much seems to be a bits-and-pieces approach, where you have each sector being looked at specifically, and a bit in isolation. There does not seem to be an overarching approach. For example, issues like skills or regulation, which we have talked about, are cross-economy issues, not ones that can be looked at in each individual sector, so how do you marry together having teams on each sector with the need for overall approaches?

Gareth Davies: To be honest, I would add another dimension to that complexity: that of geography. You need to think about what is going on in individual sectors, about the cross-economy questions, as you say, and then also about what is happening in different geographies. That could be within the UK—what is happening in the north-west—or across the world as well. Within the Department, we have teams that cover those three functions, and the trick is about how you then bring those perspectives together.

The way we integrate the sector view from bottom up is around the industrial strategy. I have a team that runs the industrial strategy, working hand in glove with the Treasury on the wider growth mission. Its job is to understand what is needed within those growth sectors to ensure that they can flourish over the next decade, but then also to have that perspective of what businesses are asking for as a whole from the business environment. In other words, what changes do they want in the regulatory environment, as we were talking about, in terms of speed of decision making, how the competition environment needs to adapt for the greater focus on digital competition, employment rights and the changes to make work pay? You have that integration.

Similarly, there will be different issues in different parts of the country. Working with Greater Manchester, for example, yes, there will be some issues that are common to all businesses, but we know that there are specifical questions around skills, transport connectivity and the like. You have to bring those three dimensions together to get a proper informed position.

Q63 **Chair:** I do not mind, Permanent Secretary, whether this question is answered by you, David or Jaee, but figures 6 and 7 in the NAO Report show the amount you spend on those various sectors and then the number of people actually employed in those sectors. Let's take aerospace, for example; you spent £175 million, and you have one person involved—there must be something wrong with these figures somehow.

Gareth Davies: Where are we?

Chair: Figure 7.

Gareth Davies: That is all money, not people.

Chair: The figures in brackets are people, aren't they?

Gareth Davies: Oh, sorry; I was on figure 6.

Chair: In advanced manufacturing, you spent £250 million on automotive, and you have 38 people doing it, but you spent £2 million on financial, professional and business services and you have 25 people looking at it. It does not look as though the amounts that you are spending actually correlate with the number of people you are employing in these 10 priority groups—far from it.

Gareth Davies: Exactly. They will be very different.

Chair: And is there a reason for that?

Gareth Davies: Yes. If you just stand back, in terms of what we are trying to do and what our role is with these sectors, my main thing would be that it is not just about paying out money to sectors. Our role here is to work with sectors to understand how Government best can work with them so that they flourish over the next decade. Let me use the example of financial services. It is led by Treasury. The Government have worked hand in glove with the financial services sector over decades, frankly, to ensure that the UK has a real international advantage in that sector. It is not about giving it money—the last thing the banks need is money from us; it is about ensuring that, say, regulation is appropriate.

When we were a part of the European Union, Ministers would go to Brussels to make sure that they were reflecting the banks' interest in some of the debates around clearing and the like, or around skills and access to business mobility. For banks in particular, it was around the redevelopment of Canary Wharf and the Jubilee line extension in the late 1990s.

That was not around a grant programme that has been run out. The way would work with that sector is very different from, say, what we would be doing with the automotive sector. That is what you might call a much more traditional industrial policy intervention, running something like the automotive transformation fund, where you bid in for R&D funds.

Q64 **Chair:** Is the Department agile on this? If we suddenly get a problem, as we have with the automotive industry at the moment—going back to the previous question on tariffs—would you suddenly be able to bring more people in if there was a need to do something really dramatic in a particular sector?

Gareth Davies: Again, I might come to Jaee in a minute. But the whole point about the way the business group is structured is to be able to do two things. We were talking about what businesses want, and they want some depth of expertise. They do not want to speak to someone who is dealing with a car company for the first time. But you need to have some flexibility as well and try to have that mix of skills, so you do surge.

For example, at one point there were only three people working in the steel team. That was back in 2016. Two months later, we surged that—when I was responsible for it—up to 120. You are able to flex that. Jaee, do you want to talk about some of the flexibility issues?

Jaee Samant: I have been flexing resources from one team into another. For example, I have recently added four people from one team into the auto team. That is something that I would expect to do on an ongoing basis. To be able to flex resources across your group as priorities shift is normal and essential.

However, my group also has in it a team that is specifically about response to events and shocks. That is a critical resource, because in essence it is a small pool of people who can be flexed to really major priorities and who will also help to manage that priority with some sensible governance structures, rules and modes of working.

A simple example would be that you need a standard copy list, for example, if you are managing a crisis. You need somebody who is logging all the commissions to ensure that they are being delivered to the right deadline, and so on. It is that sort of very simple programme management or project management discipline that they also bring to any sort of major shock or situation.

Chair: Thank you very much for that, Jaee. Sarah Olney, please.

Q65 **Sarah Olney:** Mr Bickerton, why is it so difficult for you to produce an overview of all the support programmes that the Department offers? I am referring to paragraph 10 in the Report, which says, "DBT does not routinely break down what its current support offering looks like and, as a result, lacks a comprehensive understanding of how resource is spent between different types of support." There is "programme spending, grant expenditure and Business Group resource spending", but not "support type".

David Bickerton: There are two parts to that. The first thing is that, when we are looking at a support proposal, we start off by asking, "What is the policy objective that we are trying to get at? What is the outcome that Ministers want to achieve?" Of course, what we will then do is say, "Okay, what is the outcome we want? Do we want to have factories making this product? Do we want to have services providing that service?" Then we ask, "Is there a market failure? What is that market failure?" Then we try to look at the means of supporting that outcome to arrive. Finally what we do is to ask, "How can we drive out the most benefit for the cost that is associated with that?"

What is interesting, listening to the conversation over the past few minutes, is we are talking about matrices. And three—I think I got lost at three. But essentially you have sectors, you have levers, you have geography and all these different things. What you are trying to do is to identify—you could put in that—"What is the nature of the support?"

Actually, the way that we look at it at the moment is helpful, in that we look at what the policy outcome is and ask how we can drive that policy outcome—which tools do we use? Does that make sense?

Q66 **Sarah Olney:** It does but, to return to the NAO's observation, how can you make decisions about the right kind and level of support to the different sectors if you do not know what support you are currently offering?

David Bickerton: Would it be helpful to go through what we do with a particular proposal at each stage? Would it be useful to bring that to life?

Basically, the policy team will sit there and work out what the market failure is, and the outcome that we are trying to achieve. They will come to a view, on the back of their understanding, on which is the best lever or tool that we have to achieve that. Of course, they will look at the fact that, most of the time, the companies we engage with are internationally mobile. Whether Tata chooses to invest its money in the UK, Germany or Holland will depend on the return that it is going to get on that money, so we are also constrained in that way.

Once we have established what we think is the best type of intervention, we put it through our internal processes. For transactions where we are committing up to £20 million, we have a grant delivery team, who mostly look at how the portfolio looks because, although £20 million is obviously a lot of money, we have a lot of engagements of under £20 million.

For engagements of over £20 million, we have the investment committee. It has met, I think, 10 times in the past 16 months. We use the Treasury's five principles: value for money, commercial—I will remember them all in due course—

Gareth Davies: Economic, strategic and management.

David Bickerton: Yes. We have very experienced and helpful people—who, luckily, have better memories than me—and a keyholder for each of those. The keyholders will look at each intervention that we are looking to make through each of those five keyholes. They will then challenge the SRO bringing the proposal to the investment committee, to ensure that they are not just achieving the best value for money, but getting good commercial deals and making sure that the AO advice is strong.

Essentially, we have a team who are bringing the experience of the Department into every assessment. Does that make sense?

Q67 **Sarah Olney:** It does. I think you are describing the process for cases where you have proposals for how a business can drive its own strategic objectives. I am asking about the other way around. When businesses come to your Department for support—the drive is coming from them, instead of from you—what resources are available to them, and how do you know which of those are effective at providing businesses with what they are looking for?

David Bickerton: You mean when a company comes to us in distress?

Sarah Olney: Not necessarily in distress; they could just be looking for support.

David Bickerton: We would expect to know if they were coming to us for support. That is half the point of business engagement and business intelligence, and it is incredibly important to have that co-ordinated across the whole of Government. We should know what they would be coming to us for. We should also know our assessment, shared with the other Government Departments that share the levers with us in that sector. We should understand our own view of which levers would make the biggest difference. Is it R&D, investment, or regulation? What category of thing do we need?

By the time a company comes to us—whether in distress or with an opportunity—we would expect to have formulated a view about how we might best help them, long before they actually came and asked us for money, or any other intervention.

Gareth Davies: Shall I bring that to life? Let's make it tangible. A classic example would be an automotive company. They will say that they are looking to do a new line for a new model and are considering a range of different sites: the Czech Republic, Spain or the UK. We would then work with them through our Office for Investment and ask, "How can we make the UK the most attractive place?" We are often on the same side as a UK team, because the way these corporates typically structure those deals is that they will have competing bids from their Czech, Spanish and UK teams, so we are, if you like, part of team GB, thinking, "How can we best land this?"

One of the challenges, which I thought was helpfully brought out by the NAO, was how you know how much support to give. You do not want to run after everything; you want to know what is important. That is where the industrial strategy comes in, because it gives you a framework for saying, "This investment is strategically important," or, "This investment is great to get if we can make the numbers add up, but there is no additionality or benefit beyond the individual investment."

The classic example of what I mean by a strategic investment would be Nissan in the '80s. When Nissan was brought to Sunderland in the back end of the '80s—I am showing my age here—

Chair: I can remember it well.

Gareth Davies: What was interesting was that the new plant did not just create the direct jobs. It had an outsized impact on the region and created a whole auto supply chain, but it also completely turned around the UK automotive industry, which it is fair to say was seen as dying at the time. You then had Toyota coming in, and you had a real revival of the sector. Investments need to be looked at through two lenses: it can be just about whether it washes its own face, but it can be part of a more strategic view about where the UK wants to take the economy.

With the industrial strategy, we now have an opportunity to clearly and explicitly set out the type of economy we want to be over the next decade and where we see that strategic investments are going to be important, so that we are not just in responsive mode. Yes, I want the Office for Investment to be able to respond effectively when companies come to us with an opportunity, but I also want it to say, "What are best companies in the world to have in the UK?" and—to use the Nissan example—"Who are the Nissans of the 2020s, which could turn around an industry and a region in the UK if we got them to base themselves here?"

Q68 **Sarah Olney:** Ms Samant, when you are making decisions about support, how do you balance trade-offs, and how can you make those trade-offs explicit? For example, how do you balance the objective of bringing economic benefit to a whole region, as Mr Davies just said, against, perhaps, a net zero objective? How are those calibrated in the assessment process?

Jaee Samant: I go back to the five Treasury tests that David rattled off, with some help.

Sarah Olney: I heard four, but there we are.

Jaee Samant: We do use those, of course, in assessment. There is inevitably some subjective judgment applied as well. It is not a straightforward mathematical game. You do think not just about the economics of the proposition in a narrow sense, but about—as Gareth said about Nissan—the impact that it will have on jobs, the community, and potentially on supply chains and so on. Ultimately, we will put a proposition to Ministers, who will make a decision based on the judgment that we have given them and on their own understanding of what the trade-off ought to be. It is a mix of strong data, facts and evidence, overlaid by some judgment.

Gareth Davies: It might be worth bringing the Treasury in for the overall growth mission and the missions more broadly.

Sean Jones: I would add a couple of things. We will want to look at the best range of evidence that we have. In the example that you talk about, if we can assess the carbon impact of doing something, we will take that into account in terms of the overall assessment, alongside the economic—

Q69 **Sarah Olney:** Do you think it is obvious to stakeholders how you evaluate—to take a classic fault line—net zero against economic growth?

Sean Jones: I think it will vary from policy to policy. There will be some policies where it is quite visible and understood that the net zero impacts are quite significant and we want to weigh those up. In others, they will be more marginal, and that will probably be less recognised and known. In the case of the industrial strategy itself, we have said that its principal objective is growth, but it also has a set of other objectives that we care about, including net zero, security and resilience, and regional impact. In terms of choosing the sectors that are—

Q70 **Sarah Olney:** Can you make transparent how you are going to balance those subsidiary objectives against each other?

Sean Jones: We talked a little in the Green Paper about how we chose the sectors, which is the initial decision that we made with the industrial strategy. I would expect us to say a bit more when we publish the industrial strategy document itself later in the spring about how we have gone about working out what subsectors we want to support. Yes, you would expect to say a bit more then about how you make those trade-offs and what your methodology is.

Gareth Davies: To be frank, and building on what Jaee was saying as well, this is tough. You could try to boil this down to a single number, and to a certain extent that is what the cost-benefit analysis does—it tries to get to a BCR point estimate. As Sean said, you value the carbon impact. I worry, though, that you sometimes cannot just boil things down to that, and it will ultimately rest on a ministerial judgment. We do try to bring that out as much as possible.

To think back to the Member's question about steel, yes, you can look at the cost-benefit per job saved and so on, but things around national security and resilience are quite hard to put into a single metric. Ultimately, that will be a judgment call around, essentially, where the steel strategy will come out—"What sort of steel industry do you want in this country?" Ultimately, it is appropriate for Ministers to answer that. I do not mean to say that it will therefore always be ambiguous and is a bit of a black box, but while you can price some things, you cannot price everything.

Q71 **Chair:** Nevertheless, Sarah Olney's question is important. We have just done a hearing on electricity bills, and we discovered that our electricity bills are among the highest, if not the highest, in the world, principally because we put green levies on them. You then have to mitigate that by having a high electricity users group. But it is not just about the high electricity users group; every other business is put at a competitive disadvantage to their neighbours who have lower electricity bills. How do you balance these things?

Gareth Davies: Essentially, it is through two things. One is that an issue like electricity prices sits across two Departments, which makes it more complex, but it also formalises the way in which the agreement needs to happen across Cabinet. That is where the Treasury comes in, in terms of being able to look at issues in the round. For example, where DESNZ—the Department for Energy—wants to put in levies for hydrogen or whatever it may be, that will be considered across Government. We make our representations based on our conversations with steel and other materials companies. Increasingly, however, electricity prices are not just about old heavy industry; they are also about what might be seen as newer things—data centres, for example, where 40% of the cost base is from electricity. We then play that in, and it is looked at in the round by the Treasury and is ultimately a decision for the Cabinet, in the right forum.

What we have now, which I think is different from previous Administrations, is this mission structure. We have a growth mission board, which is chaired by the Chancellor and which is able to look at issues in the round. Ultimately, through the Cabinet Office, it can make trade-offs. I would argue that net zero and growth are not totally in conflict, but they are not always perfectly aligned, so that forum is then able to make these choices and trade-offs.

Q72 **Mr Betts:** We have talked about the relationship with other Departments and the influence you have over them—or do not have over them in some cases. May I put one particular example to you, which I have a special interest in? We have already mentioned Forgemasters, so we are back on to that territory. We have a situation where the Government spends a lot of money buying Forgemasters, investing substantial sums—£900 million—on new forging presses. That is great for defence—we need it—and it creates capacity for civil nuclear.

Now we have DESNZ making a decision about small modular reactors and which two providers it will be. We have your Department giving money to Rolls-Royce in a separate deal. Then Rolls-Royce goes off to the Czech Republic and does a deal there to build small modular reactors with the Czechs. How does that add up to an industrial strategy? You give money to Rolls-Royce, but it goes off to the Czechs. The Ministry of Defence has invested in new forging presses at Forgemasters, but if the work goes to the Czech Republic, we will have all that capacity sat there unused. It is a bit incoherent, is it not?

Gareth Davies: There is a lot in your question, but let me unpack it a touch. First, how do we work across Whitehall to align those interests effectively? Different Departments will—it is not so much that they disagree—rightly have different perspectives on issues. Defence is naturally focused on ensuring the right supply of matériel, while Education is focused on skills. We have to bring that together.

There are two things we have now that enable that integration of different perspectives and resolving where Departments differ. At a political, ministerial level, as I have mentioned, there is the growth mission board. Chaired by the Chancellor, it brings together Secretaries of State from the relevant economic Departments, and it is able to look at issues in the round. That has not happened before in my 20 years in Whitehall, so it is an important forum for trying to resolve that.

Underpinning that is something that I set up with my counterpart in the Treasury two years ago, which is a permanent secretaries' business and growth group. With James Bowler, the Treasury permanent secretary, I bring together other permanent secretaries to make sure we have an understanding of these issues in the round. That means that, for example, on issues like net zero or trade, we have a forum where we can, at the minimum, share our different perspectives and therefore ensure that our Ministers are better informed and can have better conversations in the round as a single Government.

You make a specific point on Rolls-Royce, which is well timed. Last week, I chaired a meeting that we have every six months with Rolls-Royce. I chair it, and we bring together the permanent secretaries from the range of Departments that are involved with Rolls-Royce. You mentioned the MOD, and we had David Williams; we had Jeremy Pocklington, permanent secretary of the Energy Department; and we had Transport and the Treasury. We had a single, integrated conversation with Tufan and his top team about what the Government is looking for from Rolls-Royce, and what their commercial position is and what they are focused on, to align our objectives and make sure that they did not feel they were being pulled in different directions. For some of our most important British companies, like Rolls, or companies like Airbus, which have deep relationships with the UK Government, we now have those more integrated, single conversations across the system.

Q73 **Mr Betts:** That was quite a long answer to an even longer question. In the end, we are looking at whether the objective is growth and British jobs. When I challenge the decision we have made about which technology company to use for SMRs, no one can say, "We will require the companies to produce the SMRs here." I would have thought that was a given. If you were asking a French civil servant, they would say, "Well of course we are going to produce them in France." There would not be any argument about it; that would be the focus. I am missing that point about the determination to have a clear message for growth, which means jobs and actually requiring work to be done in this country.

Gareth Davies: I think you make a really interesting point around how you approach industrial policy, and the extent to which you use the power of Government procurement to drive that policy. You can certainly see the intent and focus of this Administration on growth and jobs; that is clearly up front. Treasury colleagues may want to come in. The risk if you limit a procurement to only people who are active in the UK is that you limit the competitive pressures, and you may end up paying more for lower quality. The challenge with industrial policy is always making sure that the preference for production within the country does not lead to producer capture, poorer quality and higher costs. You always have to get that tension right about the level of competition that you inject in.

Q74 **Mr Betts:** I understand the tension, but sometimes that competition can mean people thinking, "Oh, what's the cheapest price we can get something for" and ignoring all the other knock-ons on supply chains, jobs and—we talked about this before—the whole economy, not just that narrow bit of procurement.

Gareth Davies: Yes, totally. That is part of the rationale for the changes to the procurement legislation that you have seen, which enable the Government, when we do a procurement, to look at a broader set of criteria. You are right: it is probably natural for any procurement function to focus on cost. In terms of the risk of focusing on a single number, it is harder to get critiqued if you buy the cheapest, whereas the broader characteristics are harder to bring into effect. The new procurement legislation gives you a broader sense of issues that you are able to consider as you are buying.

Sean Jones: I would add one thing to what Gareth said. Obviously, part of the assessment is about looking at the costs and benefits as they stand. As Gareth said earlier, and I think this is reflected in the Green Book, we want to look at the wider strategic case around each investment. The exact right answer will vary depending on the investment, but we have deliberately set that up in such a way that we are focusing on not just the single number.

Q75 **Mr Betts:** It also ties into skills, doesn't it? That is something we have already referred to as being crucial to the whole strategy, particularly with the Department for Education leading on that. Again, I will use the example of the SMRs because I happen to know about it. I do not see anyone so far doing an assessment about the effect on the supply chains and the skills that are going to be needed to build not merely the total product but the various components in this country. Surely, if an announcement about a particular technology is only a few months away, that work should have happened already, and it has not. Why not?

Gareth Davies: I would have to defer to my colleague from the Department for Education, but that is exactly what Skills England is doing and identifying. Remember, we are developing the industrial strategy in parallel, so there is a sequencing issue here. We are effectively saying, "These are the industries we want to be strong in over the next 10 years. Therefore, where are the skills gaps and where should Skills England be focused?" That is the work that they are doing.

Jaee Samant: In developing the industrial strategy, we have established a skills forum, bringing together the lead Departments, and that is meeting weekly. It is trying very much to do what you have talked about: in effect, to review the progress and to agree next steps on the industrial strategy and what will be needed to underpin the delivery of it. Our Secretary of State met the Education Secretary earlier in March pretty much to talk about the criticality of skills to the success of the industrial strategy.

Q76 **Mr Betts:** Do you talk to the MOD as part of this as well? They are often forgotten about, despite the amount of growth that could be happening there.

Gareth Davies: Sean may want to talk about the growth board. As I mentioned, we had a meeting with Rolls-Royce and Airbus, and David Williams, the permanent secretary of the MOD, was there as well. Of course, we have a joint team with the MOD, particularly on defence exports—given the scale of UK demand, the only way you can really have sovereign capability is making sure you are designing for export; you cannot just do that for the UK.

Sean Jones: A really important part of the defence announcement the Government has made is how we use that in a way that supports domestic growth. Some announcements were made at the spring statement around that and around issues like domestic procurement and innovation in the UK. We obviously need now to see that through to make sure that, when the defence industrial strategy comes out in fully fleshed form, it supports growth in the United Kingdom. That is a really critical objective.

Q77 **Mr Betts:** All the bodies—the UKRI, Innovate UK and the Catapult Network—are key bits in this. Are they all on board? Is there a coherence there that comes through you as permanent secretary?

Gareth Davies: UKRI does not report to me; it reports to my colleague in the Department for Science, Innovation and Technology. But, by chance, I had breakfast with the chief exec of UKRI today, and we talked about the absolutely critical role of UKRI. All successful industrial strategies are based on what a country is good at, not trying to be someone else. We must have a clear-eyed view about where we are strong and where we can build off those strengths and align them with the market opportunities.

What we do know is that we have strengths in science, technology and innovation. It is about having a stronger connection between what goes on in our universities and what goes on in our businesses. The Catapult Networks are part of that. I think they have existed now for the best part of 15 years, and the advanced manufacturing Catapult in particular—you will know that well—has been incredibly effective in anchoring research here. Any industrial strategy worth its salt needs to be anchored in our strengths, which is the university sector.

Q78 **Chair:** Clive Betts has raised a really interesting point: given that Innovate UK, UKRI and the Catapults are all based in DSIT, do you have a really close relationship with them? This is where the green shoots are being formed and where the innovation is coming from. The report is quite fuzzy on your relationships with other Departments. I am wondering whether your relationship with DSIT, as well as with the 15 other Government Departments you interact with—we have mentioned education and skills a lot—is as close as it needs to be. Why do you not have a specific MOU with every single one of them so that each one of them knows what to expect from you and you know what to expect from them? That would provide joined-up, whole-of-Government thinking.

Gareth Davies: That is a very good question about whether we should have an MOU. It feels different now post-election rather than pre-election because you have an industrial strategy. Remember, before we did not have a single explicit strategy; now you do. All those Departments now know they are feeding into, and part of their responsibilities are through, the industrial strategy; they are playing their role and they have an explicit role to feed into that.

At the moment, I do not feel there is any sense of Departments not being on the pitch. This all feels very aligned, because you have the unifying force of the growth mission. Whether an MOU would make a difference is a good question—I will take that away and reflect on it—but I do not feel in practice, given the personal relationships that I have and the day-to-day working with the teams, that there is any gap between us.

Q79 **Chair:** Well, the Report comes up with several examples—particularly on page 35—of where the relationships are not as close as they perhaps should be. That sort of thing could be solved by an MOU.

Gareth Davies: Some of the Report was done before the industrial strategy structures were created. I am not dismissing it, but I just think there has been some progress since the Report.

Chair: We will keep an eye on them.

Q80 **Charlie Maynard:** The NAO Report, on page 12, para 16, says: "DBT's Business Group is responsible for 32 initiatives to support industry sectors but it has monitoring and evaluation evidence for just 11 of these… Other types of support may be more challenging to monitor and measure". If there are 32 out there and you are measuring 11, what is happening to the other 21? Is there are an effective way of working out which ones are working well and which are not?

Gareth Davies: I think there is a materiality question in terms of which ones are working, because obviously there is value for money in where you put your monitoring and evaluation. By numbers, I totally agree, but in terms of value—I do not have the figure in front of me—there will be a higher proportion of spend value being monitored.

However, it is fair to say that, as a new Department, we need to step up the quality of evaluation. I think that has been far too sporadic and does not have the consistency that I would like to see on some of our historic spend. I want to use the opportunity of the spending review, which we are in the middle of at the moment, to ensure that we historically understand what has worked and what has not, and that, looking forward, we embed the evaluation in from the start.

Sometimes these programmes are quite hard to evaluate because the counterfactual is very difficult, but obviously there are ways in which you can do that, including through logic models and sometimes RCTs, although they are often hard to do. Certainly, through some of the data matching we have done in the past, we have been able to understand where projects are effective.

Critically, where we see them not being effective, we need to make sure we stop the programmes. For example, we knew that the way Help to Grow: Digital was designed was not effective, so we stopped that. We have been able to grow and learn from other ones, such as in aerospace and automotive. The Government as a whole—I include my Department in that—need to strengthen the way in which we do monitoring and evaluation.

Q81 **Sarah Olney:** When the industrial strategy is introduced, what will be the step change in the support that the Department provides?

Gareth Davies: The main thing the industrial strategy will provide is a single shared view of what we are trying to achieve for the UK economy. One of the challenges that the NAO Report rightly presented was how we are making choices between different sectors and whether we are as transparent as we could be about where we want to take these sectors over the medium to long term. The industrial strategy will set out that clear vision.

Crucially, the strategy will be shared with industry. If you look at the international experience of when industrial policy works and when it doesn't, you see that it works when it is developed in partnership with business. This is not Whitehall doing it to business; it is working in partnership with business, so there will be a shared, explicit strategy.

There will be governance. Again, what works in industrial policy is consistency. Policies have failed in the past when there has been too much chopping and changing, to put it politely. Having a shared industry board has worked well in automotive—you have had the Automotive Council UK since 2011, with big primes and some supply chain members, shared jointly with the Government. That has given people a consistency of approach, which has come through in some of the investment we have seen, so you have that governance and structure.

I am particularly excited about having external challenge through the Industrial Strategy Advisory Council, chaired by Claire Barclay. What we have heard from businesses repeatedly is that there is a sense that the Government chop and change policy. If a company is making a multi-year, multi-billion investment, it needs some certainty about how the Government is going to approach that sector.

The idea of the Industrial Strategy Advisory Council, which is independent of Government, is to hold the Government to account and ensure it is doing what it said it would do. Crucially—to go back to the previous question—it will provide external monitoring and evaluation, in addition to what we are doing in-house, to see whether what we said we would do is actually having an impact. That is a big thing.

In terms of what we can say about the scale of support we are offering businesses, we are in the middle of the spending review process, so I cannot give you any guidance on that at the moment. We are working our way through, with Treasury colleagues, on trying to make sure we provide the strongest possible evidence for the impact it would make.

I do, however, caution against measuring the success of an industrial policy by the amount of funding that goes into it. Funding is obviously important, but going back to my example on financial services, it is not just about money. If you look at the announcement today from the Department for Transport on automotive, what we are doing around the ZEV mandate is just as, if not more, important for the future success of the automotive industry in the UK as the amount of money we put into R&D.

Q82 **Sarah Olney:** The focus is going to move to eight growth-driving sectors, but what will happen to those sectors that are not included, such as steel or farming?

Gareth Davies: We have said, on things like steel, that we see them as crucial foundational sectors to the economy. On all of this, people have always said in industrial policy that we need to make more choices. One of the criticisms of the 2017 industrial strategy, which I wrote, was that not enough choices were made. It was seen to be a bit too much all things for all people.

Interestingly, this Government have been much clearer about where they see the growth potential coming. Those sectors were not just picked by ministerial whim. It was based on joint analysis and evidence from ourselves and Treasury about where productivity and growth has come from in the last decade, and forecasts of where growth is likely to come over the next decade, including international markets, comparative advantage and export performance. That identified the eight sectors responsible for 30% of GDP, but responsible for 60% of the growth.

That is not saying that we do not care about other sectors, by any stretch; it is saying that that is where we see, coming back to the opening question about what success looks like, exports, investments, jobs and higher wages. That is where we see those coming from. As part of the wider growth mission, we all want to ensure the broader business environment is conducive to growth in all sectors. We have been very clear about where we will put our focus around getting the drive in exports and investment, because that is where the opportunity is, but we will want to ensure that the wider UK environment is a good place for all businesses to prosper.

Q83 **Sarah Olney:** Have you had response from stakeholders about the development of the industrial strategy, and what are you doing to mitigate concerns?

Gareth Davies: We have had 27,000 formal responses to the Green Paper. Since the election, we have met with more than 130,000 businesses through the Department. The Secretary of State alone has met with 1,000 businesses. I say that to give you a sense of the scale and depth of the engagement. I must admit that we have had less of concerns at this point, and more a sense of potential and opportunity. Obviously, some people will be disappointed in what we are able to do for them, because Government cannot do everything. There are limits in terms of bandwidth, where some of the choices and trade-offs might be, and where there is financial investment—the extent of support.

What are the common themes coming out from businesses around where they are focused? With geopolitics, they want support around the global trading environment. That might be around reducing frictions. It is not always free trade agreements, but on some of the frictions at the border, the use of trade digitalisation, and some of the partnerships we can do with customs around the world.

We have touched already on electricity prices, and they are high. That has implications for business structure. On skills, the Department for Education are making sure that we have the right skills pipeline, so we are able to reduce the pressure on the visa system and make sure we create good job opportunities for people around the country. We have touched on this, but we know we need to improve regulation.

This Government have made big changes on planning law, which is being taken through Parliament. We know planning is a big barrier. Finally, there is capital markets. There has been lots of debate around the London market and making sure that the capital markets work for UK businesses in the round, be they start-ups, scale-ups or the big, broader global corporates.

When I was in Davos earlier this year, I had the opportunity to speak to a range of global chief execs. It was interesting what they said about the UK. In terms of why the UK is attractive, they identified three things. First, it was stability and predictability in an incredibly volatile world. That may be ironic, given what has happened in the last decade, but at the moment, that stability really stuck out.

Secondly, there is the fact that we are an open, global trading nation. There is no real political constituency for protectionism, and people notice that, so the UK is seen as a good place to base a global business. There is also the fact that when you think about where growth will come from over the next decade—growth shifting to the far east; growth in creative and education; work around services in particular—the UK is well positioned for that. It is not just services, but we are disproportionately services. If you look at the growth in exports in services over the last five years, the UK has been incredibly successful—it is the second largest service exporter in the world.

"But, but, but," they all said, "you make it hard to invest here." It is complex. You have to navigate around multiple Government Departments.

Things such as electricity prices can be expensive and it is quite hard to work your way through things like planning and to get access to the right skills.

The thing that gives me optimism is that a lot of those things are under our control. If we can get those systems right—make it easier to navigate Government, make it simpler to get the right skills and get the right balance on electricity prices and costs and burdens—you can see the potential. There is real interest in investing in the UK.

Q84 **Chair:** I have some questions on my theme for this Committee, which is joined-up government through digital. Paragraph 2.19 on page 38 of the Report says: "DBT teams are asked to record their interactions with industry following engagement on DBT's system 'Datahub', but this does not happen consistently. There are also limitations with the functionality of the system and its usefulness since it cannot be accessed across departments. This means that teams do not always know whether industry stakeholders have been in contact with other DBT teams or other departments." We discussed that earlier in the sitting. What more can you do to ensure proper digital joining-up between Departments and record your Department's interactions with industry?

Gareth Davies: It drives me crazy that we have different digital platforms in different Government Departments. It is absolutely bonkers. What you really want is a single digital architecture across the whole of Whitehall. It is fair to say that the Cabinet Office is focused on that now. Data Hub works well within the Department. It is a good architecture. It is not perfect—people question whether there are other off-the-shelf platforms that we could use—but Data Hub is a solid, good platform for a large number of interactions with businesses across the world. People use it not only in the UK, but across the world.

To go back to my opening point, this is not just about the technology—it is about getting the incentives right as well. We had great digital platforms in PwC, but not everyone always registered when they were speaking to clients. You have to get the incentives right and get the training in place, which is what I talked about before.

The one thing I have worked on with colleagues in the Treasury and Downing Street is around our top accounts. There are 50 companies that we know will have a disproportionate impact on the growth mission and industrial policy. We could all name those companies—AstraZeneca and GSK in life sciences; HSBC. We have put in place a single account management system. When senior officials and Ministers are speaking to those companies, everyone knows who has talked to whom. We know what the issues of concern are from that company and how they are being progressed, and we have a single senior person, at both ministerial and official level, to own that relationship. That is a new structure that we have put in place for this Administration. We are already seeing the value of that for a much more integrated set of conversations.

Chair: Digital join-up across Government is an aspiration that now largely

sits with DESNZ—

Gareth Davies: DSIT.

Q85 **Chair:** Sorry—DSIT. One of the things the Committee has advocated is a senior digital officer and a senior cyber officer in the top levels of management in every Department to drive uniformity across Government. Is that something you would consider in your Department?

Gareth Davies: Yes. Tara Smith, my chief operating officer, who was here for the previous evidence session, is looking at that as part of the spending review. As I mentioned, I want to increase the amount of digital capacity in my Department because of the potential, and not just for basic data sharing—that is before you get to AI.

Q86 **Chair:** Do you have many legacy systems and are you taking steps to replace them?

Gareth Davies: Yes. Over the last two years, as part of the machinery of government, we had to bring everyone on to the same digital platform because the BEIS system and the DIT system did not meet. That is exactly what we have been doing over the last 18 months. Everyone is now on the same system with the same SharePoint system, so everyone can access everyone's data within the Department. But that is, as I call it, the foundation level. There is a lot more we want to be able to do to build on that.

Q87 **Chair:** Given that you handle a lot of data, will you have systems that are compatible with using AI whatever comes along?

Gareth Davies: Yes. For example, we are piloting things such as Microsoft Copilot and we have Redbox, which enables Ministers, rather than having all the paperwork in their box in the evening, to interrogate that through a secure large language model environment.

Q88 **Chair:** Very good. Final question. Paragraph 3.7 on page 43 says that GDP growth has been lower than the G7 average, at an average of 1.6% per annum between 2014 and 2024. In that period the G7 has had growth of 1.8%. If we have you back in the Committee in two or three years, will it be a success or a failure if you have not managed to get to G7 levels of growth?

Gareth Davies: A failure. It will be a failure if we have not been able to improve our growth rate and get up to the G7 ranking.

Chair: That is on the record. Thank you very much indeed for that very candid and clear answer.

I thank all today's witnesses. An uncorrected version of the transcript will be available in the coming days, following which we will produce a report with recommendations. It has been a very interesting session, and we have covered a lot of ground.