

# Business and Trade Committee

## Oral evidence: Industrial Strategy, HC 727

Tuesday 13 May 2025

Ordered by the House of Commons to be published on Tuesday 13 May 2025.

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Members present: Liam Byrne (Chair); Antonia Bance; John Cooper; Sarah Edwards; Sonia Kumar; Gregor Poynton; Mr Joshua Reynolds; Matt Western; Rosie Wrighting.

Questions 719 - 769

### Witnesses

[II](#): Lord Livermore, Financial Secretary to the Treasury, HM Treasury; Baroness Gustafsson of Chesterton CBE, Minister for Investment, HM Treasury and Department for Business and Trade; Rt Hon Baroness Smith of Malvern, Minister for Skills and Minister for Women and Equalities, Department of Education; Rt Hon Jonathan Reynolds MP, Secretary for State for Business and Trade, Department for Business and Trade.

## Examination of witnesses

Witnesses: Lord Livermore, Baroness Gustafsson CBE, Baroness Smith of Malvern and Jonathan Reynolds.

Q719 **Chair:** Welcome to this final panel in our hearings on industrial policy before we finalise the Select Committee's advice to Government ahead of the comprehensive spending review. Ministers and Secretary of State, thank you so much indeed for joining us. We are hugely grateful both for you coming together and for your time today. Our time is limited, so we will be very brisk in our questioning and we would be very grateful for brisk answers.

Secretary of State, I just want to start off with a couple of issues that the Select Committee is wrestling with right now. When it comes to Marks & Spencer, lots of us are quite worried about what is going on, along with the attacks on other retailers such as the Co-op and Harrods. Are you concerned that these cyber-attacks on UK retailers are part of a concerted criminal or state-backed campaign? Are you content that the agencies are supplying them with the advice and help that they need?

**Jonathan Reynolds:** Thank you, Chair. First of all, it is always a pleasure to be here with you on this Committee. This is a very serious issue. It is a wake-up call for anyone who was not aware of the scale of the threat that we face. Cyber-security is not a luxury. It is a direct business issue with significant ramifications for consumers and businesses.

I would not want to attribute the attacks to a wider agenda—I do not think we need to speculate on that—but I would say that there is extensive support provided to businesses. That is on a fairly confidential basis, given the particular nature of the threats we are talking about. If any business feels it is not aware of the support on offer from Government or that it needs more information in this area, it should come straight to our Department, where that is available. Across Government, the scale and the seriousness of this threat are taken very seriously indeed.

Q720 **Chair:** Have retailers under-appreciated the peril that they now confront?

**Jonathan Reynolds:** I would not want to say that. The key issue here is that this unfortunately is seen as a fairly lucrative criminal activity and therefore the innovation and the threat are always growing. When I talk to CEOs about it, it is something that they are certainly taking seriously, but we cannot underestimate the threat. Chair, it might be worth bringing in Minister Gustafsson, given her professional background was in this area as well.

Q721 **Chair:** Minister, are you content that the agencies, such as the National Cyber Security Centre, are supplying what they need to supply to British retailers today?



**Baroness Gustafsson:** In my historical experience, the National Cyber Security Centre is a real asset of the UK and one that we should be incredibly proud of. We have a lot of services that are there to protect our nation, and a lot of them are operating quietly in the background. As the public face of supporting our industry, the National Cyber Security Centre really is fantastic in terms of the quality of guidance and support that it is giving. It is not something to be underestimated or taken for granted.

**Q722 Chair:** We are also dealing with P&O today. We have had to write to them again because their accounts are seven months late. Last year, they filed their accounts 13 months late. Are you comfortable with P&O flouting UK company law in this way? Was our colleague Louise Haigh right to call them a “rogue operator”?

**Jonathan Reynolds:** I would expect any company to abide by UK law, particularly regulations and corporate reporting requirements. There are sometimes reasons for that, which I will take up with Companies House. I would not want to call any company a rogue operator based on that issue alone.

In relation to some of the understandably high-profile media coverage that ran about the time of the investment summit, from the conversations that I have had with that company, I am confident that it understands this Government’s agenda about respect and dignity for workers being a crucial part of the economic mission that underpins everything that this Government do. It signs up to that and accepts that. I can work with it on that basis.

**Q723 John Cooper:** Secretary of State, thank you very much for your time. You are a busy man at the moment. Your Government have clearly set out their target for the fastest growth in the G7, but the forecasts indicate that you are trailing there. There are multiple reasons for that, I assume. We talk about headwinds, but it looks like a full force gale for businesses at the moment—things such as national insurance contributions and energy costs are making it very difficult. How much of a part can the forthcoming industrial strategy play in closing the gap between where we are and where you want us to be?

**Jonathan Reynolds:** Yes, it has been a busy time, but the industrial strategy is a fundamentally important piece of work to us and the Government. I am unremittingly optimistic about the UK. I am optimistic not based on sentiment or even the brilliant visits I do and the people who I get to speak to every day; I am optimistic because of what I see as the hard-headed opportunities available to us.

The fundamental point of the industrial strategy is to move the dial on growth, which has been challenging for at least a decade and a half. Perhaps we can take the global financial crisis as the start point for that big drop-off in productivity and the change in the post-war trend for growth. A disproportionate amount of the growth that we have had in the UK over the last 25 years—about 60%, so around two thirds—has come



## HOUSE OF COMMONS

from about a third of our highest-productivity sectors. That is a pattern that you will be familiar with, particularly when you look at the US and the contribution of the tech sector and how that is just an outsized part of the overall economic story. If you want to move the dial, you have to prioritise.

What we are trying to do has not been done for many decades in the UK, which is have a genuine cross-Government approach to industrial strategy. This is not just the Business Department but colleagues here and across Government. There is some evidence already that that is starting to take hold.

I also see two other things. I see a potential for what I would call the catch-up on what we missed out on due to the political instability from the Brexit and Scottish independence referenda. We have that to make good on, which excites me.

You are right to say that there are some global headwinds, but I would also look at the relative position of the UK, particularly the pitch that we can make about economic stability, openness to the rest of the world when that is under threat, and the fact that this Government are using their mandate to do difficult things from aviation expansion to how the CMA operates. That all gives me real cause for optimism.

**Q724 John Cooper:** Industrial strategy will not do anything of itself—it is a document. One of the criticisms of industrial strategies is that they chop and change and they are quite nebulous. You cannot mark your own homework. What goals and targets are you setting to establish how you are doing? Have you set specific goals in certain areas, such as productivity or wages? Regional inequality is a big issue, and you have vast variations in GDP between different areas around the UK. What areas are you looking at and how are you going to benchmark those?

**Jonathan Reynolds:** I absolutely share your thoughts on where Government documents sometimes do not live up to the standards that we would want. They can sometimes analyse the problem rather than offer solutions. They can sometimes be absent of the kinds of metrics that are necessary to judge success. I do not want either of those, nor do I want a document that sits on a shelf. I want a living document that you can see is informing Government decisions across the board.

First of all, that is what we are seeking to do. It is quite interesting. If you look this week at the decisions around the immigration White Paper, it uses the industrial strategy that is already in the public domain, in terms of the analysis that sits behind the sectors, to inform decisions. I cannot recall seeing anything like that, to be honest, for a while. That joined-up Government approach is already in action.

It will have metrics in it. I have talked to you all before. The thing that I am most interested in is business investment. At the heart of our problem is low levels of public and private investment. That is what we



## HOUSE OF COMMONS

have to seek to address. Of course, some of the institutions that have already played a really big role in shaping the strategy are designed to be there for the long term. The Industrial Strategy Advisory Council is doing a brilliant job on the issues that it is looking at and the authority and expertise that it brings.

Ultimately, whoever marks our homework will mark it on our economic success. Even in the challenging global environment that we are in, there is cause for optimism, if we can get this right.

**Q725 Chair:** When you think about the growth that is forecast in the next two to three years, do you have a sense of what fraction of that growth is going to come from the industrial strategy?

**Jonathan Reynolds:** No, I would not allocate a percentage or fraction to it, but it is fundamental to addressing the weaknesses that we are all familiar with, such as the low levels of investment and our productivity problems.

The growth mission's central message gets a lot of attention—having the highest growth in the G7—but the other part of the sentence, about doing it in a way that benefits every part of the UK, does not get quite the same attention. I would not give a technical measure of it, but it is fundamental to that growth mission.

**Q726 Antonia Bance:** Again, my question is to the Business Secretary. We saw the chair of the Industrial Strategy Advisory Council at a point when she was very newly appointed. She was clear that it was not to be her job to protect good jobs in existing industries that were experiencing crisis but could continue to thrive. We all know that the industrial strategy will, of course, be judged on whether it preserves good jobs as well as fostering new ones. What is the balance for the success of the industrial strategy between keeping good jobs in the industries that Britain has now and bringing on board new ones in the industries of the future?

**Jonathan Reynolds:** That is a really interesting question, Antonia. First of all, the industrial strategy is based on an analysis of the sectors and sub-sectors that have the biggest and greatest growth opportunity for the UK. One of the things that has changed since we began this work is there have been significant changes to the global trading environment. There is much more of an interest around the world in how to defend and protect jobs and industries. The core mission of the industrial strategy has not changed.

The automotive sector is probably most exposed to the changes in the global trading environment. The kinds of things that the automotive sector needs to get through this difficult period are the same things it needs for continued long-term success, such as action on the ZEV mandate, energy costs, skills and access to key markets around the world, all of which we have been working pretty hard to deliver on over the last few weeks.



## HOUSE OF COMMONS

The sectors that were chosen, which was very much an empirical evidence-led process, cover things that we are great at now and are seeking to preserve. I would not want that to be seen as a defensive set of proposals. We want innovation; we want dynamism. There is quite a lot of evidence that the fall-off in productivity is partly down to a reduction in dynamism within sectors where we want the strongest firms to be challenging to get a greater market share and to lead in those areas.

The recognition of our pre-eminence in financial services, professional and business services and advanced manufacturing already reflects sectors where most people would say there are good jobs, but we cannot simply be complacent. It is not as straightforward as a balance between new jobs and preserving where we are. It is an analysis of where our strengths are, where there are opportunities and how Government policy has to work to maintain both of those things.

**Q727 Antonia Bance:** Yet I am sure you would accept that, if we see further significant industrial withdrawals from the UK, that will be seen as a verdict on the success of our industrial strategy.

**Jonathan Reynolds:** It is important to choose the right metrics. It is very much in the public domain that I, from the beginning of Government, was very concerned about the ZEV mandate and the relative position that I felt that put our manufacturing industry in. To my mind, we cannot meet our aspirations on the electric vehicle transition by importing vehicles. It matters very much to this Government that we are making those in the UK. Yes, the news around the automotive sector is something that I am very sensitive to.

In the reporting of economic data and economic stories, we sometimes have to accept that what we want is UK businesses that are leading in terms of products, sales, prosperity, revenue and the jobs that they provide, but we also want fierce competition within those sectors. We want the very best players and the most efficient people leading them, which sometimes has consequences for other parts of the industry that are not living up to those standards. It is very important that we judge what is actually happening in the economy. For the sectors that we have chosen, I want the story to be about new investments, new opportunities, continued British strength and promotion into new markets as well.

**Q728 Gregor Poynton:** Just taking this on further, you talked about the sectors, and that is the way that the document is currently structured. A number of people who have sat in the chair that you are sitting in now have said to us, "There should be more of a grand challenge approach." That is something that other countries have done and we have done in the past in the UK. Is that something you are thinking about for the next iteration? If not, why not?

**Jonathan Reynolds:** I am familiar with that literature. I have read it too and I am interested in it. Let us think about what Government need to do



## HOUSE OF COMMONS

and to organise to have an effective industrial strategy. I believe every Government have an industrial strategy, whether they say they have one or not. They often have one by default and that can sometimes be in a negative position.

In any effective industrial strategy, you need to have something that is very clear in identifying the sectors where the opportunities are greatest, and you need to be able to co-ordinate policy across different Government Departments. You need to respect the way that we do Government in the UK, with the different equities in different Departments, but have that cross-governmental analysis that other Departments can link into.

I am not entirely sure, in practical terms, what the difference is between a grand challenge and a set of economic objectives. To me, turning around the poor growth story of the last 15 years is a grand challenge in itself. Addressing the problems with productivity is a grand challenge. Leading on clean energy 2030 in a way that ensures that the jobs and opportunities are here in the UK is a grand challenge.

Maybe some of the differences are semantic, but, from the work I have seen so far, I am really confident that our approach to this is the right approach in terms of outside experts, independent bodies, rigorous analysis underpinning it and all Government Departments working consistently to that plan.

**Q729 Sarah Edwards:** Thank you very much for coming. Secretary of State, we heard last month on this Committee that the energy prices that businesses pay are 60% higher than the EU average and in some cases twice as much. We have heard that from steel. We have heard from Nissan that their Sunderland plant pays more for its energy than any other Nissan plant in the world. In Staffordshire, the ceramics industry is on its knees.

The cost of doing business in the UK is hampering business growth and stalling investment. Energy prices are constantly cited to this Committee as a real problem. What plans do you have to bring UK industrial energy prices in line with our competitors? What initiatives can you bring on stream to help them?

**Jonathan Reynolds:** It might make me sound a bit odd, but I am obsessed by industrial energy prices.

**Chair:** We are quite pleased to hear that.

**Sarah Edwards:** We are very pleased to hear it.

**Jonathan Reynolds:** It is very important, first of all, to make the distinction between the problems with gas and the problems with electricity.



## HOUSE OF COMMONS

The heart of the problem with gas is that Europe consumed a large amount of Russian gas and we have quite rightly turned that off. That has led, across Europe, to very high gas prices. The UK is more exposed to those than other nations because of the role gas plays in setting our electricity prices at the same time. That is unlike Norway, where hydro sets the electricity rate a lot of the time, or France, where it is set by nuclear. There is not a great deal, using a market-based mechanism, that any Government can do on gas prices. That is very difficult.

Electricity is a bit different. Over the last decade before we took office, or maybe even a shorter time period than that, the rise has been about 50% in real terms. It is real. If you chart the graph, it is a real outlier. This is a big piece of work that we are looking at. You have to recognise that there are already Government policies for some of the most intensive users, such as the superchargers. Is that working? We have to look at that.

There is also a need to think about how we could work with business on a wider intervention. I am not going to announce what may or may not be in the industrial strategy, but, if you are asking what I think the most prohibitive pressures on British industry and British investment are, I would absolutely cite our outlier position on energy prices as one of those. It will be no surprise to the Committee that energy prices are one of the significant things that have been highlighted in the evidence that has come in through the consultation around the industrial strategy.

**Q730 Chair:** How is the Secretary of State for Net Zero going to solve this problem for you?

**Jonathan Reynolds:** It is not about any one person solving it. It has to be a cross-Government piece of work.

**Chair:** He seems quite an important figure in the debate.

**Jonathan Reynolds:** Of course, if you are the Energy Secretary, energy prices are going to be a big part of your job. Anyone trying to cite that the problem is somehow linked to the clean energy mission of this Government is obviously wrong. At the core of the problem is the gas price, our exposure to it and the role that it has in setting electricity prices. Indeed, if you look at the growth in industrial electricity prices prior to this Government taking office, before that mission was in place, the pressures were very acute. You can see that.

Different countries approach this in different ways. Most people are familiar with the German approach, which is that households broadly subsidise industry to a certain degree. That is something that they have had for a long time in Germany. All of our constituents' energy bills are high as well. There is no easy option to move to a system like that, but, yes, we are looking very much across Government at how the system in the UK works and where that will go in terms of the future of things like the network costs that we can envisage, and how we could make sure, if



## HOUSE OF COMMONS

we were looking to make a difference on this, that that would go to the places that need it the most.

Q731 **Chair:** Poppy, presumably this comes up a lot when you are trying to attract investment and businesses are saying to you, "We would love to come but, until you sort out your energy prices, no thanks."

**Baroness Gustafsson:** It does come up and I can confirm that the Secretary of State is definitely obsessed with it. It does come up a lot in those conversations. You have two things here as well. The first is the long-term strategy. What are we doing about energy security in the UK? How are we going to decouple our electricity prices from a reliance on gas, where we cannot control that price?

There is a lot of work and effort happening in the long term but then the challenge is, in the short term, how we get businesses over that hump, to get to the longer term. That is what the industrial strategy is about: how we think about the tools that we have at our disposal.

Q732 **Chair:** Give us a sense of how important this is as a barrier to securing inward investment today. How often does it come up in the conversations that you are having with potential inward investors?

**Baroness Gustafsson:** It comes up with the same frequency as discussions around planning and what we are doing around things like how we reform the planning regulations.

**Chair:** It is in the top one or two issues.

**Jonathan Reynolds:** On that, it is important to say that sometimes people mistake this as somehow a legacy of heavier industry. This is absolutely about contemporary investments. It is data centres. It is the transition to clean steel. We are, across the board, looking at a significant move to electrification in industry and in households. This is a substantial issue, no matter which bit of the economy you might be most interested in or which sector or type of investment you are looking at.

Q733 **Chair:** Lord Livermore, from the Treasury's point of view, you must be looking at this in complete despair. On the one hand, you are confronting the lowest business investment in the G7. Then you have Poppy saying that energy costs are a big barrier to securing inward investment. How does the Treasury think that we can break out of the high energy cost trap that we are in and drive up the kind of inward investment that Poppy is trying to land?

**Lord Livermore:** We do not look at it with despair. We look at it as one of the major challenges to growth. If you are wanting to get growth into the economy, you cannot not focus on energy prices. We know it is a major barrier to growth, like planning has been a major barrier to growth. Like the Secretary of State, we are very focused on it. We know that the industrial strategy is a major opportunity to tackle that. It is a top priority for us to do that.



## HOUSE OF COMMONS

As the Secretary of State says, we cannot pre-empt what the industrial strategy might do, but I would simply reassure you that the Treasury is very focused on this, as we are across the growth mission. We know it is one of the major barriers to growth and we know it is something that we need to deal with.

**Q734 Chair:** Is it your view that the industrial strategy ultimately cannot succeed unless we fix energy costs?

**Lord Livermore:** There are many things that are going to go into making sure the industrial strategy is a success. Clearly, in the responses to the consultation, it comes up repeatedly. As Poppy says, it comes up repeatedly for her. We are very aware of that. It is definitely, clearly, one of the things that we need to tackle.

**Q735 Matt Western:** Just to pick up on that, it is great to hear that the Secretary of State is obsessed about energy prices. We had a series of business roundtables across the country and businesses, irrespective of their size, are really concerned about energy prices, but also are clearly concerned by the increase in national insurance contributions.

One of the other big barriers has been around business rates. As you will all appreciate, irrespective of whether you make a high profit, low profit or whatever, they are a huge cost to a business. I would be interested to hear your thoughts about what can be done to address that, because I am sure it is also impacting inward investment as well.

**Jonathan Reynolds:** Our ambitions on business rates are not directly part of the industrial strategy, but you will know the prominence the Chancellor and I have given them in terms of the reform agenda that the Government have. Spencer might want to come in on some of the detail of that. Business rates have been around in the UK for a long time and have been in operation at times of very different economic activity. They have evolved over time around that.

The priority for us, to be frank, is the impact on retail, hospitality and leisure and the need for a long-term settlement on business rates in that area. It does come up in relation to industrial strategy sectors, such as advanced manufacturing, but not as much for that sector as things like energy, skills or regulation would.

If you think about the industrial strategy's ambitions to, first of all, make that pitch on the overall business environment and what needs to change, and then on the sectors that have been highlighted to have sector plans to co-ordinate them, I would put business rates in that broader business environment of things that we are all aware of that need a long-term set of reforms and settlement.

**Q736 Matt Western:** Baroness Gustafsson, are you finding that global corporates are saying, "Look at energy prices. Look at business rates"? There is a 60% to 70% premium on both, really, for the UK.



## HOUSE OF COMMONS

**Baroness Gustafsson:** They talk about the regulatory environment. They talk about energy prices. The issue of business rates does not come up. It is not even in third place of what comes up. It has come up maybe a handful of times in the conversations that I have been having since I have been here. What they are really hungry for is clarity. They want to know what the numbers are going to be. They want to know that Government are applying consistent policy.

They want to be able to do horizon scanning and know what is coming in the future. For me, that is what the industrial strategy really provides. It is the Government saying, "These are sectors that are really important to us. This is us showing the tools that are available to support your industry and these are what our plans are." That then allows investors to plan. They just do not want any surprises.

**Jonathan Reynolds:** I would say broadly that the tax position of the UK is an attractive one in terms of the story that people would be looking at. We have the lowest corporation tax in the G7. The concerns, as Poppy says, are far less in that area. They are about some of these very practical, granular issues on energy and skills. The consultation has absolutely highlighted these as areas people want to see action on.

Q737 **Mr Reynolds:** Secretary of State, you have said that you are a bit of an obsessive about electricity prices. We all know electricity and gas prices are linked. You will know, as an obsessive, that around 30% of UK electricity is wind-generated. That is not reliant on any price of gas at all. How many times have you mentioned to the Secretary of State for Energy Security and Net Zero that we could just decouple those prices and electricity prices would come down, to be able to tick off that highest thing on your to-do list?

**Jonathan Reynolds:** I have heard that pitched and it is not, sadly, as simple as that. You will know that the reason gas plays such a role in our system is that it is the last marginal form of production, which then sets the price for the rest of the system. Of course, the contracts for difference that most of the offshore wind operates on are set on a strike price that itself has been set in relation to the market rate, which would be set by gas prices.

The idea that you can just change that and decide to pay a different rate is sadly not how it works. As Poppy has said, the long-term position for the UK is a really exciting one, because we will have such a renewable energy base. We will hopefully have days where we will be setting the price for the whole system in a different way.

Q738 **Mr Reynolds:** Long-term strategy is fantastic, but it does not stop businesses that are closing every single day because they cannot afford to keep the lights on. How are you going to, in the short term, stop businesses from closing down because they cannot afford to trade, due to electricity costs?



## HOUSE OF COMMONS

**Jonathan Reynolds:** That is exactly why the industrial strategy looks at some of those real barriers to business activity, business investment and growth. We have to address the barriers to that and that is why energy is a big part of the focus of the work that we are doing.

Q739 **Chair:** You are confident that the industrial strategy will set out a road map for bringing industrial energy prices down.

**Jonathan Reynolds:** I cannot pre-empt the decisions that we are making, because they are linked to the spending review, but I can tell you that it is an area of considerable Government activity.

Q740 **Chair:** It sounds like that is your ambition.

**Jonathan Reynolds:** I want the UK to be in the most competitive position possible. Logically, you could extrapolate from that that I want the barriers that businesses tell me about to be addressed as part of that. Colleagues will be aware that, especially when you are trying to do something as ambitious as this—addressing some of these barriers across the whole Government machine—you have to work with colleagues. There are limited resources. You have to compromise and try to deliver on your goals, but recognise that it is not as straightforward, sadly, as just making a decision in one area or another.

In this, through the work we are doing, we have the opportunity to find a way to address those as a team. I have certainly never observed as a Member of Parliament the level of integration and interdepartmental working that this fine panel of colleagues represents. Even when the UK briefly had an industrial strategy under Greg Clark, which I have said was a good piece of work, I have never seen before the joined-up approach to trying to deliver on this that I believe we have here.

Q741 **Chair:** Growth is the No. 1 mission and we have just clarified today that energy costs are the No. 1 or 2 issue for delivering that. Presumably, we could hope to see a pretty bold plan on energy costs in the industrial strategy.

**Jonathan Reynolds:** Again, my ambition would be to meet what has been revealed in the consultation in terms of the barriers to the kind of activity we need more of in the UK.

Q742 **Matt Western:** Secretary of State, you were talking earlier about better cross-Government, interdepartmental working. Some of the important sectors, like the automotive industry, have been very concerned about the disjointed regulations holding them back. Of course, you will be more than aware of the issues between your Department and DFT, where one seemed to be saying or doing one thing and the other pulling in a different direction. How are you going to better join up Government and how the Government work with regulators, so as not to hold these sectors back?



**Jonathan Reynolds:** One of the principal things any Member of Parliament will hear from businesses is a sense of frustration that different Government Departments have their own policy priorities—who is trying to address the cumulative impact of those on a business? I have always understood that.

First of all, look at the reforms to the ZEV mandate. You have a situation there where one of the principal policy levers affecting automotive production in the UK is technically a transport-owned policy, with significant implications for DESNZ and the carbon budgets, but also fundamentally important to me, the champion of the sector for jobs in the UK. The Government are never as quick as anyone would like, but again, we acted more quickly than I have ever seen before. There was an integrated approach to recognising we need to change that.

I would say to all colleagues that it is a good job we have started that work, because that began a long time before the imposition of tariffs from the US. It was absolutely vital that we could move at pace, having already begun that work. There is evidence of that.

I would also cite again the changes that have been proposed in the immigration White Paper. Again, we are using the sectors of the industrial strategy to look at where we need to think about people coming to the UK and how that matches our economic needs, rather than not having a co-ordinated system with control, as we do at the minute.

There is evidence of this in some of the wiring behind the scenes—the way that Government work and the groups of colleagues that are brought together to address issues. This is, as I have always wanted it to be, not just DBT and a DBT strategy. It is a genuinely cross-Government one, with colleagues at the Treasury, No. 10, education, transport and DESNZ integrated into the work that we are doing.

Q743 **Matt Western:** If I could just drill into it for a moment, you will know very well that the automotive industry was very frustrated by DFT being in a very entrenched position. Who is the arbiter in that case and how can we make these Departments work better across Government? Is it more of a role for the Cabinet Office or is it simply No. 10?

**Jonathan Reynolds:** That is the role the Cabinet Office plays. If you take, for instance, the changes to the ZEV mandate, there was not genuine political disagreement across Government in terms of what we were trying to do. My position has always been that I care, and we have to care, not just about the transition to new technologies, such as electric vehicles in the UK, but about whether we make them in the UK. That has to be our starting point and there was no pushback from any colleague in doing that.

The job that needed to be done was a careful analysis of where we were going. Was the current regulatory system we had inherited one that was reflecting market conditions and the position of industry? Was it



## HOUSE OF COMMONS

operating in the way that it was intended? It needed those changes as part of that and, as I say, there was no political disagreement on the goal of being ambitious on the transition, but making sure it worked in such a way that we were still making vehicles here in the UK.

**Q744 Chair:** Baroness Gustafsson, you said that inward investors often moan to you about regulatory uncertainty and, I suspect, the disjointed nature of our regulators. Can you give us a flavour of what they say to you about the problems they confront?

**Baroness Gustafsson:** Investors want clarity and they want to feel that they are being given the space to be able to grow their business and to work, and that they are not going to have undue frustrations in the process of that. They love what is happening in the conversation about the planning space and making that far simpler and easier. That has gone down very positively. When we talk about the fact that the Government's ambition is around growth, that is a key indicator that that is a genuine desire and that is something that will really help to support and unlock growth.

They feel very encouraged by the steer that regulators have had to be a partner in the Government's ambition on growth. That messaging has been landing really well. Again, there is the last piece about the Regulatory Innovation Office. Where there are those tactical examples of the system operating against itself—and there are always examples, because Government and regulators are big, complicated beasts that are dealing with a lot of multifaceted challenges—you can pass them into an office where people will look at that and think, "Let's let common sense interface here. How do we shape this and make this work?"

You have three really good aspects there: regulators' alignment on growth, practical examples of regulation being able to change to support investment, which we see in things like planning, and then a place to go to bring the tactical, day-to-day challenges that come up in the Regulatory Innovation Office.

**Q745 Chair:** Lord Livermore, the Chancellor has very wisely told the regulators to start being a bit more pro-growth. One of the big complaints that we get, though, is that regulators do different things that cut against each other. Sometimes, you have different Departments doing different things cutting against each other too. What is the Treasury doing to try to force regulators to co-ordinate what they are doing with each other?

**Lord Livermore:** It is a really good question and it is definitely, as others have said already, one of the issues that comes up not just with inward investors, but with businesses too, which you talk about all the time. Regulatory uncertainty is a big issue, as is lack of clarity. They talk about regulation being a black box. Regulation just emerges and they do not feel that they have sight of that.



## HOUSE OF COMMONS

We have had, with the Chancellor, several roundtables with regulators, talking to them about these issues. We have launched the regulation action plan and a key part of that is having a one lead regulator model, so that you do not have multiple regulators, as you say, overlapping and giving conflicting views. You instead have a lead regulator that is going to take the lead on that piece of regulation. That is an agenda that we want to take further. As we implement that regulation action plan, that is something that we will be looking at very closely.

**Q746 Chair:** Just for our information, is that being driven forward by the Regulatory Innovation Office or is that being driven forward by Treasury? Who is the Minister on point for making this happen?

**Lord Livermore:** At the moment, it will be joint between the Treasury and the Cabinet Office.

**Q747 Mr Reynolds:** Baroness Smith, when we talk to businesses, we hear all the time about how a lack of skills is holding them back. What practical steps are we going to see over the next six months to unlock that?

**Baroness Smith of Malvern:** First of all, that is right. I understand that concern and, more positively, what we know is that skills can make an enormous contribution to productivity. Some 30% of the contribution to productivity between 2002 and 2019 came about because of skills. We also know that some of those areas that are most important to our growth see the largest skills gaps. Construction, information and communication technology, and engineering, for example, are where there are the big gaps.

That is why we have already started taking action to ensure that we can fill those gaps. First of all, I would say that it is enormously helpful to have an industrial strategy that points to those areas where it is particularly impactful to make a difference in terms of the availability of skills. The industrial strategy has linked to the work of Skills England. That was, of course, one of the first things we did as a Government, to bring a better analysis of where those gaps are. That will also enable us to think in a more granular way, I would argue, than perhaps has been the case previously about what we need to do to fill those gaps. It is already having an impact on policy.

Then, if we think about the recent investment that the Chancellor has made into a construction skills package, we see some real financial investment, but also recognition that skills and the development of skills is going to be fundamental for achieving the growth mission, ensuring that the industrial strategy is a success and also, of course, ensuring that we have the opportunities available to people. A lot of action has already happened.

The reform of the growth and skills levy, of course, is already enabling us to offer employers, from this summer, more flexibility about the way in which they are spending their apprenticeship levy, through foundation



apprenticeships to get young people into work and through shorter-duration apprenticeships.

This is not my first time in the Department for Education. In fact, it is my third time. The big difference to me is, first of all, the significance given to skills within the Department and, secondly, the role that our skills work is playing across Government. That is not something that I experienced previously.

**Q748 Mr Reynolds:** Roughly 10% of businesses tell us that they have at least one skills shortage vacancy on their books at any one time. How much do you think we are missing out on in terms of economic growth in GDP as a result of that? How much are we going to be making up in the next year as a result of the steps you have outlined?

**Baroness Smith of Malvern:** It would be hard to put an absolute figure on it. As I said, we know that a third of productivity growth comes down to skills, so we could expect, if we are filling those skills gaps, to be making an important contribution to productivity and to growth. It is helpful in determining where you make your first change to be clear in a much more granular way, which we are beginning to develop now, about precisely where you would want to see the additional skills provision or precisely where the gaps are.

Then we need to think about the system of provision—whether that is the apprenticeship levy, what you are providing through further education or the focus in higher education—and, therefore, where you are expecting the system to focus, on top of the universal provision that it needs to have.

**Q749 Mr Reynolds:** What would you say to those individuals who argue that skills and training take a long time, especially in terms of getting people who are interested in what they want to do? We need to get young people interested in new skills and new technology areas at a young age and develop them through. Traditionally, we have not been very good at that and that is why lots of workers have come in from other countries, to try to plug those skills gaps. What would you say to the people who argue that the immigration White Paper is not going to help us fill those skills gaps and will create more skills gaps?

**Baroness Smith of Malvern:** First of all, on the immigration White Paper, this is the first time I have seen an explicit linking of the immigration system to the skills system.

**Chair:** If memory serves me correctly, we tried to do it together in 2007.

**Baroness Smith of Malvern:** You are absolutely right and I have to say that I was quite surprised to come back into Government and find that nothing had happened since then.

**Jonathan Reynolds:** You will have to give evidence, Chair, so we can hear how it went.



## HOUSE OF COMMONS

**Baroness Smith of Malvern:** The fact is that, first of all, the explanation in the immigration White Paper quite clearly does that. Some of the proposals around the immigration skills charge increase and, incidentally, the assurance from my colleagues in the Treasury that that will be spent on skills are important.

There is a recognition that we will explore conditionality for employers, so that there is an incentive for employers to invest in skills for domestic workers, as opposed to instantly turning to importing labour. That is a very important shift. It is important symbolically, but also practically, in terms of the provisions in there.

Q750 **Antonia Bance:** Building on the point, many of my constituents in the Black Country, the home of the UK's metals industry, were glad to hear yesterday that some of the ways that we have operated as a country until now, whereby we bring in the skilled workers to work in advanced manufacturing and in the associated trades—welding, for example, and construction—is going to come to an end. What assurance can they take that the skills training that they want for their children and for the young people in our area will be available, and that that will lead to the good jobs that we hope will come from the industrial strategy?

**Baroness Smith of Malvern:** First, there are some of the things that I have already talked about. We have already begun to make the growth and skills levy more flexible, to enable employers to get access to the skills that they need in a way that is more accessible. Just to come back to one of the points made previously, there is a challenge in terms of how quickly people can access training and be upskilled.

We, as a Government, have supported the development of bootcamps. They are not lengthy qualifications. They are much shorter qualifications that enable quick upskilling of people who are in work. That is something that is also being supported through the construction skills package. We have placed a priority on skills through the development of Skills England, to identify where the qualifications that are necessary are. We have already put investment into further education. We are providing support at a younger age for technical qualifications like T-levels, which I was fortunate enough to see in the Black Country, in Dudley College.

There are a range of things that we have already done in order to begin to make a difference, but that is not to say that I do not understand the considerable challenge that we have. We have to provide the flexibility and the products, if you like, for employers to access and train their workforce, as well as the opportunities and clarity for young people about their routes through the system, to get the sort of qualifications that will enable them to take good jobs. There is also a requirement for apprenticeship providers, further education and higher education to make sure that that supply of qualifications is available.

Q751 **Antonia Bance:** Skills England is a new body set up within the Department for Education. There has been some question about whether



## HOUSE OF COMMONS

it will have the convening power, the ability to direct provision in the way that is needed and the sense, across Government, of being able to push the agenda that is going to be set out in the industrial strategy. Do you think it is going to have enough power and enough ability to direct the provision?

**Baroness Smith of Malvern:** Yes, I do. First of all, this set-up within the Department for Education is an executive agency. You can see from the people that we have appointed as the chair, Phil Smith, and as vice-chair, Sir David Bell, that these are people who have an enormous amount of experience—in the case of Phil, as an employer in digital skills in particular and in a range of other areas. Skills England is already engaging across Government and with the sector to bring coherence to the skills system, which has not existed previously.

I have talked to him about it and, frankly, Phil Smith has not taken on this role because he thinks he is going to be an additional civil servant, great though they are. He has taken this role on because he thinks there is a real opportunity for Skills England to make a difference.

Q752 **Antonia Bance:** I have one final question. You spoke a little in a previous answer about the skills bootcamps. One of the great unanswered questions, given that the majority of the 2030 or 2040 workforce is already in work, is how we intervene with that workforce. The job they may be doing now may not be the job we are going to need them to do in the future.

Is it just the skills bootcamps? Or are we going to need to return to this issue and ensure that there are routes to reskilling for people who are already in work and, crucially, already paying mortgages and car loans and need to maintain their income?

**Baroness Smith of Malvern:** That is a fundamentally important issue. How do we provide flexible ways for people to be able to upskill within an existing job and gain skills quickly, in order to be able to go and do another job? Skills bootcamps are an important part of that. Free courses for jobs are an important part of that. The flexibilities we are beginning to make in the apprenticeship system are important there, including shorter-duration apprenticeships. Employers have quite often said to me that there is scope for those to be used for people to upskill during their careers. I hope there is more that we are going to be able to do in that area, in terms of flexibility in shorter courses to support employees.

Q753 **Chair:** Let us just zero in on this. Workforce issues and skills training are the biggest issues that businesses raise with us as barriers to growth by some distance—bigger than energy costs. Every single major business and major manufacturer that has spoken to us in the last nine months has said that the skills system is too inflexible. They have said that the apprenticeship and training routes are too long and too heavy duty. They have said that sometimes the up-front maths and English requirement is too high for what they need, and none of them has said that the skills



## HOUSE OF COMMONS

levy is flexible enough for their needs today. On those three issues, are we going to see changes in the industrial strategy?

**Baroness Smith of Malvern:** On those issues, we are already making changes. On the issue of whether an apprenticeship, for example, is too long, this is the reason why we have already said that we will reduce the minimum length of an apprenticeship from 12 months to eight months. It is also why, as I was saying in the previous answer, we are finding ways in which employers can get access to shorter courses, to enable them to upskill. Individuals can get access to those as well.

On the English and maths requirements, it is important for 16 to 19-year-olds to continue with their English and maths study. There may well be questions about whether they are being supported as effectively as they could be to get those qualifications, but we have, of course, already removed the requirement for adult apprenticeships to have separate English and maths qualifications, so employers can more clearly focus on the English and maths that relates to those particular occupational standards. That has been welcomed by employers.

Q754 **Chair:** Secretary of State, you have an industrial strategy coming out imminently. Do you think, as we sit here today, that the Department for Education has now given you everything that you need to ensure that that industrial strategy is in the right place? Do negotiations continue?

**Jonathan Reynolds:** You can see that we are sitting next to each other in a very warm embrace. Let us have some humility when we approach this as parliamentarians. I would describe skills and training as one of the longest-running public policy concerns in the UK. You can go back to this place in the 1870s, after the unification of Germany, and people were worried then about the competition that was coming from that. There is a big problem to fix here.

Jacqui has just laid out the combination of flexibility, working with business and responding to business concerns as to where they need that; sometimes a redesign of the system in terms of what is appropriate for what people are asking for, alongside the needs of business to fill those skills; and the role of Skills England as a co-ordinating body, with the link to the Industrial Strategy Council that we have already established. Yes, the framework of what we need is absolutely being pursued by DFE.

Of course, we all have to have the humility to recognise that we have to keep tweaking that—keep adjusting that approach and make sure it works for business. Again, the ambition of the industrial strategy is to respond to those big barriers to growth and to what business has told us in the consultation. You are absolutely right to say, Chair, that skills is bound to be—has to be, and is—one of the principal messages that has come back to us.

Q755 **Chair:** When Andy Burnham, who Jacqui Smith and I were in Cabinet



## HOUSE OF COMMONS

with, says that the Department for Education is the biggest barrier to regional growth, is it true that you are going to be able to fix that concern in the industrial strategy paper?

**Jonathan Reynolds:** What is needed to get this right is a clear relationship between local leaders and central Government. Those agendas are not in competition. Actually, by definition, they are complementary. If you think about what we are trying to do in Greater Manchester around provision for young people, it is the kind of changes the devolved settlement has allowed in terms of public transport that have even let us think about specialising FE provision in the city region.

I do not see national and regional as being in competition in this space. What Jacqui has laid out there is what business is asking for. Some of those changes, like the apprenticeship levy becoming the growth and skills levy, are changes that have to be done by central Government.

**Chair:** I am going to loop back to devolution in a second, so hold that thought.

Q756 **Rosie Wrighting:** We have heard time and again from businesses across the key sectors that they are struggling to access scale-up funding, sometimes even after receiving R&D funding. They are going to places such as Silicon Valley or, within the creative industries, European countries, to be able to scale up their business. What reforms are you considering so that businesses can scale up and we can commercialise our innovations here in the UK?

**Jonathan Reynolds:** I absolutely agree that access to finance is one of the themes that comes through very strongly. There is a lot of Government activity around this. It is very important to understand that you have to be careful with the interventions you make on access to finance. It is relatively easy, as a Minister with Treasury backing, to announce sums of money for things but, if you do that in a way that destroys the ecosystem that you need to be in place in the private sector to deliver on that, you are actually, in the long term, causing more damage with that intervention.

There are market failures. There are market failures in the work of the British Business Bank, which has been very successful since it came into being, sponsored by my Department. There is more we can do to build on its work and the analysis it has done in terms of where there are interventions that are necessary. The regional aspect is part of this. There are all sorts of specific things I would look to in terms of certain sectors. Clearly, colleagues here will be aware of real deficiencies in the data in terms of female entrepreneurs and entrepreneurs from more diverse backgrounds. Are they getting the support that they need? The whole system needs looking at. Again, that is one of the themes of the industrial strategy.



## HOUSE OF COMMONS

To be frank, we also have to recognise that there are some market failures you are seeking to address, but that not every business plan will win the confidence of funding that is necessary to see that grow. Yes, I would also put access to finance among those top challenges—those barriers that we are seeking to address in this strategy.

**Q757 Rosie Wrighting:** When there is finance available, do you think that entrepreneurs and individuals in this country have the financial literacy to access it? If not, how are we going to address that?

**Jonathan Reynolds:** It is a fascinating question. My personal view is that, in terms of how we provide young people with information on how big macroeconomic decisions will affect their lives, from getting a mortgage to interest rates, we do not do that particularly well. That is something that needs to be considered. Anyone who is founding a business and growing a business has put so much of their personal skin into the game that they would be aware of those decisions.

Certainly, in many cases, you find that the major lenders, the banks, are always keen to stress the scale of support that is on offer. We do get a lot of feedback from, for instance, smaller businesses about the role that things such as personal guarantees sometimes play in access to finance and the prohibitive nature of that. That is more of a general question about financial literacy in the UK than specifically one around the business environment and industrial strategy, but it is definitely a very interesting area.

**Q758 Chair:** Lord Livermore, one of the issues that has been put to us is that the funding landscape not only lacks scale-up finance but is very complicated. One of the questions I had is why we do not merge the National Wealth Fund and the British Business Bank and try to drive some consolidation in the public-backed finance institutions that we have today.

**Lord Livermore:** We would want a great deal of co-ordination between those two organisations, but I do not necessarily know that, at this point, the right thing to do is to merge them. We are setting up a body within Government where the chairs and chief executives of both those organisations sit together and ensure—

**Q759 Chair:** Why do you not just merge them? It would save you a load of overhead costs.

**Lord Livermore:** It would, but they are doing different things. They have very different sizes of project, for example. They are focused on different parts of the market, different parts of a firm's life and journey, so have very different skills within their organisations. Ensuring co-ordination between them matters, but I do not necessarily know at this point that merging them would make a difference.

I very much agree with Rosie's question about the importance of scale-up capital. I also agree with what you are saying about the complexity. It is



## HOUSE OF COMMONS

something I have raised with the British Business Bank, in terms of making sure that we can remove some of that complexity in the way that the funding is allocated. Right now, merging the two organisations is not on our agenda.

**Q760 Chair:** You agree that it is quite complicated. We have the National Wealth Fund doing one thing; we have the British Business Bank doing another; and we have UK Export Finance doing another. We then have a whole slew of business support schemes, which are doing different things in different places. It is really complicated for a small business to figure out where to go. Which is the front door they walk through? What is the number they call?

**Lord Livermore:** The fact that they are doing different things is not necessarily, in and of itself, inherently the driver of the complexity, because different types of business and different types of project will go to different types of organisation. Small businesses are very much focused at the British Business Bank end. The National Wealth Fund is doing a larger size of project. That is not the driver of the complexity.

It is absolutely about how we make the journey for a small business going to the British Business Bank as simple, with as little complexity, as possible. That should absolutely be at the top of our agenda.

**Q761 Chair:** Secretary of State, the other problem that has been put on our desk is from John Godfrey of TheCityUK, who makes the point that, very often, when funders are going out to look for investment—whether they are pension funds or institutions that we have at the moment—it is pretty difficult to find term-sheet-ready investments. Having an institution that actually helps businesses to build investment propositions might be a wise thing to do.

**Jonathan Reynolds:** You are asking the right question about complexity. It is probably a fairly complex-looking landscape of public finance institutions in the UK for parliamentarians, let alone the public. You are asking the right question, but it is, as Spencer has said, a very different answer that you need to address that.

The British Business Bank and National Wealth Fund do two fundamentally different things. The British Business Bank does business lending to fill market failure, while the National Wealth Fund does project lending. The minimum project size for the National Wealth Fund is £25 million. You are at really different parts of the market. Within that, you also have UK Export Finance, a separate Government department, technically, which I am also responsible for, which does great work.

We now have GB Energy. Homes England has a public finance institution role as well, and there are others. Simplicity in that is absolutely something we are interested in. That is part of what our small business strategy is trying to look at—how we fundamentally change the interface for small businesses, and how that interacts with the state and provides



## HOUSE OF COMMONS

information on what is available to them. That could cover private sector, as well as public sector, offers.

That co-ordination and ease of interaction has to be a priority for Government, but we have to recognise that they are doing different things. They are fundamentally trying to deliver different objectives and are being quite successful in their own fields in doing that.

**Q762 Sonia Kumar:** Coming on the back of this, a number of businesses speak to me and they say that they have financial literacy, but they are struggling to get access to finance or they are struggling with marketing. Would a solution be to have a centralised hub where businesses can access different training modules for different parts of their business? Would that be something that you would consider, Secretary of State? Time and again, businesses are saying they just do not have all the skills when they start up their business.

**Jonathan Reynolds:** I am absolutely interested in that. I look very much at other countries and the national branding they have around that. The Small Business Administration in the US gets a lot of attention, but there are other good examples around the world. Where other countries do it well is where they have a clear national brand that is delivered in partnership with local areas, so it would reflect different local economies around different bits of the UK, as you would want to see reflected.

Broadly speaking, this is not quite the same as the Small Business Administration, but our proposal for a business growth service is exactly that. How can we provide a one-stop shop with a digital approach to that as well, bringing together not just the offers of support you are talking about, but looking at, for instance, Companies House and HMRC, and trying to make it as easy as possible for businesses to interact with Government? Then you also make it better for Government to understand where interventions could be best pitched to have the maximum impact. We would spend public money better, in a way, because you would have a greater impact for it.

I receive a lot of emails every day, to the Department and to my parliamentary account, that are just from people, having seen me on telly, asking where they go to find out fairly basic information. I really understand that. I am not critical of that in any way, because it is confusing. There are different resources available from different bits of the state or state agencies. One national brand for where to go for that would be an advantage, yes.

**Chair:** That is not an industrial strategy piece; that is for a small business strategy.

**Jonathan Reynolds:** That is a small business strategy broadly, yes.

**Sonia Kumar:** Moving on to devolution, what proportion of funding allocated to the industrial strategy will be delivered, first, from a national



## HOUSE OF COMMONS

point of view and, secondly, locally?

Q763 **Chair:** For example, for mayors and skills funding, how much do you think we should be devolving down from the general pot that goes into industrial policy to great mayors like Andy Burnham?

**Baroness Smith of Malvern:** We have devolved all the adult skills funding to mayors. We have also removed the ringfence around things like skills bootcamps and free courses for jobs. We are putting skills bootcamps commissioning and procurement completely into mayoral authorities. We have increased the responsibility and control that mayoral authorities have over the local skills improvement plans.

Q764 **Chair:** Is there more to do, though? Are mayors asking you for more?

**Baroness Smith of Malvern:** Yes, they are. Let me completely clear: there is tension over the funding for 16-to-19. We have a compulsory education system between 16 and 19, which is a national system, so I could not envisage that we would devolve all of that 16-to-19 funding to mayors. I meet the mayors frequently on this. We are currently doing quite specific work with Greater Manchester about how we could go further on devolution. There might be some elements of that that we could look to devolve.

First, there is that issue of the national entitlement to that system. Secondly, it is also worth remembering that we have national priorities that we need to co-ordinate with the local priorities that mayors will identify. Quite often, they will correspond, but one of the jobs of Skills England, for example, is to find that co-ordination on skills between the priorities we set nationally, the sectors we have decided are nationally important and the things at a local level that employers are saying they want to see investment in.

Q765 **Chair:** Do you think we have the balance right today, or is there further that devolution can give us?

**Baroness Smith of Malvern:** There is potential for further devolution. I just would not want to leave people with the disappointing impression that Andy Burnham gave that no progress had been made.

Q766 **Chair:** I was going to ask, Secretary of State, whether there are, from your point of view, further things that we ought to be devolving to deliver on your industrial strategy ambitions.

**Jonathan Reynolds:** The first thing I would say, in answer to your question about how much of the industrial strategy funding pot should be devolved, is that we do not want—and no one here should want—one pot of money called “industrial strategy”. These things fail if they are judged by the input that you put into them and compare with other countries.

Committee members will know that a disproportionate amount of support for business in the UK comes from the tax system, rather than grant funding and pots of money. You have to look at the overall picture. Of



## HOUSE OF COMMONS

course, some of the things we are talking about today have funding implications. That is why this piece of work is linked to the spending review and the schedules for both are complementary.

Let us not do what Britain sometimes does by having a pot of money and saying, "Therefore, this is a success." The success comes from moving the dial on the barriers to investment. Some of those are regulatory; some of those are about using existing funding packages better. Yes, some more specific interventions are needed, but I want that to be the case.

On the question of the relationship, place is part of this and the delivery of the objectives is part of this. The system of devolution in the UK is asymmetric now. Different areas do different things. I absolutely agree with Jacqui's point that there are some things we would be looking at that could be done slightly differently, in terms of what local areas or regional areas lead on at present. Honestly, I see no tension between a national industrial strategy and strong local economic and civic leadership because, quite frankly, that is what most countries already have and have had for a long period of time.

**Q767 Sonia Kumar:** Secretary of State, how will you hold mayors to account for delivering the industrial strategy—with a focus on not just cities but towns such as Dudley?

**Jonathan Reynolds:** I am not sure that, as Secretaries of State, our job is to hold mayors to account—their local areas will reflect and do that—but we do see them as key partners. They have been key partners in developing this strategy and some of the tools we need at a national level reflect the fact that we need things to implement some of those ambitions in local areas.

There are opportunities that come from the kind of inward investment opportunities that Poppy is working on every day. The fundamental thing that will get them across the line is whether there is a site that land has been assembled on, that planning is there for and that grid connections are there for in order to do that. It is perhaps not one side holding the other to account, but rather developing that partnership and taking it forward as part of that.

Again, the ambition of the industrial strategy is a pitch to improve the overall business environment in the UK, with a sectoral focus as to where the biggest opportunities are and then a look at place through the lens of where the greatest opportunities are. A lot of the past conversation about the town and city dichotomy in the UK has not got us very far. I represent five very proud towns, but we are technically part of Greater Manchester, a city region. Those two things are complementary and together.

Some of the greatest growth we have seen, and some of the biggest opportunities, come from the services sector. In the main, that has been



concentrated around cities, because of access to the talent and skills that have been evident there, but no town or city is an island. It works in an ecosystem—it has a relationship to the areas around it. We have to keep that in mind.

**Gregor Poynton:** Lord Livermore, further to what the Secretary of State said about resourcing the industrial strategy, how does the Treasury think about using public money and public support to crowd in private investment? Is it about grants? Is it about contracts, subsidised loans, tax breaks or anything else?

Q768 **Chair:** The context for this question is that the OBR had a particular view about how much private money would be crowded in through the public investment, which was perhaps not what others thought it ought to be. We are trying to understand how you deploy public money in a way that maximises the crowding-in of private investment.

**Lord Livermore:** There are two ways. I will go back to what the Secretary of State said about not just having a specific industrial strategy pot, but thinking about all the money that will be spent and crowded in across the whole of the growth mission. There are two big ways in which we want to crowd money in.

One would be through the National Wealth Fund, most importantly, and crowding in a 3:1 ratio in terms of the money that is spent through the National Wealth Fund. We have aligned the National Wealth Fund to the industrial strategy sectors, so it knows that they are the priority sectors it should be going after and looking to develop projects in. That is the first thing.

The second thing is that the new fiscal rules that we have set out allow us to invest £100 billion of capital across this Parliament. That will be targeted on major infrastructure projects where, again, we want to use that £100 billion to crowd in additional private sector investment to those projects.

As the Secretary of State also said, the industrial strategy timing is clearly aligned with the spending review for a very good reason. We are aware that that is an opportunity to allocate funding to growth-oriented projects, industrial strategy projects, and so on. I do not want to pre-empt what will be in the spending review, but that gives us a major opportunity at the outset to deploy investment into the industrial strategy sectors and to deploy public investment, as you say, that will crowd in additional private sector investment.

I will stress again that the industrial strategy is about far more than just public money. A lot of the measures, as the Secretary of State has said, are about removing barriers to growth and investment. Often, they will be non-fiscal interventions, as we have discussed already today, such as planning and regulatory reform. There is more to this than just the amount of money that we will spend on it.



Q769 **Chair:** Secretary of State, when you give advice to the Treasury, do you have a particular observation about the kind of fiscal instrument that is best for trying to deliver an industrial strategy? Is it the extraordinary amount of money, much of it dead-weight, that we are investing in R&D tax credits? Is it capitalising things like that National Wealth Fund? Is it capital expenditure? What kind of investment are you particularly asking for?

**Jonathan Reynolds:** There are different things. There are clearly some areas of concern—again, we have talked about them today—where, if Government were to seek any sort of intervention, it would have spending implications. That is, exactly as Spencer said, why we need to have the co-ordination between the spending review and this piece of work.

There are other things that are much more of a regulatory nature, particularly in the sectoral plans. Talking to any automotive company in the last few months, as you have done, you would hear about energy prices and skills, but you would also get the ZEV mandate. It was a matter of whether the Government's aspirations and regulatory path in a key area of the transition matched the market conditions and the aspiration for those vehicles to be made in the UK.

A business looking at the published industrial strategy will ultimately be the test of this. It is about not the view within Government, but what it looks like from outside of Government looking in. I would want them to see a very clear, cohesive and compelling pitch about the business environment and the attraction of doing business in the UK. I would want them to look at the sectoral elements of it and say, "This is a Government that has listened. Our concerns are reflected back in what is being proposed here." Some of those are very specific for certain sectors. Others are more horizontal and cross-cutting.

They would see things that are absolutely sensible, straightforward and non-contentious things to proceed with. They would see things that are widely recognised, but previous Governments have not had the political will or the means to be able to do. I also want them to see some things that really stand out and make them say, "This is such a compelling proposition for the UK"—so it is ambitious. What businesses are looking for is quite different in terms of some of those barriers but, of course, there are consistent themes in that too.

**Chair:** That brings us to time. We very much look forward to seeing the strategy. We hope that the advice that we supply as a Committee will be of value to you. It will certainly be of help to us as we scrutinise the strategy over the life of this Parliament. I want to give a huge thank you to all of you for what you are doing, for your time today and for coming together on this panel to conclude our inquiry into industrial policy.