

Business, Energy and Industrial Strategy Committee

Oral evidence: Post-pandemic economic growth: Industrial Strategy , HC 674

Tuesday 2 March 2021

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Members present: Darren Jones (Chair); Alan Brown; Judith Cummins; Richard Fuller; Ms Nusrat Ghani; Paul Howell; Charlotte Nichols; Sarah Owen; Mark Pawsey.

Questions 213 - 259

Witnesses

I. Andy Haldane, Chair, Industrial Strategy Council; Dame Kate Barker CBE, Member, Industrial Strategy Council; Professor Dame Nancy Rothwell, Member, Industrial Strategy Council; and Sir Charlie Mayfield, Member, Industrial Strategy Council.

Examination of Witnesses

Witnesses: Andy Haldane, Dame Kate Barker, Professor Dame Nancy Rothwell and Sir Charlie Mayfield.

Q213 Chair: Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee and the final hearing under our inquiry on the UK's Industrial Strategy. We are delighted today to welcome a panel of four leading voices on Industrial Strategy here in the United Kingdom: Andy Haldane is the chair of the Industrial Strategy Council; and Dame Kate Barker, Professor Dame Nancy Rothwell and Charlie Mayfield are members of the Industrial Strategy Council. Welcome to all four of you this morning.

To get going, Mr Haldane, there have been news reports recently about the future of the Industrial Strategy as we know it, with some suggestion in the papers that the Government intend to move it from BEIS to the Treasury. What are your reflections on this for the future of the Industrial Strategy and, indeed, for the Industrial Strategy Council?

Andy Haldane: I am delighted to be here. Good morning, everyone. At present, they are news reports. I have read them, too. Looking beyond the words, which we should, and looking beyond the precise location of responsibility, which we should, the key point is that the essence of the 2017 Industrial Strategy was about supporting productivity and pay. The central planks or pillars of that—improving education and skills, investment in innovation, infrastructure, and doing so right across the UK—are, in some ways, even more important today than they were back in 2017.

Whatever words are used to describe it, and whatever the precise responsibilities are within Government, I am extremely confident that those aims remain intact—and are, in fact, even more important—and that those central pillars will remain intact, because they too are even more important, not least in the light of Covid. As a council, that has been our orientation. This is about issues of real substance and real structural fault lines of long standing that need addressing. That is true irrespective of what precisely we call them.

Q214 Chair: Is there any risk that the intention of having an industrial strategy and a council to elevate the priorities above the day to day of departmental decisions or the political cycle will be lost, if it is subsumed into day-to-day actions in the Treasury, for example?

Andy Haldane: I can only give you my reflections on that, and I am sure Nancy, Kate and Charlie will have some too. One of the most important elements of the 2017 strategy came in the use of the word "strategy". That is to say, it was an attempt to piece together what had been, at times, rather disparate aspects of policy into something rounded and coherent. It is even more important, looking forward, that all those moving parts are fused together. This is not just a selection of policies; it



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is a collection of policies that form a strategy. That is going to be crucial, looking forward, irrespective of what it is called and where it sits.

The other very important part of this, which speaks to the role of the council, is that, to have any hope of this integrated package of policies—the strategy—having success, it needs to be pursued at scale, which has not always been the case in the past. Secondly, it needs to be pursued for the longer term. The history there in the UK has been rather chequered.

One of the most important roles of the council that I saw when it first came into being a couple of years ago now was to try to secure some degree of longevity to the policies that formed part of the strategy, by having an arm's-length, independent expert body—the council, namely—serve as a means of keeping score, of tracking success and of evaluating progress. By speaking openly, publicly and transparently about progress, it did not guarantee but increased the chances of that strategy sticking for the longer term, without which there was no real hope of the strategy bearing fruit.

Whatever emerges from the Budget, and perhaps we will find out more tomorrow, I would hope that the two principles of joined-up policymaking—that is to say, strategy—and of independent, arm's-length, expert evaluation to secure longevity and scale remain intact, because without that we are really going to struggle to make good on the aims of the strategy, which everyone wishes to make good on.

Q215 Chair: Professor Rothwell and Mr Mayfield, you both work on the sectors work on the Industrial Strategy Council. What will be the view from industry and the sectors that you work with, if the Industrial Strategy is fundamentally changed?

Professor Dame Nancy Rothwell: Good morning. It is a pleasure to be here. Just to reinforce Andy's comment, the Industrial Strategy has to be pervasive across Government Departments. I do not see it as being owned by any one Department, because it influences such important aspects of business, trade, health, skills and infrastructure across all of them.

In terms of the sector deals, we reported a somewhat mixed view, because so many of our activities now are cross-sectoral, which does not necessarily come through in sector deals, whether it is digital or various infrastructure and so on. It is about being across sectors and Departments, and making sure that we do not compartmentalise and go in for, as Andy said, short-termism. I also do not necessarily see a radical change in strategy. It will still be about employment, skills, pay, prosperity and productivity, and that is certainly what will be in our annual report this year.

Sir Charlie Mayfield: Thank you, Chair, for inviting us to join you this morning. I would build on some of the points. Industry generally benefits



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from continuity and some kind of forward certainty, so that investment and some of the levers can be deployed against the long term and, therefore, generate the best possible returns. There will be a desire to see some continuity going forward. Where things have started and are under way, there is some loss if that is disrupted.

Having said that, as the council, our role is not to promote or denigrate any one sector or aspect of the Industrial Strategy, but to reach an independent view on what is the best way forward. In that respect, I would call out the importance of what Andy was describing before about the key ingredients of success: namely longevity, scale and co-ordination. In that respect, there is a shared responsibility between Government and sectors to secure that. If, for example, the interpretation of industrial strategy by a sector or an industry is defined as an exercise in approaching the Government in search of favours or support in a one-sided way, that will not create the conditions for a long-term and sustained industrial strategy, because it leaves it extremely vulnerable to a change in personalities or in the political cycle.

It is very important that there is a truly collaborative approach behind everything that is done. It is also very important that whatever we do is done at scale. Unfortunately, the challenge of scale means that you cannot do everything at scale, simply because the resources are not there to support such an effort, so difficult choices have to be made to ensure that whatever we choose to do, if Government choose to prioritise, it is done at a scale that is likely to lead to the success that we all want to see from the Industrial Strategy in the round.

Q216 Chair: Dame Kate Barker, you work on the metrics and measurement aspect of the Industrial Strategy Council—something that I am fond of. If the Industrial Strategy Council were to be brought to an end, where else could this be done, or do we need to maintain the council in order to maintain this oversight of strategy and metrics?

Dame Kate Barker: Although I started off working on metrics, I moved on to work on place, but that does not mean I have lost my interest in metrics. Like you, I am very interested in them. If you look back at the metrics that we produced and that we were interested in monitoring going forward, they cover a very wide range of aspects of people's experience. We focused on productivity and, indeed, on wages and employment, but we also wanted to look at the quality of work, people's wellbeing and their ease of travel to work, so it was a wide range.

We started doing this only a couple of years ago. We would not expect to have seen much movement in those metrics. Some of them are very slow moving and, as everybody has said, an Industrial Strategy is something that you expect to reap benefits from only over the long term, so it would be very regrettable if there was not an organisation that was continuing to look at the kind of metrics that we set out and, indeed, at some of the data gaps we identified to think how they can be filled. Metrics are really



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important, and continuing to monitor the same thing over a long period is very important.

Just to refer to something said at the beginning, before I joined the Industrial Strategy Council I chaired the Industrial Strategy Commission. I should say that this has led to quite enormous confusion as to whether or not I am Andy, and I would like to be clear that I am not. One of the recommendations in that was that, in fact, Industrial Strategy was led by the Treasury because of its convening influence. I note that you have mentioned that. It is not for us to express a view as to where it goes, but since I have expressed that view previously I am free to express it again today.

Chair: That is useful. Thank you.

Q217 **Alan Brown:** My questions are all for Andy. Good morning. The council is responsible for monitoring the impact of Industrial Strategy policies across the whole of the UK. Could you detail how you work with the various devolved Governments with respect to this?

Andy Haldane: We have engaged in informal conversations with each of the devolved Administrations over the course of the council's relatively short life. We are very conscious, of course, that, on all those Industrial Strategy policies, responsibilities are devolved. Equally, we are very keen that we share insights we gather when they have applicability across the UK. As one example of that, we held one of our council meetings in 2019 across in Belfast, Northern Ireland, and met with representatives there, locally and nationally, to discuss their plans on the industrial-policy front and the plans for Belfast itself as a city.

I do not doubt that we can and probably should do much more with the devolved Administrations to tie up what we are doing research and policy-wise with what is being done in Scotland, Wales and Northern Ireland. We have made a good start in commencing those conversations and swapping research as and when we do it.

Q218 **Alan Brown:** In written evidence to the Committee, the Scottish Government suggested that there should be greater co-production and consistent engagement in the production of the Industrial Strategy itself at Westminster with the devolved Administrations. Heriot-Watt University has suggested that thematic challenges should be tailored more closely with devolved Administrations. Does that seem a more logical approach, which then makes the overall governance and scrutiny aspect a bit easier from your perspective, in working with the various devolved Administrations?

Andy Haldane: I would need to look at the detail of that a bit more closely to reach a definitive view, but the notion of looking, across all the home nations or, indeed, within them, at common themes, clusters or areas of expertise, whether in skills or in business, and sharing experience across them, sounds like a very sensible strategy. We have had a microcosm of that within the UK over the past couple of years,



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where each of the LEPs has drawn up a so-called local Industrial Strategy. Those strategies are currently on hold, but originally the hope had been that local areas would draw up their strategies and we would then look for common themes or commonalities across them, both across the LEPs and with the work being done north of the border, within Northern Ireland and within Wales. That approach would make sense at some stage.

Q219 Alan Brown: Should that not have been an approach at the outset, gathering the needs and aspirations of the devolved Administrations or LEPs and having that fed in before you had the production and announcement of an industrial strategy? Is that maybe something that needs to be reviewed going forward?

Andy Haldane: I can see that. I think you used the word “creation”, and if we are to have a well-functioning Industrial Strategy, across the whole of the UK, that will come from a combination of local insights and intelligence overarched by a national strategy, and some iteration between those is going to be important. In fairness to the 2017 strategy, it envisioned some of that. It was envisioned that there would be some iteration between devolved Administration strategies, local strategies and the national strategy. It is certainly true, though, that that has rather stalled in terms of progress over the last 12 to 18 months and probably should be fired up, if we are to make good, broadly speaking, on the levelling-up agenda.

Professor Dame Nancy Rothwell: It is not quite the answer to the question, but one of the pieces of work we did with Universities UK was to look at, for want of a better term, innovation hotspots. That was across the whole of the United Kingdom and was looking particularly at university and innovation clusters. It looked at several parts of Scotland, Wales and Northern Ireland. Speaking with a different hat on as a university vice-chancellor, many of us have very strong collaborations with the devolved nations, with universities almost blind to that. We had a discussion yesterday about going back and looking at the local industrial strategies. A lot of work went into many of them.

Q220 Richard Fuller: Sir Charlie, you mentioned, as did Mr Haldane, the importance of longevity. Judging by recent press comments and some of the comments today, one aspect of longevity that the council does not seem to be able to secure is its own longevity. How do you answer people who say that councils such as yours really exist at ministerial whim, and that, for all the pronouncements of wanting to look for the long term, you cannot guarantee anything of the sort?

Sir Charlie Mayfield: It is for politicians to make a decision as to what is the status of a council such as the Industrial Strategy Council. Our role, having been formed by the Government, has been to advise and reach independent views as to what is essential to the success of the Industrial Strategy. In doing that, we are calling out a very important point about longevity.



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The status of the council is a legitimate point of discussion. It is not a decision for me but for those who are in a position to create it. The point you are getting at about the importance of longevity perhaps has some requirement for at least consideration to be given to how that should be reflected in the status of the councils or whatever bodies there are overseeing and helping to ensure that longevity. You make a fair point but one that you would probably need to refer to the Secretary of State and, indeed, to the Government, rather than it being for us to determine for ourselves.

Q221 Richard Fuller: That is very interesting. Maybe I can build on that. Mr Haldane, the council, in its own report, described itself as an advisory body, which gives the impression that you lack any teeth, in that you can make suggestions but they can be batted away. Is that perhaps part of the concern at the moment? Now that we have gone through the dramatic changes of Brexit and had the traumatic experience of Covid, we need action, not advice.

Andy Haldane: There is a place for both. The advice given, publicly and independently, can be a powerful force for change within Government and policy. That is true of the work of the council so far, which has shaped opinion on a number of issues around levelling up, skills and sectors. The advisory role is not without teeth. Voice has a role, especially when expressed transparently, openly and independently.

It is true at the same time, however, that the council is not on the same statutory footing as some other bodies charged with overseeing other aspects of policy, such as the OBR in respect of fiscal policy, the Committee on Climate Change in respect of all matters net zero, or the Monetary Policy Committee, on which I sit, in respect of monetary policy. When I look internationally to equivalent bodies overseas, they have, more often than not, a somewhat firmer underpinning than we have currently. As Charlie said, it is not for us to opine on what the right structure could or should be.

Q222 Richard Fuller: You are hinting at it, are you not?

Andy Haldane: I think of the arms of public policy right now. They are doing all they can. Monetary and fiscal are doing all they can. The third leg of this stool is about structural, supply-side policies. If this is to be a sustainable and lasting recovery, those supply-side and structural policies and these issues of Industrial Strategy have never been more important than now. That begs the question: should they not be evaluated, monitored and designed in a similar way as are the other arms of policy? That is an open question but an important one.

Q223 Richard Fuller: I just want to follow up on that. I cannot ask the question of Mr Haldane, because of his other responsibilities, but I would, if I may, pose this to Dame Kate. You used to sit on the Monetary Policy Committee. We are going through a period—and have been for quite some years—of substantial quantitative easing, where there are, as you



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will be aware, concerns about the balance between that policy as a battle against deflation and it being a matter of supporting Government deficits. As Mr Haldane has just pointed out, there is a three-legged stool here. How do you look at the interactions of QE with the industrial policy strategies that you are discussing?

Dame Kate Barker: I am sufficiently old that I was on the Monetary Policy Committee when quantitative easing was started as a policy. I remember very clearly that we were, at that time, crystal clear that we were doing it for reasons connected with our role of inflation targeting and not for any other reason. It is not for me to answer whether the policy has changed at all in the time since I was on the Committee, but my general view of it is that that still remains its core purpose. It is there as part of the Bank's responsibilities on the functioning of financial markets, but primarily it is there to do with the issues around inflation and the role that the committee has had for a long time on managing the balance between demand and supply, and inflationary pressures. That fundamental truth has not shifted, unless there has been a new Act and I have missed it, which I could quite well have done.

How does it fit with industrial strategy? It has always been very clear that something like industrial or supply-side strategy is done at the other end of town. The Bank sits and thinks about the big macro picture, as does the OBR to some extent, but it is the other end of town—Whitehall, the Treasury and BEIS—that thinks about supply-side policies. The better they are at supply-side policies, the more growth we have before inflationary pressures grow, so they are not unrelated, and nor is the role of monetary policy in smoothing out volatility in the economy unrelated to the ability of supply-side policies. I do not see them as necessarily having to act in concert, but it is true that, the better job either of them do, the easier the job of the other will be.

Andy is fundamentally right to say that there are three legs of policy generally for the Government. Although it is independent in its judgments, the OBR is not independent in making policy recommendations. It simply tells the Government whether the policies they are setting out are likely to hit the targets that the Government have set. The OBR is not free to set targets. It does not really set policy in that sense. The MPC is different. It has a target set for it by Government, in my view correctly, and it is unique, perhaps, in having quite a lot of policy power in how it goes about achieving that.

You would correctly say that the Industrial Strategy Council, at the moment, falls a little bit short, except that, like the OBR, we do opine on whether the set of policies that are around seem to us likely to be achieving the goals that the Government have of improving productivity and real wages. Probably, so far, we have not been doing that incredibly rigorously or forcibly, but that is because we have not been active for very long. We have already said that, first, you need longevity in order to make the judgments at all and, secondly, judgments about anything like



that have been exceptionally difficult over the past year because of Covid.

In that sense, it has been more difficult for us to play the role that I have always understood we have, which is of a critical friend. Are the Government carrying out the policies they set out, and does it look as though they are going to have the effects that we all hoped for? I would hope that the council continues and is able to continue its work in that respect.

Q224 Charlotte Nichols: What problem is the Industrial Strategy trying to solve? What tangible progress has been achieved against this goal? Specifically to Kate Barker, many of the ISC's success metrics look at long-term trends and are updated only annually. Are there any rules of thumb to check whether the Industrial Strategy is on track and pursuing the right policies in the short term?

Dame Kate Barker: On that very specific point, we have said all through this session and all the themes that have come out, apart from the importance of having policies at scale, that policies need to be long-lasting and to have long-lasting effects. I will be frank: quarterly updates on most of those would just not be a sensible thing to have. The numbers always swing around quarterly. There is always quite a lot of uncertainty in quarterly data in any case, so anything less than annual data is not going to give you a good picture. Even annual data for some of the things we are tracking is not really going to tell us how we would go.

I am sure that Andy wants to come in and talk about the general things we are aiming at, but he said right at the beginning that the big concerns we have in the UK at the moment are our poor track record on productivity, which has been noticeably worse than other countries over the past decade. Linked to that, which is not a big surprise, we have a poor track record on real wages. That has made it very difficult to address many of the underlying problems in the UK, some of which I am really concerned about, particularly places that you can describe as left behind, but also places that have not been left behind in the past but perhaps are slipping back.

The key focus must be on improving productivity and real wages, although, as I said at the beginning, because we are not completely heartless economic-driven people, we are also interested, alongside that, in keeping our eye on measures of wellbeing and life satisfaction.

Professor Dame Nancy Rothwell: Let me reinforce what Kate said. More regular, short-term updates can be very misleading. The Industrial Strategy is long term. Equally, coming back to the question earlier about longevity, it is not for us to decide how the Industrial Strategy Council will continue or emerge, but it is valuable to have transparent, independent advice. In many cases, these have to span many years, and time will tell whether that advice has been valuable.



If I could draw a parallel, I am also co-chair of the Council for Science and Technology. That was formed by Margaret Thatcher. It is an advisory council that advises the Prime Minister, and it has been around for a very long time. I would argue that science and technology, somewhat like fiscal policy and Industrial Strategy, can take years to emerge and to evaluate. Everybody wants to know, "Can we get a short-term indication that this is or is not working?" but that is quite risky, because of those fluctuations.

Q225 Ms Ghani: My questions are to Sir Charlie Mayfield. Now that we know what the final UK-EU trade deal looks like, what fundamental changes need to be made to the Industrial Strategy to make sure it reflects that?

Sir Charlie Mayfield: The clarity we now have in terms of the post-Brexit position serves to emphasise the importance of our making some key decisions about where and how we are going to compete in the world. There are a number of facets to industrial strategy, some of which are domestic, about raising the performance of the domestic economy and the benefits that flow from that, but there is also a global dimension. Given our new status outside the EU and our ambition to be a global trading nation, it makes it more important than perhaps previously, where we were part of a bigger bloc, to consider carefully and deeply the areas where we are genuinely going to create true comparative advantage on a global scale and what is required, within an industrial strategy, to facilitate and accelerate that outcome.

It really serves to emphasise the importance of that. If anything, it dials up the global dimension to this, but it is multivariate. The fact is that productivity and pay are linked to that. If we do a great job on our comparative position, it will be beneficial to those things, but equally, if you focus all your attention on those longer-term, building comparative advantage areas, you may find that you have less impact on the nearer-term priorities, which are of great importance.

Q226 Ms Ghani: Sir Charlie, if I can try to get you to dig down a little bit, which sectors should we be focusing on in the short and long term, also considering the impact that Covid has had on a number of sectors and regionally across the country?

Sir Charlie Mayfield: Before I dive into sectors, I would say that you have to look at this from a number of dimensions. There is definitely a thematic viewpoint. Technology is significantly changing the way industries work. Approaching that from a sectoral perspective is not always the most helpful way to do it, because many of the technologies cross-cut a load of different sectors.

One of the important things to think about is which technologies are going to be most important as the source of comparative advantage. Some aspects of the grand challenges spoke to some of those things, albeit four years ago, so there is scope to update them. Some of those areas remain very important and I have no doubt that some of the



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advanced technologies in terms of AI and advanced manufacturing techniques are going to be very important.

You then have to take a strong, objective view as to whether the UK is well positioned to have true comparative advantage. It is all very well to go out and say, "We are going to be great at something." If we do not have the basis to be great, or greater than some other countries, the risk is that you end up spending a lot of time and not achieving what you are hoping to, when you would be better off focusing elsewhere.

Coming to your sector point, the sectors often have an important role in the activation of some of those themes. For example, if you said, "We are going to put a huge emphasis on AI or aspects of climate change," which, again, are very technology-oriented, there will be sectors within the economy that have a particularly important role to play. Taking that thematic view and viewing sectors as the activation of those themes is, in some respects, a healthier and better way to think about the sectoral role.

I sense you are keen to dig a bit into some of the core sectors and where they are being impacted by current events. You have a great range. Some sectors, like hospitality, retail and others, have been very severely impacted by Covid. The importance of those sectors is that they are the places that employ most people. They are very employment heavy, so the transmission effect into the real world and into real people's livelihoods is very rapid in those areas.

In the context of the Industrial Strategy, one of the things that our sectors report spoke about was the importance of having clarity of purpose. If you look at the sector deals as an example, the notion of a sector deal has some good aspects to it, but also some challenges, not least that it implies there is some common sector deal approach that is applied across the entire economy. There is a world of difference between advanced manufacturing and retail, as an example, and you cannot take a homogenous approach to all these things.

Therefore, a point we made very strongly in our report on sectors, which Nancy and I led, was the importance of being really clear about the purpose of the Industrial Strategy. Essentially, we defined that in two camps: one is strategic, which is really about pursuing comparative advantage, as I was describing previously; the other is defensive, because the Industrial Strategy can play an important role in helping with transitions where, perhaps, one sector in the economy is suffering greatly and having an impact on a lot of people.

What you do not want to do is just let that run, let the market run, and to hell with the consequences for all the people in that area. You want to have a defensive approach, which creates a managed transition. Essentially, one of our recommendations is that we should think more deeply and carefully about the opportunities to build into the Industrial Strategy both strategic and defensive purpose in relation to sectors.



Q227 **Ms Ghani:** My next question goes back to the EU-UK trade deal. The Government's new consultation on state aid and subsidies could signal strategic intervention into the economy from the Government. What do you think about that? How will that impact the Industrial Strategy, and what are the upsides and downsides? Sir Charlie, I have very limited time with you so, if you could keep your answers short, I would be most grateful.

Sir Charlie Mayfield: It may be that others want to talk a bit more about state aid and, indeed, there will be others who are more expert than I am on the aspects of it. Essentially, the Government have more freedom, but it is not unlimited. To my mind, the shift is not so material in that respect, but it depends also on what appetite the Government have for the future trading relationship, because that is not necessarily totally stable. It is dependent on adherence to some of those aspects.

Q228 **Ms Ghani:** The CBI has said, "All our investment should be absolutely focused on the transition to a net-zero economy." Sir Charlie, what more work can the Government do to ensure that happens? Should they be focused on particular sectors at the moment or across the board?

Sir Charlie Mayfield: Again, there may be others who are more qualified to talk to this than I am, to be frank. Net zero is clearly a generational goal that we should be pursuing, so it fits very well within the terms of the importance of longevity, as well as co-ordination, in terms of political appetite to do so and as something that cuts through the whole political cycle. This is going to be here for many years to come, so it lends itself quite well to being a focus for industrial strategy.

What the CBI is saying is that, essentially, it should therefore be reflected in decisions that are made around investment, and requirements that are placed on people who are developing industrial strategies and seeking support for them from Government.

Professor Dame Nancy Rothwell: I completely agree with Charlie on this. It should be all sectors, but to differing extents, because it is so fundamental to the future and is something that certainly all young people are incredibly passionate about. Having it as an underlying thread in all aspects of the Industrial Strategy is really important. As I said, some parts of the economy will contribute more, and others less, but having that as an underlying driving force is really important.

Q229 **Ms Ghani:** Might there be a sector that needs far more direction from Government than it has at the moment?

Professor Dame Nancy Rothwell: There are some sectors that are much further ahead on this. Transport is doing quite well and hospitality probably less so, but it is hardly in a position at the moment to do much about it. There are sectors that will need more Government support to be able to deliver, particularly when they are facing such hardship post-Covid.



Q230 **Ms Ghani:** Which sectors are those? Do you want to give us an idea?

Professor Dame Nancy Rothwell: Hospitality would be one, and certain aspects of retail. Small businesses are really struggling. If you are a large company, it is an awful lot easier to say, "We are going to drive towards net zero." If you are a small, struggling business with a few employees, it is much more difficult. This comes back to the question about state aid: whether we can use that somehow to drive the net-zero agenda.

Q231 **Ms Ghani:** The ISC has called for existing investments and pilot projects to be scaled up. I always find it interesting when people ask for scaling up, because they never talk about what needs to be scaled down or dismissed. Who would like to take that question first? Shall I come to Dame Kate?

Dame Kate Barker: I am incredibly sorry. Could you tell me again the basis of your question? You were saying that things need to be scaled down.

Ms Ghani: In the Industrial Strategy, you have called for existing investments and pilot projects to be scaled up. We are very keen to hear what you would like to see scaled up. In contrast to that, I would like to hear what you would like to see scaled down or potentially dismissed from the Industrial Strategy, so that we can get a good contrast.

Dame Kate Barker: That is always a difficult question to answer. I am always interested in the fact that people talk a lot about social mobility without ever commenting on the fact that social mobility means that some people go down, as well as some people going up, so I have some sympathy with the thrust of your question.

One of the things I was keen on was tracking all the policies. Have they all been carried out? How much has been spent on them? Then we discovered that there are 142 policies. As we have moved forward with the tracking, it has not always been easy to work out what has happened to all of them. Some of them have been scaled down almost by neglect, which, in a way, might be okay, but it should not happen accidentally. People should know why it has been carried out. We are trying to say that the next stage of the strategy should have fewer policies, and they should be more focused on the key aims of Government.

The two that we generally pull out are, of course, net zero, which you have already been talking about, and levelling up in the sense of trying to level up across the country, in order to improve the real wages and wellbeing of people right across the country. It is a point that Andy made right at the beginning. My guess is that those are the areas where we want to see policies increased in their focus. Some of the scatter of policies in the strategy could perhaps be scaled down, because some of them have not necessarily gone ahead at all.



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There was some conversation about a focus on net zero. I certainly do not want to not focus on net zero and I have already mentioned levelling up, but a big challenge facing the country, which we are aware of with Covid, is the cost of keeping ourselves healthy and supporting elderly people. That is an area where investments will need to be made. It provides employment right across the country. We need to think hard about the quality of jobs in that area and whether there are investments in robotics and other more scientific ways that would enable us to meet the needs of elderly people in a better way, for them and for the people who work so hard to look after them.

Q232 Ms Ghani: Mr Haldane, before you respond to the question, I would love to know, as well as scaling up, which areas require no further funding.

Andy Haldane: To Kate's point and to your question, it struck us even a year ago that the existing Industrial Strategy had spread itself a little too thinly with its 142 policies or whatever it was, a number of which had no moneys assigned to them at all. Having tracked those for another year, it looks like a good number of them, maybe a fifth or perhaps even a quarter, have disappeared down rabbit holes. In a sense, many of those policies have already self-liquidated—which speaks to your question—which might well be the right thing. I would have preferred it if that had been done in a rather more open and upfront way. It would be even better had there been fewer than 142 to begin with, but some of what you have spoken about has already happened.

Equally, this is a question of aggregate scale as well. I will give you a concrete example of that, which is about R&D. As you know and as we have written about, the UK scores poorly in international league tables of R&D. It set itself a challenging objective of 2.4% of GDP by 2027. That is challenging. If anything, given that other countries will have moved on, it may lack ambition, net. That is a question of us, as a country, needing to do somewhat more and to invest somewhat more in this particular area.

Within that, there is also a very important distributional dimension to it. As well as the aggregate level of R&D flying somewhat low by international standards, the distribution of the public part of that R&D is also rather skewed towards London and the south-east. Within that, there is a need to escalate the scale in order to keep on a par with our international competitors, and to prospectively re-skew distribution to meet our levelling-up objectives. Both are going to be crucial to fix some plans on in the period ahead.

Q233 Chair: Mr Haldane, you talked about the 142 policies. There is an interesting distinction between the strategy of Government across the whole of Government versus an Industrial Strategy that is supposed to be across the whole of Government, and how much resource is then allocated per Department to lead on the Industrial Strategy versus the political strategy of the Government at that particular time. There is a tension between those. How did we end up with 142 different policies, some without money and some without officials attached to them? Does



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it just breed itself? Who is in charge of making sure that this works in the best possible way in Government?

Andy Haldane: There probably is a natural tendency towards proliferation in these things. The truth is that the 2017 strategy was pretty ambitious. It was looking to cover off all the pillars I mentioned at the very beginning, as well as doing so on a UK-wide basis. There was a lot there to get straight, and a lot that needed straightening out. I suspect that, with the glorious benefit of 20/20 hindsight, there was scope for slimming that somewhat and ensuring that moneys were allocated to each of those smaller number of initiatives. That did not really happen at the get-go.

If you were writing or refreshing that strategy today, which would probably make some sense in the light of all that has happened since, you would look towards a much smaller number, and certainly double digits rather than triple digits. You would assign and hypothecate moneys to that to enable the tracking of whether the moneys had been spent. Crucially, you would have some very clear success metrics. It is not enough to say that the policy has been done or the money has been spent. The crucial question is what the outputs have been, as a result of this policy having been put in place. We can do some of that as a council, but it needs to be tracked at an individual departmental level as well.

Q234 **Chair:** In respect of whether BEIS is the delivery lead for the Industrial Strategy, presumably it would be more effective if there was clear buy-in from Downing Street, with officials allocated specifically to lead on Industrial Strategy priorities across every Department in Government. Would you agree with that?

Andy Haldane: Yes, I probably would. If I take those signature issues that we have been discussing, net zero and levelling up, of necessity, they need to be a cross-Whitehall and cross-UK initiative embracing every Government Department and pretty much every aspect of business. We have an end objective for 2050. We have a 10-point plan. What we do not have currently is a delivery project for it that embraces public and private sectors with some clear staging posts and perhaps even some quantifiable metrics. What is true of net zero is no less true of levelling up. While we have the right aspiration, it has not yet translated into some quantifiable metrics, much less into a delivery plan. I hope that will come in the fullness of time.

It certainly needs that cross-Whitehall co-ordination, which, to be honest, has not been a signature success in the past. In fact, on this front, I would say there is a sense in which the two come together. When I look at the most successful examples of this joining up of the dots between skills, education, health, transport and business, many of the best examples are local rather than national.

Saving Nancy's blushes, the north-west and Greater Manchester, over the course of the last 10 or 15 years, have done a pretty good job of getting



around the table and co-ordinating these different arms of policy and combining them into the strategy. That is something that central Government find much harder. Of the many reasons why the levelling-up agenda is really important, one that is emphasised too little is that local activity is often an easier means of achieving the cross-Whitehall co-ordination that you mentioned at the beginning, Chair.

Q235 Chair: We will be coming back to local industrial strategies later. Sir Charlie, I was interested in your comment about how the Industrial Strategy needs to play a role in a defensive way for, for want of a better phrase, declining sectors. Politicians will never want to call something a declining sector, so how do you identify them? There are some statutory examples—phasing out diesel and petrol vehicles, policy priorities on heat pumps, or whatever it might be—to try to set a direction of travel. But do you have any feedback about how Government could get to a point where they are able to honestly and openly, and probably based on some form of evidence or metrics, define what a declining sector is?

Sir Charlie Mayfield: We were not seeking to define the problem in a politically favourable way, maybe naively; maybe we should have done. The reality is that there are parts of the economy that are moving up and parts that are moving down. You have to deal with that reality, and that is what we are really saying in the Industrial Strategy. You could choose not to. You could choose to support just the ones that are going up, get them to go more quickly and let everybody else worry about the others. But we felt that, given the significance of some of those sectors, there is a need to do so.

However, the levers that you can then use are different. If you are looking at a defensive intervention, as we called it, rather than “declining”, you might, for example, look at the importance of reskilling. One of the pieces of work we have done on skills shows that one of the greatest deficits that we face as a country is in basic digital skills. There will be people working in sectors that perhaps might benefit from defensive attention.

If you take retail as an example, it would be, frankly, a fool’s errand to try to sustain retail at its current level of employment. The forces driving that are greater than any Industrial Strategy or any current Government of today. The thing that you are concerned about is the vast number of people who work in a sector like retail. Part of a defensive strategy would be to help transition them from that area into an area where there are opportunities and prospects. One of the key aspects of that is about skills. Our report on skills has lots of very useful stuff in it about the importance of employers spending more money on this and being more strategic about it, and us encouraging and adopting a lifetime learning approach.

You do not tackle these things in a narrow way, focusing on a declining sector, but you might use the fact that that is happening as a basis to embrace aspects of other levers that we have talked about.



Andy Haldane: Following on from what Charlie said, which I completely agree with, of course, defensive does not necessarily mean declining. As the last 12 months have illustrated only too clearly, as big a part is thinking about what sectors, services or goods we, as a nation state, cannot afford to live without, even in the event that global supply chains fracture, as they did at times over the last 12 months. It is that notion of national resilience in the areas of food, energy, medicines and vaccines, or defence—the ultimate defensive strategy. We need to think more clearly about what capacity we have domestically to deliver those necessary ingredients at home. That resilience dimension ought to be an important shaping factor of industrial strategy looking ahead.

This example may be a good one or a bad one, but when Pfizer was looking to take over AstraZeneca, several years ago now, that move was blocked. There was a debate either side at the time. The world may have panned out rather differently, if that had been allowed to go ahead. I am not reaching a subjective judgment on that particular decision; I am just saying that this issue of resilience is now much more centre stage in how Industrial Strategy should be formed and framed.

Professor Dame Nancy Rothwell: I was on the board of AstraZeneca during that attempted takeover, and the Government intervention was most welcome. I thought I should declare that.

Q236 **Paul Howell:** I will start with Professor Rothwell and, given earlier comments, Dame Kate may want to chip in at the end. The initial question is about whether the Government need to be more selective in which sectors they support—perhaps those with greatest capacity for R&D or productive growth—and, if so, why. The follow-up question, which Kate might want to come in on, is about which sectors you would suggest they focus on. I am also the chair of the All-Party Parliamentary Group for “Left Behind” Neighbourhoods. In trying to support communities in that way, are there different sectoral approaches that could help?

Professor Dame Nancy Rothwell: Rather than specific winners, although I will mention a couple, I would ask where we have a comparative advantage. We cannot fight on every front and we cannot invest in every area, but where does the UK have a clear lead? I would mention a couple of areas where we are very strong: one is digital and AI, and the other is health. We do not make enough of the fact that we have a national health service. It is one of the few large integrated health systems with digital health records for every single citizen in the United Kingdom. When we pull that together well, as we have seen, it is enormously powerful.

Looking at left-behind citizens, you are not going to drop a big research institute into the middle of a region without much infrastructure, many people or many skills. The things that are everywhere are health, enterprise and entrepreneurs. You tend to find those in all parts of the country. On skills, further education colleges tend to be in a lot of the left-behind areas. These are things that are being looked at now.



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If I could just make one other comment in relation to health, we do not pay enough attention to the impact of health on productivity and jobs. In certain parts of the country, the healthy life expectancy is 10 years less than it is in more affluent regions. That means 10 years less of effective good life but also working life, so we have an opportunity now, and we have a great example of it, to focus more on prevention rather than very expensive treatment. That can be critically important for those left-behind communities, along with skills and reskilling.

I was talking last night to MPs from Bolton and Bury, both quite left-behind areas. They said, "The idea of us telling our local people to go to university and get a degree in computer science is not going to work." I said, "No, but suppose you could tell them that they could do a three-week course and they would be digitally literate," which is feasible, and they said, "That would work." We need different approaches, and it is not all about going to top universities; it is about local skills that help people get into the labour market.

Q237 Paul Howell: Locally, I see the initiatives on things like UTCs for technical skills driving much more than universities in my left-behind areas. Kate, would you like to comment?

Dame Kate Barker: It is difficult to add to Nancy's very full answer, but there are a couple of things about places that I might say. I completely agree that you have to start from where a place is. You cannot suddenly shift it to somewhere else.

Andy talked a lot about resilience. I am interested in resilience in places as well, and a lot of that resilience, fundamentally, will come from what we sometimes call everyday industries: having a well-functioning hospitality sector, retail sector, health service and schools sector. All those things, as well as the skills that respond to what is going on in the area and the attraction of a place, are incredibly important, if you want it to move up. If you just educate people to go to good universities and leave, you have not really done anything for the enduring power of the place.

It is about starting from where a place is and being ambitious for it. As Nancy knows, I chair the strength in places fund panel, where we look at projects funded by UKRI that come from places outside the golden triangle. They are explicitly university-business co-ordination and are supposed to be focused on productivity in those areas. When I am looking at the projects, I look for what they say about training and about links with the companies in those areas. We now have the wave 1 projects funded and they include precision medicine.

To the comment on digital health records, it is much more difficult to do precision medicine without that, so it is a good example of what Nancy was talking about. There is also a project on adjusting food supplies in Medway to climate change. There is then a project in Bristol, in my world, in the creative industries. These are projects that go across the country



and that feed into innovation. Although precision medicine is very high-tech, they are not totally high-tech or totally high-research in the way that some of the things we fund in the golden triangle are. These are projects that will make a difference in the places where they are and will move R&D on in those places, as well as innovation. As we all know, we are quite good at fundamental R&D but less good at spreading it out, and that is just what these projects aim to do.

Q238 Paul Howell: I am in touch with some things at my local Durham University and in the areas around us. There are some very interesting things happening in those spaces, so it is a good place to be. I will move the discussion on and come to Charlie, looking at sector support. I know you said earlier that it ought to be potentially more thematic rather than for a specific sector. As an example, there is a sector deal on nuclear and a sector deal on offshore wind, all of which are targeting the whole net-zero concept. If you are looking at net zero, you should also bring in areas like solar. If you do not encompass the whole of the theme, do you end up with sectors that could grow but are not growing because they are almost at a relative disadvantage?

Sir Charlie Mayfield: In some ways, what you have just described very well is an example of the problem that I alluded to earlier. If the manifestation of the Industrial Strategy is that you have sector deals for 50 or 60 sectors, most of those will almost certainly be under-resourced and will not meet the threshold that we have talked about in terms of scale. They are almost certainly not going to have the longevity that they need to have to really move the dial in the economy. They are probably not going to benefit from policy co-ordination, because it is difficult enough, as Andy said earlier, but it is certainly impossible to co-ordinate across all of that. Why would you anyway for an individual sector where there is an element that market forces should be allowed to develop?

In my view, the challenge here is making difficult choices. Unfortunately, people do not like letting people down. The question that was asked before about who you say no to is a good one. The fact is that you have to think about the mechanism for decision making that has the robustness, credibility and confidence to say no to some things, but in particular to then say, "We are going to take a thematic approach," for example to net zero. "We have the capability to look at that theme and to assess which areas within it offer us the greatest potential to make the greatest difference. What is the role of sectors in activating that?" In my mind, that is a better sequence to arrive at an outcome than to start with a sector deal that has solar, nuclear, wind and all these other pieces, because you will then have the devil's job of trying to knit it back together again at a thematic level.

When you go back to the 2017 Industrial Strategy, the grand challenges were AI and data, clean growth, healthy ageing and the future of mobility. Kate was talking about the importance of healthcare and an ageing population. We have all talked about net zero. Most of them are in



there; if anything, the sector deals piece has almost eclipsed the grand challenges. I would reverse that and approach the sector position from that perspective.

Professor Dame Nancy Rothwell: If I could reinforce that, it is a really interesting question because it highlights a generic issue. To give you some specific examples in response to what you raised, it is about complementarity. You raised several issues. Nuclear can be used as a power in itself but also to generate hydrogen. You can align the production of your cars such that they can run on hydrogen, and at the same time they are lighter and you can fix the grid. Rather than taking each of these little bits in isolation, you might say, "We have exhausted solar power in the UK"; we have not yet, but we are not going to be like certain countries in the world. Where we do have possibilities is in joining up the co-generation of hydrogen through nuclear, and then the long-term investment, for example, in fusion, where we do have a scientific lead, without doubt.

Complementarity is a generic issue when you are looking at sectors. Rather than saying, "Let us take automotive, net zero or aerospace in isolation," where are the overlaps where we have a competitive advantage? Net zero is a really good example of that that you raised.

Q239 **Mark Pawsey:** I want to ask some questions on a topic that we have heard a bit about already, which is research and innovation. I was quite struck by a remark that Charlie Mayfield made earlier when he said you need a basis to be great at something. One of the ways in which you can generate that basis is by putting investment into research and development, so I am going to start off with some questions about the Government's R&D road map, which is probably six months old now.

We took some evidence earlier, when one of our witnesses in a previous session told us that there was detail missing and described the R&D road map as a road map to a road map. Andy, as the Industrial Strategy Council, you have endorsed the road map and the UK target of getting to 2.4% by 2027. How do you see the road map playing a part in that?

Andy Haldane: I will say a few words. I know this is a topic that Nancy, Charlie and Kate have all thought about. A road map beats no road map. Having said that we support the Government's objective and that it would be quite nice even to look to overachieve on it, we need a plan to get from here to there. As you say, perhaps the road map is a road map to a road map, but it is a staging post towards having that plan for getting from here to what is, given where we start, a relatively ambitious target. There were parts that were missing and acknowledged as being missing. One of them, which Nancy and I have been discussing over the past few weeks, is the link between R&D on the one hand and place on the other—the link with the levelling-up strategy. BEIS is currently thinking about the coming together of the R&D road map and what it means for place.



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Over the past month, Nancy and I have held some joint meetings between the Council for Science and Technology, which Nancy co-chairs, and the Industrial Strategy Council to discuss the issue of what it would mean to have an integrated strategy for R&D and place, given that the starting point is a rather uneven distribution of R&D across the country. I hope the fruits of those conversations that Nancy, I and many others at the roundtable have been having will help BEIS in putting a bit more flesh on the bones of its road map in respect of the place dimension in particular. There is work to do, but it is good that we have the map, and the council can help in adding a bit more colour to that. Nancy, I know that you have thought about this much more than I have.

Q240 Mark Pawsey: Nancy, I wonder if I could ask you to pick up the point that Andy has raised twice now, which is the skew to London and the south-east. As a northern professor, how do we balance it out and not have these hotspots? If we do not have the resource to carry out this work, there is no point pretending that we have, is there?

Professor Dame Nancy Rothwell: Indeed, that is an issue although, with extra investment, it is always easy. Solutions are so much easier when you have money. If we go to 2.4%, that makes it a lot easier than if we are stuck where we are. The road map, it would be fair to say, is a high-altitude road map, so all you can see at the moment are the motorways. We need to get the trunk roads and B roads on it, and that is in progress at present.

The difficult thing, and this relates to place as well, is that we put R&D together, but they are not always together. There have been some very interesting analyses of where investment goes in. There is a very interesting graph in a Nesta report by Tom Forth and Richard Jones; I should say that Richard is one of my staff. It looked at where there is Government investment and where there is private investment. There are some areas where they coincide, Cambridge being one. By the way, the first line of the Council for Science and Technology response on levelling up said that it would be a mistake to starve our excellent areas in order to put money into areas that might not survive. You need to be an awful lot smarter than that.

There are areas—and the north-west and the north-east would be among those—where there is much higher private investment in R&D than there is from Government. Then there are areas like London, where the investment from Government is very much higher than the private investment. We have been discussing this, around places, and we think we need somewhat different approaches to research and to development. Some of that development happens in big factories that could be almost anywhere in the country. Just yesterday, we discussed the fact that vaccines are going to be made in Wrexham. That is a good place for them to be made, and probably better than being made in Oxfordshire, which is wealthy and more expensive. Kate made that point.



We may need to nuance more the R road map and the D road map. We have been discussing various strategies. Strength in places is one that looks at developing what is happening regionally. We are going to go back and look at the local industrial strategies, many of which put a lot of time and effort into looking at what the strengths of this region are. Let me take a region where you would not think of R&D particularly: Teesside, which some of you know very well. It is very strong in hydrogen. Cumbria is very strong in nuclear. In other words, what do these regions have? Rather than dropping in something that would be better in Oxford or Cambridge, what can those regions really develop where they already have an existing strength? It might be cheaper and better, but you also have to have the supply chain of skills. That is really important, because some of these regions are struggling in those skills.

Q241 Mark Pawsey: As you were talking, I was reflecting on the fact that Government are directing investment by moving Government Departments. We understand that MHCLG is going to Wolverhampton, for example. With this increased budget, can Government direct where R&D expenditure should be? More crucially, will the people move if the work is being carried out in different parts of the country? In that process, could we see it as part of levelling up?

Professor Dame Nancy Rothwell: Yes, provided that where it moves to is not disadvantaging the area it has come from and has the right environment to receive it. There is a job to be done. It may be that civil servants do not want to move to Wolverhampton. There is a rumour that Treasury is moving to Darlington. I have no idea if that is true.

I would like to give a specific example that is very close to home for me. When the BBC said it was moving to Salford, it is rumoured that many employees at the BBC asked if it was possible to get a panini and a cappuccino in Salford, imagining that it was still cloth caps and clogs. Talking to many of them, they argue that they have a very much richer lifestyle. They live in the countryside just outside Salford, they have a 10-minute commute in and some of the best schools in the country, and they are not far from a major international airport.

Q242 Mark Pawsey: The question arises, then: why do we have this massive imbalance right now, if there are really attractive areas of the country to go to and good academic institutions around the country where work is taking place?

Professor Dame Nancy Rothwell: In part, it is because research has been based on excellence, which is an academic definition of excellence, and I would not decry that. That has its place, but equally perhaps it is easier. We were discussing yesterday that the solution to many problems is to start a new institute and, almost inevitably, it is in London. I am pleased to say, though, that the Productivity Institute is in Manchester, and some others are in other places. It takes a bit more effort to think. If Departments are moving to other places, it will require the infrastructure.



It is just that little bit more difficult to do, but it is often worthwhile in the longer term. It takes a bit more effort.

- Q243 **Mark Pawsey:** The remark you just made leads me straight to my next question. You just said that sometimes the solution is seen to be creating a new institution. I want to ask you about the Advanced Research and Invention Agency. In that context, have we just created a new body because they have something similar in the US and we think there is a gap there? Why do we need this other body?

Professor Dame Nancy Rothwell: Interestingly, this started off being modelled on DARPA, the Defence Advanced Research Projects Agency, which was an agency to solve the problems of the defence industry in the USA. It has moved from that. It is not a defence agency; it is a very high-risk agency. One could argue, "Could that not be done with normal processes?" I have been on two panels in the past that tried to fund very high-risk, new and innovative research. It is really difficult. Perhaps there is a case for taking it out and funding it somewhat differently. Some have argued it is another new, shiny thing. We are rather good at new, shiny things and forget the fundamental building blocks of what we have already.

To be perfectly honest, we are still waiting on the detail of how it is going to run, but it is not what DARPA is, which is very different. DARPA is a problem-solving agency. It comes forward with a problem to be solved and asks whether it can be solved and who can solve it. ARIA, the British version, is the other way round. It is about the best researchers coming up with some truly innovative, at times slightly mad ideas, and some will fail. From my experience of funding very high-risk projects, while the failure rate might be high, there are very high successes that you probably would not get through standard funding.

- Q244 **Mark Pawsey:** Will it help bridge this gap between academia and industry—it has been called the trough of death—which has been our Achilles heel for years? We have brilliant academics who do great things. We have set up the Catapults and there are several around the country intended to bridge that gap. Will ARIA help with that?

Professor Dame Nancy Rothwell: It will help only if two things are fulfilled. One is that industry is at the table and saying, "That is a brilliant new idea. We could never do it. It is far too high risk," so it has an input into it and is involved in the funding decisions. The second is that we are much better at capital for rolling out those ideas. That is another geographical issue. I know that innovators and entrepreneurs from various parts of the country, including Manchester, still tend to go to London if they want to get investment.

- Q245 **Mark Pawsey:** Who should direct this new agency? Who should tell it where its priorities should be? We have already had a very long discussion about winners, losers and declining areas. Who is going to set the priorities for this new body?



Professor Dame Nancy Rothwell: I suspect that it will not be the normal suspects, but people who have come from very innovative start-ups, who have been very successful in, for example, AI, who are probably younger—I will not name names, because I do not know who is being courted at the moment—and who have run DARPA or ARPA, possibly. They will be different players from the ones we bring into the standard funding bodies.

Q246 **Mark Pawsey:** How could we more effectively use public procurement to drive innovation? We know that a budget of £800 million has been put at one side. I know that the ISC is very supportive of that, but how do we use that more effectively? Government are responsible for an enormous proportion of spending and of our GDP. How can we better use that to focus these things?

Professor Dame Nancy Rothwell: I will not go into the detail because we could be here until the end of the session. There are myriad ways. To point at one, in the national health service there is no joined-up procurement. In Manchester, because of the devolved health budget, they have tried to bring procurement together: rather than getting the cheapest in the short term, they are looking at what can deliver best for the health service and what can deliver innovation as well as a good product that is cheap. It is massive, and there have been an awful lot of reports on how we can better use procurement in the UK, particularly with such a large national procurement capability.

Dame Kate Barker: You were talking about the movement of Departments and I wanted to talk about something that started off as rather a bad example and has become a strong example, which is the move of the Office for National Statistics to Newport. I should say that Newport, although excellent in many ways, does not have quite the varied cultural facilities of Manchester, so it was quite a brave move. Initially, there was a good deal of criticism, and people felt that the ONS was performing rather less well because of its move.

When I was invited to take a look at the national accounts about five years ago, I realised that, at the same time as they moved to Newport, they had also installed a new computer system. It is often a mistake to try to move your office and staff, and to have a new computer system at the same time. There were, undoubtedly, some really quite serious teething problems.

Now there are new skills programmes, as well as new undergraduate work on statistics, around the Newport area. A very good workforce has come in, and people have, of course, found that there are lots of good places to live and to visit. The links back to London have been strengthened, which were important for that institution, but now that move would be regarded as a success and nobody would think about undoing it. It shows some of the dangers that you can have in the short term but that, in the long term, it can pay off for the organisation and for the area that you have moved to, if you get it right.



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Mark Pawsey: Thank you. It is great to have that example.

Paul Howell: Picking up on the point that Dame Kate has just brought back in, my constituency in Sedgefield has part of Darlington Borough Council in it, so I absolutely hope the Treasury comes to us. At the time when I asked to put the supplementary in, the conversation was about the movement of people, such as the Treasury, out to things. The more important thing is what Kate has just said in terms of Newport: if you put something like that there, you can reverse some of the brain drain. You can create people who grow and stay: people who come out of Durham University, which is a 20-minute drive from Darlington, stay in the north-east and contribute to the levelling-up agenda. I just wanted to make that point about retention, not movement out all the time.

Chair: Everyone is nodding with you, Paul, which is a good sign.

Q247 **Richard Fuller:** I have questions for Mr Haldane on access to finance and for Sir Charlie Mayfield on skills. Just to declare my interest, I am an adviser to a venture capital field. My question to Mr Haldane is about the perpetual issue of the UK's small and medium-sized businesses' access to finance. In your report, you did some research showing that a lot of our small and micro businesses rely on very high interest-bearing forms of finance, such as credit cards, HP terms and overdrafts, rather than longer-term equity or even longer-term debt. Are we making any progress on this in a competitive sense? What would you suggest we should be doing?

Andy Haldane: We went a long period without making much progress. I looked back and reread the 1930 Macmillan report about gaps in SME financing. With the dates changed, it is, essentially, identical to the stories you often hear today about SME access to finance on the right terms, at the right times. It is not a nut that we have cracked over much of the past century. There are some encouraging signs latterly of new entrants into the SME banking market. We have seen many more of those new banks set up over the last 10 years than we had over the preceding century or so.

None the less, as the last 12 months have demonstrated very clearly, when the British Business Bank had to come in with a 100% guarantee to get finance to those companies that needed it, when push came to shove and they bumped up against cashflow constraints, this is still somehow short of being a problem that we have fully cracked. Last year, in our annual report, we spoke about the potential to scale up the British Business Bank, both in the quantum of resources and, as importantly, in its regional reach. Events over the last 12 months would probably demonstrate that that would be a sensible direction of travel.

Equally—and you hinted at this in your question—the form of financing that younger start-ups or scale-ups really need is often not so much debt finance as equity finance or angel finance of various types. The Government's future fund was a down payment or step in that direction,



and it is the right direction of travel. I am attracted to the notion of something more akin to a national investment bank operating on a decentralised, local basis, and using some combination of public moneys and crowding in private moneys as a means of enabling start-ups and scale-ups at the local level.

One thing that has improved decisively over the last few years in particular is our access to information on SMEs. I have been a supporter of this notion of an open platform for SME data that brings together data, not just from banks but from Government Departments, that would better enable SMEs to tap financing from a broader range of potential suppliers. Some combination of platform solutions to the data problem, which is of long standing—that is now technically feasible—combined with perhaps a rethink and revamp of the institutional architecture for SME finance, is probably overdue. We have made some strides in that direction, but more is plainly needed.

Q248 Richard Fuller: The patient capital review tended to focus on these fast-growing businesses that you were just talking about. Thinking about the issue of place, there are many established SMEs that have a long track record. They are growing at 5%, 10% and 15%. They are not going to become unicorns, because that is not their gig. Many of these are family-owned businesses. Is there an opportunity for a place-based patient capital review that looks at the suitability of financing arrangements for those types of businesses, which can act as quite strong catalysts in those geographies for the growth of other businesses?

Andy Haldane: In reaching out to the SMEs that you are speaking about, many of them smaller enterprises whose only collateral is the family house and/or a business plan, local knowledge will be crucial to make a success of financing to those firms. The place-based dimension to this, having the local knowledge, not quite replicating what the local bank branch manager used to have, but something close to that, is going to be crucial.

When people speak about the financing gap for SMEs in this country, some of that is a pure financing gap, but a larger part is actually an information gap. It is a fact that, in some parts of the country, in some sectors, we simply do not have the knowledge base with which to make those loans or equity injections. If that knowledge base is to be built up, it will need to be built up on a very decentralised, local basis, hence my sense of a national scheme that is implemented on a local basis.

Q249 Richard Fuller: Obviously, you are a national body, so you love national schemes, but we are all rather problematic about bureaucracy with some of those issues. Perhaps getting the private sector to take the lead on it, rather than the Government, might help.

I want to extend a question to Sir Charlie Mayfield. It is a fairly direct question, really. Can a successful skills policy ever come from a Department for Education? Is the skills for jobs White Paper that right



policy?

Sir Charlie Mayfield: I have always been of the view that skills is absolutely a cross-cutting issue. It has moved, in terms of its responsibility, between Government Departments on several occasions, and settled back into the Department for Education. My view is that it has a critical connection into the workplace. One of the findings in our report is the importance of establishing a new norm of lifelong learning. That requires that education or skills not be the preserve of the current institutions of higher education and general education. It needs to be extended much more into the business world. I have to confess that I am not au fait with the White Paper in all its detail.

Q250 **Richard Fuller:** I sense your scepticism, Sir Charlie, to my first question. You do not sound like you really think that a successful skills strategy can emanate from the Department for Education. Looking at the faces of your colleagues, there is quite a lot of healthy scepticism across the whole council on that. Is that right?

Sir Charlie Mayfield: You certainly cannot just have it as a preserve of education, but education is very important as part of the runway into having a successful skills policy. You cannot describe it as all of one and none of the other. The Department for Education has a very important role to play. But if it gets compartmentalised into that Department only, and is not then owned, embraced and developed properly through the fabric of Government, and much more importantly in many ways the whole of society, particularly the business community, its impact will be limited.

We are living in a world where the technology is probably driving the cycle of change faster than ever before. Yet, if you ask most people to describe their education to you, they will tell you it was between the ages of 5 and 18, or 21 or something if they went to university. That is absolute madness.

Q251 **Richard Fuller:** Professor Rothwell, what is your take on this?

Professor Dame Nancy Rothwell: Interestingly, your second question is exactly how I was going to respond to your first question. Various reviews have found—and the Council for Science and Technology did one of these—that what is lacking in a lot of smaller local businesses is not just finance but skills and reskilling. Many of them have almost zero digital; they are still writing down little chitties. Equally, they lack the ability to put together a case for financial support, simply because they have not had the training. The Department for Education has an important role in skills, but it cannot be the domain of the DfE alone. It has to span across business.

Q252 **Richard Fuller:** Sorry, Professor, but someone has to take the lead. I want to impose the discipline of my colleague Nus Ghani on scaling up and scaling down. You have to make a choice. What is your choice, Professor Rothwell? Who should lead on it?



Professor Dame Nancy Rothwell: The Department for Education should lead on it in my view, but it has to engage with BEIS and others because it is much wider than the Department for Education. The White Paper does have some good things in it: the lifelong learning package, the modular approaches and the strengthening of the further education colleges. The question is how that is going to be delivered, because quite a lot of it will have to be local.

Sir Charlie Mayfield: It is often overlooked that 80% of the people who are going to be in the workplace in 2030 are already working. The piece that has to be addressed here is how you are going to reach the people who are already in work. Fundamentally, employers have that relationship, so they have to be engaged very closely in this. It cannot be all about the supply of different forms of education. It has to be about how you create the demand. That is where employers must be involved, which is why you cannot just compartmentalise this. The success of any one Department will depend on its ability to influence several others—and more than Departments, actual employers.

Q253 **Richard Fuller:** Sadly, I was hoping for something a little more declarative on this issue about who should lead, but I have been unable to tempt.

Professor Dame Nancy Rothwell: I did say DfE as the lead.

Q254 **Sarah Owen:** I have a couple of quick questions for Andy, and then I will pick up on one of the points that Sir Charlie raised around workplace learning. Andy, you talked about the information gap just now, but you have also talked about how the productivity gap between the top and bottom-performing companies is materially larger in the UK than other countries. The Chancellor has trailed a 12-week leadership programme for SME leaders. Out of the 6 million SMEs, it will be available to only 130,000 SME leaders. Is that enough to make a considerable dent in the gap? If not, what more needs to be done?

Andy Haldane: Your recollection of my diagnosis of some of our productivity ills is absolutely right. One of the dimensions along which UK plc stands out as an outlier is the gap between the best and the rest. That gap is larger than our international competitors and has grown over the last 10 years.

Earlier, we were discussing R&D, but the R and the D do not always connect or rhyme in the UK. That has been a big part of my research and, indeed, a big part of the work that Charlie has been doing with businesses to close those gaps between the two. There are lots of reasons for those gaps, some of them technological and some of them managerial. I have seen only sketchy details of what has been proposed in tomorrow's Budget, so I am not going to opine on the details because I do not know what they are.



It seems clear to me that one of the root causes of that bigger gap in the UK, that long tail of slightly misfiring companies, is the longer tail of relatively weak managerial skills in companies across the UK. That, from the evidence I have seen, has served as a pretty significant drag on the productivity performance of those long-tail companies. Therefore, if a means could be found—as Charlie’s work with Be the Business has been doing for the last few years—of skilling up those managers, it would prospectively deliver a significant productivity bonus to UK business. A mini-MBA is the way it is often cast.

That is directionally absolutely right. It speaks to one of the problems the UK has. As for its scale, I am not close enough to the detail. One of the key lessons about any policy that goes under the Industrial Strategy rubric is that starting small is not bad, per se, provided you evaluate after the fact and then scale up if it is seen to be working. Perhaps in this case it is an example of just that happening in practice.

Q255 Sarah Owen: The ONS has suggested that improvement in leadership and management, as you have said, is necessary, but it would bring a reduction of only 10% in the productivity gap. If we are talking about a very small leadership programme, how much more does it need to be scaled up? Would it need to be much more widespread or available to a significant proportion of SMEs?

Andy Haldane: You are right, the ONS did speak to a 10% closing of the gap. Others will get bigger numbers than that in terms of how much of the gap might be closed. I have not gone through the calculus. I would need to take it away and look in more detail at what is going to be proposed, presumably tomorrow, to see how many inroads it might make into this problem. This feels like the right direction of travel to me, and overdue.

Sir Charlie Mayfield: Today, the Chancellor has just announced a £520 million package called Help to Grow. There are two aspects to it: Help to Grow Management and Help to Grow Digital. The Help to Grow Management aspect is effectively a mini-MBA programme. It is modelled very much on the Productivity through People programme that Be the Business has developed and run in six different universities. We are on about our 12th cohort of small businesses, and it has been outstandingly successful. Essentially, it is good news to see the Government getting behind and recognising the importance of leadership and management.

There is a danger that somehow, in saying that we need to do more on leadership and management, we are basically saying that we are really bad at it. Lots of small and medium-sized businesses are actually brilliant leaders. They work tirelessly to do so, but they are relatively under-supported. As the economy and the requirements for success in growing a business develop, it is necessary and helpful to some of those people to have access to development and support in developing their own leadership. That has affected what we have done through Productivity through People. It has been a great programme.



In the rollout of this, now that the Government are getting behind it, we have to make sure that we preserve the aspects of it that have been key to its success. They include having a university partner that takes the lead on providing the learning expertise and disciplines. We have had three business sponsors that have provided funding and, crucially, access to facilities, because businesspeople learn through experience. It has also meant that the participants have been charged £2,500 each to participate in it, so they have skin in the game. All those things have been really important to success. Hopefully, we will now see that being developed on a bigger scale.

Q256 Sarah Owen: My last question is about the lifetime learning approach that you talked about. I am a big advocate of workplace learning. You wanted employers to take a much more proactive approach when it comes to learning, training and closing the skills gaps. There are many employees who may be reluctant to admit to their employer that they have a skills gap, which is a real issue. I declare my interest as a trade union member and somebody who used to work with Unionlearn reps, but Unionlearn was one of those programmes that bridged the gap between employer and employee. That has sadly been axed. What do we need to see to replace that programme and harness a real culture of workplace learning?

Sir Charlie Mayfield: Having been mildly admonished by Nusrat for long answers, I am going to try to keep this short. It is a huge, rich and diverse topic. What you have just said is one aspect of that richness. It is behavioural. It is about individual confidence and feeling like you have the confidence to step up and say, "I need some learning." You have to create the environment and the support to encourage that.

Fundamentally, I am afraid it is the case that employers are not spending enough money on training. Some employers do a brilliant job of that. But if you look across the piece, and this is not just in the UK, there has been a stagnation of the amount of money that employers have been investing in training over the last 10 years at a time when the needs and demands on the workforce have been multiplied.

There is a growing mismatch here that really must be addressed. There is an important requirement to look holistically at this and figure out how we create a mix of incentives and requirements on businesses to step up their investment. There is also a requirement on the institutions and providers of education. How can we make some of their expertise more modular and available? Nancy made a great point just now. If you can get a brilliant business school or university to do a three-week course on digital skills, that is far more accessible than sending somebody off on a degree for three years. There is something very important around that.

There is clearly a key role for the Government. One of my real passions, though, is that we have to be careful not to turn all of these problems into Government solutions. The best training that a lot of employers do is the training they do in their workplace. It happens within the mix of what



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they do in their business. The risk of something like the apprenticeship levy is that it seeks to address the lack of investment in training, but it turns what should fundamentally be an employer responsibility into a Government programme. The risk is that you then divert the responsibility from being with the employer, where it really should be, to the Government and the programme the Government are running. You do not get the engagement.

We are working through the growing pains of that; we are beginning to get there. We should hold on to all those learnings in trying to build a future that needs to be quite radically different from what has been in the past.

Q257 Judith Cummins: My questions, starting with Kate, are about regional disparities. How do the policies and investments announced through the Industrial Strategy match up with the evidence on what works in closing regional disparities, whether they are left-behind areas or not? Would it be consistent with the overall objectives of the Industrial Strategy to prioritise public investment and support through the strategy in low-productivity or non-metropolitan regions, or sectors prominent in those regions?

Dame Kate Barker: I must say, in this session, you have faced all of us with really large questions on which we could talk for a very long time. We are at a stage of thinking about place that I find very encouraging. I have a long-term interest in the economics of place and what goes on in different parts of the country. I am really encouraged today to find that the narrative, which used to be all about backing success, has moved much more into trying to support places that have been doing less well. One reason why we have started to think about supporting places that have been doing less well is that we have come to recognise that, by not doing so, we are actually causing a problem for the whole country. We are not, as it were, unlocking some of the productivity and potential that people have. To me, that is a key part of the Industrial Strategy.

When we look back at the 2017 document, although it talked about place, if you unpick it, it actually did not say very much. It certainly did not really have a holistic view of what needed to be done to help left-behind places and tackle levelling up. Some of the work has been done since. We have done quite a bit of work on this in the council. We produced a document on the evidence about where we stand in the UK. All the evidence is that, relative to a lot of other European countries, regionally we are much more unequal. I am very aware, of course, that it is not just about regions. Within regions, there are of course real pockets of deprivation, so one cannot be entirely sweeping about it.

The piece of work that we did most recently looks at some places that have levelled up. They are not in the UK, but in other countries; there are three examples from Europe and one from the US. It talks about the fact that, to help somewhere level up, you need to have a whole lot of things going right. They are all the things we have talked about already: the



role of the universities, improvements in skills, digital and attractive places. That is really important, and Nancy touched on this with Manchester and the cappuccinos. People need to feel that they are moving to somewhere where they can have a good quality of life. All those things really need to work together to help move a place forward. That means that you are going to have to do it quite slowly, because it is going to take time to change all those aspects of a place.

This comes to a point that we have not really talked about today very much, which is devolution. Somebody made the point earlier that people in a place understand better what knits it together, what makes it work, and the way in which small businesses can be drawn into the skills development and the innovation in a place. At the moment, we tend to have programmes that are run from Whitehall, and local authorities are invited to bid for them. Because they want money, they do bid for them, even if those projects are not necessarily the things they would prioritise.

Moving to a system in which local places have a little more financial scope to pick and invest in their own priorities is where we need to go next. That will really help to do something that I am really passionate about. It will help places to feel not just that they are sitting waiting for handouts from the Government, but that they are actually taking their own decisions and boosting growth.

Professor Dame Nancy Rothwell: This is really interesting. We should not underestimate the real value of peer mentors. Your comment that a lot of people in work do not want to admit what they do not know is true of all of us. We are always worried about what we do not know. Somebody who is similar to them who has gone through training, or the first kid from the school on a housing estate who went on to further or higher education, can go back and say, "Look, I could do it; you could do it" or "I went on this course. Why not do it?" We do not pay enough attention to getting those individuals who have stepped forward to help others to pull forward as well.

Q258 **Judith Cummins:** Would you say, then, that that link between aspiration, place and skill levels is crucial in that mentoring?

Professor Dame Nancy Rothwell: Absolutely, we see it all the time with our access programme. The girl from Oldham whose dad was a bus driver and her mum was a cleaner, and she went on to do medicine and won the gold medal. She spends a lot of her time going back to her school in Oldham and saying, "I never dreamed I could achieve this. Look at me. I did it. I am no better than the rest of you. You can do it as well." There are now 20 kids from that school going to various universities around the country.

The solution is often within the locality. People want to see somebody like them, not a clever professor from the University of Manchester. They want to see somebody from Oldham, Bury or wherever else.



Q259 Judith Cummins: The touching on place that we have had this morning is fascinating. I agree that we could have done so much more in the session in terms of place. Place and people are the key to success and rebalancing our economy.

Andy, if we can turn now to targets, you have previously said that we need to set targets to help regions level up. How can the ISC help to progress this agenda? Does the current Industrial Strategy take enough account of place in correcting regional economic imbalances? Again, we are back to place. The UK2070 Commission inquiry on regional inequalities has said that the Industrial Strategy is “not expressed in a measurable form and is aspatial, and therefore does not address the issues of spatial inequality directly, which is critical if the UK is to be levelled up.” Are the Government’s current Industrial Strategy, their policies and the investments that go with them enough to close the regional disparities that we have seen and rebalance the economy or level up?

Andy Haldane: That is another big question. I will try to provide a short answer. As Kate mentioned, the 2017 strategy, which is almost ancient history now, did not have enough within it to tackle the scale of the challenge we are talking about. Regional inequality in the UK is the highest of any Western advanced economy and the highest for over 100 years. It is getting worse and widening over time. We also do not, as you say, have any well-defined success metrics for these as things stand. We understand the scale of the gaps, but there are no explicit targets for how they might be closed or, in the lingo, levelled up over time.

Would that be of some value or virtue? Having a concrete plan that could turn the levelling-up concept into something quantifiable, in terms of living standards, wellbeing or productivity, could be helpful as a direction of travel. As helpful, though, would be digging down a layer to ask what the core ingredients are of delivering that levelling up of productivity, living standards and wellbeing.

Our own research, which Kate and others on the council have overseen, demonstrates a whole set of things, but it includes the fact that this is eminently achievable. We know that because we have done it in the UK in the past and many other countries have made a success of levelling up. This is feasible. The question is what formula they have followed to deliver it. It is always multifaceted. Nancy, Charlie and Kate have touched on some of those facets. It is not just transport, health, skills, green spaces or high streets. It is combining those collectively in a strategy, and that was the aim of the local industrial strategies I mentioned, which began to be drawn up a couple of years ago.

I would like those local industrial strategies to be dusted down and put together with a more detailed, quantified national plan. That would be used as the basis for moving this from a very laudable and sensible ambition into some concrete metrics and means of delivering those



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concrete metrics. We are not quite there yet in terms of the project plan for levelling up.

As Kate touched on, it strikes me that, whatever the detail of that plan, greater degrees of devolution and decentralisation are an essential prerequisite because you need the local knowledge, but, as importantly, you need the local agency. You need people to feel empowered to deliver on whatever plan ends up being drawn up. That is the only way any metrics have any chance of being hit.

Chair: As Kate and Andy have alluded to, there is quite a lot of detail in this place-based set of questions. We have an adjacent inquiry on the institutional delivery of levelling up alongside this inquiry on the Industrial Strategy. I suggest that we will write to you with those questions. Hopefully, if you are able to, you can write back to us.

I am conscious that we are now out of time. Two hours on one panel is a bit of a marathon, so I am grateful to all of you. We will come back to you with some further questions on that in writing. On that basis, we come to an end. Thank you to Andy Haldane, Dame Kate Barker, Professor Dame Nancy Rothwell and Sir Charlie Mayfield for your time and contributions this morning. Thank you to all of my colleagues for your questions. We will now bring this session to an end.