HOUSE OF LORDS

Industry and Regulators Committee

Corrected oral evidence: The Government's plan for growth

Tuesday 8 June 2021

10.30 am

Watch the meeting

Members present: Lord Hollick (The Chair); Lord Allen of Kensington; Lord Blackwell; Baroness Bowles of Berkhamsted; Lord Burns; Baroness Donaghy; Lord Eatwell; Lord Grade of Yarmouth; Baroness Noakes; Lord Reay; Lord Sharkey.

Evidence Session No. 1 Virtual Proceeding Questions 1 – 13

Witnesses

I: Kemi Badenoch, Exchequer Secretary to the Treasury; Joanna Key, Director, Growth and Infrastructure, HM Treasury.

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Examination of witnesses

Kemi Badenoch and Joanna Key.

Q1 **The Chair:** Good morning. This is the first public session of the recently established Industry and Regulators Committee. We are delighted to welcome Kemi Badenoch, the Exchequer Secretary and Minister for the Plan for Growth, which is our topic today. She is joined by her colleague Joanna Key, the director for growth and infrastructure. Welcome to both of you.

I shall kick off with the first question. Why did the Government decide to abandon the 2017 industrial strategy? What have they kept as a focus for their new policy? What did they abandon, and why?

Kemi Badenoch: Okay. I will start by staying that we have not abandoned the industrial strategy. It was published in 2017 and we are in a very different economic situation now. What has happened is that it has evolved. The plan for growth is consistent with key elements of the industrial strategy. It looks at ongoing challenges: for example, on innovation, skills and infrastructure, and support for key sectors of the economy. All of that is either still in there or just a normal part of government policy.

What might be helpful is if I set out the context for why we have done this. There are three things that have changed since the industrial strategy was published. First, the UK left the EU; secondly, we have a target of net zero by 2050; and, thirdly, there is Covid. We wanted something that addressed the challenges and opportunities of those three areas, and was more focused than the industrial strategy allowed.

The Chair: In the plan for growth, you list a further 21 strategy publications that will be made over the next 12 months. When you are preparing those strategy papers, will you be involving businesses, regional governments and national governments? To what extent will you pursue the co-creation model that was part of the 2017 strategy?

Kemi Badenoch: We are not going to create further forums beyond the Build Back Better Business Council. That is the main way that we are engaging with business at a high level on the plan for growth. We have engagement with many of the stakeholders you mentioned, and that will continue. Government Ministers and officials regularly meet many stakeholders—for example, the M9 mayoral group run by MHCLG, and I am the Treasury counterpart to that. I meet them regularly. We have regional stocktakes. There are many engagement forums, not just with business representative organisations or even local authorities but in lots of other areas where we are able to talk to people who have something relevant to add to our overall economic strategy.

The Chair: One of the successes of a number of other countries' industrial strategies has been the regional nature and ownership of them, and the close involvement, and investment indeed, of business. Would you not agree that that is an essential ingredient that we should try to replicate?

Kemi Badenoch: I think we already do that. We possibly can do it better, and I am very open to suggestions if the committee thinks that there are other things that we can do that we are not doing. But I feel that we have quite good relationships with many regional stakeholders, with the devolved Administrations as well, on how we can work together to make sure that everywhere is being levelled up, which is the Government's priority.

The Chair: I should add my declaration of interests since this is the first public meeting. I have a portfolio of shares in businesses, many in start-up businesses. I have recently retired from the board of Honeywell and I am a director of the advisory board of the Royal Society. With that background, I have a keen interest, as indeed do many members of the committee, in innovation, which I believe is the first strategy document that is due to be published. Will it be published before the summer?

Kemi Badenoch: I cannot give a specific date—BEIS is leading on the innovation strategy paper—but we definitely expect to see it soon. I think "in due course" is what BEIS would want me to say.

The Chair: Okay. I have one further quick point. The 2017 strategy had data and artificial intelligence as one of its core principles. It also had a healthy ageing society, which is a matter of some interest at our end of the Corridor. Those two have been dropped—or "de-emphasised", if I can put it that way. Given your background in software, I would have thought you would be a champion of the UK's AI industry and data industry.

Kemi Badenoch: It is a really good question. AI and data, the ageing society, clean growth and future mobility were all badged as the grand challenges. Many of the existing grand challenges in the mission programme, such as the commitment to net zero, are now government policy. So we are looking at how to evolve work to remain responsive to the changing global context. It does not mean that we are not doing those things any more. It just means that we are emphasising the three pillars of infrastructure, skills and innovation, of which AI and data will form a key part. When the innovation strategy is published, that is where I would expect to see a bit more detail on that. Not having a section with that specific detail does not mean that it is not happening.

Q2 **Lord Sharkey:** Good morning, Minister. My questions are about productivity. The plan for growth recognises that the UK has a long-standing productivity gap compared with other major economies, and that growth has stalled since 2008. The plan attributes much of the reason for the gap to historically low levels of investment in physical capital, which is of course a familiar analysis. There was Peter Mandelson in 2008 with his new activism, Vince Cable in 2012 with the industrial strategy, Sajid Javid's shift to an industrial approach in 2015, and Greg Clark's industrial strategy in 2017.

What is there in the plan for growth that is significantly different from its predecessors in addressing productivity? How will the plan succeed where they did not?

Kemi Badenoch: The best way to answer that question is again to look at it as the latest evolution rather than a complete change. The three pillars address our productivity challenges. There is infrastructure, as you mentioned, and tidying up a lot of what is happening in infrastructure, making it clearer and more focused. Skills is another area, and you will have seen the announcements around the lifetime skills guarantee, for example, making sure that people are able to continue to update their skills as the economic and technological context changes; and there is innovation.

We are not rewriting what has happened before; we are just improving and developing it and making sure that it is more focused. We are looking again at where we are putting investment, for example. This year, we have put £100 billion into infrastructure. That is a £30 billion boost compared to 2019-20. It is just making sure that we are able to adapt as the economic climate and context change, rather than totally changing the strategy. This is not a 180-degree change to what we have been doing.

Lord Sharkey: What would you point to as the key qualitative differences between the plan for growth and its predecessors?

Kemi Badenoch: Let me see. The industrial strategy had a very general set of things that it wanted to do: long-term plans to boost productivity, which we are still talking about; and backing businesses to create good jobs and increase the earning power of people. We are looking at addressing long-term challenges. A lot of that detail has been coming out, for instance in the national infrastructure strategy, the skills White Paper and the innovation strategy. We changed the way the council worked. Effectively, the previous council was marking the Government's homework. This one will be doing more of the co-creation that I believe Lord Hollick mentioned.

We have really tightened up and focused what we are trying to do, and how we explain it. We are addressing productivity with infrastructure skills and innovation, but the outcomes are levelling up, net zero and Global Britain. I cannot remember which of you called it the "glossy brochure". It is trying to explain better what we need to do, so that everything can fall in line. We have not removed things such as the grand challenges missions. They are existing government policy. The existing published sector deals and sector councils will continue. Over the next 12 months, as you just mentioned, many of those papers will be coming through, and more detail about what will be happening within specific sectors will be published.

The plan for growth is a high-level framework. It is a not a detailed step-by-step plan of what is going to happen. It is a high-level framework, and it is setting the direction of travel for all the policy documents that will follow. It is the beginning; it is not the end of the description of what we are doing.

Lord Sharkey: Thank you very much for that. We agree with the description of a plan for growth as a "glossy brochure", certainly.

Kemi Badenoch: Those are your words, not mine.

The Chair: Baroness Noakes has a question.

Q3 **Baroness Noakes:** I declare my interests at this stage in a number of listed companies, all of which would be affected one way or another by the plan for growth.

My question goes back to productivity. You talked about what you think the plan for growth might be contributing to the efforts outlined in earlier strategy documents. What specifically do the Government hope to achieve, and how will you measure success here?

Kemi Badenoch: The outcomes are net zero. We will know when it is time and we will continue to have—

Baroness Noakes: Sorry. I am focusing on productivity.

Kemi Badenoch: Right. So how will we be able to evaluate how well we are doing on productivity? Well, it is one of those things where we look at some traditional measures such as GDP, but we do not think GDP alone is a way of capturing it. We want to expand beyond that. We are looking at things such as well-being. We are changing the way that we measure things, including many environmental metrics. You will have heard about, for instance, the Dasgupta report on biodiversity. We are improving and adapting how we capture changes and improvements to our economic growth and productivity in ways that are fit for the 21st century. Joanna will be able to speak about the public value framework, which I know the Treasury has been working on. Joanna will be closer to the detail on some of the technical measurements that I think would answer your question.

The Chair: Baroness Donaghy.

Baroness Donaghy: Do you want to bring Joanna in, Chair?

The Chair: Joanna, would you like to come in?

Joanna Key: I am very happy, if it would be helpful to the committee, to set out what was published at the spending review 2020. We published what we referred to as our provisional priority outcomes and metrics across all government departments. There is a direct relationship to some of the material in the plan for growth; for example, the Department for Education's outcomes and metrics on skills, the DfT and DCMS outcomes and metrics on infrastructure, on transport and digital, the BEIS outcomes and metrics on innovation and making the UK the best place to start a business, as well as the Treasury's own provisional priority outcomes and metrics on productivity. All of those will be measured. They are publicly available. They are available for the public to scrutinise our performance against some of the key objectives in the plan for growth.

The Chair: Thank you. Baroness Donaghy.

Q4 **Baroness Donaghy:** Good morning, Minister. My question is about why responsibility for this issue has been moved from BEIS to the Treasury. We are all aware that of course the manifestations of the relationship between Business and the Treasury have changed over the decades. You could probably fill a museum with all the various connotations. This looks like a downgrading of BEIS. Is it going to be just the quartermaster now? You said earlier that we are waiting on BEIS for the detail. How will that relationship work? How will the Treasury supervise it? "High level" does not take very long to write, but detailed implementation is where we have failed as successive Governments over the years.

Kemi Badenoch: Thank you for that question. It is probably best for me to start by explaining that there has not been any change in the machinery of government or in departmental responsibilities. The Treasury is still the economics and finance Ministry, and BEIS still retains responsibility for industrial strategy and innovation.

The plan for growth is led by the Treasury just because we have a broader view of what is going on across departments. This is a plan that will be delivered not just by BEIS. There will be Defra commitments and DfE commitments. It is very much a whole-government approach. All we are doing is setting the framework that other departments will fit into, but we will be working together and working across government—to use the phrase—to "build back better" from all the current challenges that individual departments are dealing with. It is much more of a collaborative approach than we have had before, and I think it will work better.

Baroness Donaghy: Several commentators have said that it is all slightly chaotic because of the constraints of the Budget timetable, and that, hopefully, things will become clearer about who does what. Kate Barker, I think, was arguing, for instance, for some independent judgment rather than just oversight by the Treasury to measure success.

Kemi Badenoch: Sorry, what was the question?

Baroness Donaghy: Various commentators have said that it is not really very clear in the plan for growth who is doing what and what the relationships are going to be. I understand your answer that BEIS is not the only department, but presumably there has to be a lead department to make sure that actual progress is being made on the ground. I assume that the Treasury will not be doing that.

Kemi Badenoch: We have a planning and performance framework that will help to embed a new focus on the delivery of the outcomes that Joanna mentioned. There will be a new performance reporting system that will provide an ongoing picture of departmental activity. It will report to the Cabinet Office and it will report to the Treasury.

If you mean overall scrutiny, that happens all the time, not just from specific councils such as the previous Industrial Strategy Council, but from the National Audit Office, the Public Accounts Committee, and even committees such as this. The Prime Minister has also refreshed the Cabinet committee structure to reflect the Government's priorities and to drive the plan for growth. The Prime Minister chairs a new national economy recovery task force—we call it NERT—and that is also focused on growth, levelling up, and driving public sector performance and delivery. So there are many ways in which we will be able to track and scrutinise what we are doing. When we publish the departmental priority outcomes, they will provide clarity to people on who is doing what, the real-world impact that departments want to achieve and whether we are successful or not.

Q5 **Lord Blackwell:** I draw attention to my shareholdings set out in the register and my former role as chairman of a UK bank.

Minister, there are many priorities set out in the plan for growth. I think there are around 180 policies and commitments. Where do sectors fit into that? You have committed to producing a number of sector visions and sector deals. Do the Government have a view on sector priorities and plans to support sectors or are they agnostic about sectors? What are the priorities?

Kemi Badenoch: In terms of areas of priority, we have looked at it thematically. It is about driving economic growth and not specifically around sector deals, which we have absorbed anyway. Many of them are ongoing existing government policy.

Lord Blackwell: So there no particular priorities among that list of sectors.

Kemi Badenoch: Well, we do not want to pick winners and losers. Every sector has within it its own priorities. We do not think that there is a trade-off between supporting sectors such as financial services and business services. It all depends on where we are, and on how each fits into the overall priority. We have some high-growth sectors, for instance, digital, life sciences and creative industries, that were in the previous industrial strategy. We are not looking at it in that way any more. It is not how we look at the priorities. The focus is on the outcome we want to drive. In each of the papers that will come out, whether it is innovation or the energy White Paper, all those things will feed in. Every sector has its own internal plans and we will set out the details of them in the coming months in all the documents that will come out. But as regards a specific sector priority list, we are not doing it that way.

Lord Blackwell: Just to be clear, under the previous strategy, I think one might have assumed that the Government would have set as a measure of success that we grew our biosciences strength in the UK, or that we increased our dominance or competitiveness in AI and software. To have built those priority sectors would have been marks of success. Are you saying now that those will not be seen as particular priorities?

Kemi Badenoch: As I said earlier in answer to Lord Hollick's question, we are not abandoning the current sector deals. We will set out details of priority high-growth sectors in the coming months, but we are not doing a one, two, three list—which always ends up being the same things. Everyone knows the areas that we want to specialise in: life sciences, clean energy, fintech, digital and creative industries. All those things will be reflected in the various papers that will be coming out. But they have to be sectors that support strategic objectives, not just in delivering growth but in enabling the transition to net zero. It is the detail of how each of those sectors will contribute to those outcomes that we will be talking about, rather than prioritising which sector is most important.

Lord Blackwell: How many sectors will be looked at in that way?

Kemi Badenoch: I do not have a number, but I am sure we can write on the number of sectors. That is not something that I have at the top of my mind.

Lord Blackwell: You mentioned financial services. There was a meeting yesterday, and the Prime Minister and Chancellor stressed the importance of financial services. Are financial services seen as something that it is important to support, given their contribution to income tax and employment in the UK?

Kemi Badenoch: Yes, absolutely. We put through the Financial Services Act about a month ago at the end of April. That brings through a wide package of measures that we think will help us to improve and adapt post Brexit; making sure that we are still world-leading, promoting openness to international markets, and maintaining the effectiveness of the regulatory framework. That is the first major piece of financial services legislation we have passed since we left the EU. It is an important milestone, and it demonstrates the fact that the financial services sector has always been key to this country's economy, will continue to be so, and is definitely a priority.

Lord Blackwell: I know financial services are not specifically your remit, but what weight do you place on the memorandum of understanding and making progress on that, as opposed to the view that the UK should just get on and enhance the competitiveness of financial services on its own?

Kemi Badenoch: I do not think I know enough about the memorandum of understanding to be able to answer that question. It does not fall within my remit, but I am sure I could ask the Economic Secretary to write to you on that.

Lord Blackwell: Thank you.

Q6 **Lord Reay:** Good morning, Minister. It is very good to meet you. I should declare that I, too, have a portfolio of shares.

I would like to ask you about net zero. How will the Government ensure that net zero is integrated into their decision-making, and how important will the net zero review be in this regard?

Kemi Badenoch: The net zero review will be absolutely critical in this regard and we will be publishing it soon. It is an analytical report that will use existing data to explore the key issues and trade-offs that we are going to face as a country as we decarbonise. It will influence a lot of government policy going forward in terms of who pays and how we measure what we are doing. It comes against the backdrop of so much uncertainty on technology and cost and is the beginning of us understanding what these changes will mean for our economy over the next 30 years.

So the net zero review is looking at the trade-offs, and who pays or what needs to be paid for. But as regards the activities that we are taking to get to net zero, at the end of last year we published a 10-point plan for a green industrial revolution, and that sets out how the UK can make the most of the opportunities presented by the shift to net zero. We announced £12 billion of government investment. We want to leverage private investment as well. We do not want the Government to have to do everything. That will go across the key technologies we think will get us there, such as hydrogen, offshore wind, nuclear, carbon capture and storage, electric vehicles, and heating buildings. We are now focused on delivering the plan. Joanna, is there anything further you can say on how Treasury looks at net zero and how we are adjusting the way that we work in our metrics around the spending review or the Green Book?

Joanna Key: I think there are two things worth saying about the way we are adapting our approach as we go along. The Green Book, for example, the Treasury bible that looks at how you assess the costs and benefits of all types of public investment, now explicitly mandates that you have to consider environmental and climate change impacts in any kind of public expenditure, and also how well policies deliver against the Government's policy aims such as levelling up, and particularly net zero. This also applies to spending bids from departments, including at spending reviews.

As the committee may be aware, at the last spending review, for the first time we asked departments that were putting forward capital spending bids to assess those bids against climate change impacts and net zero. I have to say that the approach was not an unqualified success, because I think departments found it quite difficult to do, but we learned a huge amount from that exercise. We will continue to apply it as we go forward. I think you will see at the next spending review that we have got a lot better at trying to assess this and to make sure that it is fully integrated into the Government's spending priorities.

Lord Reay: Thank you very much for that. Minister, how do you intend to ensure that the move to net zero is compatible with the Government's commitments to level up, particularly with regard to the inevitable rise in energy prices that consumers and businesses will see?

Kemi Badenoch: Yes, that is the crucial question. There is tension between many of our outcomes, and primarily the net zero review is looking at what needs to be done, the costs, and who is best placed to bear those costs, whether it is business or consumers, and whether they should be funded by taxes, and what is the mix of solutions that we are going to put forward. At the moment, there is quite often a lot of talk about spending, but it cannot all just be spending. Some of it will need to be done via tax, and regulatory measures in particular. That brings us to the point about competition. We need to foster an environment where the technology moves at pace and comes up with the solutions, and to create a regulatory environment where people want to invest in that area so we will get the outcomes and the results that we need to make sure that the burden does not fall on those who are least able to bear it.

The Chair: Minister, could I follow up on the cost of decarbonisation, which falls within your remit? What is your overall working assumption of the annual cost to 2050?

Kemi Badenoch: That is a great question. The climate change committee looked at this and came up with a figure of, I believe, £50 billion in the final year, but until then there is so much uncertainty. We do not think it is going to be as expensive as previously thought, provided that we can get the investment in the right place, and the outcomes that will support things such as the transition to electric vehicles, decarbonising, et cetera. But it is very uncertain. We do not have a figure. There are all sorts of different bits of analysis that tell us different things, and I would not want to give a figure that could very easily be changed depending on how you cut the numbers.

Q7 **Baroness Noakes:** Minister, I would like to focus on the balance between the public and the private sector. The plan for growth is a remarkably interventionist document and it is coupled with the figures for public expenditure, which will stay significantly above 40% for the Budget horizon—which is not the sort of figure we would normally have seen in the past. I understand the short-term desire to support the economy as it comes back from Covid-19, but could you say something about how you see this evolving over time, and, in particular, what the dangers might be of crowding out private sector activity, and what the Government intend to do about that?

Kemi Badenoch: We are very alive to this. We believe that stimulating private sector investment is key to the economic recovery. I am not a big government person. I think that government has a role to play. You are right: what we are seeing in intervention is more than we would normally do, but it is just because of the unprecedented circumstances that we found ourselves in with Covid, and the levels of uncertainty. The economic news, thankfully, has been better than we thought it would be. The Government are announcing policies that in the long term will help private sector investment, but in the short term we will be the ones to take the hit, so to speak.

The super-deduction, for example, is supporting business investment as we recover from coronavirus. Free ports should attract new businesses. One thing that Joanna and I are working on very closely together is the Help to Grow programme and digital adoption, which has been an area of very low productivity, despite all sorts of measures and schemes to help people move to a digital platform that improves productivity. We think the Government should now intervene to help, because if we do not we will not see change. There are certain barriers that we have not been able to overcome. Help to Grow is designed in such a way as to help companies that are most likely to benefit but are least likely to take up the schemes; and to encourage them to see what the difference can be in improved profits. That should help SMEs in particular. They are the ones we are targeting, and they employ the most people.

The future fund is another example of how we are addressing a gap for innovative businesses. So we are trying to plug the gaps. The public interventions are focused on areas that are more likely to crowd in private investment. For instance, £1 of public R&D investment brings in £2 of private R&D investment in the long run. That is the strategy and the plan, and we think it will work. I hope that reassures you.

Baroness Noakes: May I press you on when you see the Government becoming less reliant on public activity to support or underpin growth? In the Budget, it looks as if there is an ambition to carry on doing this stuff for a long period. There does not appear to be significant acknowledgement that there might be crowding out and not crowding in of the private sector, which has been a traditional source of growth in the economy. Governments do not produce growth in the long term.

Kemi Badenoch: It still is. Perhaps we are not explaining enough that we are thinking about the crowding out. But I talk to businesses and business representative organisations. Nuclear is a classic example of something we need it for net zero, but the private sector alone will not do it. Infrastructure is probably a key area where this is happening. Infrastructure often needs big government support, at least at the beginning. As we set out in the national infrastructure strategy, we are committed to supporting private investment in UK infrastructure. It would be counterproductive for us to invest in infrastructure assets that are already well supported through private finance. We do not want that. There are subsidy rules as well that limit what we can do. The Infrastructure Bank will prioritise investments where there is an undersupply of private sector finance. So we are trying to fill the gap; we are not trying to take over.

Baroness Noakes: Do you see at any point a downward path in public sector investment and the public expenditure effect?

Kemi Badenoch: Do we have a target in mind? It depends on what is happening. It is the general economic environment that would determine that, but we certainly do not want to be doing everything. We are not moving towards nationalisation, if that is what you are suggesting. But I cannot give you a date for when everything will change because we are still in very uncertain times.

Baroness Noakes: Thank you, Minister.

Q8 **Lord Burns:** I declare a continuing role as an adviser to the Santander Group executive chair. I also have a portfolio of shares, including in a number of small digital businesses.

Minister, could I ask why there is no place in this plan for an independent oversight body such as the Industrial Strategy Council, which was operating beforehand?

Kemi Badenoch: That is because the way we are doing this is, to use that phrase, co-creation; we do not want stakeholders, business stakeholders in particular, to be detached and mark the homework. We want them to work with us. Oversight, scrutiny and accountability will keep happening in the same way as they always do. In answering a previous question, I mentioned the various bodies that look at what we are doing, whether it is the National Audit Office, Select Committees in Parliament such as the Public Accounts Committee, or the public value framework that Joanna talked about. The departmental priority outcomes are a way for people to see whether we are meeting the objectives that we set. It is just a different way of doing things. It does not mean that we are removing oversight. There will always be oversight.

Lord Burns: Was there something specific that was unsatisfactory about the way the previous body was operating? You talk about other people marking their own homework, but of course it could easily be said that this is the Government seeking to avoid other people marking their homework.

Kemi Badenoch: We do not think so. It is just that the economic situation changed, and we thought that the Industrial Strategy Council would not work as well for a new plan for growth. It was set up to monitor and evaluate the impact of the industrial strategy. That is why it has been wound down. Some people who were on the previous Industrial Strategy Council are now on the Build Back Better Business Council, but it is also much bigger than it was. There are more people on it.

It is just doing something slightly differently. The Industrial Strategy Council was established to provide impartial and expert evaluation of progress, but now that we have the outcome delivery plans and metrics in place, many more people can do it. The Build Back Better Business Council has different objectives and it draws on the expertise of industry to help deliver successfully.

Lord Burns: May I ask about the range of metrics that it is suggested will be kept to monitor progress? You spoke about that earlier. It sounded to me as if you were just talking about a long list of disparate measures that would be constantly reviewed. Is there some way of coming to a view as to what overall success is? Do those metrics get grouped together in some kind of way? Is there some way of telling us what the general outcome is? By and large, the longer the list of metrics, the less value it often has.

Kemi Badenoch: That is true.

Lord Burns: It is a question of how you pull them together to get a clearer view as to whether there is a success or not.

Kemi Badenoch: Let me see if I can explain it in a way that brings it all together. What has changed in the economic context? Leaving the EU, Covid and net zero. What are the things that we want to do to improve economic growth? Infrastructure, skills, innovation: that is how we are going to do it. What is the outcome we want? Levelling up, net zero and Global Britain.

I think net zero is the easiest one to measure, so I will not go into the details of that. We have carbon budgets. There is a very clear number and you know when you have got to it. Levelling up is one of those things where, because it means so many different things to different people, lots of people have spoken about it in their own way, and it has become quite nebulous as a concept. We are trying to nail down what it is and what it means. For the outcome and delivery plans, there is a full list on the website within the public value framework so you can actually see what we are delivering.

For example, one of MHCLG's priority outcomes is to raise productivity and empower places so that everyone across the country can benefit from levelling up. It is very high level but it has been agreed on a cross-cutting basis with BEIS, DCMS and other contributing departments. Each department also has its own ambitions. Whether it is driving economic growth through improving the skills pipeline from DfE, or whether it is improving connectivity across the UK from DfT, there are plans in place with the detail.

Because I have seen, for example, the one in my equalities brief at the Cabinet Office, it is easier to know that there is something in place, but it is very hard to describe in a meeting like this without having the documents in front of you. As Ministers, we receive regular updates on delivery. We will be able to track performance and will be able to take early action where delivery might be under pressure. What might be useful, and I do not know how much of this we can send without its being too much, Joanna, are some examples of what the delivery plans and outcomes include.

Lord Burns: Thank you very much. That would be very helpful.

The Chair: May I follow up on that question? The House of Lords has done a number of reports on infrastructure and energy investment, such as HS2 and Hinkley Point. All those reports have pointed out the gap in oversight, and, therefore, the inability to constrain overruns and to call overruns to account. HS2 has zoomed up from £50 billion to £150 billion and counting. Similarly, Hinkley Point entered into what look now like some ridiculously generous arrangements for an unproven technology. Where does responsibility lie for calling those things out? Is it parliamentary committees? Who within the Executive should be looking at those?

Kemi Badenoch: It depends on the specific project, but for something at a high level it is whoever the senior responsible officer is, the executive owner, or the committees responsible for bringing those things to light. We understand the frustration, and we find it extremely frustrating ourselves in government. That is why we had, for example, Project Speed, which was established to accelerate and improve the design and delivery of many projects, and to make sure that we can deliver impact whether it is by the end of the Parliament or by the set date. There are just too many projects letting people down on how well they are being done, or how quickly they are being delivered.

In Project Speed, there will be continued oversight of some high-profile projects to test and champion the principles that we think can accelerate and improve the delivery of our infrastructure portfolio. Some of those pathfinder projects include the Oxford-Cambridge Arc, which MHCLG is leading on, the new hospital programme from DHSC, and the A66 trans-Pennine upgrade that the DfT is doing. We are trying to address those issues. We recognise that there are problems. At the end of the day, delivery is always the responsibility of the project owner, but we also know that we will be held accountable for that, whether it is by the National Audit Office, parliamentary committees, or whoever.

The Chair: Would it not be helpful if one of your future publications went into some detail about how control of expenditure and progress against the project's objectives was actually being met?

Kemi Badenoch: I would have thought that was already happening. The Project Speed task force works with the Infrastructure and Projects Authority. The National Infrastructure Commission also has things to say on these issues. They are not being neglected. What more did you have in mind?

The Chair: The proposal to set up a national infrastructure commission with statutory powers, which was the original idea of George Osborne, was gradually beaten back into a non-statutory body. Looking at that again might be one way of having proper oversight and measurement of major infrastructure projects, which has bedevilled Governments for many decades.

Kemi Badenoch: We will take that away

The Chair: Thank you.

Q9 **Lord Allen of Kensington:** Good morning, Minister. I declare my interests. I have a portfolio of investments. I chair a banking, an infrastructure and a media company. Obviously, that covers some of the areas we will talk about.

One thing I want to focus on is that a big part of the UK's productivity long tail appears to be down to two things around technology diffusion. There are two interrelated issues: poor adoption of technology and poor digital literacy in the workforce. What are the Government doing to change poor to world-beating?

Kemi Badenoch: Our flagship programme specifically on that, which Joanna and I have been working on, is Help to Grow: Digital. It was announced in the Budget. We will launch a new UK-wide scheme in the autumn that should help up to 100,000 small and medium-sized enterprises to save time and money by adopting productivity-enhancing software. We want to transform the way they do business. We recognise that, even among peer countries where we do better overall, digital uptake and digital adoption is very poor. We will combine a voucher that will cover up to half the cost of approved software, up to a maximum of £5,000, and we will provide free impartial advice delivered through an online platform. We think that will be a game-changer in helping people to transition to digital ways of working.

Lord Allen of Kensington: May I follow up on that? The CBI says that two-thirds of UK businesses have unfilled digital skills vacancies. Clearly, having some money there is one thing, but if you simply do not have the people, what do you do? What can we do quickly to try to fill those gaps? How do we ensure that schools and colleges are focused on it and that the people coming out of those continue to take their skills into that area? There is a real problem with the skills gap. How would you address the skills point as well as the funding and support point for SMEs?

Kemi Badenoch: Specifically within Help to Grow there is also a management counterpart. We are supporting 30,000 SME leaders over three years to help boost their business performance and resilience through practical leadership and management training. A lot of the skills that are missing are around leadership and management. It will be a 12-week programme that we have developed with industry. There will be a national curriculum delivered through business schools. That is one example of how we will be looking at that.

Digital skills were a big focus more generally in the skills White Paper. We recognise that it is an area that needs quite a lot of—I do not want to say intervention because I know Baroness Noakes is still on the line. That White Paper wanted to bring employers into the heart of the skills system, and we as government are piloting local skills improvement plans that will bring employers, together with colleges and other providers, to help shape technical skills provision so that it meets local labour market skills requirements.

Lord Allen of Kensington: May I push once again on this? The problem is churn. When 30% of people in digital are trading up and getting more money by working for some of the big multinationals, it leaves SMEs in quite a poor place because they simply cannot compete. I am still struggling to understand how we help them disproportionately, because the level of skills costs has gone through the roof. People have improved during Covid, and that is a positive, but small companies are still trying to get access to digital skills, and it is very difficult. Do you have any particular points on that?

Kemi Badenoch: I think we are in the same place on this. The majority of post-16 technical education and training is to deal with it. We are aligning our strategy. We have been introducing the new higher technical qualifications, the T-levels, and expanding the institutes of technology programmes. We are very much alive to it. The apprenticeships and traineeships we are putting together, the lifetime skills guarantee, and the lifelong loan entitlement will all mean it is not just about people who already have the skills, or even just the people who are coming through post 16, but people who have different skills who can retrain to plug the gaps, so to speak.

Lord Allen of Kensington: Thank you very much.

Q10 **Lord Eatwell:** Good morning, Minister. I must declare interests as an investor in education technology and as the recently retired chairman of the Jersey Financial Services Commission.

I am intrigued by the 2.4% GDP target for R&D. This is a very ambitious target for the UK. It is not ambitious for our competitors—it is quite ordinary for them—but for the UK it is very ambitious. As Baroness Noakes suggested earlier, it will only be achieved if you get the private sector on board. In the last 50 years, various Governments have thrown incentives at the private sector to increase R&D. We have had a slew of tax incentives. They do not work, and academic studies have shown they do not work. We now have the free ports proposal. Academic studies show that free ports shift investment around; they do not increase it.

I am interested in what the new idea is to really activate private sector R&D, when so many bright ideas have failed over the last 50 years. Secondly, given that all our major competitors invest much more in R&D than we do, what have we learned from abroad, from competitors' policies?

Kemi Badenoch: It is an interesting question as to whether R&D, tax credits and tax reliefs work or not. We think that they do. I have had meetings, and even as a constituency MP I found that lots of people lobbied around expanding, increasing and improving these policies. I think they work. There has been a huge boost in government spending and lots of evidence that shows that it pulls in private investment. We think government investment in R&D will be a game-changer, not just on its own but because of what it does to pull in money from elsewhere. We think the 2.4% target is ambitious, and will continue to ensure that we are world-leading in the innovation that is taking place in this country.

I think the Treasury would disagree with your view on free ports. What are we doing? There is ARIA, which we are voting on right now in the House of Commons. I would not say it has been contentious, but there have been lots of debates about what the agency will do. We think it is really innovative, ground-breaking and different from what other places are doing, except obviously the US, where we borrowed the idea from.

Lord Eatwell: We would like to be world-leading but we are hopeless world laggards at the moment. I also asked what have we learned from the successful policies of our competitors.

Kemi Badenoch: The research and invention agency is something we learned from competitors. It was happening in the US and we thought we should do it here. That is why I mentioned it as an example.

Lord Eatwell: May I add one other follow-up? I agree with you entirely when you say that public investment pulls in private investment. That is, for example, the experience of Germany. I was wondering how you align the idea of large-scale public investment as the driving force to get to 2.4% with Baroness Noakes's concerns about the scale of public expenditure.

Kemi Badenoch: I am sorry, I am not sure I understand the question.

Lord Eatwell: If public investment is going to be the leader, that suggests that public expenditure will stay very high, and Baroness Noakes was concerned about that. I agree with you that from foreign experience, especially in Germany, public investment pulls in private R&D. It certainly does. Your key variable would seem to be public investment. I can see Baroness Noakes shaking her head; she disagrees with that. How would you square the circle?

Kemi Badenoch: The lever that we have is public investment, but it does not mean that it is the only thing that needs to take place, and it does not mean that it will be the key driver. We need to signal. If we do not signal where we need businesses to go, they might not go there. I used nuclear as an example. The private sector will not be able to do that, and yet we need it if we are to deliver net zero. We also need to give confidence that there is a strategy, a long-term plan, and for people to understand what the Government want to do. That is what the whole plan for growth is about. It is about setting out our strategy and vision so that people know what to expect, and know how they can invest, and where they can maximise returns, not just for themselves but for the overall well-being of the country, the economy and citizens.

What businesses tell us when we speak to them is that they need certainty. They need to know what the plan is. It is not that they are against net zero or for net zero, but without us setting out a clear regulatory environment for what we are going to do, they cannot do anything, and the investment does not come in.

Public investment is one of the levers, but as we come out with our papers on regulatory reform, the energy White Paper, and the innovation strategy, we will be providing more clarity, so that business can continue to invest. We are not replacing private sector investment with public sector investment. There will always be natural tensions in the decisions that need to be made, but we are not replacing private sector investment with public sector investment. Given everything that has been happening, Covid in particular, this is not the time for government to shy away from setting some direction.

Lord Grade of Yarmouth: Before I come on to the area of the Brexit dividend in respect of the plan for growth, may I take you back quickly to productivity and a quick question? In your response, you mentioned improving productivity in both the public and private sectors. Do you think further trade union reform might play some part in increasing productivity? Are there any thoughts in that direction?

Kemi Badenoch: I do not believe that has come across my desk, so my instinct would be to say probably not. Unless there is something secret happening somewhere I am not aware of, I do not believe we are looking at that.

Q11 **Lord Grade of Yarmouth:** That is very clear, thank you. May I come on to the Brexit dividend? Obviously, the plan for growth takes account of the fact that we are now outside the European Union. Where do you see the benefits of our new freedoms materially feeding into the plan for growth, most specifically exporting, which is a crucial aspect? If you are expecting growth from the long tail of SMEs, this is a crucial area. Where do you think the benefits in growth will come from in our new status?

Kemi Badenoch: It will mainly be in the ability for us to do more of our own regulation, designing our own standards and regulations in a way that we have not been able to do for a long time. The Prime Minister has said we have to take full advantage of this opportunity. I know there is work under way on this agenda. The Chancellor is chairing the better regulation Cabinet committee, and, complementing that, Lord Frost has a Brexit opportunities team. Even outside government, Sir Iain Duncan Smith has a Taskforce on Innovation, Growth and Regulatory Reform. They will all be looking at opportunities.

I think the question you are asking me is: does the plan for growth account for EU exit as regards the outcomes it wants to deliver? Yes. There are some ways we are doing things differently already—the new points-based system on migration and replacing the common agricultural policy—but it is the regulatory and policy freedoms that those committees and groups are looking at that will find new ways to drive growth and enable us to achieve those priority outcomes.

Lord Grade of Yarmouth: Thank you very much for that very clear answer. Looking at it from a more generic perspective, will a government plan for growth post Brexit be more effective and more speedily effective than had we still been under the aegis of the EU? Do you think it is a big advantage?

Kemi Badenoch: Yes. Certainly, for the things you have just mentioned as regards moving quickly and adapting quickly, yes, absolutely. We do not need to consult as many different countries to come to a consensus agreement. When I look at things where we are still working in an international context—the G7 presidency, COP 26—we are leading. We are doing things better than we were able to do when we were in the EU.

I am trying to think of something in my portfolio that would be a good example. We now have a UK emissions trading scheme setting our own carbon price. We think it will be more efficient and will drive improvement in people decarbonising faster and reducing their emissions. I think our carbon price is higher at the moment than the EU price. Despite people thinking that we were going to roll back on improvements on our environmental objectives, we are still very much holding ourselves and our companies to a high standard, and making sure that we have safeguards so that there is no carbon leakage. We are also making sure that just because we want to be world-leading in these areas we are not taking away the competitive advantage that our companies have.

Lord Grade of Yarmouth: Thank you very much, Minister.

Q12 **Baroness Bowles of Berkhamsted:** Good morning, Minister. First, let me declare my interests. I am involved either as an adviser or director of various start-ups and financial services companies.

My basic question is to ask whether you think that the remits of economic regulators should be updated to include competition or competitiveness. I am conscious that those two things are rather different yardsticks. The plan for growth makes no mention of introducing competitiveness objectives to regulators, but talks about hard-wiring competition principles into regulatory decision-making and then talks about support for regulatory sandboxes and innovation hubs. That again is a difference between competition and looking at things that perhaps relate more to competitiveness. Where is the divide, and what remits should the regulators have?

Kemi Badenoch: It is not so clear-cut and separate as to whether they have competition or competitiveness as part of their regulatory duties. Most regulators have a set of duties that include a duty to promote competition for the benefit of consumers. For example, I had conversations with Ofwat recently about that. Competition is already being used and implemented successfully in many regulators. Telecoms is a great example, where we can see clearly what the outcome has been. We have encouraged regulators to continue to build on their work.

Baroness Bowles of Berkhamsted: There has been a specific debate in the financial services arena about whether to give a competitiveness objective back to the regulators, as once upon a time the FSA had. Several of us have been involved in debates around that and understand the limitations. If you take the sandbox concept, the FCA has done that very well, but not everybody gets into the sandbox. If that is the only route, is there a stifling of what otherwise would be innovation because there is a queue to get into a kind of regulatory oversight?

Kemi Badenoch: I think these are things that we should probably look at in the policy paper on economic regulation. I cannot speak to the detail of sandboxing and how it works. I do not know if Joanna knows very much about it or whether it is something that falls into John's area. We are committed to open competitive markets. Are there things that we can do to improve how it is working in economic regulation? I think so. I think the policy paper will answer that. We also provided some responses—forgive me, I cannot remember exactly what the detail was—when we responded to the National Infrastructure Commission's study on economic regulation. I think some of those questions were answered there.

The long-term approach to this is that we need stability. We need incentives to encourage investors. We need a level playing field, and we need to make sure that the needs of consumers are balanced with the needs of businesses, not just existing consumers but future consumers. Perhaps we can try to make sure the economic regulation policy paper addresses that. I cannot speak to more detail than that, Baroness Bowles, and I do not want to speak out of turn, or say something that is incorrect.

Baroness Bowles of Berkhamsted: I understand. I think it could be helpfully developed further as regards how things can be encouraged, because in some ways it also feeds into the funding issue. If you are always waiting for the seed funding or the lead funding to come from the Government, and then there is the crowd-in or follow-on, or whatever you want to call it, of the financing that will come from the public sector, that is one route, and sandboxes may be another route, but a dynamic industry wants to invent all by itself without being led or pushed or trapped, or whatever. It is important to make sure that those channels are still open rather than closed.

Kemi Badenoch: The way to make sure that we are not stifling anyone is to keep the conversations we have with stakeholders as broad and as frequent as possible. It is where, for instance, the council I will call the B4C so that I do not trip over myself, will have a role to play. It covers many industries and includes people who have lots of experience. It is about making sure that we in government are not stifling innovation or crowding it out, and we are ensuring that competition is there. We want to be the people making sure that the business environment is working well, not to take over from business.

We do not believe in a planned economy. That is probably an easier way of explaining it. We do not believe that we know everything. We want the markets to function well. How can we make sure that the markets function well? It is with the regulators and making sure that our regulatory system is fit for purpose. That is what the policy paper should answer.

Baroness Bowles of Berkhamsted: A final point is that, when one is looking at the incentives that come from grants and other things that are available, an awful lot has to end up going through people who facilitate new businesses being able to be considered. I think that is another area that is somehow blocking what would be a lot of good applications, because some of the newest businesses do not have the wherewithal to spend half the grant money that they might get on having to have some kind of facilitator as an introducer. I think that ought to be looked at.

Kemi Badenoch: We can take those points away and feed into the officials who are putting the paper together. I think they are very good points.

The Chair: Lord Blackwell and Lord Grade had some follow-ups.

Q13 **Lord Blackwell:** Before we finish, Minister, I want to come back to the topic of innovation and in particular some of the points you were making in response to Lord Allen. Of the three pillars, skills and infrastructure are clearly important enablers, but it is innovation that ultimately drives productivity. If I may say so, it is terrific to have somebody with your background in IT in the role.

I am interested in priorities around pure innovation in the creation of new products and services versus adoption, and whether you have a view as to whether, as regards productivity issues in the UK, our biggest challenges are more around innovation or around the adoption of innovation. What can the Government do? Is the Government's role more effective in encouraging adoption or in stimulating more pure innovation in the first place?

Kemi Badenoch: I think the answer is both, and it depends. What is the Government's role when it comes to adoption? This is information that has come from many of the business representative organisations and consultancies that have done the research. They are not innovative things any more. These are proven things that we know work digitally, whether it is customer relationship management or supply chain software. They are innovations that came 10-plus years ago. They are not new and cutting edge any more, but people are not using them.

There is a small role for government to encourage more people to explore, and to take up things to help productivity. We do not want to pay money for deadweight costs. We looked at that with Help to Grow funding, to make sure that we designed it in such a way that we did not just give people money to purchase things they would buy anyway. It is really for people who are finding it hard to move up the digital ladder. They do not have time to do the investigations. They do not have time to pay for advice. They are a small business, and they have to keep on with business as usual. It is helping those sorts of organisations with adoption.

Innovation is a lot harder. It is a bigger picture. There is risk. There are many things that you can try that will not work. We want to make sure that we are creating the environment for innovation to happen. The research and invention agency will do the high-risk high-reward research funding, but we know that it does not all happen here. As international demand for talent grows, our immigration system needs to keep up with that to attract people who are innovative—the highly skilled, globally mobile talent who will help us deliver that. Only government can design the immigration system, so we have a role to play there, for example.

It depends. We want to get to a place where we are not just leaving everything to the market and assuming that all will be well without any government intervention, but we are not trying to replace work that would happen anyway and is best done by the private sector. The research has told us that the UK is very good at research but not very good at development, so we do the R well but not the D, and we want to make sure that we adjust whatever funding or support we provide in government to make sure that it is not just research but development that improves.

The Chair: Lord Grade?

Lord Grade of Yarmouth: I omitted to declare my interests, so perhaps you would like to go to Lord Allen and pick me up at the end.

The Chair: Oh, Baroness Donaghy will come in now.

Baroness Donaghy: In fact, Lord Blackwell very kindly picked up most of Lord Curry's question on innovation. Lord Curry, a member of our committee, has had connectivity problems, so if there is anything you can do in that area, Minister, he would be very grateful.

Kemi Badenoch: He should write to his MP, and we will look at it.

Baroness Donaghy: Thank you. I will certainly relay that to him.

To add to Lord Blackwell's question, you mentioned moving quickly since we left the EU. When can we expect the innovation strategy to be published?

Kemi Badenoch: "Soon" is all I am at liberty to say, I am afraid, because it is not my department that is writing it. I know that officials in the Treasury have been supporting them in this. I think it is safe to say this summer as regards when it will be published.

The Chair: Thank you. Lord Allen.

Lord Allen of Kensington: Andy Haldane, who is the chief economist at the Bank of England, as you know, recently hailed the AstraZeneca project between government and business as a great success. Does that lay a pathway for, dare I say, PFI/PPP—going back to the conversation we had earlier with Baroness Noakes—to spread the money to get companies to come in? My fear would be that, if companies think they will have to go first, they will not come forward. If they can work together, would that even be on the agenda? The old projects, frankly, were not well managed, whether that was on the government or the company side. I think things have moved on quite a bit since then. Is son or daughter of PPP or PFI on your agenda?

Kemi Badenoch: I do not think I know the answer to that question. Joanna, do you have any further thoughts on it? I do not recall working on that or seeing it in any of the papers or decisions that we have been making.

I take the broader point about how we worked with AstraZeneca, but I also know that we were under duress, given everything that was going on with the pandemic. Would we do it again? Possibly. I think the question is whether AstraZeneca would want to do it again, given everything that has happened. It is very risky. We want to make sure that risk is spread properly. If people think that things are too risky, they will not come in. That is what we can do well. We do not want to socialise the risk and let all the profits be taken up by business. It has to be shared equally. That is a high-level view that I hope answers the question, but I cannot give more detail on PPP and PFI beyond personal opinion.

Lord Allen of Kensington: It would be helpful if you could come back to the committee. It is about sharing risk and reward, and that was not the outcome of many of the projects under the old PPP and PFI systems. I think it needs to be a different variant if that was even on the agenda. It would be great to get your views on that in due course.

Kemi Badenoch: Joanna, is the Infrastructure Bank PPP?

Joanna Key: Technically, I do not think it is what people think of as a PPP, but the way the bank has been designed is very much in the mould of having a public sector/private sector partnership, where some of the risk is shared, and the intervention of the bank goes where there is some issue with market failure, or some difficulty in attracting sufficient private funds to cover investment. I think that is a new model.

Lord Allen of Kensington: Thank you very much.

The Chair: Lord Grade.

Lord Grade of Yarmouth: My interests include, in the creative industries, a marketing company and two content creation companies. I am chairman of a private wealth management company. I am involved as a shareholder and as an active director in an energy and e-sports property development company, and I enjoy a Channel 4 pension.

The Chair: I have one final follow-up question, Minister. An issue that underlies a lot of the discussion we have been having is which sectors we are going to back, and who makes those decisions, and who bears the risk. You made the point that you will, as far as possible, bring in private sector risk, but for DARPA and organisations such as that, there is very much a government decision around risk, usually based on need, which was of course very much the AstraZeneca story. How will the Government decide which sectors to put its financial and regulatory muscle behind?

Kemi Badenoch: In the plan for growth, we committed to publish sector visions for high-growth sectors where we are better placed to develop globally competitive advantage. We do not want to create a hierarchy of sectors because we do not think that is helpful; it is picking winners. For instance, in life sciences, the Office for Life Sciences is leading for the Government to develop a new life sciences sector vision, which we should publish in the summer. We will see more detail about what will be happening within sectors, and provide a vision for how the Government are going to continue in those areas. I do not want us to be overly focused on specific sectors, because things change and we want to be flexible and nimble and not be held back by a plan where the context in which it was made has changed.

The Chair: Thank you very much. Thank you, Minister, and thank you, Joanna. We shall follow the publication of your many documents with great interest. I hope we will have the opportunity to look at them in more detail when they are made available. Thank you both very much indeed.