HOUSE OF COMMONS

Treasury Committee

Oral evidence: Jobs, growth, and productivity, HC 150

Monday 13 December 2021

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Harriett Baldwin; Anthony Browne; Julie Marson; Alison Thewliss.

Questions 219-322

Witnesses

I: Irene Graham OBE, Chief Executive, ScaleUp Institute, Kitty Ussher, Chief Economist, Institute of Directors, and Stephen Phipson CBE, Chief Executive, Make UK.

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Examination of witnesses

Witnesses: Irene Graham, Stephen Phipson, and Kitty Ussher.

Q219 **Chair:** Good afternoon, and welcome to the Treasury Committee's inquiry session into jobs, growth and productivity. We are very pleased to be joined by three witnesses this afternoon. I will ask them to briefly introduce themselves to the Committee. One of our witnesses is joining us remotely, and two are appearing in person. I will start with the two appearing in person. Kitty, could you introduce yourself to the Committee, please?

Kitty Ussher: I am Kitty Ussher, chief economist at the Institute of Directors.

Stephen Phipson: I am Stephen Phipson, chief executive of Make UK, which represents the manufacturing sector nationally.

Irene Graham: Good afternoon, everyone. I am Irene Graham, chief executive officer of the ScaleUp Institute, which is focused on how we become a very good country in which to scale and grow businesses.

Q220 **Chair:** Thank you very much, and welcome to all three of you. I will focus on productivity initially and ask the question that nobody has a complete and comprehensive answer to: since the financial crash, why have we lagged so badly and done so much worse than we did before that and relative to other countries? We hear about the long tail, managerial skills, training and all sorts of things, but nobody seems to be able to really bottom out why it has not been going so well. Perhaps I can start with Kitty and then go to Stephen on that question. Irene, if you want to come in at the end, please do so.

Kitty Ussher: It is a very good question, and I know many greater minds than myself have been thinking about this for some time. At a very high level, there is quite a simple answer, actually: the UK economy's employment performance since the financial crisis has been quite spectacular. Considering the fact that a very high proportion of our workforce is employed in the service sector, and often in the consumer-facing service sector, it is simply a mathematical truth that if employment is rising, output per job goes down, because our GDP performance is not that bad compared with that of competitor economies. Taking a very high-level, long-term view, I would characterise the productivity gap with France and Germany as having narrowed in the run-up to the financial crisis and the decade preceding 2008. We did not catch up with the US. Then we had the dislocation of the financial crisis. Since then, employment has grown incredibly fast, possibly due to the rise in self-employment. Generally, there was something extraordinary happening in the labour market, which meant that productivity was stalling by comparison but our overall—

Q221 **Chair:** This was presumably because the additional individuals coming into the workforce were not as productive as many others. Is that right? Are you saying that they were going into less productive areas of the economy, such as the service sector?

Kitty Ussher: Yes, that is right. It also explains why, in terms of GDP, there is not so much of a problem when compared with European competitors. Having said all that, there is also evidence of historical underinvestment in high-scale infrastructure. Business investment has been muted since 2016 due to a perceived lack of economic confidence following the Brexit vote. We could have performed better than we did, and I guess that is what we are talking about today. But I suppose that, in economic terms, I would not get too hung up on the low productivity growth, given that the economy as a whole was performing quite well.

Chair: Thank you, Kitty. That is useful. Stephen?

Stephen Phipson: First of all, it is probably worth thinking about manufacturing in terms of it having to be globally competitive in this country. Looking at the productivity of the UK manufacturing sector compared with the average in the UK, we are at £61 an hour of output in manufacturing, compared with an average of £39 an hour in the general economy, and that is because we have to be competitive.

Having said that, there is a gap that is starting to widen more, particularly with our European competitors, in advanced manufacturing. We put that down into three different buckets. One of them is around management skills—we can probably come on to that a little bit later—and the availability of the higher-end skills that we need in manufacturing. That is one point.

The second point is about investment, and I would echo the point made previously. We lag behind in investment and new technologies, particularly some of the new additive manufacturing technologies that have been invested in very heavily by other countries, and in digital investments. We have got some starting programmes on the transformation to digital manufacturing, or the fourth industrial revolution that is happening, but we are lagging behind a bit in certain areas, and the adoption of them throughout the supply chain is something that does concern people.

The third point, I would echo again, is infrastructure. Again, that is supporting the transformation happening in manufacturing. We do need broadband everywhere. We absolutely need people to have that access to infrastructure, and transport links add on to that as well. For me, skills is one of the major issues. Certainly, when we survey members, it is the access to skills that comes out as one of the strongest points. But, we are—let us not get too carried away with this—pretty competitive as we stand in terms of manufacturing, but we do not want to lag behind the other investments that are happening across Europe.

Q222 **Chair:** Would I sum up your position on manufacturing productivity as it being more productive than other parts of our economy, but perhaps lagging a bit internationally, and there is a danger that it might be sliding away a bit further? Is that roughly where you are?

Stephen Phipson: Yes, exactly that. We do not want to let it lag too much going forwards.

Q223 **Chair:** Of those factors that you have listed, Stephen—management skills, low investment, digital investment, infrastructure etc.—did you say that management skills, and skills more generally, were the important ones?

Stephen Phipson: Skills more generally. We particularly rely on level 3, level 4-type skills, and HNC, OND skills—things that are produced traditionally through the apprentice training programme in this country. When we compare that to our competitors, that is lagging a long way behind with those people.

Q224 **Chair:** Why do you feel that is?

Stephen Phipson: There is a number of reasons for that. First of all, the skills landscape is quite a complicated one in this country because there are lots of different skills initiatives, and if you are a smaller manufacturer, it is sometimes difficult to identify which one to dock into. Secondly, we are calling and have called, and do talk extensively to the Department for Education about reforming the apprentice levy system. There is a number of things we need to do there.

We saw during the pandemic, as you might expect, quite a fall-off in apprentice starts in the sector. We need to see that picked back up again. We need to get more incentives for people to run apprenticeships. Again, there is quite a lot of detail around that, but we need to pick up on that vocational training. That is important.

Q225 **Chair:** Do you feel that, compared to our competitors, the engine that is producing people with skills—which is all levels of education really, so including schools—is up there with our competitors, or is there a general issue about quality of education across the piece?

Stephen Phipson: I think if you look at it across the piece through the manufacturing lens, we have been quite good at developing graduate-level engineers. That has been quite good. We have got a good programme there. But the real gap is that vocational level. These are CNC operators, toolmakers—the people that keep the factories running. Very often, graduate engineers do not want to go on the shop floor. That is not what they have been trained for. They want to be design engineers. They want to do other things. That is where our focus has been, but that vocational skillset, which is absolutely vital to this sector, is where we need some fixing. That is where we need to improve.

Q226 **Chair:** Do you think that the migration of skills into the UK—those who were strongly in favour of Brexit always cited this as an issue—has been driving part of that problem in the sense that the domestic labour market has not really had to provide those particular skills, because the skills were there from elsewhere?

Stephen Phipson: It certainly amplifies the problem—there is no doubt. We were, for the last two decades, reliant on Bulgarian toolmakers coming to this country, and that source has dried up. I would not put the whole blame on that, but it is certainly a factor which means we are even more reliant on our own system generating those vocational skills that we need, and that is what we need to fix.

Q227 **Chair:** Now that we are beyond Brexit, is that becoming an issue? People with skills who were there before have now returned to their home countries, and we have a shortage here that we are struggling with.

Stephen Phipson: Yes, we have many examples, but most of it occurs in that vocational skills bit. It is that part—those toolmakers and operators and machinists—that is important.

Q228 **Chair:** Are you hopeful that things will get better in that respect? Do you see the right things happening?

Stephen Phipson: I have seen the Chancellor do some good things in terms of incentives around apprenticeships, but there are some fixes we need to do, and they are very aware of it. There was a commitment from DfE to work more closely on reforms to the apprentice levy system, allowing, for example, the ability to use some of the funding for capital investments.

It is often very expensive for further education to run engineering apprenticeships, because you have to invest in the machines to do it, and, at the moment, that is not allowed. We need to extend the period of the levy funds because, obviously, we have gone through a very difficult time, and we need to make sure we can get those people completed on their courses. There are a number of things we need to do, but we are engaged in discussions with DfE to make that happen. Hopefully we can do that over the course of next year.

Q229 **Chair:** Thank you. Irene, did you wish to add anything from your point of view?

Irene Graham: It is an important question. One of the things we would observe is that our scale-up economy—those businesses that are scale-ups and growing at 20% or more—is highly productive. They are also highly innovative and strong adopters of digital technology, so in one sense, to foster our productivity, we need to foster our scale-up and scaling community that exists across the country and in every area of the country.

When you observe some of the countries ahead of us in the scale-up economy, like the US and Germany, they are also ahead of us in productivity. Some of the observations there would be that they have long-term at-scale interventions, so they are very focused on driving forward consistent interventions at scale, regionally deploying the interventions, and they have strong depth of capital and institutional capital flowing into the system. I think there are some levers there that we can pull, but those are the observations we would make, and the skills agenda is important to that.

Q230 **Chair:** Thank you, Irene. Could I just focus on the part of the productivity argument that is about the long tail, and the kinds of businesses that sit within that longer tail? We have some really world-class bigger companies that are more productive than other competitors, but we have this long tail that is less so. Is it an over-characterisation to say that these are typically privately held businesses, often within a family, and the managerial skills within them are not that strong? The way that succession works tends to be that it is passed on from one member of the family to another, which may or may not be the most productive way of doing things. Would anybody like to comment on what that long tail looks like, and the problems associated with it?

Stephen Phipson: I will have a stab at it, if you want me to. In the SME community, which is 95% of the manufacturers in this country, we have a long tail of family-owned businesses, and some of them are very good businesses, but again, there is a very rapidly changing environment at the moment, particularly around digital technologies in manufacturing, and having the skills to make that change is why we need an adoption programme. We have had a Made Smarter programme running up in the north-west as a pilot, part funded through Innovate UK, which has been really successful there. Really, that model rolled out nationally is an important thing to do, to help give them some of those skills and some of those new ways of thinking.

I would say on the newer businesses, particularly when we get on to net zero, that a lot of the start-ups or innovative new businesses are, of course, adopting a lot of the new technologies right from the go. We have a different mixture of challenges there, I would say, depending on the scale and the age of those businesses.

Chair: I can imagine that.

Kitty Ussher: I would agree with that, and there is encouraging evidence from the effect of covid: it has obviously sped up the speed of digitisation, which will then have an effect on productivity.

I think the best way of characterising it is that Institute of Directors members are typically in the SME sector, and generally are very ambitious for growth. These are people who take their role as directors very seriously. I would not want to make a characterisation in terms of whether the firms are family owned or not, but we do find that a substantial proportion of our members are very comfortable with how things are going, and would probably say that they are happy with the level of business as it is. There is nothing wrong with that, in a sense—it is great to have a country where people can start a business and have it provide the lifestyle that they want to have—but I suspect the link is actually something slightly intangible. It is about the level of ambition of the people around the boardroom table.

Q231 **Chair:** Do you think that is different in the UK than it would be in Germany, France or Italy, for example, or the United States?

Kitty Ussher: Each of those economies is very different, and as I have mentioned before, the levels of employment are also very different, so I am not sure I am in a position to give a view given that we represent UK businesses, but I suspect there is something in there about the level of ambition that is linked to productivity and investment in innovation generally, which is what we are looking at.

Q232 **Chair:** Irene, do wave a hand if you want to come in at any point. Can I just go now to Help to Grow, the Government's approach to managerial skills, and their digital scheme, which we have touched on—the take-up of digital technologies and so on? Any thoughts on that? Are the Government doing the right things? Are they doing enough? How are we going to measure success? What thoughts do you have?

Kitty Ussher: We are very much in favour. The aims of these programmes seem to be exactly what we want companies to be doing, and as an organisation, we are hugely supportive.

I think, Chair, you have put your finger on the issue, which is whether these essentially micro-schemes launched by Government can scale up sufficiently to have a demonstrable effect in the macro-data. The verdict seems to be out on that. I know that there are successful schemes around the digitisation side in other countries. In my view, what is missing is a model by policymakers as to how diffusion through the economy happens. Looking at a perfectly comfortable, unambitious, yet successful smaller company, what is your model for affecting the culture within that company so that it becomes more ambitious, if that is what the public policy aim is?

At the moment, what is missing throughout the whole of policy is an understanding of the way that that happens: how you increase entrepreneurialism and innovation in the SME sector. Is it, for example, through the touchpoints to the accountancy profession, as everybody fundamentally has to file accounts? I am not sure that is fully explored and understood. Anecdotally, the conversations we have with our members suggest that there is something really crucial about those types of connections. I am not seeing that in Government policy.

Q233 **Chair:** You are not seeing that? So, you think those channels to market are an area that might be deficient?

Kitty Ussher: Yes.

Q234 **Chair:** Does anybody else want to come in on that?

Irene Graham: If I may, I will reflect on some earlier comments. It is really important that we segment the SME landscape. SMEs are not all the same. We have 5.9 million SMEs and they drive £2.2 trillion into the UK economy, so they are very important. Some 33,000 of those are scale-ups, which drive 50% of that economic growth. We should not think about SMEs as all being the same. Look at start-ups and scale-ups, and then at those that want to stay ahead. The Help to Grow scheme will be important for those that need that nudge on their growth journey—that is an important aspect in the digital adoption. You then look at scale-ups, which are different; they are already heavy users of technology.

We need to have the right interventions for the scale-up economy as well. It is important that the Government is now seeking to do that segmentation. We are seeing it with the British Business Bank and Innovate UK. What are your start-up policies? What are your scale-up policies? They are a critical segment of the economy. What do you need to do for those that need a nudge to help them to grow? The Help to Grow scheme seeks to help that broader framework. It is important that we segment SMEs and do not think of them as one homogeneous group.

Q235 **Chair:** It does seem quite a big ask, doesn't it? There is a very large number of businesses for the hand of Government—I was going to ironically say the nimble hand of Government, but I do not think it is very nimble—to reach out and suddenly turn people into more entrepreneurial, better-skilled businesspeople. It seems quite a challenge.

Irene Graham: I think it is important that they leverage business skills at universities—we know that does make a difference. It is also important, in that regard, that they work very closely with the private sector as well, and crowd in and build on what is working.

Chair: Thank you very much. I am now going to Anthony.

Q236 **Anthony Browne:** My questions are about debt. One remarkable thing about the pandemic is that the number of insolvencies went down. It was lower last year than the year before. Obviously, a lot of companies only pulled through by borrowing, often from the Government with the bounce back loans and the CBILS and CLBILS. How serious is that debt hangover? Will it hamper companies growing in future? Should something be done about that? This is to you first, Stephen. At Make UK, you have done a survey of your members about that. How serious is the debt hangover among your members, and will it hinder them growing in the future?

Stephen Phipson: Generally speaking, what we have seen from our members is that most manufacturers did not use debt as a way to sustain their businesses—most of them continued through the pandemic. However, a lot of them took advantage of those schemes after exhausting everything else. They used VAT deferments and everything else first, and then took on either bounce back loans, CBILS loans or one of the other structures that enabled them to continue. One very popular scheme was the job retention scheme, which was fantastic. It was very welcomed—it was a great intervention.

We are now left with a lot of companies with a lot of debt. We are starting to see a lot more inquiries—you will have seen some of the data—on restructuring and how we do that. We are not quite yet seeing inquiries into insolvency. The exam question is, "I am seeing lots of orders coming in, although I've got supply chain issues, so I can't deliver them. However, I have a lot of demand-side work. I also have a lot of debt, as a result of the pandemic. If I am going to grow, where can I get my growth capital from?" That is the question that is coming out of a lot of businesses at the moment.

There are lots of asks about, "Can we extend the payment schemes again? Can we defer some of this debt so that we can take advantage of the growth now?" Or, in some cases, because we are now constrained by those supply chain issues, "Do we need to restructure?" That is the exam question that is coming out quite strongly at the moment. It is a hangover from the pandemic and from taking on debt, that was not usually in place, to sustain the businesses. "Where does the growth capital come from?" That is the question that is now often asked.

Q237 **Anthony Browne:** Are there particular types of companies that are encumbered with debt now? Quite a few companies actually came out of the pandemic with cash—they had the furlough money and everything else.

Stephen Phipson: Yes, they did.

Q238 **Anthony Browne:** I know quite a few examples of that. Are there companies in particular sectors that were badly hit, or was it particular business models?

Stephen Phipson: There are some places where they have had a particularly tough time. It is right to say that, across the place, manufacturing continued. But in some sectors—commercial aerospace manufacturing in this country, or automotive manufacturing and its supply chain, which has 800,000 people in it and which is still suffering extremely badly from supply chain shortages—mid-size companies have been particularly hard hit by this. They are the ones that I worry about quite a lot. For other sectors, like food and drink manufacturing, it is not so much of an issue; they have continued—in fact, they have actually increased a lot of their business during the pandemic—but certain sub-sectors do need looking at. We have certainly been talking to the Treasury about whether there is some sectoral support to come, under the job support scheme or something like that, to maintain those sectors going forwards. But it is those mid-size businesses and those affected sub-sectors that are of the most concern.

Q239 **Anthony Browne:** Before I come to the others, you mentioned that some are talking about restructuring. Presumably, they are talking about that with their own commercial lenders—with their banks.

Stephen Phipson: Yes, or they are taking advice. We have quite a high proportion—I think it is 40% of businesses—considering getting advice now as to how they structure their financial affairs going forwards. For them, that is a new conversation, because they never had that pre-pandemic.

Q240 **Anthony Browne:** Kitty, from an economic point of view, do you see this debt overhang as a serious encumberment to growth in future?

Kitty Ussher: Not at the moment, is the answer to that. I think there will be a bunching effect of insolvencies as we go into the first half of next year—presuming the economy behaves as we expect it to. A lot of that will be firms that, in normal conditions, maybe would have ended their journey over the course of 2020 or 2021.

Q241 **Anthony Browne:** Are you saying that these are firms that you would have expected to go insolvent if business had been normal, as it were, but they did not because they were artificially sustained throughout the pandemic by loans?

Kitty Ussher: Yes, the recent run rate of insolvency is lower than average. It might help the Committee if I give the Committee the results of a survey of our own members. We have not published this yet; it is from a survey in November. By way of background, we have around 20,000 members, who are typically individuals running small and medium-sized businesses, but there are some self-employed consultant types in there as well, from across the UK. We asked how many had taken out Government-backed loans, and we found around a quarter had, which were mainly bounce back loans because of the size of our businesses. Of that quarter, the proportion who say they are in arrears is 2%. That is 2% of 25%, which I think is about half a per cent. of the total—I had to work it out. Of those who had taken out a loan, 12% said they had already fully paid it back, even though they did not need to; 48% said they had overpaid or were easily meeting repayments as they fall due; 24% are meeting loan repayments as they fall due, but with some difficulty; 10% have postponed loan repayments in an organised way, with the agreement of their bank or through the pay as you grow scheme; and then 2% are in arrears—in distress. There was 4% who said "Other", but I have absolutely no idea what that is.

Q242 **Anthony Browne:** I hope you can provide those figures in written form to the Committee. That sounds relatively optimistic, compared with what I was expecting—a lower level of distress.

Kitty Ussher: Yes, and talking to members of the IoD, who are themselves running accountancy businesses, they say that they are not expecting this to be an issue now. It is almost like, "Ask the question again maybe in six months."

Q243 **Anthony Browne:** What would happen in six months' time?

Kitty Ussher: More repayments will have fallen due. The repayment schedule is really only just beginning at the moment; we will be back into the real world.

Q244 **Anthony Browne:** Irene, obviously many of your scale-up companies have a lot of equity, but some of them have loans. How much are they affected by having built up debt during the pandemic that they might struggle to pay off? Or is it not such a big issue for them?

Irene Graham: We are not seeing it as a big issue. The key issue for our scale-ups is access to growth capital, as was mentioned earlier—so have they got the right depth of angel/VC follow-on funding and that continuum of finance. Five in 10 are expecting to raise capital next year and investment. The further they are outside London and the south-east, the more the feeling is that they don't have access to that capital, so that falls into that regional disparity of getting access to that growth capital and that right depth and continuum. That is where the priority for the scale-ups is at the moment. Our report "The Future of Growth Capital" went into that in detail and we can forward that to you.

Q245 **Anthony Browne:** Yes, it would be great if you could forward that.

My next question is about the new restrictions we unfortunately have—it is certainly unfortunate from a business point of view. I have at least one pub in my constituency, The Plough at Shepreth, which has gone under. It was hoping to be able to make it through Christmas, but it has said that it can't do that with these restrictions, which is terrible. Obviously, we don't know how long these new restrictions will last, but they are due to be reviewed on 5 January. Do you think they are a reason for new support schemes from the Government? What would your message be to the Treasury about that? I will go in the same order again.

Stephen Phipson: In short, the answer is not yet, but many factories do stay open. We just completed some surveys on this and what worries them a lot is what happens on 5 January when we review these restrictions. If we are going to go harder and put more restrictions in, then they worry about staff coming to work and keeping those factories open.

The No. 1 issue is, "Let's not have another pingdemic. Let's make sure we manage that correctly and learn the lessons from last time." If we are in lockdown, then we are going to be calling for support schemes again, particularly the JRS, which was extremely popular, or a modified version of that. So it depends on it going further than where we are at the moment, but that is really about manufacturers themselves.

Q246 **Anthony Browne:** You mentioned it is about going further, but is it about the type of restrictions as well? You used the word "lockdown" there, and the Government certainly wouldn't describe these restrictions as lockdown. They are very modest and exactly what we had a year ago. So, with the level of restrictions we have at the moment, from what you are saying, your companies will battle through?

Stephen Phipson: They are okay. The period of the next 12 days or so will be fine. It is if it becomes more restrictive. People particularly worry about skilled staff being able to come in and operate the machines. If they are sitting at home, unable to do that because there is a more restrictive environment, that has a big effect on those businesses.

Q247 **Anthony Browne:** It is only work from home if you can; it is guidance rather than rules.

Stephen Phipson: And we kept it all open; manufacturers were open. Demand level was lower in some sectors, but they kept open during the pandemic.

Q248 **Anthony Browne:** Kitty, from your members of the Institute of Directors, do you think there is a need for Government support given these new restrictions, or not yet?

Kitty Ussher: I think it is an active conversation. Different parts of the economy are being affected in different ways, and I am sorry to hear about the experience of the pub in your constituency, but I guess that is at the sharp end of it. The conversations that we are having are around the VAT rate for hospitality, which is due to rise in April. When that comes closer, is that an appropriate thing to do? As a general principle, the Institute of Directors feels that unless the Government have forcibly stopped a firm from trading, then it is hard to see the rationale for taxpayers' money to be given to that organisation, while recognising that it is very difficult for some sectors at the moment.

A finger-in-the-air LinkedIn poll of our broader community suggested not total but broad support for what the Government were doing. I think maybe two thirds were in favour—

Q249 **Anthony Browne:** Of these new restrictions?

Kitty Ussher: Yes, that's obviously not very scientific, but it gives a sense of the mood.

Q250 **Anthony Browne:** Normally, people are more likely to complain about things than support things.

Kitty Ussher: There was plenty of complaining as well. I would characterise that as worry. It is probably worth saying that we monitor confidence in the economy as an index and the last data point was just before we all started worrying even more. That already showed that more of our members were pessimistic about the UK economy going forward than optimistic; there was a rating of minus 6 for November. I would expect that to get far worse, which then impacts investment in business planning and so on.

Q251 **Anthony Browne:** Thank you. Irene, coming to your members, are they affected by these new restrictions or are they in sectors that are not really affected? Do you think there is an argument for any new Government support or not?

Irene Graham: I think many businesses have taken their views about what they do around the pandemic in any case and are continuing their operations.

I think that if we stand back, more broadly, although a lot of the interventions during the pandemic were utilised, we have also had long-term Government intervention in finance schemes in this country, from the UK and indeed the EU. That needs to continue. The Budget and the comprehensive spending review have put more firepower into the British Business Bank and Innovate UK. That is very important for the longer-term scale-up economy and the regional funds that are being deployed. Those are important pillars that we need to continue with, and that is more broadly, from a point of view that that is economic intervention that we have had for some time. As we look at the shared prosperity fund and the levelling-up agenda, how that deploys, looking at some of the EU structural funds, will be important as well. But at the moment, there are some good interventions that are happening on a day-to-day basis that are there for the longer term, which I think are helping with the regional equity needs that our scale-ups have.

Anthony Browne: Thank you very much for that answer, and thank you all for your very clear answers. I am out of time.

Chair: Thank you, Anthony. Harriett, please.

Q252 **Harriett Baldwin:** Thank you, Mel. When we first started this inquiry on jobs, growth and productivity after coronavirus, I think we all assumed that the job market would be really quite a lot weaker than it is in the current data. I just wondered, Kitty, regarding your members at the IoD, where you are seeing the most shortages, because it is quite remarkable to see the level of vacancies that we have in the economy at the moment?

Kitty Ussher: The short answer to that question is that it's a really big issue. It's one of our top issues of concern and it is spread across all sectors, so it would be wrong to characterise it as purely in transport and logistics, for example. Half our firms say it is having a very negative effect on their organisation, of which professionals, associate professionals, skills, trades are very much up there. Now, that might slightly reflect our membership, but I would certainly say that it is very widespread and that seems to be showing up in both the ONS data and the real-time data from Adzuna, which is showing that it is across the board as well, but with some sectors affected more than others.

Q253 **Harriett Baldwin:** What about you, Stephen? In what sectors are you seeing the biggest shortages in labour?

Stephen Phipson: The same sort of issues, really. I think that we always had a skills shortage, but this level 3, level 4 issue is in sharp focus at the moment, Harriett.

Q254 **Harriett Baldwin:** Can you explain to me what level 3, level 4 is?

Stephen Phipson: It is sort of what we used to call HNC, HND-type level. It is what you do at the end of your apprenticeship. You do a four-year training programme and then you can programme a CNC machine in a factory, or you can programme a robotic production line. Those sorts of skills are the ones where we are seeing very large shortages across the piece—things that are typically the output of an apprentice training programme.

I had a long chat with one of the big car companies last week, who told me that, for them, skills at level 2, which is the one just below that, as it were—maintenance engineers and those sorts of things; the people who keep the robots going, keep them oiled and keep them operating on the production lines—are in dire need as well. So it is that sort of middle cohort that is really problematic.

The other issue I would say is really interesting, which I was talking to the Bank of England about it, is that the average age in manufacturing in this country is about 52 and there are quite a lot of people in their 50s who have not returned to work. They were pretty skilled people; they were the toolmakers and the CNC operators. So that has amplified the problem to a certain degree, as opposed to pandemic effect.

Q255 **Harriett Baldwin:** Why have they not returned to work?

Stephen Phipson: We do not quite know. I think the ONS classifies them as "inactive" at the moment on the statistics. But we are all trying to work out why these people have not returned from furlough and gone back into those jobs again; it is quite interesting. There are about half a million of those people in that category on the statistics at the moment, which was previously almost non-existent. So that is quite an interesting effect.

Q256 **Harriett Baldwin:** How long does it take to train up someone in these levels? Obviously, we are interested not just in the current level of shortages but in how long it might take to address them.

Stephen Phipson: It is about a four-year programme, normally, to get the approved qualifications they need to operate in those areas. This is along the apprenticeship programme, basically. So we have been pushing hard to try to accelerate the apprenticeship programme; I think that is what we need to do in this country, to get a lot of those skills in.

Of course we also need to encourage youngsters to go into the sector; that is the other point about it, which is also a bit of a challenge. We run a big national schools engagement programme, where we try to make it exciting to come into manufacturing. It is not about smoky factories any more; there are robots and it is high-tech. We need to do a lot more of that as a country as well.

Q257 **Harriett Baldwin:** But there is also evidence that young people are finding the job market most challenging at the moment, hence the kickstart scheme and so on.

Stephen Phipson: Yes, indeed. In fact, the kickstart scheme has been very good. We have certainly participated in that. We see it as a kind of pre-apprenticeship programme in many respects. It gets them interested and gets them on the way. We have had a lot of success with it. I think we are up to about 400 people on the kickstart scheme across Make UK, for example, which has been very good. Key for manufacturing is getting those level 3 and level 4 apprenticeships through. That is absolutely vital.

Q258 **Harriett Baldwin:** Leaving the European Union and ending the free movement of labour has obviously had an impact on that. In what sense does the new immigration scheme allow businesses in your sector, Stephen, to be able to hire labour from a worldwide pool?

Stephen Phipson: It is a struggle at level 3. Basically, the listing for doing immigration starts at level 3 and above, so if you are one of the carmakers and you need lots of level 2 people, it is quite hard to use the scheme for that. Very often it is quite difficult to attract people to be a toolmaker on £50,000 a year from the other side of the planet. It is quite difficult for many of these companies to do that because the labour pool they were used to was either the UK or the ones on our doorstep. That has been quite a barrier for them. There is a Brexit effect, but I would say it is an amplification of the fact that we just need to be more ambitious with our own skills programme. I think that is the important message that comes out of it.

Q259 **Harriett Baldwin:** I will get on to that. I just want to ask the same question to Kitty about leaving the European Union. What are you hearing from your members about the fact that they can use these different visa schemes from a worldwide pool of labour? How are they finding that?

Kitty Ussher: I think I would characterise our members' views as that we have skills shortages and a sort of knee-jerk reaction to presuming that is somehow linked to Brexit, which may be the case in some situations, and therefore thinking, rightly, that perhaps a targeted visa scheme from anywhere must be the policy solution. The real underlying frustration is that they simply cannot fill the vacancies. It is not that they are particularly asking for that over something else; it is just that they are struggling to work out in their minds what the solution is, and they are looking for leadership.

Q260 **Harriett Baldwin:** Other countries are experiencing the same thing, aren't they? In the US, I hear there are similar issues.

Kitty Ussher: I am told that. I think there is something quite extraordinary going on in the labour market.

Q261 **Harriett Baldwin:** Have any countries found a good solution?

Kitty Ussher: Not as far as I am aware, but I may not be the expert on that.

Q262 **Harriett Baldwin:** Stephen, have you heard of anything?

Stephen Phipson: The same thing. There is definitely something around people in the 50-plus age group not returning. It has been quite interesting trying to understand what that is. We don't yet understand that.

Q263 **Harriett Baldwin:** Irene, in terms of scale-up businesses, what are you hearing about the particular labour market shortages in your sector?

Irene Graham: Like others have said, access to talent and skill talent is a priority and a key issue, and it was well before Brexit. In 2014, we recommended that a scale-up visa be deployed. This has now come into action. We are working closely with the Treasury and Home Office on that. That is very important. It is designed to speed up the process of getting access to those skills, such as technical engineering and also sales and business development—the whole raft and range of skillsets are required. I think important steps are being taken on the visa front, which is good. This well predates Brexit. We need to continue to build our own domestic talent pool. Our scale-ups are very high users of graduates, apprenticeships and the kickstart scheme, and they like to offer vocational offerings as well. We have got the right ingredients. We need to continue to dial that up, and we need to make sure we are creating a workforce from early stage right through to lifelong learning on the digital skills that will be needed as well. There are lots of the right pillars. It is about how we now deploy that as effectively as we can.

Q264 **Harriett Baldwin:** To what extent is pay reflecting this shortage? To what extent is that feeding into inflation and potentially a wage-price spiral in your sector, Irene?

Irene Graham: Scale-ups go across all sectors, so when the demand for certain skills is high, that will drive an increase in wages. That is across the economy, so it should lead to better paid jobs as well. I think the key thing at the moment is that the demand for skilled people is high, and we need to keep fostering that.

Q265 **Harriett Baldwin:** Stephen, you mentioned £50,000 would no longer be enough to attract someone to a job in the UK.

Stephen Phipson: Exactly. It is the same issue everywhere, as you quite rightly say. We are seeing substantial increases in certain skillsets, such as for toolmakers and that sort of area. It is a good time to be a toolmaker if you are in the UK. There are some substantial salary increases going on there. That is just one of the pressures. Most manufacturers would say that material inflation is the biggest problem—we will probably come to that a bit later. Certainly, they are seeing wage inflation in those skilled jobs that we need to keep those factories going.

Q266 **Harriett Baldwin:** The Bank keeps telling us that as long as this goods price surge does not feed through into a wage-price spiral, it will be okay, but are you seeing evidence that there is some wage-price spiralling going on?

Stephen Phipson: All boats tend to rise. We do not see them going backwards on salary from this point. The other thing we've seen—we had this debate as well with the Bank of England—is that a lot of these cost increases are now becoming baked in. If you look at the quarterly report that we just published on the performance of the manufacturing sector, you will see that margins have recovered. We are able to increase prices at the factory gate now. That will not go backwards; that will be the situation going forward. We are seeing an average overall 13% cost increase in the sector. Part of that is brought about by labour costs, but the majority is from material costs.

Q267 **Harriett Baldwin:** Kitty, are you seeing your members report more wage pressure and stronger pay bargaining and potential wage-price spiralling?

Kitty Ussher: Yes. The vast majority of our members expect very high wage cost increases next year.

Q268 **Harriett Baldwin:** Can you define very high?

Kitty Ussher: We only asked the question, "Do you expect it to be higher?" A large proportion of our members said yes. I will go back and look through our data and write to the Committee if there is anything else. Anecdotally—I can only say this from talking to our members at physical events around the country—10% is often mentioned, but I would not say that is a representative sum.

Q269 **Harriett Baldwin:** 10% wage growth pressure is expected by Institute of Directors members.

Kitty Ussher: That is anecdotal, but I have been in a room where someone said 10% and everybody else across different sectors has said, "Yes". That was in the north-west about three weeks ago. We poll on inflation expectations, and those have been rising quite sharply. I think there is a link between expectations of inflation and expectations of rising wage costs that has become endemic. We have said that publicly prior to the Monetary Policy Committee's last meeting, and I think it is very much still there.

Q270 **Harriett Baldwin:** Do you think the Monetary Policy Committee has got it right at the moment, or do you think they are lagging behind on wage-price expectations?

Kitty Ussher: I know that it is unusual for a business representative organisation to be asking for interest rates to rise, but I think I would characterise it that our members are more worried about inflation now than they are about the rising cost of debt. I think they want to see leadership on that.

Harriett Baldwin: That is very interesting.

Q271 **Chair:** Of our three witnesses, would anyone disagree with the statement that there seems to be an overheated labour market, not just in particular areas but spilt more generally across the economy, with inflationary expectation being anchored at quite a high level in terms of what people expect of salary increases?

Stephen Phipson: Yes, absolutely.

Kitty Ussher *indicated assent.*

Q272 **Chair:** On the point about immigration and bringing skills into the country, it seems that the Chancellor is saying—I am paraphrasing, so not doing them justice: "Well, at the high-skill end of Nobel prize winners and that category of super-talent, we should provide visas for people to come over and contribute to the economy." Then, you have the Prime Minister, who says, "We certainly do not want to be reaching for the uncontrolled immigration lever." Are you satisfied, Stephen, for the people you have described to us—those doing the robotics work, etc.—that we have got it right for those folks, or do you think we are being too restrictive?

Stephen Phipson: I do not think we have got it right at the moment. I think we are very focused at the top end, which is good in many respects, there is no doubt about that. I won't criticise that. But the shortages are not there. The shortages are in that middle area of skills—the vocational skills—where we have not been able to grow enough ourselves yet. There seems to be a strong case, which we keep arguing, about allowing some of that labour to come in while we build our own skills programme properly in this country. We can keep focusing on engineers at the top end, but they are not going to operate the robots on the shop floor in the car companies. That is not going to happen. What we need is people with those vocational skills. There is a four-year programme to generate those, and our apprentice programme is not kicking out enough people at that level at the moment.

Q273 **Chair:** That is helpful. Along with increasing wages to compete more effectively in the labour market, what else are these companies doing to adjust to the shortfall? Are you seeing any rejigging in the way they operate or a shift toward capital, even in the short term? How is that playing out?

Stephen Phipson: It is very interesting. In some sectors, where they can, we are starting to see companies automating—helped a little bit the by the two-year assistance in capital investment on the super deduction. Food and drink manufacturing is the ideal example where we are seeing people who were reliant on a lot of labour moving toward more automation. Conversely, that generates more demand for those skills we were just talking about. It is counterproductive from that point of view. We are seeing some of that happening. Generally, the skills shortage is acting more, for many companies, as a drag on growth. That is the big issue for them. It is one of the factors they cite in their inability to take advantage.

We are in a very interesting situation. Orders are not the problem. We have got a lot of orders. A lot of companies will report record order balances at the moment. It about fulfilling that demand. Some of the problem comes from the shortage we are seeing in material costs, and some of it comes from not having the labour. Companies cite it as an important drag on growth going forward.

Chair: Thank you. Julie?

Q274 **Julie Marson:** Thank you very much, Chair. We have covered a lot of ground on skills and job creation, but I want to go back to something we touched on earlier. Maybe I could start with Stephen. I don't want to paraphrase again, but I got the impression that you are not demanding or seeing a lot of demand for Government to extend schemes like furlough and self-employed grants. Given that there is a six-week sunset on the plan B measures we are looking at currently, at what point might you see that change? Is it at a time or point of change, such as a closedown or ramping-up of restrictions?

Stephen Phipson: I think there are two elements to it. In terms of Government direct support and additional measures, if there is a ramping-up and an escalation of the restrictions, which then start to impede the ability to get staff in the factory and achieve the output needed, in an already tight labour market and one with a shortage of materials, that will create a lot of problems that need support. There is an argument, for another reason, for an extension to extended job support schemes, as we see in other European countries, in those sectors that are affected by the current shortages in materials. The supply chain in the automotive industry, for example, is not going to be fixed for the next nine months, probably. What are we doing about all those supply chain companies that are sitting in the middle and cannot supply their parts into Nissan, Jaguar, BMW and everywhere else because the demand is so low? We have historically low output numbers of end vehicles. There is an argument that we should have some sort of flexible job support scheme that helps those companies.

Going forward, we are talking about what lessons we can learn from the pandemic. It is not the last time that we will see events of this nature. Maybe we need a support mechanism in place—one that is well-known and socialised. With the German system, for example, you know what is going to happen if you end up in a situation where you have got no ability to output because of restrictions coming in or other factors. Maybe it is a good opportunity to think about a better, longer-term strategy for this.

Q275 **Julie Marson:** You anticipate one of my questions, which is really good. They have been seen as very welcome and successful, so do you see them as a template for situations like future recessions?

Stephen Phipson: Something like that, yes. Some of the European countries do.

Q276 **Julie Marson:** Would you agree with that, Kitty?

Kitty Ussher: No, I don't think we would agree with that, actually. A very important part of what we as an organisation do is promote effective corporate governance and better conversations around the boardroom table. Having a good understanding of risk is part of that, and we would encourage members to understand what the market environment is doing. There are lots of things that Government can do to support business but, for us, when you start to talk about specific support schemes, the defining characteristic has to be that there is a wider societal reason for trading to be curtailed as a direct act of Government. Obviously, the furlough scheme was a complete lifeline to businesses, going far wider than those that were IoD members, but I think the fundamental aim of it was to keep contracts in place for firms that were basically viable but would otherwise have gone under because of the health concerns, so I think that probably has to be a test.

There are some great areas. For example, many thriving hospitality businesses are now being asked by the Government to do spot checks, on the door, of vaccine passports. That is doing the Government's work for it. If that starts to become very onerous, we may want to consider whether there needs to be some kind of compensation for it. I have already mentioned that perhaps, if the hospitality sector is having a particularly difficult time, you might want to show some leniency for the phasing-out of previous support measures. I think there could be quite difficult problems if firms started believing they got a furlough scheme every time there was a downturn.

Q277 **Julie Marson:** Yes, thank you. Irene, do you have anything to add to that, from your point of view?

Irene Graham: Certainly, furlough has proven itself as an emergency measure—that it could be deployed in emergency situations. Importantly, it needs to be flexible. At the beginning, there were a number of firms that wanted to have a bit of flexibility as to how it was deployed, but it is an emergency measure, and I agree with colleagues that you have to know there is a gap in the market to introduce something like that. It needs to be recognised as an emergency measure, I think.

Q278 **Julie Marson:** Thank you. You mentioned kickstart earlier, Irene. How have you found that? What is your view of kickstart? There is a variety of initiatives within kickstart, from work coaches to extra funding for jobcentres and measures for young people to get into work—those who have been on universal credit, in particular. What have we learned from how it has operated already? And with what we know about the jobs market now, how do you think it is working and how could it be adapted, potentially, if necessary?

Irene Graham: Scale-ups have certainly used the kickstart scheme and they see it as important. It is a good way of getting that younger generation, particularly, into the employment environment as well. What was important from our point of view was that sometimes a business isn't recruiting 30 people at a time. If you are a scaling business, you may not be recruiting en masse, but we were able to join up with other scale-ups in order to make use of the scheme. That was an important flexibility point that was introduced to it. It definitely has its place and it could be even further utilised, I think, with more awareness of it. We see that with the apprenticeship scheme as well. It is very well regarded by our scaling businesses, who want to do more.

Q279 **Julie Marson:** Thank you. Stephen, what is your view on kickstart?

Stephen Phipson: It has been a good scheme so far. We would like to see it extended beyond the end of the year, which is currently the deadline. I think that is probably something that is coming out. It was quite slow to get started. There was lots of learning to do. There were a few changes to the scheme early on, in terms of how many cohorts you could have together—combining them in lots of 30—but actually that has worked very well. We have certainly had a very good experience of it. We saw it very much as a pre-apprenticeship scheme; it was a way of getting people on to that journey into apprenticeships, which was really helpful. So we would like very much—if we are going to have an ask, it is about extending it past the end of December, definitely.

Q280 **Julie Marson:** Good; thank you. Kitty, what impact would you expect rises in employee and employer NI contributions to have on job creation?

Kitty Ussher: A negative impact on job creation. Three in 10—I am full of stats today—of our members say they will hire less people as a direct result of it. We also see it having an inflationary impact, with prices rising to compensate. We routinely ask our members, as I think I said, which of the following factors—and give them a long list—is having a negative effect on their organisation, and employment taxation has risen from, I think, around 25% saying it is having a negative effect, up to 40%; it is pretty much near the top. It is already having an effect, even when it hasn't been introduced.

The National Institute of Economic and Social Research said it would have an effect on business investment. Full disclosure: we enabled their work to happen, but it was independent. That will have a negative effect on GDP. The Office for Budget Responsibility said it would push wages down. I have seen absolutely no evidence of that whatsoever and I think their analysis is flawed. We are deeply concerned by the fact that the Treasury did not publish an impact assessment before they put the legislation through Parliament. I can send the Committee everything that we have done on this, but it is up there as one of our top concerns for the economy and for our members.

Q281 **Julie Marson:** Thank you. If we could ask for that information to be sent, that would be interesting. There is an argument, is there not, to say that the recovery is actually quite robust and is going quite well, so is this not a good time to say, "Why shouldn't employers and even workers contribute to the financial situation that the country's in?"?

Kitty Ussher: Yes; however, I think this is an extraordinary time to be adding to the cost of employing people, just when we have had all the labour market issues that we are discussing. It is a flat tax, because it does not take account of the revenue that is coming in. I think you would have had a slightly more nuanced response if you had asked about the forthcoming corporation tax rises. Of course they are not welcome, but being a tax on profits, and the rate being historically quite low—it is just sort of normalising, in some senses—you might have got a different response, if you had to choose between the two, because I think that probably feels like a better policy action. We also feel that the receipts coming into the coffers at the time that the decision was made were far stronger than had been previously anticipated, so there was probably scope to calibrate it differently, but overall we think it is the wrong way to address an important problem.

Q282 **Julie Marson:** Stephen, would you agree with that?

Stephen Phipson: Yes, I agree with that. Most of the manufacturers see this as quite an illogical thing to do at a time when we are trying to avoid another drag on growth, effectively. The comment I hear quite a lot, particularly for the larger companies, is, "What we really need from Government are policies on growth." Then the taxation comes from the growth of business, rather than taxing employment. That didn't seem very logical to many people, I think is the right way to answer that.

Q283 **Julie Marson:** Before I finish, I would like to give Irene the chance to comment on that as well.

Irene Graham: I don’t have a comment on this one. Tax is not the biggest issue for our scale-ups at the moment; it is much more access to markets, talent and finance. It has not been raised by them.

Julie Marson: I think I am coming to that later, but thank you for the moment.

Q284 **Rushanara Ali:** I have some questions on the plan for growth and levelling up. What is your assessment, Stephen first, of the plan for growth? Does it provide a useful framework for co-ordinating policy across Government? Also, is it a good replacement for the industrial strategy?

Stephen Phipson: I am going to definitely say that it is not a good replacement for an industrial strategy, as I have been quite vocal in the press about that, and it is certainly something that I have debated at some length with the Secretary of State for Business, Innovation and Skills. I think the plan for growth is a good concept; I think it has a lot of white space in it. People in manufacturing operate on seven-year investment cycles on average. What they like to see is long-term certainty, and what we tend to have at the moment is a lot of short-term interventions. That would be one point. I accept the position of the Secretary of State for Business that the industrial strategy was outdated—I get that and would agree to a certain degree—but it provided us with local industrial strategies, and frameworks around the catapult system and what we were doing with innovation. We brought those strands together in one plan, which gave people longer-term certainty. Certainly, many companies that have invested in the UK pointed towards having an industrial strategy, as they see in other countries, and we are effectively competing with other countries in terms of being a good place to invest.

I know it is a work in progress, and we have seen the innovation strategy and we are going to see an enterprise strategy coming. We are in danger of having lots of individual strategies now that were before in an overall industrial strategy. It is how that hangs together. The question is, can we pull it together under a plan for growth? At the moment, I would say there were a lot of gaps at the detail level.

Q285 **Rushanara Ali:** Would anyone else like to come in?

Kitty Ussher: I agree with that. I think there are two major things that are missing. The first is the element of co-creation with business, which was so strong in the industrial strategy, both at a sectoral and a national level, and at a local, regional level. I think that proved itself hugely powerful by enabling firms to come together and talk quite freely within the sector in a way that was not covered by anti-competitive concerns or practices that led to more targeted investment and a real sense of partnership and leadership. That is missing.

The second thing that is missing—we have touched on this previously, but maybe not addressed it head-on—is any sense of long-term skills mapping. I think this could be a very exciting policy area, but it needs a lot of technical expertise and probably needs to be done at arm’s length, in a kind of agency fashion, by Government. We can talk about that further, but that is missing from the plan for growth, which is focused very much on entry-level skills, rather continual reskilling and identifying future gaps.

Q286 **Rushanara Ali:** But you would argue that the sectoral approach should be maintained rather than stopped?

Kitty Ussher: Yes, it was a huge strength.

Q287 **Rushanara Ali:** Irene, do you want to come in on this?

Irene Graham: Yes, I do. In our report "The Future of Growth Capital" we suggested that a national blueprint for growth be created. That does not mean that it needs to supplant an industrial strategy, but we thought that such a blueprint for growth was important. We now have a national plan for growth. Its pillars around skills, innovation and infrastructure, including growth funding and exports, are absolutely right. That is directly in the space that is needed for the scale-up economy. The industrial strategy has scale up as a focus, and so does the national plan for growth.

The one thing that the plan has got is cross-departmental collaboration—from the Treasury to BEIS and to DCMS and No. 10—but the issue with any plan is always how it will be implemented and whether the right actions are being taken. We are seeing some of that in the future breakthrough fund, and some sectoral strategies, such as the innovation strategy and the entrepreneurial strategy, are developing as well. The one thing that we want to see is the continued focus on scale-ups and the scale-up economy and on the segmentation that I have spoken about. We are seeing that in the way this is being developed, and we will monitor that going forward.

Q288 **Rushanara Ali:** A point was made earlier about business involvement. How much business involvement is there in developing this new plan for growth strategy and what would you like to see more of? You have touched on some of that already.

Stephen Phipson: We see quite a lot of involvement on the individual strategies, such as the innovation strategy. We will be involved, but not yet, in the enterprise strategy when that starts to come through. The challenge is that it is a bit disjointed and we are not looking at the whole picture. We are concerned about that. What we used to call the Industrial Strategy Council had the role of taking an overarching view of all these strands and bringing them together into a national plan. We would like to see something like that. That does not mean using the words "industrial strategy"—I understand that is difficult—but we have to make sure that, with the plan for growth, we are not just doing lots of things in silos but are bringing them together in a complete plan. There are unintended consequences of looking at things in isolation.

Q289 **Rushanara Ali:** Earlier, you were talking about the pressures. The Chair mentioned immigration and, given the tightening labour market and supply chain issues, you said that there was a case in the short term at least for a middle-tier level of migration. Historically, employers have gone down the track of addressing labour shortages through migration, but the skills gap has not been addressed. I am not saying that it is the fault of employers, but they have a part to play. Successive Governments have tried but not succeeded in addressing the skills gap. In recognising that, how can we be confident that we can deal with skills issues while bringing people in to deal with labour shortages, so that we are not perpetually going through the cycle of addressing shortages while not addressing the fundamentals around our economy and building a vocational education system that is fit for a plan for growth?

Stephen Phipson: In terms of engineering apprenticeships, the larger companies have done very well. They have been forming their own academies and there is a lot of at-scale apprentice training. In Make UK, we have one of the largest academies in the country and it is funded by members. We train a community of about 1,500 apprentices in Birmingham. All the large companies that come to mind have something similar in place and some of the schemes are exemplary. The challenges for smaller companies, which make up 95% of the community and rely more on the Government-funded further education system is that many FE providers find it hard to run an engineering apprenticeship.

Q290 **Rushanara Ali:** FE providers have had to merge because of funding cuts. My own FE had to merge multiple times; otherwise, it would have gone bust when it was serving a lot of people.

Stephen Phipson: It is very hard for them to run an engineering course. They have to buy capital equipment to run an engineering apprenticeship, whereas other apprenticeships do not need that capital intensity. Under the current arrangements, they do not get any allowances for capital under the levy scheme. Many of them have dropped out of running engineering apprenticeships: it has been very difficult.

If you are an SME, one of the problems you tend to have is finding a provider that will run the apprenticeship programmes for you. That is very difficult in certain parts of the country that do not have one of the large companies or a hub. The hub in Birmingham services about 250 companies. It is a regional support. Apprentices don’t travel very far, so you tend to be local. It is really important to have that local FE provision, and that is why we are calling for reform of the apprentice levy.

Q291 **Rushanara Ali:** What specifically do you need?

Stephen Phipson: We need the ability to use some of it as capital. We need to extend the period. At the moment, it is 24 months; we need to get it to 36 months, which we think will make a big difference. We are working with DfE on a pretty detailed report and on our suggestions on how to make improvements.

Kitty Ussher: We are spending far too much time on entry-level qualifications—hugely important though they are; I agree with everything that has just been said—and hardly any time on in-work training and continual upskilling and retraining.

The skills of the apprentices who go through your wonderful academy will be out of date in five years. We have no policy for dealing with them unless they are in a firm with a massive training budget.

This conversation needs to be about lifelong learning, not just a lifelong learning guarantee that the Government have given for anyone who did not happen to get a qualification the first time round, important though that is. It needs to be far more about: what is your training budget? How can we get you to increase it? What policy levers will get you to increase your training budget? Where is the market failure?

A number of things can be done with the tax system and with a proper, technocratic national expertise around future skills mapping. Just having transparency and the buy-in to that will change behaviour.

We have had a super deduction for investment in plant and machinery, which is really important for Stephen's sector. Most firms consider investment to be investment in people, even employing different types of people. We want that to be extended to human capital, which we think will have far more of an economic effect than plant and machinery, important though that is.

Q292 **Rushanara Ali:** Irene, do you have further suggestions?

Irene Graham: Yes, there are a couple of things I should reflect on. You covered quite a broad range of topics, so let me try to unpick them a little.

Does business have engagement with Government? Yes, there are many forums in which that happens. It is important to businesses on the ground that it is easy to navigate Government, so the innovation finance hubs are important.

We know that relationship management is valued by scale-ups, so we should consider high-growth relationship teams across the piece to navigate through to the right support mechanisms and how we use data effectively.

On the skills element, we would say that the entry level is as important as the continued learning. Scale-ups invest heavily in training their staff on a day-to-day basis, but they are looking for the right technical, social and entrepreneurial skills from the education system. It is important that computing currently is mandated at an educational level. It is not mandated to exam level. We need to think whether we can get digital accreditation across the piece and what more we can do in that regard, and build on our technical skills colleges and that engagement through careers hubs that the Careers & Enterprise Company is running—that connectivity between the business community, the scale-up community and the education environment. Things like the careers hubs are very important connectors into the workforce of tomorrow.

The scale-up needs are going to be broad in terms of the people coming in and the offering that will be available. The Home Office and Treasury are listening to those needs.

Q293 **Rushanara Ali:** I have one more question about growth. Given what you have said about the skills shortage, a tightening labour market and less scope for new migration, we are now having to reinvent the wheel if we have to deal with labour shortages and cannot fill the gaps domestically. Does anyone have a figure for what that will mean in terms of costs to growth? How confident are you that the plan for growth will actually lead to growth? How much growth should we expect?

Kitty Ussher: The economic forecasts suggest growth next year. That is heavily dependent on business investment stepping up as Government spending steps back and the support schemes are withdrawn, as they presumably will be.

Q294 **Rushanara Ali:** Sorry, the question is specifically about the additional barriers, such as the supply chain issues, which have not been deliberately created, and migration?

Kitty Ussher: The best that can be said now is that they are beginning to show up in the data as having a dampening effect. We know that both staff and physical supply chain shortages are leading to problems fulfilling orders, but the order books are still strong. In a sense, that pushes activity to the right. That may be reassuring for the future in some ways, but it also reduces margins in that overheads are there all of the time. The ONS in its GDP data last week talked about these issues starting to show up in the data, but I cannot quantify that I am afraid.

Stephen Phipson: It is difficult to isolate those things, but we know that the manufacturing sector will grow by 6.9% by the end of the year and by 3.3% next year. That is less and a lot of it takes into account both material and labour shortages, but we cannot split them into two parts.

Q295 **Rushanara Ali:** Irene, do you want to come in on the figures for growth?

Irene Graham: Our scale-ups still plan to grow. Nine in 10 are planning to grow next year and one in four plans to grow by more than 50%. They are still gung-ho about growth and they are adopting more technologies as well. We must recognise that we have had a long-term skills issue and we need to address it for the long term with long-term policies. It is important that we have a national plan for growth that has a skills pillar and that we deploy initiatives for the long term. We are seeking to address that.

Q296 **Rushanara Ali:** We talked about post-16 education. Are you worried by the fact that we are only going to return to 2010 levels of education spending and that the impact will be felt by those very areas in the north that have suffered historically? That will have a knock-on effect on your sectors, the economy and growth plans.

Irene Graham: That is where we need to look at some of the policies that have emerged for the careers hub and The Careers & Enterprise Company to work in the more deprived and under-resourced areas and at how we can scale that up further. How do you scale up some of the initiatives that are already in place?

Q297 **Rushanara Ali:** The ScaleUp Institute has published data showing that

London and the south-east have much greater levels of start-up businesses and faster growth than the rest of the country. What are the key factors behind that disparity and what can be done about it? You touched on some of that, but what else is there?

Irene Graham: We work in every area of the country and have some very good scale-up initiatives deployed locally. We looked at transport, the number of start-ups and the level of debt finance and we found three key drivers of local scale-up growth. The first is access to skilled talent, the second is developing clusters and hubs and harnessing clusters in different regions and localities, and the third is access to growth capital at a local level.

We need the measures that are beginning to be put in place, such as regional funds, regional angels programmes and regional venture capital funds, and for that connectivity of finance to take place. We need to dial up the clusters—for example, the good life sciences, FinTech and emerging green economy clusters—and the question is how we make them better, get the right resources to them and the connectivity happening effectively at a local level. Those are the key issues that we are monitoring and are engaged with, as is how we get the local scale-up identity. We work closely with local areas and with Scotland and Northern Ireland on their scale-up policies at a local level.

Q298 **Rushanara Ali:** Can you see a situation in which the drive towards levelling up could mean levelling down in the south-east rather than what is happening in the south-east being replicated and reinforced elsewhere?

Irene Graham: I think it is about replication and reinforcement of that connectivity. That is important. Scale-ups are a great lever for looking at the levelling-up agenda. It is a question of how we take the learnings from the areas that are doing well. We have great scale-up areas in Northern Ireland and Yorkshire and it is about leveraging up that ecosystem locally, including the universities and business schools, to create a level of identity and to get right the connectivity across the funding environment. There is a lot to be learned from different areas of the UK as well as internationally. Long-term interventions at a regional level will be important.

Q299 **Alison Thewliss:** I have some questions about net zero, which is a huge structural investment challenge for the economy and it is captured within the plan for growth. Do you think the Government's commitment to planning for net zero is sufficient? Do they need to do more?

Stephen Phipson: I have seen a tremendous and positive reaction from manufacturers to the net zero agenda. It falls into two buckets. There are some areas where the Government need to form good actionable plans right now. I point towards energy-intensive users and steelmakers and the sort of companies that have developed schemes, such as the green steel deal, that need Government support to decarbonise some of those enormous assets in those very high-level areas.

Generally, however, there is a lot of excitement. We are involved in forming clusters around the country so that people can learn from each other's best practice on how to decarbonise processes. That is important. There is a big question mark around green skills and, particularly in manufacturing, we worry about design skills. Designing products for a circular economy is a very different game from the way that we normally design products. People are worried about where they will get the skills from and where the programmes are that will help them to upskill.

On the other side—and probably this is more into Irene's area—we are seeing an awful lot of innovation with lots of start-ups and Innovate UK money being put in. I had a good call this morning with the new UK Infrastructure Bank about hydrogen fuel cells and start-ups in this country of which we now have six clusters. They have some fantastic businesses that have taken Innovate UK money and got to the first stage. The question now is how we scale up and build the factories. End users are still buying the cells from Canada and Germany and companies are being bought up by German and American companies and manufacturing is being taken out of the UK. That points to the fact that we need a good plan for keeping the manufacturing in the UK. I would say that, wouldn't I? It is my mission in life.

Great ambitions have created a lot of enthusiasm and I start to see people convening and great innovation happening. But we need some pretty quick detailed plans, particularly for green skills and for greening energy-intensive users and how the Government will work with industry to do that. It is a complicated picture, but the answer is that we need to do a lot more quite quickly.

Q300 **Alison Thewliss:** Thank you. I agree very much with what you said about building those companies up and skilling them up so that we are able to keep the manufacturing here. Some of the equipment for wind power in Scotland is not manufactured there and we could be on the verge of losing wave and tidal manufacturers. What more can the Government do to stop those industries moving for a better deal somewhere else?

Stephen Phipson: I would point to having a long-term plan of some sort. We are talking about seven to 10-year investment cycles. People like certainty, where they feel they are getting certainty. Maybe that is perceived, but they're getting it elsewhere.

A lot of these are overseas investors that are coming in and building factories. In fact, quite a lot of European companies could bring more manufacturing into the UK and are looking at an inward investment proposal. Things like corporation tax increases don't help that scenario, but again we need to think about that in a more holistic policy sense than we do at the moment. We need to encourage that.

Many of them are investing now and starting to look at the longer term. It is like the skills agenda. Access to skills is high on the list. It goes back to the discussion we have just had: an ambitious skills programme will be absolutely critical.

Q301 **Alison Thewliss:** Kitty, do you agree?

Kitty Ussher: Yes, but from our members' standpoint the issue is more around the carbon footprint of their organisations. Some are less likely to be involved in manufacturing or seizing the opportunities, and they are well disposed but they look to the Government to tell them how to do it. They don't know how to do it. About a quarter have a plan to reduce their carbon footprint.

A huge job of work has not begun in ensuring that action is taken among SMEs. All sorts of soft things can be done around kitemarking and common metrics, but it has not begun; or, if it has, it hasn't been heard.

Q302 **Alison Thewliss:** The Government have not done enough to let people know what is expected of them?

Kitty Ussher: Yes. I agree with that.

Q303 **Alison Thewliss:** What more would you like to see in the strategy to give that reassurance?

Kitty Ussher: At the moment, if you search for it you might find some toolkits but the metrics and the support aren't clear. There is a publicity angle. There is a very clear, "This is what is expected of you—A,B,C. This is how you do it."

At a slightly large organisational level there is something around the Companies Act in requiring directors—for example, through the Better Business Act campaign—to have regard to sustainability. We have suggested sustainability committees for larger firms. The fundamental thing is being able to account for your carbon footprint and understanding how to do that in a lighter-touch way.

There is one specific thing that we are exploring with our members. If you lease premises, as most do, how do you find out the carbon footprint of your building? Should the landlord be required to give the information? That might be an easy, quick win.

Q304 **Alison Thewliss:** That sounds reasonable.

A huge number of companies have great ideas and innovations. Do you feel that there is enough understanding in Government of what start-ups need?

Irene Graham: Some of our scale-ups are 10 years old or more. We have a burgeoning green economy—one in three of our scale-ups. They are not start-ups, but they are scaling up. As we have reflected, they are around the country: Scotland, the north-west and the midlands. We need to be able to grow and develop those clusters further.

The Government are taking some important initiatives. These companies need deep investment. We need to see an unlocking of institutional capital, with the work being done by the Productive Finance Working Group of the Bank of England, the FCA and the listings reviews that are taking place. That needs to unlock the institutional and follow-on capital required, alongside what Stephen has referred to: the dialling-up of the ability for Innovate UK and their innovation loans to go in at an early stage. That is proven to crowd in the private sector funding that needs to follow behind this and what the British Business Bank is doing.

One area we have not touched on that we could lever further, in the green economy and in our life sciences sector, is the direct procurement of Government at national and local level. One of the things that the US does very well is use its procuring and buying process to help businesses to scale and continue to grow. The SBRI and how we deploy that and the way we undertake the procurement process can be further co-ordinated towards this growth sector. We can certainly share some ideas on that subsequently, but it is an important aspect for long-term investment and institutional capital as well as the use of procurement. Skills are critical as well.

Q305 **Alison Thewliss:** That is really interesting—the Government procurement. Are there things that the Government should directly invest in?

Irene Graham: The majority of the large pool of Government funding still goes to large companies. It is not about spending more; it is just about how you do that while supporting the growth economy and your growing, innovative businesses, ensuring that is co-ordinated effectively across Government. Other Government entities are, internationally, using that buying power to invest for the long term, which we should consider.

Q306 **Alison Thewliss:** That's an interesting thought. Thank you.

I would like to ask about global Britain. The Institute of Directors has said that the EU should not be overlooked in the strategy. Do you feel that it is?

Kitty Ussher: Far more needs to be done. I think that 60% of our members trade with the EU, but is has contracted. There is far too much friction, for very obvious reasons. We are not leading the world on the time it takes to do the paperwork for exporting. There are huge issues about the lack of awareness of the new import controls that are coming in in just days' time. We caution against championing something that ignores the elephant in the room. Far more needs to be done.

Q307 **Alison Thewliss:** What are you hearing from your members about those import controls, and what would you like the Government to do to highlight them?

Kitty Ussher: A large proportion self-categorise as "not prepared".

Q308 **Alison Thewliss:** You are nodding, Stephen.

Stephen Phipson: "Unaware" is how I would describe it. The worry for many of them is that we went through a big campaign to get everybody ready for the export controls at the beginning of the year. We were partly successful. There are still a lot of problems, but we got through it.

The rules of origin are still difficult for smaller companies. The non-tariff barriers are the real issue. This time round, we need 27 other countries to understand our import rules. We have been working with our German, French and Italian counterparts, chambers of commerce and Make UK to try to get that message out there. A lot of them don't know that they have to register on GVMS from 1 January, or don't know about the new paperwork rules.

We have been trying to push for more communication on where we are for January, but that is just one step—the next step. We had a big campaign around the UKCA marking. It would have been catastrophic—that is the right word—if that had been implemented from 1 January. It has been put back for a year, but there is a lot of work to get that right before we get to that point. There are various other issues, but the important point is that we need to get the communications right.

Q309 **Alison Thewliss:** You talked about some of the supply chain issues in motor manufacturing. Do you expect to see them in other industries?

Stephen Phipson: I think that the challenge is that a lot of people didn't quite understand what manufacturing was in this country. We are part of a very integrated supply chain—in both directions. Very often, the challenge in the automotive sector, for example, is that sub-systems cross the border up to 12 times before they are completed. Trying to establish the rules of origin each time you add value and move it has been extraordinarily difficult.

It is important that we try to iterate the deal to get it right. The message we keep giving to Lord Frost and the team is that there are a lot more things we need to do to make that a lot easier, and we certainly need to digitise it. I know that is the plan. We have the Border Force strategy for 2025. That is where we are heading, but the paperwork is too late.

Kitty Ussher: We had plenty of notice, but we still do not have a single window. It is just too late.

Stephen Phipson: It is causing a lot of challenges, mainly to smaller businesses. Larger companies will say that they've coped with it. They've got it working; it has just cost them quite a lot of money to do it. That'll be their point. It is much more difficult for the smaller companies.

Q310 **Alison Thewliss:** Do you think that some smaller businesses might step away from being part of the global strategy?

Stephen Phipson: About half of UK manufacturers trade with the EU in some form or another. Our latest survey data show that 17% have now stopped trading with the EU. They have concentrated on domestic business, have scaled back their business and are not participating. Those are in the supply chain. They are not supplying finished goods; they are supplying components and sub-systems.

Q311 **Alison Thewliss:** That will impinge on growth.

Stephen Phipson: Exactly.

Q312 **Alison Thewliss:** Finally, is there anything you want to say about scale-ups and their place within the global Britain strategy?

Irene Graham: Scale-ups are essential to it. Six in 10 already export and seven in 10 expect to. Exporting is a big part of their growth strategy. The EU and the US are important, but start-ups are also looking further afield to Asia, China, Africa, the middle east and Latin America. We are seeing a doubling of interest in those markets. It is important that we deploy effectively the export strategy that the Department for International Trade has announced and we properly co-ordinate opportunities and connections between buyers and the overseas missions so that we focus on our scale-up economy.

We see some good work in that regard in London and Manchester and we want that replicated across the country. The export strategy is very important. Scale-ups are highly international and say, "We need to get the connectivity right, and it is beyond Europe." The European market is vital, but the other markets offer a huge opportunity for the UK scale-up economy. Getting the connections right is important as is the deployment of the export strategy.

Alison Thewliss: Thank you very much.

Q313 **Harriett Baldwin:** Chair, may I be a bit cheeky and ask Irene and Stephen to email me with their best contact details? I have a scale-up manufacturer in my constituency and I would love to pick their brains.

Skills have come up throughout this sitting and you have all identified it as a huge issue. I note, Kitty, that you picked up on the lifelong learning offer so would you summarise the top five skills that you would like the lifelong learning offer to provide for your members? I am referring to those people who do not have the right level of qualification when they leave school but who can go back to learn and access the student loan system and schemes like that to help them while they do that. What would be the top five things you would like to be in that category for people to learn?

Kitty Ussher: The specifics?

Harriett Baldwin: Yes. Do your members have any views on that?

Kitty Ussher: I can tell you where the skills shortages are. I would characterise the question in a different way. We need to have a shared understanding of what the gaps are and that there is a gaping hole in the Government infrastructure that does not provide that service.

Q314 **Harriett Baldwin:** I am asking you to answer the question about what your members would want to see on the list?

Kitty Ussher: I don't want to get it wrong, because we have not asked our members.

Harriett Baldwin: Okay.

Kitty Ussher: I have already told you that focusing simply on the entry level would be missing a trick. There is a missing piece around the diffusion of latest best practice for SMEs, in particular. I recall evidence showing that a lever for productivity for larger firms is simply new joiners coming in and bringing in the experience they had with their previous employer. Smaller companies are less likely to benefit from that.

Q315 **Harriett Baldwin:** The Chancellor has set up a scheme through which he is trying to deliver management skills. Is that one that would be on your or your members' list?

Kitty Ussher: I think that is excellent, as I have previously said. However, I am not sure that we yet fully understand how we get that embedded and we need to consider the touchpoints if a firm is not looking for help, for example.

I can tell you that there are skills shortages in professional services, lawyers, accountants, jobs requiring graduate and postgraduate qualifications, in associate professions such as science and engineering and in nursing and other occupations requiring high-level vocational qualifications—about a third of our members pinpoint that. There are identifiable skills shortages in skilled trades and I think, Chair, that you mentioned sales, marketing and customer service. This also applies across the board to administrative, secretarial, logistics and transport. Just 2% say that they have no difficulty meeting their recruitment needs.

Q316 **Harriett Baldwin:** Those are all skills that could be delivered by education providers, not things that just get through years of experience doing those things.

Kitty Ussher: I am going to say deliberately that, with respect, I don't think this is the right environment to say what those skills shortages are. I feel strongly that that that is quite a technocratic, navel-gazing exercise. What we probably need is something with the technical brilliance of organisations like the Low Pay Commission, which gets out there and looks at what is happening in the market and specifically at skills, combined with the analytical expertise of the National Audit Office, which is able to work out whether Help to Grow is having an impact.

It is at arm's length from Government and that means that the successor bodies to sectoral and industrial strategies can work together within the industry to decide whether they have an opportunity to club together if they do not have the scale to do something themselves. At the same time, people seeking to retrain can instantly work out that there are endless opportunities in sector X just as the publicity about HGV drivers led many people to think that that might be right for them. That approach needs to be endemic, ongoing and planned for. I think it would have a huge impact.

Finally, our members are small and will not be investing themselves. They know that the labour market is such that there will be immediate poaching. A co-ordinated approach is needed because it is a market failure.

Q317 **Harriett Baldwin:** Irene, what is the timetable for your scale-up visa and what will the criteria for it be?

Irene Graham: Some of the criteria were published in the recent Budget, but it is due to be deployed in April 2022, so it is coming up in the next few months. We have spent a lot of time with the Treasury and the Home Office looking at the variety of roles and the scope of the roles. We are looking at a visa for companies that are scaling up with 20% more growth in either turnover or employment, or both. The minimum salary is about the £30,000-odd level. It is looking at the whole scope of potential recruits that may be needed to be brought into the company. Technical and engineering skills and sales skills are certainly among the top three elements that are being looked at by scale-up firms. Good collaboration has taken place with the Government and we look forward to the visa's deployment. How speedily and frictionless the approach will be to enable speedy decisions to be made will be key.

Q318 **Harriett Baldwin:** Do you think the skills that will be in that visa are the skills that the market is indicating there are gaps and that it could be used to inform some of the work that Kitty is proposing?

Irene Graham: Kitty and I will certainly speak subsequent to this about the range of work that we have done on the skills agenda and what the scale-up economy reflects. We recognise that it is a broad industry environment, but we have done a lot of work with sub-sectors, such as life sciences and FinTech, on the type of skills needed for the future growth of those economies. We will also be looking forward to working with the Institute of Directors and others. I have given you an indication of some of the top priorities for our scale-ups. At a leadership level, it is strategy, marketing and brand. At a day-to-day level, it is some of the technical skills, and clearly we have a huge opportunity to reskill some of our broader UK base of individuals who can be deployed into the great growth of the scale-up economy.

Q319 **Harriett Baldwin:** Thank you. Stephen, you have mentioned skills and made recommendations throughout the sitting. Is there anything you would like to add about types of skills and what you think our Committee should recommend?

Stephen Phipson: If we put aside the vocational skills that we have discussed at length today and if we want to continue to be in the top 10 manufacturing sectors in this country, there are two big issues that we need in the medium term if people don't see a joined-up plan. The first is digital adoption skills, because we are in the fourth industrial revolution and it is madness that we have an adoption programme that works in only two or three areas of the country. We need a national push on digitisation, which is exactly what is happening in most industrialised countries.

Help to Grow has a digital element but it is more about enterprise resource planning systems and payroll systems. We are talking about changing a manufacturing process to a digital process. We have some fantastic resources in this country, like the MTC in Coventry. What we are not doing is getting thousands of SMEs on that journey. That is one thing that will either be a great success in manufacturing or will sink us.

The second thing is upskilling in green skills—designing products and processes for a green economy is a significant shift in what we do now. It is not taught at all at the moment, but if we are to be competitive in that environment, we need to get hold of that.

Finally, I have a piece of data. If we take those two big buckets together, our estimate from our survey work is that of the 2.7 million people employed in manufacturing, we will need to upskill 1 million of them with those skills in the medium term. We need an ambitious plan to do that.

Harriett Baldwin: Thank you; I think that is probably it on skills.

Chair: We go finally to Julie.

Q320 **Julie Marson:** I want to pick up on what you, Stephen, were saying about adopting new technology—on which the UK is often accused of being relatively poor—and commercialising innovation.

There is quite a lot of emphasis in the innovation strategy on funding R&D and advanced research. Is the balance right?

Stephen Phipson: The innovation strategy—Irene will have a very good view on this—is extremely good. We could always do more. It was good to see the increase in innovation funding. There is no doubt whatsoever that we do that extremely well in this country.

One thing that has concerned me during the pandemic is the scale of M&A activity and how many of our clever start-ups have been bought by overseas companies. When I asked them the question, it has been around the access to scale-up finance. We have never been very good at patient capital in this country.

I go back to my conversation this morning about the role of the National Infrastructure Bank alongside the British Business Bank and others in trying to make sure we commercialise a lot of that innovation. The story with the hydrogen fuel cell companies was that there was a £2.5 million grant from Innovate UK. They got a great prototype working and went to the big end users, who said, "That's great; we can use it in one of our new designs. Go and build your factory and we will give you a contract." They need £10 million to build the first stage of the factory. The banks ask, "Have you got a contract?" They say, "Not yet; we need to build the factory." Someone comes in from Germany and says, "We will suck it into a big corporate enterprise and take that manufacturing back to our country."

It is that process that we need to break. We need to do something about that and—it is a segue to Irene, I suppose—scale up capital for that next stage of those companies' development.

Q321 **Julie Marson:** Thank you for that neat segue to Irene. I would appreciate your views on that, Irene. How effective and helpful has the British

Business Bank been in this process?

Irene Graham: We have two critical agencies in the UK that we need to continue to build on and expand. Innovate UK is essential in working with the scale-up economy, not just on funding but on its EDGE programme, which is all about how it works with scaling businesses in furthering commercialisation and globalisation. I am happy to give you more detail on that important programme, but what it is doing is very important. The extension in the innovation strategy of the Innovate UK environment and in the Budget and comprehensive spending review is important, because it is about long-term, at-scale interventions. We need to keep Innovate UK for the long term, and it works very regionally and locally, which is vital.

The British Business Bank has been created in the past 10 years. Both these initiatives are very like, in the private sector, the business growth fund. You have really important agencies, but the countries ahead of us have long-term interventions.

The British Business Bank and the work it is doing as a cornerstone investor in working with angels and VCs and, sectorally, the British Patient Capital life science fund is vital. We must continue to scale that up.

One of the big factors that is being looked at—we have given evidence to the Council for Science and Technology and are working with the life sciences taskforce and with the Treasury—is the focus on how we unleash institutional capital. The Treasury is working closely on the regulatory needs and understanding among our investors of the growth economy—how we unleash institutional capital from pension funds and insurance. That is what other markets are doing and we need to take a leaf out of their books and unleash that.

That is important work that is taking place at the moment with the Government, and there is ongoing work on the listings review. That is all about deploying that continuum of finance across a scale-up journey: from the early risk capital at Innovate; what we do in building angel and VC capital across the country and in connectivity; and what we do about long-term institutional capital to create crossover funds.

I can send you our future growth capital report, which contains a synopsis of where we see things at the moment, if that would be helpful.

Q322 **Julie Marson:** That would be very helpful.

I have one final question about the future fund. It has finished now, but it took, I think, about 150 stakes in start-ups. To what extent do you think that is a template for the future rather than a one-off reaction to the pandemic?

Irene Graham: It was very necessary for our scale-up economy; it wasn't just start-ups—there is a differentiation there. It was about the scale-up economy.

We worked very closely with the Treasury on the future fund breakthrough. That is very important because it is at-scale capital for some of our deeply innovation-led companies, whether that is biotech or clean tech, where there is not sufficient capital coming from the private sector.

They have taken learning from the future fund and it has moved to the future fund breakthrough, which will operate on a co-investment model. They are both opportunities for the future.

Chair: Thank you. That brings us to an end. You might be relieved, but you seem to have been very happy and helpful before the Committee today. We thank all three of you for the wide range of issues: growth, jobs and productivity.

We also touched, interestingly, on inflation. You are close to the coalface—not the coalface, because that is yesterday's news, but to the interface with business. The insights you have given have been very up to date and in touch with what is going on out there, which has been particularly helpful.