HOUSE OF COMMONS

Business, Innovation and Skills

Oral evidence: The Productivity Plan, HC 466-iii

Tuesday 3 November 2015

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Witnesses including written evidence where submitted:

At 4.15 pm

- Rt Hon Anna Soubry MP, Minister for Small Business, Industry and Enterprise, Department for Business, Innovation and Skills
- Lord O'Neill of Gatley, Commercial Secretary to the Treasury, Her Majesty's Treasury

Watch the meeting

Members present: Mr Iain Wright (Chair), Richard Fuller, Peter Kyle, Amanda Milling, Amanda Solloway, Michelle Thomson, Chris White

Questions 130 - 198

Witnesses: **Rt Hon Anna Soubry MP**, Minister for Small Business, Industry and Enterprise, Department for Business, Innovation and Skills, and **Lord O'Neill of Gatley**, Commercial Secretary to the Treasury, Her Majesty's Treasury, gave evidence.

Q130 Chair: Ministers, can I welcome you to the BIS Select Committee to discuss the Government's Productivity Plan? I think we know who you are, but for the purposes of the record, could you just explain who you are and your job title?

Lord O'Neill of Gatley: I am Lord Jim O'Neill. I am Commercial Secretary to the Treasury.

Anna Soubry: I am Anna Soubry. I am the Member of Parliament for Broxtowe and also the Minister for Small Business, Industry and Enterprise.

Q131 Chair: Thank you for attending. I am particularly pleased that we have a Treasury Minister and a BIS Minister in front of us. Who is in charge?

Anna Soubry: He is. No, it is a joint effort, genuinely.

Q132 Chair: This is a serious point, Minister. Is the Productivity Plan Treasury-led?

Anna Soubry: It is a genuine joint effort. Can I say where it has come from?

Lord O'Neill of Gatley: Yes, you are much more eloquent than I am.

Anna Soubry: I don't know about that. The Chancellor of the Exchequer really wanted to do this, and he and my boss, if you like, Secretary of State Sajid Javid, truthfully work hand in glove. They have history together of course, because Sajid was a Minister in Treasury under George Osborne. This whole thing is a coming-together of them. Jim is an absolutely brilliant economist, so he drives it through in Treasury. I have certain responsibilities within it, but other parts of the ministerial team will lead on aspects of it, skills being an absolute classic. It is Sajid, as the Secretary of State, who drives it, totally gets it, and, as I say, works extremely well with the Chancellor. It works between us all.

Lord O'Neill of Gatley: The only thing I would add is, if we are going to succeed on many of the things I know this Committee is familiar with—or I am assuming it is—it requires plenty of Departments to be involved equally, particularly BIS but many others as well. I would also add that, when I was invited to join the Government right after the election, the Chancellor specifically saying to me that he wanted to focus on productivity was particularly influential in me deciding to accept the invitation. As is also evident, and I am sure we will get into, focusing on productivity is a major priority for the Government. In that sense, it might be conceptually Treasury-led, but it requires everybody.

Q133 Chair: I want to probe you on that, if I can. It is conceptually Treasury-led, but, in terms of the practicalities of evaluating success, what are the mechanisms of government that are being used in order to determine what is successful and whether productivity is improving? Is there, for example, a committee that either Minister will lead? How is that co-ordinated across a wide range of Whitehall activities?

Lord O'Neill of Gatley: The realistic truth of something like productivity, and whether it is going to improve or not, is that the measures implemented now are not going to bear fruit next week, although, coincidentally, the latest productivity data as reported—there are many issues about the quality of the data—has shown the biggest improvement since the first quarter of 2011. We are not going to be able to really measure for many years into the future, when you hopefully see the fruits of the implementation of the things we have said we want to do.

To try to make sure that we implement what we have said we want to do and that everybody does what we just touched on in terms of other Departments, indeed there is a cross-departmental group set up, led by a senior Treasury official, who reports to me on a regular basis the sticking points as to what we have said we want to get done; and, just as importantly—something Anna and I were just chatting about before—the issues that come up in their own discussion that we perhaps should be putting fresh energy into and renewed focus on.

Q134 Chair: It is not led by Ministers; it is led by officials, in terms of this cross-Whitehall co-ordinating committee.

Lord O'Neill of Gatley: It is set up to be led by officials, with the proviso that, in the event that there appears to be a gridlock on some important issues, I would get directly involved and invite other Ministers to join me if necessary as well. That is partly based on the premise that Ministers are pretty busy; everybody is busy, but Ministers seem to be particularly busy, on the evidence of my own six months here. To drag Ministers into a committee for the sake of it was a specific thing I opted to not do because I do not think it is not necessary. The message we have collectively put together as to what we want to focus on is pretty clear. Officials get on to trying to make sure it gets implemented. If there is something that is not happening because of various reasons, then I and maybe other Ministers need to get involved.

Q135 Chair: Anna, is there anything you would like to add to that?

Anna Soubry: We often make the mistake of thinking that, if you do not have a strict structure, somehow that is a failing. Actually, I think it is a huge strength, because it is important that everybody is working together. Jim is absolutely right: it is often exceedingly difficult to get the key players together on a regular basis. You need to be in that position. When you need ministerial involvement because, as you say, there is a sticking point or something that needs urgent action, the ability to motor that on is absolutely critical, so it is a really good way of working.

Q136 Chair: Let me press you on this, because it seems to me—tell me if I am wrong—that the Chancellor put the Productivity Plan and the need for improvements in productivity at the heart of what the Government's economic policy should be. Is that a fair assessment?

Lord O'Neill of Gatley: Yes.

Anna Soubry: Yes.

Q137 Chair: Based upon that, it is very wide-ranging, to the point of being almost vague. There are something like 15 chapters covering an awful lot of things. How are you assuring us that drivers in improvements and recommendations that have been made are being carried out, given that this is central to the Government's economic policy?

Lord O'Neill of Gatley: Let me say a couple of things about that. The first bit might be a slight repetition. Having Ministers permanently meet is not necessarily a sign of its importance; it is a sign of some kind of symbolism of importance. As Anna said and I have witnessed from other committees I am involved in, because it is so wide-ranging, trying to get so many Ministers in the same room will probably, among other things, mean that they are eager to get out of the room as soon as possible to go on to other things. If you have trust and guidance in the officials, with a clear message as to what we want to get done, you can leave them to it.

The lead official on this report has to write to me as to what is going on. When it looks like there is an issue, then I will get involved and possibly bring in the appropriate Minister from the Department where the logjam appears to be. If we needed to have a meeting with the Ministers of every Department, we would do so, but to just have Ministers there for the sake of it is completely against a lot of my experience from the past, and I cannot imagine it would make it more likely that we would be successful.

Q138 Chair: What is new in the Productivity Plan? What is in there that was not part of Government policy before?

Anna Soubry: There is a lot, actually.

Lord O'Neill of Gatley: That is one of the reasons why there are 15 chapters.

Q139 Chair: Does this herald a distinct new approach in what the Government are doing, or is it a repository of existing Government policies—useful, certainly, but not offering anything new?

Anna Soubry: As politicians, we say, “We know we must improve the skills base of this country. It is very important.” Sometimes you say these things because it is the mantra, and then you often don’t say, “Why do we say these things?” “Well, we just do, because it is good.” “Why is it good?” Then you roll back and, for someone like me, who is not an economist and would not claim to be an expert in this, you look at this productivity puzzle, and then you do some more digging and you go into it. That is one of the reasons why we do skills, because we know that, if we want to drive up productivity, we have to improve our skills base. It is an incredibly important part of it.

Q140 Chair: So there is a new thing in the Productivity Plan when it comes to skills.

Lord O'Neill of Gatley: I do not know how much time you want to spend on this.

Anna Soubry: It is just about an understanding.

Lord O'Neill of Gatley: There are quite a lot of things that are specifically new. The flipside of it being vague and long is that, while it is long and it is the first devoted sign of such a specific commitment to all the issues that are relevant for productivity for I am not sure how long—a long time—beyond that there are a number of very important specific things, which I will quickly rattle off, if you want.

First of all, there is the whole data review. Anna just mentioned the notion of a productivity puzzle. One of the major dilemmas in modern global economic life is that productivity appears to have slowed in many different economies, irrelevant of their generally perceived strengths or weaknesses. For example, what comes up quite often in House of Lords debates on this—and I, with the appropriate respect, try to guide people differently—is that people always assume Germany has a really strong productivity record. Its level of productivity is very high, but its recent performance in productivity is not much different from many other countries. The US productivity performs similarly. As we all become more service-orientated, there is possibly a major dilemma about data. One thing that is specifically new is the Charlie Bean-led data analysis, which is going to be reported on in the next few weeks.

Beyond the data issue, there is a whole host of other things. In parallel, we encouraged a private sector-led initiative, which is being led by Charlie Mayfield, as to what industry itself wants to try to do about improving productivity. I met with them at their second get-together. To my surprise and pleasure, under Charlie’s guidance there are already seven different strands going on within industry, represented by very well-known leaders and others within all parts of industry as to their own parallel thing. That is certainly something that is new. Specifically on skills, importantly, the whole apprenticeship levy is a very specific new thing. The road fund linked to how we are trying to improve transport infrastructure is very specifically a new thing. I could go on. There are many other specific ideas that are new.

Anna Soubry: Take infrastructure. We often think, "It is a good idea to widen or straighten out this road, or electrify the midland main line, because we could go down to London more quickly. We could get from A to B", and everything else. What perhaps has not been understood is the power that that then has in improving an area or a country's productivity. Then you say, "If you think about it, a lorry that is less stuck in traffic is going to be increasing its productivity if it can move its goods and people around more quickly." It is not just about your own individual convenience; it is about driving other things, and productivity is one of them. For me, the £100 billion investment in infrastructure is just a huge win and something we should be terrifically proud of.

Chair: Can I just move on? We have a lot to talk about.

Q141 Peter Kyle: I want to refer to skills, but I have a quick question, following up on that. Thank you both, Ministers, for coming up today—Anna for the second time in a week, which we very much appreciate. To follow-up on one of those questions then, is there a Cabinet Sub-Committee that scrutinises and oversees the work you are doing? Do you report into the Cabinet Sub-Committee?

Lord O'Neill of Gatley: I report to the Chancellor.

Q142 Peter Kyle: So there is no Cabinet Sub-Committee oversight. You do not report to a Cabinet Sub-Committee on this issue.

Lord O'Neill of Gatley: To my knowledge, there is not one that has been set up as of yet.

Q143 Peter Kyle: Do you have a delivery plan for the Productivity Plan yet?

Lord O'Neill of Gatley: I just articulated the delivery plan. I have tasked a senior Treasury official to lead a six-weekly, I think, meeting across all Departments.

Q144 Peter Kyle: So you have a delivery plan with metrics to deliver by a certain date on all 15 chapters.

Lord O'Neill of Gatley: To say on all 15 chapters would be taking it a bit too far. On the specific announcements of policies to influence productivity, yes.

Q145 Peter Kyle: What I am reading is that you do not report into the Cabinet Sub-Committee; you do not like meetings between you; and you do not have an agreed delivery plan for all 15 chapters and all the commitments you have made in this. I am seeing something that is incredibly ambiguous, and I am seeing a lot of eyes going between the two of you as to who is responsible for what. Do you have a grip on this?

Anna Soubry: Your trouble is that you see everything in a structure of committees. You say, "If you don't have a Cabinet Sub-Committee, it is not working." You are wrong.

Q146 Peter Kyle: I will tell you this. You do not like meetings, but I also know for a fact that Ministers do not like turning up to Cabinet Sub-Committees or senior meetings having not delivered what they promised to in the previous meeting, so these meetings have a role in delivery at some point. Do you not agree?

Anna Soubry: No. Sorry, but these old-fashioned ideas about having to set up committees with strict structures are just that—old-fashioned. Some might say they come out of political philosophy. What matters is whether something works, not just saying, "Right, everybody has to attend and sit around a table, because otherwise you might go to the Select Committee and be told that it is not working."

Peter Kyle: We have had this conversation before.

Anna Soubry: If something works and it delivers, that is what matters.

Lord O'Neill of Gatley: This is a Select Committee about BIS, right?

Peter Kyle: It is about the Productivity Plan.

Lord O'Neill of Gatley: I would be pretty happy and expect to be called back to this Committee at some stage in the future or one year from now. Partly related to one of the questions you asked, Chair, I would expect to be quizzed in another year as to what we announced we were doing, what has been done and how it is progressing. To have a meeting next week with a bunch of Ministers about things relating to productivity that were announced three and a half months ago would just be a complete waste of ministerial time.

Q147 Peter Kyle: It is legitimate to not just wait until something goes wrong before calling you back to explain why you have not delivered, but to try to test the mechanisms.

Lord O'Neill of Gatley: Why would you only ask me back if something went wrong?

Q148 Peter Kyle: It is to ask the questions to check you have something in place that can reassure the Committee you have a robust delivery plan that is capable of delivering.

Let us move on to skills, which is what I really wanted to talk about. The Productivity Plan, in section 3.7, makes the commitment to "significantly increase the quantity and quality of apprenticeships in England to 3 million starts". How important do you think that pledge is to productivity in the UK?

Lord O'Neill of Gatley: As I have articulated in the House of Lords in two debates we had about essentially about productivity in the same week, of all the various things that need to be improved for the long-term productivity challenge, I suspect skills is near the top, and so it is very important. In my own personal judgment, the quality is more important than the quantity, but both are important.

Q149 Peter Kyle: Do you agree that is what that means?

Anna Soubry: Completely, absolutely. I just do not think—

Peter Kyle: The question has been answered.

Anna Soubry: Upskilling and improving the quality of everybody in work, and before they get into work, is just so important. That work has to begin, some would say, before three, but certainly in primary education, because we are just not where we should be as a nation.

Q150 Peter Kyle: Absolutely right. All the evidence that has been presented to this Committee and this inquiry says exactly the same: both the academics and the practitioners, both in education and in business as well. So if you both agree that quality is more important than quantity, why do you have a target for quantity but no target for quality?

Lord O'Neill of Gatley: The reality is that having a target for quantity by definition is easier.

Q151 Peter Kyle: You do not have a target for the number of higher-level apprenticeships, which is the quality.

Anna Soubry: Can I take this one? I will tell you why, because I am taking through the Enterprise Bill. In the Enterprise Bill, exactly what we have put in is the statutory guaranteeing, almost, or the protection, of the word "apprentice", so that it cannot be abused as arguably it has been abused in the past. It will represent a quality. It was right that we did the overall target. I personally do not like targets, but perhaps that is just me being a bit old-fashioned or a bit radical on these things. It has been done. It is a good goal to aim for. It is a very high bar that we have set ourselves. Quality is at the heart of it, which is why we are doing those things in the Enterprise Bill.

Q152 Peter Kyle: Let me rephrase the question. You have made a commitment to 3 million apprenticeships between levels 2 and 5. A quality apprenticeship technically means level 3 up. You have a commitment to 3 million apprenticeships in the round. You have no targets for quality, high-level apprenticeships.

Anna Soubry: We want all of our apprenticeships to be quality.

Q153 Peter Kyle: So how many high-level apprenticeships—level 3 and above—will you produce?

Anna Soubry: I do not know the answer to that question, but, as ever, if there is an answer that is available, I will write back to the Committee.

Q154 Peter Kyle: Can I ask one final question, then, before we move on? Are you not disappointed, based on everything you have just said, that in the last 12 months there were 492,700 apprenticeships created by your Government and 19,300 were high-level, quality apprenticeships?

Anna Soubry: I do not know what the source of the figures is.

Peter Kyle: They are your figures from your Department.

Anna Soubry: That is what I was just about to say. I can assure you that our ambition is a tough ambition, and we are absolutely of the view that achieving this target but improving the overall quality of all apprenticeships is critical.

Q155 Peter Kyle: Level 3 and above accounts for 19,300 out of almost half a million, and you have said unequivocally that quality is more important than quantity.

Anna Soubry: As ever, if I may say so, you are trying to play with words and be very clever with words.

Q156 Peter Kyle: I am just trying to be clear on what you mean by "quality".

Anna Soubry: We might disagree on that, and I can't be bothered to play semantics on words. I know you want to play that game, and I don't. Let me make it very clear. We set ourselves a big target, and that is a target we are absolutely determined to achieve, but we are also critically aware, as I am sure you know, that apprenticeships are different. Some apprenticeships can last up to seven years; some can be four years; some can be 12 months. They will now be a minimum of 12 months, and they will be quality-assured by virtue of the Enterprise Bill, which will be set in legislation, and rightly so.

What I do not want to do, if I may say this, is say that a 12-month apprenticeship, which may be in administration, is not any more valuable than a seven-year apprenticeship at Rolls-Royce. I am pointing over to Amanda, because she is more than familiar with the brilliant apprenticeships offered by Rolls-Royce. Doing a 12-month apprenticeship as an administrator could be just as valuable for that young person, and to our economy, as doing a seven-year or five-year apprenticeship at Rolls-Royce. I do not distinguish between the two, as long as they are both quality.

Q157 Peter Kyle: You do not distinguish between level 1 and level 3.

Anna Soubry: No. I do not know your levels, right? I do not know the detail of that.

Q158 Peter Kyle: That is my point. You are the Minister for Skills and you do not know the levels.

Anna Soubry: I am not the Minister for Skills, thank you.

Peter Kyle: You are the Minister for Small Business and Enterprise, and so forth.

Anna Soubry: I am not the Minister for Skills, so I do not try to answer questions I do not know the answer to.

Peter Kyle: You just have.

Anna Soubry: No, I do not know the levels that you are discussing. What I am saying is that I do not want it to be seen that somebody who is on an administrator's apprenticeship of 12 months is somehow not having as good an opportunity to improve their skills and benefit productivity as somebody who is on a four-year or seven-year apprenticeship at Rolls-Royce.

Lord O'Neill of Gatley: If this is related to questioning about recent policies and the Productivity Plan, it is pretty unfair to cite data from the preceding 12 months, for exactly the same reasons I clearly articulated earlier. You will not really be able to test with evidence the success or otherwise of this for quite some time in the future. The second important thing to say is, in terms of you exploring this, on the one hand you imply you do not like numerical targets, but you then start quizzing about different levels.

Peter Kyle: I didn't say that. Did I say that?

Lord O'Neill of Gatley: Maybe I misheard you.

Peter Kyle: No, I didn't say it. I was inviting you to set one.

Lord O'Neill of Gatley: The thing that is new and very important is that we are, through the apprenticeship levy, opening up greater ambition, hopefully, within Britain's corporations to start driving the agenda for skills more. This is something I did not have the chance to say before; I am sure it will come up. I spend a huge amount of my time on devolution, especially to the north but also elsewhere. The skills thing comes up everywhere. In countries where the skills agenda does not seem as challenging as ours—Germany is probably a good example—their companies essentially cover 20% of their country's education spending through their own proactive approach to skills. That is what is new about this Productivity Plan. Going into semantics as to whether it is level 1 or 2—

Peter Kyle: With respect, it is not semantics to ask.

Lord O'Neill of Gatley: You were talking about historical data that precedes this Productivity Plan.

Q159 Peter Kyle: It is for this year. It explains the landscape and the scale of ambition you are trying to achieve. It is quite legitimate for us to say: are you going to move from this to that so fast, based on the low starting point? I agree with you that the apprenticeship levy is a fantastic opportunity for apprenticeships. All evidence presented to this Committee in this inquiry has been that the emphasis should be on quality, not quantity. The only target you have is for quantity, not quality.

Anna Soubry: That is not true.

Peter Kyle: No, it is true, I'm afraid, and you are at the moment contradicting your own Secretary of State, who was unequivocal about not setting a target for quality when he gave evidence here. I am just trying to explain to you that it will be a struggle. Clearly, it demonstrates that the economic landscape is finding it difficult to absorb very high-quality apprenticeships at the moment. Rolls-Royce is a great example, but it is one that is frequently cited, a bit too frequently, probably, because it shows how difficult it is to find other similar examples. I was just inviting you to give me an example of how you are going upscale to the number that is needed by business, by Government, to meet the aspirations that our nation has and your Government have.

Lord O'Neill of Gatley: Maybe I am getting stuck in my semantics, but it is important to change the mentality. In the context of the long-term challenges, in my perception, on the skills part of the productivity agenda, which I have said is so important, we need to have a lot more new initiatives about apprenticeships, possibly including levels we do not even know the name of yet, a la the much quoted Rolls-Royce example, with the corporations themselves framing it, contributing and financing it. What you typically hear is, "We do not have enough skilled labour." I do not see, at this particular point, identifying numbers between various levels of apprenticeship as being that crucial to this particular policy, where we are trying to change the game of who drives and contributes to the skills agenda.

Q160 Peter Kyle: It is your Government that brought in the levels.

Anna Soubry: The reason I use Rolls-Royce is because so many young people in Broxtowe aspire for an apprenticeship over the border in Derby.

Q161 Michelle Thomson: This is to you, Lord O'Neill. You mentioned the term "ambition". How ambitious do you believe the Productivity Plan to be and what are you measuring it against?

Lord O'Neill of Gatley: The second part of that is very tough, certainly in a short-term sense. It is also partly linked to what I said before, because the ultimate evidence is going to be the productivity data and living standards of people in the country. The real evidence is going to be that. We can play around, and I can imagine somebody saying, "Look, the evidence is already good, because latest quarterly data has shown the best productivity performance as reported since 2011", but it has nothing to do with our policies.

Q162 Michelle Thomson: I suppose that is exactly my point. You mentioned data earlier, which I just wanted to pick up on. That is my point about ambition. Sweden's productivity is 18% higher than that of the UK. Denmark's is 26% higher and Norway's 77% higher. Even Finland is higher than the UK, yet the Productivity Plan continually focuses on the G7. I suppose my question is: in terms of ambition, how much further afield are you looking, and is it truly ambitious when you are comparing bad with quite bad or very bad?

Lord O'Neill of Gatley: There was quite a bit of discussion as to how that goal should be articulated. Britain quite rightly sees itself as a proud member of the largest so-called developed countries, so it naturally associates its ambitions with those of the G7 countries. In this specific area, we are, as I think is generally well known, significantly below all G7 countries in terms of the level of productivity. We could aspire to a number of the countries you mentioned, which are the absolute best in the world, but we might be subject to the criticism, if we did that, that it is not realistic. If we could make up our productivity gap to the rest of the G7, that in itself would be a huge successful outcome. More importantly than it just being something you measure, it would almost definitely coincide with a dramatic improvement in the living standards of many people in the country if we just got to the average level of the G7.

Q163 Michelle Thomson: There are two questions from that. Therefore, is it fair to say you are automatically limiting your ambition by comparing it with the not very good? Is there something specific about countries in the size 3 million to 10 million that we should be thinking completely differently about, because they are the ones that are so much further ahead?

Lord O'Neill of Gatley: On your first question, it would be my experience from the 30 years in commercial life before joining Government that, just because you set an ambition, it does not mean to say you change it. The nature of the question you are asking is that there would be a quality problem. If we can show significant progress, let us say, over the next five to 10 years in narrowing our productivity performance gap with the rest of the G7, then it would be a sensible time to start asking—this is linked to your very specific second question—whether we can do something to get it to the level of what appears to be the best, which happens to be, by and large, small countries. Generally speaking, a lot of expert analysis suggests that some parts of the productivity challenge, education being one of them, are a bit easier when you have fewer people. I would call that a quality problem. I hope that we get to that position.

Q164 Michelle Thomson: We will move on, but, to be honest, I think it is a limit in ambition. That is what I am hearing. That just occurred to me.

One thing about the Productivity Plan that we have been very interested in is innovation and R and D. We have heard from previous witnesses that investment in R and D is globally mobile, but we have slipped from being an OECD leader to being an OECD trailer. What is your thinking on why that is?

Lord O'Neill of Gatley: I got wind that you were going to ask us that. I have to say I am a little surprised. I have not seen that particular statistic, but just yesterday, one of the world's most respected entities that opine on things to do with R and D, the Legatum Institute, particularly highlighted what progress and what an accelerating gap the UK is achieving relative to the rest of Europe in particular. The World Bank's ease of doing business index that was published last week showed exactly the same and took us ahead of the United States.

In the whole gamut of things that are relevant to productivity, I think progress is being made on this one, and we are in a pretty good starting positon relative to the best in class—or the average in class, I should say. We are not the absolute best on measured indicators, but, compared with some of the other issues, especially on skills and education, this is one where I personally think we are doing a pretty reasonable job. Because we are living in an ever increasingly competitive world, we have to keep pursuing initiatives to improve it even more. In coming weeks, there will be policies added to try to improve that beyond the steps already taken. In this broad area of research and development, I think we can hold our heads up pretty proudly as a country.

Q165 Michelle Thomson: Is that the rationale behind R and D spend, which was protected during the last Government, no longer being protected, or is it all about moving on to private companies paying, in the form of moving it from grants to loans?

Lord O'Neill of Gatley: We are three weeks ahead of the spending review, so I would not want to pre-empt any policies that were going to be announced, linked to this or other matters, for that purpose. The commitment to securing our positon in terms of R and D is very strong. I do not have any doubt about that whatsoever.

Q166 Michelle Thomson: Would you like to comment, Minister, on grants and loans for R and D? I suppose I am particularly interested in the rationale behind that suggestion.

Anna Soubry: It is an important part. Looking at whether we give a loan or a grant is incredibly important. Certainly some of the feedback, as I go out and about and talk to people, is that many businesses I meet would be very happy to have a loan as opposed to a grant. One thing that I have really learned since coming into this job is that, with an organisation like Innovate, often quite a small amount of money into a research and development project can be the absolute spark to take them to where they next need to go to, so the importance of it certainly is not lost on me.

Q167 Michelle Thomson: If I am honest, I am struggling to understand the rationale and the thinking as to why doing that will improve the focus on R and D and innovation.

Anna Soubry: Doing what, sorry?

Michelle Thomson: Changing it from a grant to a loan basis. What is the thinking around how that will make things better and ultimately lead to better productivity?

Anna Soubry: If it is a loan, it will get paid back. If it is a grant, it goes then to that project and there is no return other than the overall economic benefit.

Q168 Michelle Thomson: Is that just a view? What modelling has been done about whether that will be the case? In other words, a corollary to that is: what companies might that stop investing? Have you looked at the opposite of that?

Anna Soubry: I do not think it is a question of stopping them investing. It is about getting the best value for the taxpayer as well. That is also quite important. We all sometimes think of this as Government money that has fallen off a special tree that has been grown by Government. Of course, it is not; it is taxpayers' money. That is why a group like Innovate has to look very carefully at value for money, because it is not their money; it is taxpayers' money.

Michelle Thomson: Is it just a money-saving mechanism, then?

Anna Soubry: No, not at all. A number of businesses that I meet would be quite happy to have a loan rather than just a grant, because they get that that would mean they would have to pay it back, and there would be an understanding about all the consequences of that, rather than just a grant that is given out. I just do not think that is a problem, if it actually delivers what we all want, which is more research and development. It is the seed-corn, the spark to something or the bringing together of a collaborative piece of work.

Q169 Michelle Thomson: Again, just so I am clear, at this stage, there does not appear to be any evidence that it will result in either the same level of investment in R and D or an increase. Is that correct? You have not modelled that set of scenarios.

Lord O'Neill of Gatley: You are focusing in on just one very specific aspect about R and D.

Michelle Thomson: It is a significant change.

Lord O'Neill of Gatley: You have to consider it within the context of a whole slew of other initiatives. I would say, based on all the discussions I have and where my own head is, trying to provide more equity-type finance is ultimately really crucial for encouraging better risk taking. The difference between grant and loan is a lot narrower than the difference between either of those and equity.

Going back to some of the examples you touched on before, for some of the most successful R and D in the world, which goes on to be the source of major job-enhancing and wealth-creating businesses, the evidence appears to suggest pretty strongly that equity financing plays a more successful role than either grant or loan-based financing. There are a lot of things being pursued as part of the Productivity Plan, and more steps, I suspect, to come, that are trying to shift us more and more towards improving the role of the equity culture rather than either grants or loans.

Q170 Michelle Thomson: I agree with you that equity contribution is important, but often that will be done on the basis of match funding. That brings out something else as well: are they more or less likely to match that funding when there is not the equivalent? That is a frequent model we see at the moment, where equity will match Government spending or money.

Lord O'Neill of Gatley: There are all sorts of different initiatives going on at the same time. I want to mention something like crowdfunding, for example. The best role that Government can play is probably in allowing the landscape for all the most progressive forms of financing, of which crowdsourcing may be one, to facilitate more people being able to undertake research and development, and, with it, risk-taking activities.

Anna Soubry: This is really important, because we have to be quite clear that research and development is not all about what Government do.

Lord O'Neill of Gatley: On the contrary, the most important part, if you want to focus on the evidence, is what the private sector and individuals themselves will do. The most important role of Government is to make sure there are no blocking things to stop all those natural or private forces from being able to undertake the initiative.

Q171 Michelle Thomson: That leads surely us back to saying that changing from a model of grants to loans will do exactly that.

Anna Soubry: I don't know where that evidence is. It is all speculation anyway.

Lord O'Neill of Gatley: I don't agree with what you imply. As I said, most of the evidence suggests that equity-type financing tends to give more lasting evidence of success and growth.

Q172 Amanda Solloway: To clarify the point on grant versus loan, I just wondered, by moving to a loan situation, whether there is going to be more money available. In other words, will more loans be given out? I wonder if there might be more money available, as in the amount that is given, and I wonder if there might be more benefit. Would you expect more business plan and more business focus on return? I wondered if that was part of the plan.

Anna Soubry: This is all speculation leading up to the spending review. That is the problem.

Lord O'Neill of Gatley: I find it very difficult to give you precision about that answer three weeks ahead of the spending review.

Anna Soubry: It is also very important to make the point again that, in all of this, we are talking about Government doing stuff. I am very much of the opinion, as Jim said, that the fundamental task of Government is to create the framework that allows business to do these things—allows growth, allows research and development—not to get in the way of it. That is the most important thing that Government do. The idea that somehow all of R and D relies on Government to provide taxpayers' money is very much the wrong way to look at it. We create the framework. We allow this stuff. We encourage it and we do not get in the way. That is the most important thing.

Lord O'Neill of Gatley: Without prolonging this or turning it into a very academic debate, one might argue that, in the event of extremely problematic financial market times, which one would argue 2008 and 2009 clearly were, the role of Government to step in where there is market failure and provide grant-type financing would probably be the strongest, because, in such an anti-risk environment, free market and private market participants do not want to take risk.

But we are seven years on from that and, while one always has to be worried about what is around the corner and have the flexibility to pursue a whole array of Government policies, if you link it to what you have talked about—longer-term evidence of success—you want to shift more and more towards the Government's role being an enabler to allow the private sector to undertake the risk that it wants to, in a number of ways. Making sure the tax system is not inhibiting people from doing that, which is possibly something we have not touched on yet, is a really important role for Government to play.

Q173 Richard Fuller: There are lots of really good policies in the Productivity Plan, but it is not too much of a parody to say that the analytical underpinning of it in the report is a trend graph on latent productivity, which neatly follows the trend line to the last six years and then goes off. I am wondering where the underlying analysis is of the factors influencing productivity, whether they are priced correctly, whether there is enough competition in the market, whether they have the right supply, whether there is enough innovation. Has that analysis been done to underpin why these policies are the ones that are presented?

Lord O'Neill of Gatley: There are three immediate ways of answering that. First of all, to reiterate, I look forward to the Charlie Bean independent review of statistics and encourage all of you to take interest in it, because, among many things, I hope it will give a true state-of-the-art independent judgment on aspects of this.

The second thing is linked to what I touched on close to the start of this discussion. There is a big difference between our level of productivity and the rate of change, and I say that for two reasons. One is because it often gets lost in the discussion. The second is because you can identify, at least if you believe the reported data, certain sectors that have been responsible for the apparent productivity weakness over the last few years, finance and energy being two of the biggest culprits. That has not always historically been the case, so you would want to pursue specific targeted things that may be responsible for them suddenly having become so weak. The chapter about the financial sector and some of the ideas specifically address that, for example.

The third thing is linked specifically to what I have just touched on. There is the underlying longer-term issue about our overall level of productivity being below that of the G7 countries, as well as the best, which you want to do something about separately from what has happened in the past six or seven years. The evidence appears to suggest, if you look at all the various indicators you can get globally comparable data on, that it is on things like skills and education where we appear to be notably underperforming compared to other countries.

Q174 Richard Fuller: That is a very helpful answer, but I did not get from that the fact that—and maybe there was no need to do it—there was a thorough going through of all the factors that might be underpinning these historical statistics about productivity in this country and about where the future may be. From what you said, it seems that people had a few hunches, from observation, about things that might need tuning up, and that was the basis to say, "Okay, let's go and do it, because it is fairly obvious what we need to do". Is that a better way of going through the process?

Lord O'Neill of Gatley: Gosh. Economics and statistics, and life.

Richard Fuller: That is your world, is it not?

Lord O'Neill of Gatley: It is my world, but the first part of this answer is a bit sad, really—a sad indictment of all of it. Six years is not really a huge amount of time to make too strong a judgment. It appears that certain sectors have been particularly responsible for our sub-par performance and the relative weakness of productivity since the severe recession of 2008-09. The evidence is the evidence, and you want to pursue initiatives that would hopefully influence those sectors. You can call it a hunch; it is a hunch that has been based on quite a bit of thorough analysis by Treasury staff and, I am sure, also people at BIS. It is appropriate to try to respond to that evidence.

I want to quickly add that, as I said before, we are not the only place in the world where, in the past few years, reported productivity data has weakened significantly. There may well be, as we develop more of a technological aspect to every bit of our lives, a significant measurement problem that is exaggerating the degree of the apparent productivity weakness, so you have to be careful.

Q175 Richard Fuller: That is a very good point. I want to come back to that in a minute, if I may, with a question to Anna Soubry.

On the overall Productivity Plan and something you said a little earlier on, might it be fair to describe this more as an implementation plan? Essentially, your role is to look at all these initiatives—we know they are all going to have an impact on productivity, but we all want to get them done—and essentially to manage the implementation of these over the next five years. It is not really a Productivity Plan; it is an implementation plan.

Lord O'Neill of Gatley: That is not a bad description. If we can successfully implement and make sure there are no blockages to what we have said we want to do, now we have come up with the initiatives that we want to pursue, I am happy to be described as the implementer.

Q176 Richard Fuller: That in itself would be an enhancement of productivity, if the Government were better at implementing.

Minister, can I just ask you a question? We had a little bit of debate offline, following the steel discussion that we had here, about the nature of strategy and strategic sectors of the economy. Lord O'Neill has just talked about the fact that, for productivity, you have looked at certain sectors and seen that productivity has lagged, and that has helped influence the strategy. Are the Government moving towards identifying sectors or continuing to identify sectors that are of strategic importance to the country? Is that a new mantra?

Anna Soubry: I would not say it is a new mantra. We have never moved away from looking at and understanding what sectors are important to us and recognising that, therefore, certain sectors might need a different way of doing support, encouragement, R and D or from another sector. I just think we get a bit hung up on all of this. We know what is important to us.

The other thing that is very interesting and different—and it is quite controversial, of course—is this idea of devolving, for example, the skills budget right down to a much more local area. Certainly in theory, employers will sit on super-LEPs, knowing that there is the combined authority there, but businesses will effectively say to those who would now control the skills budgets, "These are the areas of business or manufacturing where we particularly need to make sure that we have the skills we require." That is a very exciting, better way of doing things, so that locally you determine what you need.

Q177 Richard Fuller: Amen to that, but that is the businesses themselves coming up with the idea of what is important to them. The difference between that and having a sense of which sectors are strategically important for the Government is that it is the Government that are determining which are strategic. I think the Secretary of State's concern is—I do not want to put words into his mouth—if you decide that certain sectors are strategic, then those that are not in it get a bit miffed.

Anna Soubry: He is right.

Richard Fuller: I would just point out that it would be helpful to have a bit more clarity from the Department as a whole about what the word "strategic" means when it is used with respect to particular industries. Maybe we will see that through the Productivity Plan.

Anna Soubry: Luckily, that was not a question; that was a comment—very helpful, Mr Fuller, as ever.

Richard Fuller: I do my best, Minister.

Q178 Chair: Can I just pursue this, Minister?

Anna Soubry: Oh, not again, Mr Wright.

Chair: Yes, absolutely. We have been told a number of times throughout the course of this inquiry, by Allan Cook from Atkins, the chair of Semta, and by Rolls-Royce that a sectoral approach helps drive forward productivity improvements and the fact that there is not the term "industrial strategy" or recognition of a sectoral approach in the Productivity Plan is a weakness. Is that a fair comment?

Anna Soubry: They are saying that the lack of a sectoral approach in the Productivity Plan is a problem.

Chair: Yes.

Anna Soubry: I am sorry that they take that view and I am more than happy to have those discussions with them, because all I know is, for the sectors that I particularly work with, I think it works incredibly well, whether it is the Defence Growth Partnership, the Automotive Council or the retail forum that I work with, or whatever. We do understand and recognise the particular importance of certain sectors. Aerospace is a really good example of it.

Lord O'Neill of Gatley: I am a bit surprised to hear that.

Anna Soubry: I am genuinely surprised at that.

Lord O'Neill of Gatley: I have a couple of things to add, as Anna has touched on devolution, which takes up a large part of my time. It is very evident to me, as I travel around the country, that the skills need in the north-east, for example, is very different from the skills need in Liverpool. One of the many exciting things about the devolution agenda is putting that over to the businesses, as well as the combined authorities. The role of business is key in having greater control over what they see as the current and probable future skills shortage issue, rather than some centrally driven mantra.

The second thing in that regard is to emphasise again something Anna touched on, but to expand it. Central to the whole devolution and northern powerhouse agenda is the long-term goal to rebalance the country. I think I am right in saying—I do not want to speak for the Chancellor on anything—that the notion that you pick individual sector winners is a dangerous path to go down, because you might pick the wrong ones. Japan made a big bet on nuclear, and it has struggled for the past many years because of a tragic accident, the fate of nature. You have to be very careful with the belief that you, as central Government, can pick the sectoral winners.

Anna Soubry: We know what is important. Like we said last week, we know we need to have a steel industry, by way of example, and that is what we will continue to fight to achieve.

Q179 Chair: Minister, I want to pick up on what you said earlier, when you disputed that sectoral approach and the link with improvements in productivity, and you said you would have a chat with businesses. When compiling and producing the Productivity Plan, what specific discussions did Government have with business to say, "What do you need to be doing in order to improve productivity, and how can we help?"

Anna Soubry: It is not me; it is Jim on that one, definitely.

Lord O'Neill of Gatley: You asked me earlier what was really new. Linked to this, and one of the things I am excited about, is the Charlie Mayfield business-led initiatives on productivity, which I have already said have seven different strands, ranging from workplace practices to remuneration, and so on. When they present their findings, that will be a really interesting thing for this Committee, as indeed for anybody interested in the productivity issue at large. It will touch, I am sure, on some tangential aspects of sectors, but, again, to reiterate, picking sector X as better than sector Y is dangerous.

Let me also add something that is getting rising momentum from within and across local areas, especially in the north. In an open, global, competitive world, you want to gravitate more towards value-added sectors, whatever the industry or nature, where it is easier to withstand massive swings in world cycles. There is some very encouraging early-stage thinking going on from LEPs in the north, together with local council leaders, about that exact topic.

Q180 Chair: Just to clarify—and I am sorry if you have misunderstood; it is my fault—prior to publication of the Productivity Plan, did discussion take place with businesses, small, medium and large, to say, "This is what we need to do"?

Lord O'Neill of Gatley: Yes, of course. I regularly did meet, and still meet, with all the various employers organisations, and very importantly—and it has been quite refreshing, frankly—with ACAS and various trade union bodies too. If you do not meet people, you will not learn.

Q181 Amanda Milling: Thank you both for your time this afternoon, and apologies if you feel like I am asking similar questions in a slightly different way. Minister, you mentioned that Government are setting out the framework as much as anything, and we have the 15 chapter areas to look at. I am just wondering how you are looking to establish which bits of that framework are really driving change in productivity and how plans evolve to adapt to that.

Anna Soubry: That is for you, really, Jim. Sorry, Amanda, but I think it is more for Jim.

Lord O'Neill of Gatley: There are three parts in starting an answer to that, and I could probably spend hours answering you, to be honest. First of all, I have another reiteration: I am going to focus a little on what appears to have been responsible for our temporary deteriorating relative productivity performance, financial services and its interplay with the economy being key to that. That is why that is highlighted and initiatives are being pursued on that, separately from issues to do with the longer-term structural thing.

Secondly, linked to that is a slight repetition: it seems to me, from all the work I have done historically looking at a huge number of countries around the world before I entered Government, and then looking at them again specifically since I have, that there appear to be identifiable things, like skills and education, where we are not where we should be relative to other developed countries. Because they are difficult things to change, we are going to be trying to do more about aspects of those challenges, I would guess, as we go forward. So in that sense, I would highlight those things.

The third thing—there are a couple of other things I have not touched on yet—is areas where we can hold our heads up reasonably high, like digital economy. We are not Singapore, but we are up there. Because that is so rapidly changing, there are policy initiatives we can do there, I think, that can change the needle relatively quickly. Our people, whether they be business or individuals, will probably feel material benefits from those things more quickly than issues like skills and education.

Q182 Amanda Milling: The areas that have been identified in the Productivity Plan make sense, and we could talk about each of them, but we will not go into detail. Have we factored in, if there is another area that is not set out in the plan, what we do about that, how the plan or policy evolves, and how we identify it? There are lots of questions, sorry.

Lord O'Neill of Gatley: No, it is a very sensible one. I have set the senior official that leads this cross-departmental review two goals: to report back to me on a regular basis, as I described; but also to report back to me as to what all you smart people think we have forgotten about, and what, within the things we think we have remembered and want to do, we are not doing right. On the realistic basis that nobody ever has all the answers to everything, of course we want to adapt and develop as we go forward, which partly links to my answer before that the scale of ambition will change, based on how you are progressing.

Q183 Chris White: I am going back to this "strategy" word again, and I am sorry to do that to you. You have talked about skills and education, and saying where we need to improve. You have talked about devolving skills budgets to local areas, LEPs or whatever. We have talked about sectoral strategies, and you have a reluctance to pick winners, understandably. I get that. But when you are thinking like that in terms of skills and education, does this not start to form its own industrial strategy? That is what I would consider to be a strategy that embraces everything: the whole supply chain from education to infrastructure to finance. That is what I would call a strategy.

Anna Soubry: Or a long-term economic plan.

Chris White: Would you say that those phrases are synonymous?

Anna Soubry: I think you are right. If you look at it all, you could call it all a great big strategy, with all this putting on labels. The fact is that I think this is a very good document that gives a very good framework and a direction. We have heard that it has the flexibility: if we have missed out stuff, then it needs to get in there. Then you factor into that, as you say, all our plans on education, because it is not just about apprentices, by any means.

Chris White: Of course not.

Anna Soubry: I hopefully gave some indication of that. It is all those other facts as well. I am not really hung up on how you describe it.

Lord O'Neill of Gatley: I would put it in the following context: if you reflect back on the previous five years with the benefit of hindsight, the real surprise in terms of the economy over that period is how strong our employment creation was. Partly linked to the data issue—and this is why you have to be slightly careful what you wish for—one consequence of that was that it contributed, of course, to the productivity weakness, because we created so many jobs. That was probably the most positive aspect of the past five years compared with what was broadly perceived by the consensus and my old world early on in that Parliament. There were fears and many predictions of dramatic job losses because of Government policy, which not only did not occur; the opposite happened.

With that success, the focus of the Government at the start of this term is to try to do something about productivity, which would be part of a longer-term economic plan. On a number of the things that are probably relevant, including skills and education, you are not going to get results tomorrow, because we are talking about the education of people from the very earliest ages through to when they leave school. In that sense, your implied description is sort of right, because it all has to fit together. As I have said a couple of times, though I have talked more about the skills side of it, in my own judgment, the skills and educational thing is hugely important.

One of the most fascinating things of the past 20 years is that, again based on the evidence that we have, educational outcomes across the board in London have improved dramatically. That was not always the case historically. That may play, and probably has played, some role in London having done so well relative to elsewhere. If you look at the same educational outcomes in other parts of the country, generally speaking they are much weaker. It is discussed in parts of the Productivity Plan on education. I would personally like for there to be more on this, going forward. If you can replicate some of the things that have been apparently so successful in London in other parts of the country, specifically on education, I believe quite strongly that they are likely to have a huge role in the productivity and living standards issue for the future of the country.

Q184 Chair: Ministers, I have a number of areas I would like to cover briefly, if I may, starting with quality of management. The UK lags behind other countries, and we were informed as a Committee—I am quoting directly from a witness here—that we have "a long tail of small firms that are badly managed". Is that fair?

Anna Soubry: I think there is a problem with management. This is just anecdotal, picking things up. As Jim says, the ability to get out and talk to people is so valuable in this job. I think we do have a problem. We have a problem of bad management in some areas; obviously we have lots of brilliant managers, and so on and so forth.

But there is another argument that is bigger than that. In the medium firms that do not jump up to being the really mega-big firms, there is a paucity of ambition. That is a fascinating discussion. I had that discussion only the other week with the former small business—whatever her title was, it doesn't matter—in America. She is a brilliant woman. We talked about exactly why it is that, in her country, more of the medium-sized businesses, which have done very well and are often family-owned, still want to make that huge jump to the next league, whereas there is a tendency—obviously there are many exceptions—in British companies not to want to leap. It is almost as if they have got to a nice area, a nice comfort zone, and they do not want to go beyond it.

As I say, we could have a discussion, which I am sure you do not want at this late hour, as to why we have that problem. I don't think that problem is actually bad management; I don't know what Jim thinks. It might be a combination, but there is a problem.

Chair: The concept of scale-up is an important one, and one we will come to later.

Anna Soubry: It is.

Q185 Chair: We will invite you back to give evidence.

I was really struck that, when taking evidence from witnesses, we were told about research from the LSE, which said that 20% of the gap with the US in total factor productivity can be explained by management. That seemed enormous. Given the almost central importance of good management to driving forward productivity, is there enough in the Productivity Plan to address that? There is talk about MBA, loans and stuff, but is there enough? Would you like to see more?

Lord O'Neill of Gatley: I have three quick things again. First of all, the Charlie Mayfield-led initiative from business itself is heavily focused on aspects of this. The evidence and recommendations that they themselves, as the leaders of business, suggest, independently of Government, are going to be really interesting and important in this apparent puzzle. Secondly, you are right for touching on it. From the evidence one can measure—as I touched on before, ACAS have some very interesting statistics about workplace practices and management—these are things that are influencing my mind and things to think about going forward.

The third thing is about what I would loosely call long-termism, and we touched on it. I would say it is an opener, because there may be aspects of how our corporate life is structured, in some cases, that mean that these issues seem to hold us back. I have mentioned Germany a couple of times. What is interesting is the desire for privately owned companies to persist forever in Germany. The so-called Mittelstand is dominated by privately owned companies. That may be an important part of why their workplace practices seem to function well.

Q186 Chair: Is long-termism important to drive forward UK productivity gains?

Lord O'Neill of Gatley: It is very important. I had another example I was going to give. Independently of my ministerial role, I lead an independent commission about antimicrobial resistance, which is to do with our growing resistance to antibiotics. There are a huge number of complex challenges, but pharmaceutical companies producing more drugs is part of the supply problem. I was recently on a trip in Brazil and met the leader of a privately owned Brazilian pharmaceutical company that is highly focused on antibiotics. They do not have the quarterly challenges of aspects of reporting stock market performance and very clever financial management with their quarterly performance to focus on. That may play a role.

Q187 Chair: Does the Productivity Plan address that in terms of corporate changes?

Lord O'Neill of Gatley: The Productivity Plan certainly does not come up with specific recommendations to do something about that, because you have to be very careful, going back to Richard’s question earlier. On something like that, you want to be sure of the evidence before you start wading in with policies, but there are aspects of that we need to explore further.

Q188 Chair: You mentioned long-termism.

Lord O'Neill of Gatley: I will be holding a seminar, which I will be chairing myself, with some interesting thinkers, on this topic in the next fortnight, because it is very important.

Q189 Chair: I want to turn briefly to infrastructure and how that will drive productivity. For my part, speaking personally rather than for the rest of the Committee, the announcement by the Chancellor at conference about the National Infrastructure Commission is incredibly welcome and will help put us on that path to long-termism. Is there a direct link between improvements in productivity and that long-term view, away from the short-term political arena of infrastructure decisions?

Lord O'Neill of Gatley: If you look at the reported evidence from all over the world, it is not as clear as one presumes. There are countries that are hopeless at dealing with infrastructure, or would generally be regarded as hopeless, that appear to have quite high productivity. That is counterintuitive, because it seems so intuitively obvious that, if you have well thought-out infrastructure, and stuff gets delivered and paid for, then that is going to contribute to productivity. That would be my own personal bias, but all the evidence from around the world is not as categorically clear as you might think. Anybody who ever goes to New York and tries to go from JFK into central Manhattan would know the things I am talking about. Transport infrastructure from JFK into central Manhattan is not the world's state of the art, let us just say, and yet, as somebody mentioned, US productivity data is way higher than ours.

The National Infrastructure Commission is a fantastic development and something I am personally very excited about; infrastructure is part of my own mandate. In a sophisticated and complex democracy like ours, subject to the five-year election cycle, trying to come up with the right decision about the right infrastructure projects to undertake for the long-term interests of the country is very difficult. To have some influence by a respected independent commission is something, in my opinion, that could, and I suspect will, take the country forward in a considerable positive direction.

Q190 Chair: The third area I want to cover is access to finance. Again, I have been struck when taking evidence through this inquiry how much access to finance, particularly for high-growth firms, is still an issue. Knowledge-based firms with often intangible assets have nothing to loan against. Does the Productivity Plan do enough to address this real brake on productivity, which is access to finance?

Lord O'Neill of Gatley: You have to distinguish, to a large degree, between debt and equity. One part of the Productivity Plan is quite specific about the role of the financial system—in that sense, implicitly saying "debts"—in trying to make more debt-like financing available to smaller companies, especially ones that are trying to export. That is a very specific part of the Productivity Plan, not least because, when you listen to business, a lot of exporters, especially small ones, tell you that among their significant restraints is absence of finance.

What is intriguing—I hear it frequently, and your question started with this—is the apparent absence of financing for high-growth companies. I personally believe the real game-changer, if it is as true as people often say, will be success, because there is nothing like success for breeding success in business. VC especially tends to follow things that have been successful. There are frequently comparisons made in this area about the so-called valley of death, or the second stage. The US is often highlighted as where it is done so well, and it is said that we do not do so well.

I am not so sure, personally, that the gap is as big, any more, as people talk about, partly because, in terms of the data that people typically focus on and use, this is a space that is changing so quickly. This touches on my answer on R and D. In the last couple of years, there has been a lot of positive momentum going on in this space here in the UK. The Legatum Institute report I mentioned specifically picks up on this, but it is obviously very important.

Anna Soubry: That FinTech sector, apart from being really exciting and interesting, really knows what it is doing, and people increasingly know about it, but the problem is that that is still not enough people. I have to be careful, because this is a public Committee, but I once met somebody—I am not going to say where—in absolutely the sort of middle firm and the sort of management that has been described, complaining that they could not get a loan. I said, "Have you looked at crowdfunding? Have you looked at peer-to-peer?" They did not have a clue what I was speaking about, and that was someone who has been running a business for many years. It is there, and those who know about it are absolutely doing it. It is now about making sure that more people and businesses know about it, in my view.

Chair: You have just prompted a rush of queries, Minister.

Q191 Amanda Solloway: This is only a quick one, because I absolutely agree with you. I have mentioned this time and time again. The problem is that, when you get ingrained as a small to medium business, you just do not have time to access or find that information. Is there a way that you think you could be proactively giving that information to SMEs, as an example?

Anna Soubry: I will say something very controversial. I am worried that it is somehow seen as the role of Government to give information as to what is available for businesses. Now, there is a good argument that, if you have any form of ability in running a business, you will go and find out yourself. I do not quite go that far either. Personally, I would much rather see growth in the real strength of the Chambers of Commerce, the Federation of Small Businesses, all those organisations that used to exist at a really drilled-down local level, where businesspeople would get together on a fairly regular basis. Now it is called networking. Then it was about talking to each other, exchanging ideas, and so on and so forth.

Personally, I think there is a real role for the Chambers of Commerce, the FSB and similar organisations, which people would have to pay a modest amount to join, but in return they would get all that type of information. I also think there are other ways of doing it, but I hold back from the idea that somehow it is the role of Government to tell people that these things are available, when there are other people who could do it far, far better than we could, down at a local level. It would be great for all those businesses in any event.

Lord O'Neill of Gatley: Coincidentally, I had a briefing from one of my officials on this area, two hours before I came here. I raised the issue of whether there needs to be more education provided by somebody, because some of my VC friends from my old life say to me that, for example, they think very few people are aware of something like the EIS scheme, so there is a role for somebody. In saying that, I have quite a bit of sympathy with Anna saying that you cannot create a successful business for people, but there is a role for more education about what is out there for people to use; that is for sure.

Anna Soubry: We brought all the Government schemes together on the platform of the British Business Bank, but is that really the way to do it?

Lord O'Neill of Gatley: A friendly bank manager might want to play a role in that, you might have thought.

Anna Soubry: See, that was the other thing that I forgot to say. Thank you for reminding me. Of course, in the past, not only did you join your chamber of commerce or the equivalent thereof, but also your relationship with your bank manager in those days was that your bank manager would give you advice. There is an argument that maybe your accountant can also do so, and often accountants can give advice, but it would be good if we could encourage the banks to go back to that more personal relationship between somebody and businesses. It is in their interests to do it, but whether they would actually give advice about crowdfunding, VC and all the rest of it I do not know. There is a role for people, but I am just not sure it is the role of Government.

Q192 Richard Fuller: I am just struggling with how the Committee can hold you to account on this plan. Clearly, the headline indicator of change in productivity is such a lagging indicator for some of the measures that are being taken that, in the scope of one Parliament, we cannot judge whether productivity went up.

Lord O'Neill of Gatley: If it keeps rising, can we use that, however?

Richard Fuller: If you want to talk about politics, that is fine, but, from the point of view of holding you to account, it would be a bit problematic. Earlier, you talked a little bit about the implementation part of it. Would you suggest that we should focus on whether you get stuff done in the programmes you are suggesting? If so, since we have heard some very discrete things like loans versus grants, and very broad things like digital infrastructure build-out, would you provide us with a sense, within that long list of policies within the Productivity Plan, of which, from your perspective, are the ones we should focus on because they are going to have most importance? Otherwise we are going to be holding you here for six hours to go through each one every quarter, and I know the Minister does not like lots of meetings, and certainly not a six-hour meeting to go through the nitty-gritty.

Anna Soubry: I don’t mind meetings as long as they are productive.

Richard Fuller: It would be productive; it would be about productivity.

Anna Soubry: I don’t like meetings for the sake of it. That is my beef.

Q193 Richard Fuller: What is your advice about how we can best help you by holding you to account?

Lord O'Neill of Gatley: The first response I have is quite a cautionary one. There is not any tin that says, “This is exactly what you must do to boost productivity”. The whole world of economics is murky. It is not called the dismal science for nothing. You do not know exactly what drives productivity, and, importantly, the forces that drive it probably vary through time. In terms of trying to measure anything about it, I put in that very important cautionary note. With that caveat, what would be appropriate is, at some time from here—I do not know how often you meet—

Chair: Every week, Minister.

Lord O'Neill of Gatley: Do you really?

Anna Soubry: Yes, I was here this time last week. I will probably be back again next week.

Lord O'Neill of Gatley: Goodness. I was going to suggest something like six months. It would be sufficient time from when the Productivity Plan was announced, and we would have got over the autumn spending review, which is a very important time in the calendar, to explore highlighting which specific areas are more important than others.

I say that partly because of exactly my answer to you earlier: there are some things about the more recent productivity performance that, if you look at independent forecasters, whether it is the Bank of England or the ONS, are saying across the board—hopefully they are right—that that is going to come back. Going back to the genuine nature of your very important question, you would not want to end up focusing and saying, "We will just look at all of this", because that is different from the issues with the longer-term stuff. I would happily explore that in any format with you, but to suggest doing it in the next month or so would be a fruitless thing for everyone.

Q194 Chair: Can I push you, Minister, for the purpose of clarity? We heard evidence from the Institute of Chartered Accountants in England and Wales, of which I am a member, that the Productivity Plan is "a worthy list of 15 things, but it is not prioritised", with no timeframe, no responsibilities, no outputs. That individual was a very distinguished former finance director who monitors success against a set of established criteria in a plan. Why is he wrong?

Lord O'Neill of Gatley: Well, he might not be wrong; he might be right. It is a judgment, but I would not underestimate the scale of what we are trying to do. I do not know when you had that evidence, but for anybody to rush to judgments about what we announced within those 15 chapters is probably very short-sighted. I saw plenty of similar comment. Interestingly, we have not spent much time at all on the devolution issue here. I have personally been at the centre of the deals we have just done with the north-east and Sheffield, and we have some others we hope to do in the near future. That is pretty radical by this country's standards and dramatically different from anything that has happened before.

Q195 Chair: Just as an aside, Minister, are you Minister for the northern powerhouse?

Lord O'Neill of Gatley: No, I am not. I am the Commercial Secretary to the Treasury. The northern powerhouse concept originates from an independent commission that I led, which led to me joining the Government. I am the lead Minister for the Government on negotiating with big urban areas. That is pretty dramatic by this country's standards in anything in post-war British life, if not longer.

Q196 Chair: I want to finish where we started, which was the metrics and how you evaluate success. I appreciate your point that this is a long-term thing that can surpass several Parliaments, but, if we invite you back in a year's time, how do we, following on from what Mr Fuller said, evaluate that you have been successful or not? What are the metrics that we should be using?

Lord O'Neill of Gatley: I am thinking quite a bit, as you talk, of the two times Richard raised essentially the same point. The only realistic measurable thing in the next year is in fact whether we have implemented what we have said we are going to do. You cannot measure on any outcome basis many of the initiatives, particularly as they relate to skills and education. It would be foolhardy to do so, in my opinion.

That is the reality of things like those variables that are relevant for productivity. You may be able to pick on aspects of the digital plan, of which—I have to be careful here—let us say there is more probably coming. On some of it, you can, but, in a year's time, as I tried to say in answer to Richard, I could give you a much stronger steer as to which bits are particularly important relative to others, and which bits are more important for the longer-term challenge or for how we exit from what have been, as I have tried to articulate, two parts of the challenge: the underlying underperformance on the level of productivity and, separately, why the productivity performance has been so apparently weak since 2008.

Q197 Richard Fuller: I accept all the constraints that you outline and have empathy with them, but, behind all the plans in the Productivity Plan, an enormous amount of taxpayer money is going to be spent, so we have a responsibility, because you are forming this cross-departmental effort, to have a sense that, although we cannot measure its impact just yet, the assessment of the key person overlooking this is that things are on track or not on track. In addition to the point you just made about how you can go through some of those things and say where the priorities are, could you also in that review— we are not asking you to come every month, not at all—give some sense of where you think the progress is being made and where you think there are some problems, even if it was as simple as red/amber/green? I think that would help.

Lord O'Neill of Gatley: From what I can tell from my six-month time in this role, officials quite like the traffic light system, so that would be a relatively straightforward thing to do.

Q198 Chair: If you can provide that, that will be very helpful.

Minister, Lord O'Neill, thank you for your time. We look forward to seeing you in a year to evaluate the success of the Productivity Plan. Minister, we will see you next week.

Anna Soubry: God, if you have me here next week…

I am going to have to write to you, as I have some details about the apprenticeships, the higher levels we are going to be doing and national colleges. I have it all here and I did not read it out.

Chair: You can send it to us.

Anna Soubry: I will send it to you, unless you want me to read it. I am not going to read it all out. I will send you a letter answering Mr Kyle's kind questions.

Chair: Thank you for your time.