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Business, Energy and Industrial Strategy Committee

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Summary

UK plc has many strengths, but as a country we must constantly innovate, adapt, and prepare for the future. Global competition is strong and our two largest trading partners—the European Union and the United States—are investing significantly in their own economies.

Alongside other advanced economies, the UK has an ageing population. This trend will continue in the years ahead, with more people entering retirement and fewer people being in work and paying income tax and national insurance.

UK plc is also having to adapt to the UK's departure from the European Union, to reflect new trading arrangements—especially for service exports—and to adapt to new pressures on supply chains that were once seamlessly integrated into the European Union single market.

UK plc, in partnership with Government, must find a way to adapt to these macro-changes and create the space for economic growth and opportunity across the United Kingdom.

These challenges are reflected in the economic growth statistics, which show that the UK has been impacted by several events in recent years, including the COVID-19 pandemic and an energy crisis inflamed by the illegal invasion of Ukraine by Russia. This has inevitably created uncertainty for business and has limited economic growth.

According to recent IMF figures, the UK is the only advanced economy that is projected to contract in 2023, with a real GDP growth projection of -0.6% due to other key factors such as rising energy prices, a tight labour market, and inflation. The Office for National Statistics (ONS) has estimated that the UK is the only G7 country to come out of the COVID-19 pandemic smaller in size of GDP than at the start of the pandemic.

The UK has several leading sectors in terms of exports which provide billions in value to the UK economy annually. The UK is a service export superpower, second only to the United States. But productivity in the UK is currently below what it should be, and increased business investment in skills, workers, and technology is needed to increase this productivity. More Government support for skills development should be directed to upskilling existing members of the workforce, for instance to work towards a net zero and digital future, whether through reform of the apprenticeship levy or other mechanisms.

Regional disparities in productivity are limiting the UK's economic growth. A concentration of resources towards cities outside London and to improving regional productivity should be a priority for the country's overall economic growth.

Regulation and the Government's relationship with industry and regulators requires improvement. The UK's exit from the European Union caused uncertainty for regulators and businesses. Witnesses were clear that regulation needed to be appropriate and developed by the Government in partnership with industry and others. Parliament too must reflect on how it can improve scrutiny of new areas which are subject to regulatory reform—especially when by regulators—following the UK's departure from the European Union.

1 Introduction

1. The UK economy has undergone a period of profound change and challenge recently, following years of stagnating investment and low productivity growth.[1] In the period following the UK's exit from the European Union, many businesses had to think about re-orientation and either paused or took a fresh look at their investment decisions. The COVID-19 pandemic forced businesses to reconsider their business models, their supply chains, and markets.[2] Now the UK, along with many other highly developed countries, is tackling the highest inflation rates in decades, following an energy crisis induced by the illegal invasion of Ukraine by Russia. For many, this has been a period of unparalleled uncertainty.

2. Other global and domestic issues, such as labour shortages, complex regulatory changes and increases in state aid and subsidies, have had a major impact on investment and productivity for some of the largest industries in the UK, in both goods and manufacturing and services.[3]

3. Alongside other advanced economies, the UK has an ageing population. This trend will continue in the years ahead, with more people entering retirement and fewer people being in work and paying income tax and national insurance.

4. According to the International Monetary Fund (IMF), in 2022 the UK was one of the highest performing advanced countries with a real GDP growth of 4.1%.[4] However, in January 2023, the IMF reported that the UK is the only advanced economy that is projected to contract in 2023, with a real GDP growth projection of -0.6%.[5] Chief Economist and Director in the IMF Research Department, Pierre-Olivier Gourinchas, said that energy prices, a tight labour market, and inflation were key factors for this contraction.[6]

5. Figures from the Office for National Statistics (ONS) published on 10 March 2023 showed that UK GDP is estimated to have grown by 0.3% in January 2023, after falling by 0.5% in December 2022. Monthly GDP is now estimated to be 0.2% below its pre-coronavirus levels in February 2020. The ONS cited increased school attendance levels (following lower levels in December 2022 due to rising rates of flu, COVID-19 and Strep A), increased postal and courier services (following postal strikes in December 2022), and the return of Premier League football (which was paused during the FIFA World Cup in November and December 2022) as some of the reasons for the economic improvement.[7]

6. In the long term, according to the Office for Budget Responsibility, although the UK economy avoided contracting in the final quarter of 2022 and the economic downturn is set to be "shorter and shallower" than previously expected, the economy still faces significant structural challenges.[8] Wholesale gas prices remain at more than twice their pre-pandemic level, business investment has stagnated since 2016, there has been a recent rise in labour market inactivity, and productivity growth has slowed down since the

1 Office for Budget Responsibility, Economic and fiscal outlook – March 2023, 17 November 2022, para 1.2
2 Q5 and Q42
3 Q42 and Q48
4 International Monetary Fund, Inflation Peaking amid Low Growth, 31 January 2023
5 International Monetary Fund, Inflation Peaking amid Low Growth, 31 January 2023
6 International Monetary Fund, World Economic Outlook Update, 31 January 2023
7 Office for National Statistics, GDP monthly estimate, UK: January 2023, 10 March 2023
8 Office for Budget Responsibility, Economic and fiscal outlook – March 2023, 17 November 2022, para 1.2

financial crisis, meaning that there is "weak underlying momentum".[9]

7. We launched this short inquiry into UK plc in February 2023. We wanted to understand the state of play from key sectors of the economy, and summarise views on how to boost UK economic and industrial growth. Our report does not attempt to be exhaustive; nor does it present detailed analysis. It should be regarded more as a snapshot.

8. We held two evidence sessions:[10] one looking at the broader context, with Mike Keoghan, representing the Office for National Statistics, the Rt Hon Lord Deben, Chair of the Climate Change Committee, Dr Anna Valero, Senior Policy Fellow, London School of Economics Centre for Economic Performance and Deputy Director, Programme on Innovation and Diffusion, London School of Economics, and Torsten Bell, Chief Executive of the Resolution Foundation. In the second session, we took evidence from some of the largest UK industries in goods and manufacturing and services exports, based on data from the Atlas of Economic Complexity.[11]

9. The industries represented in our inquiry from the goods and manufacturing sector were:

- Pharmaceuticals—accounting for 600,000 jobs and £36 billion worth of GDP;[12]
- Food and drink—employing almost 500,000 people and contributing £30 billion to the UK economy;[13] and
- Automotive—employing 781,800 people and contributing £14 billion of value added to the UK economy.[14]

The industries represented in our inquiry from the services sector were:

- Insurance—employing 300,000 people and generating a revenue of $100 billion;[15]
- Tech—employing 1.7 million people and adding over £150 billion to the UK economy;[16] and
- Financial and related professional services—employing almost 2.5 million people[17] and achieving a trade surplus of £81 billion.[18]

We are grateful to all those who provided oral evidence to our inquiry. Due to time constraints, we were unable to call further witnesses from other major sectors of the UK economy.

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9 Office for Budget Responsibility, Economic and fiscal outlook – March 2023, 17 November 2022, para 1.2
10 A full list of witnesses is attached at the end of the report.
11 The Atlas of Economic Complexity is a data visualization tool that allows people to explore global trade flows across markets, track these dynamics over time and discover new growth opportunities for every country. Built at the Harvard Kennedy School of Government , The Atlas is powered by Harvard's Growth Lab's research and is the flagship tool of The Viz Hub, the Growth Lab's portfolio of visualization tools.
12 Q42
13 Q42
14 Society of Motor Manufacturers and Traders, SMMT Motor Industry Facts 2022
15 Q71
16 techUK, Digital economy
17 Q77
18 TheCityUK, UK confirmed as the world's leading net exporter of financial services, 18 January 2023

10. The focus of Chapter 2 is productivity, and its links with business investment (including investment in labour and skills, and in research and development) and regional growth. Chapter 3 considers the UK's post-Brexit regulatory landscape and the role of Government in regulation.

2 Productivity

11. Labour productivity measures how many units of output (such as the volume of goods and services) are produced by employees for each unit of labour input (or hours worked). It is calculated by dividing output by labour input.[19] Labour productivity in the UK is relatively low compared to some other major developed economies. In 2021, the UK ranked fourth out of the G7 countries, behind that of the United States, Germany, and France. In 2021, UK productivity was around 20% below that of the US.[20] Contributory factors to low UK productivity raised in evidence to our inquiry included low levels of business investment, lagging research and development spending, and gaps in skills.

Business investment

12. Business investment is defined by the Office for National Statistics as investment made by a company in its transport, information and communication technology (ICT) and other machinery and equipment, other buildings and structures, and intellectual property products.[21] The Office for Budget Responsibility (OBR) noted in November 2022 that business investment in the second quarter of 2022 was still 8% below its pre-pandemic peak, and it forecast "much weaker" business investment in the coming years than it had forecast in March 2022.[22] The OBR also anticipated that by the end of 2024, business investment would be 12% lower than it had forecast in March 2022.[23] The impact of business investment on labour productivity was highlighted during our inquiry.

13. Mike Keoghan, Deputy National Statistician and Director General for Economic, Social and Environmental Statistics at the Office for National Statistics, told us that between 2009 and 2019 the UK economy grew by 0.4% per year, a rate which was "substantially lower" than that of other G7 countries: within that group, only Italy had a lower rate of growth. He noted that this low growth had led to a "substantial deceleration in our productivity performance" and said that this was partly underpinned by the UK's weaker performance in areas such as business investment during that period.[24] Dr Anna Valero, Senior Policy Fellow at the London School of Economics Centre for Economic Performance, agreed that a key issue underlying low productivity in the UK was a lack of investment. She referred to OECD figures which showed that the UK invests less than 10% of GDP in terms of business investment in comparison to similar countries—France, Germany, and the US—which invest around 12.5% on average.[25]

Research and development

14. Witnesses also discussed business investment in research and development (R&D), which likewise has an impact on productivity. Both Dr Valero and Mr Keoghan told us that UK investment in R&D was around the OECD average. Dr Valero noted that the UK is "now doing better on R&D than we previously thought", but she also pointed out that

19 Office for National Statistics, Productivity overview, UK: July to September 2022, 26 January 2023
20 OECD.Stat, Level of GDP per capita and productivity: G7 labour productivity levels and House of Commons Library, Productivity: Key Economic Indicators, 17 February 2023
21 Office for National Statistics, A guide to the UK National Accounts: March 2020, 6 March 2020
22 Office for Budget Responsibility, Economic and fiscal outlook – November 2022, 17 November 2022, para 20
23 House of Commons Library, Autumn Statement 2022: A summary, 17 November 2022, para 4.5
24 Q2
25 Q3

the UK was still spending less on R&D than the US and France.[26]

15. Some sector witnesses spoke of a significant loss of R&D over time. Dr Richard Torbett, Chief Executive of the Association of the British Pharmaceutical Industry, told us that although the UK has maintained its level of investment in R&D in pharmaceuticals at around £5 billion, the rest of the world has increased investment more rapidly, with the UK pharmaceutical industry losing around a third of its global share in R&D.[27] Buffy Price, Co-founder & Chief Operating Officer at Carbon Re[28], also told us that gaps in funding and Government support for tech start-ups created challenges for companies to reach commercialisation, with start-ups experiencing 30% to 40% in R&D tax credits cuts.[29]

16. In the 2023 Budget, the Chancellor announced full expensing for capital investment from 2023 for three years with plans to make this change permanent "when fiscal conditions allow".[30] Some changes were announced to R&D tax credits, whilst the overall cut to the funding available for R&D before the Budget was maintained.

17. **Part of the reason why the UK achieves lower productivity rates than other advanced economies is that levels of business investment and research and development investment have fallen behind.**

18. **We welcome the Chancellor's announcement on full expensing for capital investment but highlight the short period of time that this policy is available for businesses. Many businesses will make much longer-term investment decisions which could benefit from making this change permanent, providing long-term investment stability.**

19. ***Whilst we recognise some of the challenges associated with the previous R&D tax credits scheme, we call on the Government to conduct an annual review of the impact of recent changes on overall R&D investment in the UK to ensure that any unintended consequences can be remedied quickly.***

Labour and skills

Skills shortages

20. Witnesses highlighted a number of skills and labour challenges in the UK. One of these was skills shortages. Dr Valero noted that "we [the UK] do pretty well in our higher education",[31] and Miles Celic, Chief Executive Officer at TheCityUK, told us that "the UK has had a terrific conveyor belt that has come out of UK education".[32] However, it was also pointed out to us that younger generations of people in the UK have lower numeracy and literacy skills in comparison to older generations and that the UK can "do better" in these basic skills.[33]

26 Q2 and Q3
27 Q42
28 Carbon Re is a tech company that aims to build the world's most advanced AI platform for industrial decarbonisation.
29 Q69
30 HM Treasury, Spring Budget, 15 March 2023, p.3
31 Q7
32 Q70
33 Q26

21. We also heard that a number of other skills were needed for a modern economy. Dr Valero told us that further investment was needed in digital skills as well as abstract skills, such as the ability to think creatively and analytically. She also noted that “green skills”[34] were important, particularly those in energy efficiency and solar panel estimation.[35] Dr Torbett told us that the skills sought by many companies in the pharmaceutical industry—data skills, digital skills, computation skills, statistical skills, and quantitative skills—were precisely those that were sought by many other UK sectors.[36] As Dr Valero noted, these are skills that a modern economy needs to enable use of new technologies to enhance productivity.[37]

22. **There is a need to raise not just the basic skill levels of young people entering the workforce but also their digital and “green” skills, both of which contribute to enhancing productivity in the modern digitalised economy.**

23. Witnesses also described the need for upskilling workers. Mike Hawes, Chief Executive of the Society of Motor Manufacturers and Traders (SMMT), told us that 80% of current workers in the automotive industry will still be employed in the industry in 2030, when the automotive sector moves to manufacturing electric vehicles. He noted that skills need to move away from internal combustion engines to new technologies such as high-voltage systems.[38] The automotive industry will not be the only sector where skills need to adapt to new and emerging technologies.

24. Upskilling was also raised by witnesses in relation to the apprenticeship levy. The apprenticeship levy was introduced by the UK Government in April 2017 for all employers paying a wage bill of more than £3 million per year. Employers that meet this criterion are required to pay 0.5% of their payroll each month as a levy. The levy can then be reinvested back into the company’s workforce in the form of apprenticeship training.[39]

25. Witnesses described the limitations of the apprenticeship levy, noting that it did not offer the flexibility to upskill workers and boost productivity through short-course training and modular training.[40] Mike Hawes told us that in the automotive industry the SMMT “pay[s] out more than we get back in by some considerable distance”, and that “we cannot use it in the way we would want. You cannot use it to upskill, for instance. It is not all about apprenticeships. It is about upskilling”.[41] Caroline Keohane, Head of Industry Growth in the Food and Drink Federation, agreed that having the flexibility to spend the levy on short term modular training “would be really welcome” for the food and drink industry.[42] In pharmaceuticals, Dr Torbett added that companies want to take on apprenticeships, but “also want to make sure our existing workforce is up to speed and still at the cutting edge. We do not have the flexibility to do that”. He also noted that members of the Association of the British Pharmaceutical Industry “got 24% of the money they put into the levy back”.[43] Miles Celic told us that for financial and related professional

34 Green skills are skills needed to adapt products, services and processes to climate change and the related environmental requirements and regulations.
35 Q26
36 Q46
37 Q26
38 Q46
39 The Apprentice Academy, The Apprenticeship Levy Explained. Further information about how the levy can be used can be found at Funding an apprenticeship for levy payers
40 Q46
41 Q46
42 Q46
43 Q46

services “we need to use the apprenticeship levy in a more intelligent and more flexible way”.[44]

26. **Witnesses supported the apprenticeship levy in principle but told us that more Government support for skills development should be directed to upskilling existing members of the workforce, whether through reform of the apprenticeship levy or other mechanisms.**

27. ***We note that there are numerous Ministers with responsibility for skills—from compulsory, further, and higher education to adult and in-work training. The Government previously coordinated a ‘Green Skills Taskforce’ between the then Department for Business, Energy and Industrial Strategy and the Department for Education. We call on the Government to consider reviving such a taskforce to grapple with the wider challenge of skills shortages in the labour market.***

Labour shortages

28. Some witnesses stressed that there is not only a skills shortage but a labour shortage in the UK. Mike Hawes said that “in some regards it has ceased being a skills challenge; it is now a labour challenge because you just cannot get the people.”[45] Caroline Keohane also stated that there were examples where labour shortages were holding back growth in the food and drink sector, and that this was particularly pronounced in certain areas of the country.[46]

29. Witnesses told us that automation and the employment of workers from overseas could help to ease labour shortages in some instances. Caroline Keohane highlighted end-of-line manufacturing processes as an example of an area where many businesses have been unable to secure labour to pack boxes. She noted that automation could help to ease this issue.[47] Other witnesses told us that workers from overseas were helping to ease labour shortages. One witness ascribed difficulty in attracting talent from overseas to the UK to the UK’s exit from the European Union, highlighting an example of attracting an overseas worker to her business, Carbon Re.[48] Caroline Keohane told us that where automation and domestic workers might not ease labour shortage issues, a targeted migrant scheme could. She said that reviewing the shortage occupation list[49] more regularly and widening the scope of the list to all skill levels rather than the mid-to-high skill level “could be a solution” to respond to businesses’ needs.[50]

30. On 15 March 2023, the Migration Advisory Committee (MAC), an independent, non-statutory, non-departmental public body that advises the Government on migration issues, published a report providing interim recommendations pending the completion of a full Shortage Occupation List review. The MAC recommended adding a number of occupations including bricklayers, roofers, carpenters, and joiners to the shortage

44 Q70
45 Q46
46 In answer to Q46 Caroline Keohane gave an example of a manufacturer in the East Midlands that had initiated an 18-month project to create a new production line in its factory, but the project had not yet gone live because of a labour shortage.
47 Q51
48 Q69
49 A list of occupations where UK employers face a shortage of suitable labour and where the Government believes it is sensible to fill those shortages with migrant workers
50 Q46

occupation list.[51] In the March 2023 Spring Budget, the Government announced that it will accept the MAC's interim recommendations to initially add five construction occupations to the Shortage Occupation List ahead of its wider SOL review concluding in autumn 2023.[52]

31. **There was support amongst witnesses for greater use of automation and a more flexible migration scheme as part of the solution to labour shortages in the UK.**

32. **We note the wide range of measures affecting the labour market announced by the Chancellor in the 2023 Budget, which we will consider and respond to in our adjacent inquiry on the UK Labour Market.**

Levelling up and regional growth

33. In February 2022, the UK Government published its Levelling Up White Paper, which aimed to "transform the UK by spreading opportunity and prosperity to all parts of it".[53] The White Paper set out twelve national levelling up "missions" to change Government focus and resources to Britain's regional communities throughout the 2020s. The Government has since supported 216 projects across the UK with funding and will allocate £4.8 billion in total.[54]

34. Torsten Bell, Chief Executive of the Resolution Foundation, and the Rt Hon Lord Deben, Chair of the Climate Change Committee, discussed the resources given to local authorities throughout the UK. Torsten Bell told us that national politicians do not provide enough resources to regional hubs and second cities in the UK and that local politicians do not have enough resources, in terms of people, finances or powers, to raise productivity consistently. He noted that the scale of change needed to raise productivity in underperforming regions is large, with investment in infrastructure such as transport and housing needed. He added that "it is a long game. This is decades of investment and change required".[55]

35. Lord Deben added that in his view there was a "double problem" in the UK in terms of levelling up. Firstly, there was a concentration of resources in London; and secondly, that when resources were spread into different regions, there was an "inability to do anything else but pepper-potting it all round the country" without concentrating on specific areas that may need larger investment.[56] Witnesses also spoke of a concentration of investment and start-up activity in the south-east.[57]

51 Migration Advisory Committee, Construction and Hospitality Shortage Review, 15 March 2023
52 HM Treasury, Spring Budget, 15 March 2023, p.3
53 Prime Minister's Office, 10 Downing Street, Department for Levelling Up, Housing and Communities , The Rt Hon Michael Gove MP, and The Rt Hon Boris Johnson MP, Government unveils levelling up plan that will transform UK, 2 February 2022
54 GOV.UK, What is Levelling Up?
55 Q31
56 Q31
57 Q37

36. Torsten Bell put it succinctly:

> What is going to make a difference is making sure that more of the productive capacity of the UK, particularly in terms of places and large second cities, can drive forward that broadly shared services strength. I would focus on those cities specifically and their regions. That is the plausible route to materially stronger growth.[58]

37. Other witnesses told us that levelling up could be successful in some industries through investment. For example, Dr Anna Valero told us that less productive areas have a higher share of start-ups in clean tech,[59] and added that for net zero innovation, investments in regional hubs would benefit local areas and could be "very consistent with a levelling-up agenda".[60]

38. **Regional disparities in productivity are limiting the UK's economic growth. A concentration of resources towards cities outside London and to improving regional productivity should be a priority for the country's overall economic growth.**

58 Q29

59 Clean tech is technology that reduces negative environmental impacts through significant energy efficiency improvements.

60 Q37

3 Government and regulation

The regulatory landscape

39. Following the UK's exit from the European Union, from 1 January 2021 several regulatory functions and responsibilities passed from EU institutions to UK regulators. Taking pharmaceuticals as an example, these changes were described by Dr Torbett, Chief Executive of the Association of the British Pharmaceutical Industry, as being "very complex".[61] Miles Celic, Chief Executive Officer at TheCityUK, also told us that regulatory change can lead to a sense of "regulatory exhaustion", contributing to a sense of policy instability.[62] However, Mr Celic also told us that the UK's reputation for high regulatory standards is positive for business investment from overseas. He said that:

> What attracts people to do business in the UK is high regulatory standards. As one international company put it to me, there is a kite mark of quality that comes to doing business in the UK. If you can do it here, you can do it anywhere.[63]

40. Sectoral witnesses maintained that the UK needs to ensure that regulation is appropriate for each industry. Caroline Keohane, Head of Industry Growth in the Food and Drink Federation, told us that "poorly designed regulation is putting an additional cost on to industry".[64] Witnesses from the financial services industry told us that they welcome the Financial Services and Markets Bill, which will deliver a number of regulatory reforms to the financial services industry, but they noted that there would be a challenge in ensuring that regulators implement the policy correctly. Miles Celic told us that consultation should be carried out with industry, the charity sector and other stakeholders to "make sure the regulators are not marking their own homework" and to ensure that there was "a proper recognition of the role of regulation in driving employment, prosperity and success across the whole of the UK".[65] He also noted that regulatory change needs to be viewed as a process of "evolution rather than permanent revolution".[66] Burkhard Keese, Chief Financial Officer and Chief Operating Officer at insurance firm Lloyd's (previously known as Lloyd's of London), added that an agile, responsive, proactive and holistic approach to day-to-day regulation is needed as well as a balance between robust regulation and bureaucracy. He noted that "this is where other centres in the world are more agile than the UK".[67]

41. Dr Torbett told us that "much more joined-up thinking" was needed in the regulatory landscape.[68] Similarly, Burkhard Keese said that in the insurance industry companies work with regulators—the Prudential Regulation Authority and the Financial Conduct Authority—as well as HMRC and the Treasury. He noted that "at the moment, there is no objective for these institutions to work together. If you prompt them, they work together fantastically".[69]

61 Q48
62 Q70
63 Q79
64 Q43 and Q54
65 Q80
66 Q79
67 Q69 and Q80
68 Q43
69 Q80

42. **The regulatory landscape has changed significantly for many industries following the UK's exit from the European Union. Witnesses representing business sectors acknowledged the need for effective regulation, but they were clear that it needed to be appropriate and developed by the Government in partnership with industry and others.**

The role of Government

43. On 27 November 2017, the Government published its industrial strategy White Paper, *Building a Britain fit for the future*, setting out its industrial strategy which included 'Five Foundations', a series of policies that impacted all sectors of the economy, and the 'sector deals', bespoke partnerships between individuals sectors and Government.[70] In March 2021, the Government's 2017 Industrial Strategy was replaced by the Treasury's Plan for Growth.[71] Mike Hawes, Chief Executive of the Society of Motor Manufacturers and Traders, noted the strength of these sector deals during this inquiry. He told us that industrial strategies and sector deals in the past had "caused international businesses to take notice".[72]

44. Mr Hawes also noted intervention from Governments globally and their impact on domestic investments. He pointed to the 2022 US Inflation Reduction Act, which offers $369 billion worth of funding, programmes and incentives to accelerate the transition to a clean energy economy,[73] and the 2022 US CHIPS Act, which provides $52 billion to promote domestic semiconductor manufacturing and R&D in the US.[74] Mr Hawes noted that altogether, about $2 trillion would be offered in the US, and that the EU's Covid recovery plan was delivering a €750 billion economic stimulus package to mitigate the shock from the coronavirus pandemic.[75] He told us that the UK Government has to compete and match the incentives and investment offered in other countries and asserted that "we have to play in that field".[76] The Government is currently considering how to respond to the measures in the US Inflation Reduction Act.[77]

45. Witnesses from both the goods and manufacturing sector as well as the services sector said that working closely with Government would be necessary to improve long-term economic growth. Caroline Keohane told us that the food and drink industry is eager to work with the Government to create a long-term strategy, noting that "whether that is driving up exports, net zero targets, upskilling our people or boosting productivity around automation and technology, we really want to work closely with Government on that".[78] Dr Torbett also told us that there needs to be a "very deep" partnership between Government and the pharmaceutical industry.[79]

70 Department for Business, Energy & Industrial Strategy, Industrial Strategy: building a Britain fit for the future, 27 November 2017
71 HM Treasury, Build Back Better: our plan for growth, 3 March 2021
72 Q43
73 United States Environmental Protection Agency, The Inflation Reduction Act
74 CHIPS Act, Home
75 European Parliament, Covid-19: the EU plan for the economic recovery, 18 May 2020
76 Q43
77 UK Parliament, Question for Department for Business and Trade - Energy: Investment, Tabled 7 March 2023, UIN 160258
78 Q43
79 Q43

46. This view was echoed by Miles Celic, Chief Executive Officer at TheCityUK, who told us that building on the success of the UK's services and goods and manufacturing industries "requires a partnership approach between Government, regulators and industry". He said that "there is no successful financial centre anywhere in the world that is not based in some form on a partnership between the private sector, Government and regulators".[80] He added that financial and related professional services have argued for the creation of a partnership group chaired by the Chancellor and including several related Government departments working together. Buffy Price, Co-founder & Chief Operating Officer at Carbon Re, also supported this, telling us that "we would want to see that partnership with industry and Government" to drive Government procurement on net zero solutions, accelerate decision-making and drive investment from both Government and overseas investors".[81]

Conclusions on Government and regulation

47. **Witnesses from a range of industrial sectors were clear that they value partnership with Government to deliver targets as well as effective regulation, and that the recent industrial strategy and sector deals had been beneficial.**

48. ***We call on the Government to ensure effective partnerships with business and other related parties on the development of regulation, with better use of impact assessments. It would be for the Government, industry, and regulators to determine the form of any future partnership working, but the evidence presented to us indicates that it would boost business confidence and provide a foundation for mutual understanding and effective communication between industry and Government.***

49. ***The Regulatory Policy Committee should be supported for its work in supporting Parliament in understanding the impact of proposed regulation and we recommend these impact assessments are used much more widely throughout the legislative process. Given the transfer of regulatory oversight from the European Parliament to our Parliament, we recognise the need to ensure that our Parliament finds its way in meeting this new challenge and providing effective scrutiny and oversight of new regulations—both from Government and from regulatory bodies. We draw to the attention of the Liaison Committee of this House the role which select committees can play in this field.***

50. ***We note that the Chancellor referred to an 'industrial strategy' in his Budget statement, but that no industrial strategy was published. Given the global context referred to by our witnesses, and the very real threat of UK investments being tempted into the European or American markets, we call on the Government to make a statement to clarify whether the Government has an industrial strategy or not. If it does, we call on Ministers to engage with business, investors, and workers' representatives as soon as possible in order to publish any such strategy for the purposes of scrutiny and private sector clarity.***

80 Q78
81 Q81

Conclusions and recommendations

Productivity

1. Part of the reason why the UK achieves lower productivity rates than other advanced economies is that levels of business investment and research and development investment have fallen behind. (Paragraph 17)

2. We welcome the Chancellor's announcement on full expensing for capital investment but highlight the short period of time that this policy is available for businesses. Many businesses will make much longer-term investment decisions which could benefit from making this change permanent, providing long-term investment stability. (Paragraph 18)

3. *Whilst we recognise some of the challenges associated with the previous R&D tax credits scheme, we call on the Government to conduct an annual review of the impact of recent changes on overall R&D investment in the UK to ensure that any unintended consequences can be remedied quickly.* (Paragraph 19)

4. There is a need to raise not just the basic skill levels of young people entering the workforce but also their digital and "green" skills, both of which contribute to enhancing productivity in the modern digitalised economy. (Paragraph 22)

5. Witnesses supported the apprenticeship levy in principle but told us that more Government support for skills development should be directed to upskilling existing members of the workforce, whether through reform of the apprenticeship levy or other mechanisms. (Paragraph 26)

6. *We note that there are numerous Ministers with responsibility for skills—from compulsory, further, and higher education to adult and in-work training. The Government previously coordinated a 'Green Skills Taskforce' between the then Department for Business, Energy and Industrial Strategy and the Department for Education. We call on the Government to consider reviving such a taskforce to grapple with the wider challenge of skills shortages in the labour market.* (Paragraph 27)

7. There was support amongst witnesses for greater use of automation and a more flexible migration scheme as part of the solution to labour shortages in the UK. (Paragraph 31)

8. We note the wide range of measures affecting the labour market announced by the Chancellor in the 2023 Budget, which we will consider and respond to in our adjacent inquiry on the UK Labour Market. (Paragraph 32)

9. Regional disparities in productivity are limiting the UK's economic growth. A concentration of resources towards cities outside London and to improving regional productivity should be a priority for the country's overall economic growth. (Paragraph 38)

Government and regulation

10. The regulatory landscape has changed significantly for many industries following the UK's exit from the European Union. Witnesses representing business sectors acknowledged the need for effective regulation, but they were clear that it needed to be appropriate and developed by the Government in partnership with industry and others. (Paragraph 42)

11. Witnesses from a range of industrial sectors were clear that they value partnership with Government to deliver targets as well as effective regulation, and that the recent industrial strategy and sector deals had been beneficial. (Paragraph 47)

12. *We call on the Government to ensure effective partnerships with business and other related parties on the development of regulation, with better use of impact assessments. It would be for the Government, industry, and regulators to determine the form of any future partnership working, but the evidence presented to us indicates that it would boost business confidence and provide a foundation for mutual understanding and effective communication between industry and Government.* (Paragraph 48)

13. *The Regulatory Policy Committee should be supported for its work in supporting Parliament in understanding the impact of proposed regulation and we recommend these impact assessments are used much more widely throughout the legislative process. Given the transfer of regulatory oversight from the European Parliament to our Parliament, we recognise the need to ensure that our Parliament finds its way in meeting this new challenge and providing effective scrutiny and oversight of new regulations—both from Government and from regulatory bodies. We draw to the attention of the Liaison Committee of this House the role which select committees can play in this field.* (Paragraph 49)

14. *We note that the Chancellor referred to an 'industrial strategy' in his Budget statement, but that no industrial strategy was published. Given the global context referred to by our witnesses, and the very real threat of UK investments being tempted into the European or American markets, we call on the Government to make a statement to clarify whether the Government has an industrial strategy or not. If it does, we call on Ministers to engage with business, investors, and workers' representatives as soon as possible in order to publish any such strategy for the purposes of scrutiny and private sector clarity.* (Paragraph 50)

Formal minutes

Tuesday 21 March 2023

Members present:

Darren Jones, in the Chair

Alan Brown

Ian Lavery

Draft Report (*UK plc*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 50 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Ninth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Tuesday 28 March at 9:45am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Tuesday 7 February 2023

Mike Keoghan, Deputy National Statistician and Director General for Economic, Social and Environmental Statistics, Office for National Statistics; **Dr Anna Valero**, Senior Policy Fellow, London School of Economics Centre for Economic Performance and Deputy Director, Programme on Innovation and Diffusion, London School of Economics (LSE); **Torsten Bell**, Chief Executive, Resolution Foundation; **Lord Deben**, Chairman, Climate Change Committee Q1–41

Tuesday 28 February 2023

Dr Richard Torbett, Chief Executive, Association of the British Pharmaceutical Industry; **Caroline Keohane**, Head of Industry Growth Policy, Food and Drink Federation; **Mike Hawes**, Chief Executive, The Society of Motor Manufacturers and Traders Q42–67

Burkhard Keese, Chief Financial Officer & Chief Operating Officer, Lloyd's; **Buffy Price**, Co-founder & Chief Operating Officer, Carbon Re; **Miles Celic**, Chief Executive Officer, TheCityUK Q42–67

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2022–23

Number	Title	Reference
1st	Pre-appointment hearing with the Government's preferred candidate for Chair of the Competition and Markets Authority	HC 523
2nd	Draft Legislative Reform (Provision of Information etc. relating to disabilities) Order 2022	HC 522
3rd	Energy pricing and the future of the Energy Market	HC 236
4th	Post-pandemic economic growth: state aid and post-Brexit competition policy	HC 759
5th	The semiconductor industry in the UK	HC 291
6th	The semiconductor industry in the UK: Government response	HC 1115
7th	Royal Mail	HC 1045
8th	Memorandum of Understanding on scrutiny of the Investment Security Unit	HC 1235
1st Special	Decarbonising heat in homes: Government Response to the Committee's Seventh Report of 2021–22	HC 208
2nd Special	Energy pricing and the future of the energy market: Responses to the Committee's Third Report of Session 2022–23	HC 761
3rd Special	Post pandemic economic growth: State aid and post-Brexit competition policy: Responses to the Committee's Fourth Report of Session 2022–23	HC 1078

Session 2021–22

Number	Title	Reference
1st	Post-pandemic economic growth: Industrial policy in the UK	HC 385
2nd	Climate Assembly UK: where are we now?	HC 546
3rd	Post-pandemic economic growth: Levelling up	HC 566
4th	Liberty Steel and the future of the UK steel Industry	HC 821
5th	Pre-legislative scrutiny: draft Downstream Oil Resilience Bill	HC 820
6th	Pre-appointment hearing of the Government's preferred candidate for Chair of the Financial Reporting Council	HC 1079
7th	Decarbonising heat in homes	HC 1038
8th	Post Office and Horizon - Compensation: interim report	HC 1129

Number	Title	Reference
9th	Revised (Draft) National Policy Statement for Energy	HC 1151
10th	Draft Legislative Reform (Renewal of National Radio Multiplex Licences) Order 2022	HC 1199
1st Special	Decarbonising heat in homes: Government Response to the Committee's Seventh Report of 2021–22	HC 208
2nd Special	Net Zero and UN Climate Summits: Scrutiny of Preparations for COP26—interim report: Government Response to the Committee's Third Report of Session 2019–21	HC 120
3rd Special	Uyghur forced labour in Xinjiang and UK value chains: Government Response to the Committee's Fifth Report of Session 2019–21	HC 241
4th Special	Mineworkers' Pension Scheme: Government Response to the Committee's Sixth Report of Session 2019–21	HC 386
5th Special	Climate Assembly UK: where are we now?: Government Response to the Committee's Second Report	HC 680
6th Special	Post-pandemic economic growth: Industrial policy in the UK: Government Response to the Committee's First Report	HC 71
7th Special	Post-pandemic economic growth: Levelling up: Government Response to the Committee's Third Report	HC 924
8th Special	Liberty Steel and the Future of the UK Steel Industry: Government Response to the Committee's Fourth Report	HC 1123
9th Special	Pre-legislative scrutiny: draft Downstream Oil Resilience Bill. Government Response to the Committee's Fifth Report	HC 1177
10th Special	Post Office and Horizon – Compensation: interim report. Government Response to the Committee's Eighth Report	HC 1267

Session 2019–21

Number	Title	Reference
1st	My BEIS inquiry: proposals from the public	HC 612
2nd	The impact of Coronavirus on businesses and workers: interim pre-Budget report	HC 1264
3rd	Net Zero and UN Climate Summits: Scrutiny of Preparations for COP26 – interim report	HC 1265
4th	Pre-appointment hearing with the Government's preferred candidate for the Chair of the Regulatory Policy Committe	HC 1271
5th	Uyghur forced labour in Xinjiang and UK value chains	HC 1272
6th	Mineworkers' Pension Scheme	HC 1346
1st Special	Automation and the future of work: Government Response to the Committee's Twenty-third Report of Session 2017–19	HC 240
2nd Special	Future of the Post Office Network: Government Response to the Committee's First Report of Session 2019	HC 382

Number	Title	Reference
3rd Special	Safety of Electrical Goods in the UK: follow-up: Government Response to the Committee’s second report of Session 2019	HC 494
4th Special	COP26: Principles and priorities—a POST survey of expert views	HC 1000