



House of Commons

Business, Energy and Industrial
Strategy Committee

**Post-pandemic
economic growth:
Industrial policy in
the UK: Government
Response to the
Committee's First
Report of Session
2021–22**

**Sixth Special Report of
Session 2021–22**

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Business, Energy and Industrial Strategy Committee

The Business, Energy and Industrial Strategy Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Business, Energy and Industrial Strategy.

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Sixth Special Report

On 28 June 2021, the Business, Energy and Industrial Strategy Committee published its First Report of Session 2021–22, *Post-pandemic economic growth: Industrial policy in the UK* (HC 385). The Government's response was received by correspondence on 8 September 2021. The Government's cover letter and response is appended below. The Committee's recommendations are in **bold** type, the Government response is in plain type.

Letter from Minister for Science, Research and Innovation, 8 September 2021

The Government is grateful to you and the Committee for its inquiry and report on 'Post-pandemic economic growth: Industrial Strategy'. Since the report's publication on 28 June, we have been working across Government to carefully consider the Committee's recommendations and the evidence gathered in support of these.

Build Back Better: our plan for growth sets out the opportunities we will seize across the UK to drive economic growth, create jobs and support British industry as we level up and build back better out of this pandemic—succeeding the Industrial Strategy published over four years ago. It reflects the fact that since then, the Government has legislated to end our contribution to climate change by 2050, we are forging a new path outside the European Union, and we continue to secure our recovery from Covid-19.

The Plan for Growth is a whole-of-government endeavour and includes significant investment in infrastructure, skills, and innovation to level up the country and improve everyday life for people regardless of where they live.

The delivery of these ambitious objectives will be monitored through the new departmental Outcome Delivery Plans (ODPs), published on 15 July.

The Plan for Growth also committed to set out visions for high-growth sectors and technologies where we are well placed to develop a globally competitive advantage. BEIS has already made a big start on this plan with the publication of the Life Sciences Sector Vision this summer. This 10-year strategy will tackle health inequalities, enhance the UK's outstanding science and research environment, make the NHS a driver of innovation, and ensure the UK is the best place in the world to start and grow life science businesses. Other visions will be set out by the relevant departments in the coming months.

The Government recognises the importance of working closely and collaboratively with key stakeholders, in the business community and beyond, to ensure that our plans address challenges faced by business and grasp opportunities for future growth. There are several fora that allow us to do this effectively. For example, the Prime Minister has recently established the Build Back Better Business Council, which brings together a broad range of business leaders in partnership with the UK Government to unlock investment, boost job creation, promote Global Britain, and level up the whole of the UK.

The UK Government has also put in place a range of measures designed to support businesses including those achieving or likely to achieve high growth. The support ranges from Government strategies and Sector Councils to specific funds, such as the Future Fund: Breakthrough, and programmes, such as Help to Grow.

Later this year, the UK Government will publish a Levelling Up White Paper setting out how we will improve livelihoods across the country as we recover from the pandemic. Our plans for strengthening local accountable leadership, including the future of Local Enterprise Partnerships (LEPs), will now be included in the Levelling Up White Paper. We are also committed to ensuring that local areas are supported in building their skills capabilities. The Skills for Jobs White Paper outlines the Government's approach to local skills provision, including the pilot of employer-led Local Skills Improvement Plans in England, to ensure that the skills training is more responsive to local skills needs.

Finally, the Government welcomes the Committee's recognition of the potential of the Advanced Research and Invention Agency (ARIA) to add to the UK's research ecosystem via its flexibility, optimisation for risk-taking, and ability to bring together partners from private and public spheres. The agency will empower some of the world's most exceptional scientists and researchers to identify and fund transformational areas of research to turn incredible ideas into new technologies, discoveries, products and services—helping to maintain the UK's position as a global science superpower.

Please find attached a full response responding to specific points raised in the report.

Yours sincerely,

Amanda Solloway MP

Appendix: Government Response

Introduction

1. The Government welcomes the Business, Energy and Industrial Strategy Committee report that was published on 28 June 2021, following their inquiry into ‘Post-pandemic economic growth: Industrial policy in the UK’. The Government is grateful to the Committee and all those that provided evidence for their work.
2. Its aim was to examine whether the 2017 Industrial Strategy focused on the right sectors, issues and policy areas. The Committee considered the extent to which the strategy was properly designed and implemented to encourage the growth of a more productive, inclusive and sustainable economy capable of generating wealth, innovation and high-quality jobs. It also considered the transition from the 2017 Industrial Strategy to Build Back Better: our plan for growth, including the role of the Industrial Strategy Council.
3. The following response includes the Committee’s overall conclusions and their specific recommendations, and sets out the Government’s response to each recommendation or groups of recommendations.

Prioritised policies and metrics

4. ***The Government should refine a set of prioritised policies which have sufficient scale and scope to make progress against the Government’s strategic objectives. Government should publish the metrics it will measure to show progress in the delivery of these strategic objectives.*** (Paragraph 23)
5. ***The objectives of its revised approach to industrial policy and how delivery against these will be measured and monitored.*** (Paragraph 32)
6. The Government published its strategic objectives for the economy in Build Back Better: our plan for growth on 3 March 2021, alongside the Budget. It sets out how the Government will support economic growth through significant investment in infrastructure, skills and innovation to pursue growth that levels up every part of the UK, enables the transition to Net Zero, and supports the Government’s vision for a Global Britain:
 - High-quality infrastructure is crucial for economic growth, boosting productivity and competitiveness. The National Infrastructure Strategy sets out the Government’s plans to transform the UK’s infrastructure networks. The Government is addressing historic underinvestment in infrastructure by continuing plans set out at Spring Budget 2020 to spend over £600 billion on gross public sector investment over the following five years, delivering the highest sustained levels of public sector net investment as a share of GDP since the late 1970s.
 - The best way to improve people’s life chances is to give them the skills to succeed. As set out in our Skills for Jobs White paper and the Plan for Jobs, the Government is encouraging lifelong learning through the Lifetime Skills Guarantee, transforming apprenticeships with employer-led standards, and

reforming post-16 technical education and training to support people to develop the skills needed to get good jobs and improve national productivity.

- Innovation drives economic growth and creates jobs. The Government has a target of increasing public and private sector research and development (R&D) expenditure to 2.4% of GDP to support the UK being a science superpower with a world-class research and innovation system. The Government has also created the Advanced Research & Invention Agency (ARIA) to fund high-risk, high-reward research. BEIS recently published an Innovation Strategy, the Government's long-term vision to put innovation at the heart of building back better. It aims to boost private sector investment in R&D across the whole of the UK and create the right conditions for all businesses to innovate so they have the confidence to do so.

7. The Plan for Growth is a whole-of-Government endeavour and sets an overarching framework for the action the Government will be taking in a series of publications and strategies in the coming months. These include the Net Zero Strategy, the Export Strategy, and Procurement reform.

8. The Prime Minister has also refreshed the Cabinet Committee structure to reflect the Government's priorities and to drive the delivery of the Plan for Growth. The Prime Minister is chairing a new Cabinet Committee, the National Economy and Recovery Taskforce (NERT), with a focus on catalysing growth, levelling up across the UK and driving public service performance and delivery.

9. The Government is focussed on the delivery of these ambitious objectives, and its planning and performance framework is being reformed to support this. Published Outcome Delivery Plans (ODPs)¹ are being embedded in departments and a new focused performance reporting system at the centre will provide regular reporting to the Prime Minister, Cabinet Office and HM Treasury. This will provide an ongoing picture of departmental activity, including progress delivering policies within the Plan for Growth framework.

Coordination of policies across Government and clarification of roles

10. ***The Government should set out how it will improve coordination of relevant policies across its Departments and ensure a strategic, long-term approach to industrial policy within Government, including clarifying the respective roles of HM Treasury and the Department for Business, Energy and Industrial Strategy in delivering the Plan for Growth.*** (Paragraph 32)

11. There has been no change in the machinery of Government or in departmental responsibilities. The Treasury remains the Government's economics and finance ministry; and BEIS retains its responsibility for business, science, research, innovation and Net Zero.

12. While the Plan for Growth has been led by the Chancellor of the Exchequer, its delivery is being supported by the whole of Government with most of the policies embedded in departments' Outcome Delivery Plans (ODPs), which are tracked centrally. Examples of the policies led by BEIS include the Innovation Strategy and Net Zero Strategy. As

¹ <https://www.gov.uk/government/collections/outcome-delivery-plans>

described above, HM Treasury and Cabinet Office have integrated reporting on Plan for Growth delivery with existing mechanisms to ensure consistency on reporting and provide a single view.

Continuity of 2017 Industrial Strategy policies

13. *The specific features and policies of the 2017 Industrial Strategy that will be retained, including clarity on the future of the Grand Challenges and missions and their applicability to future policy.* (Paragraph 32)

14. The 2017 Industrial Strategy consisted of several core programmes, including Sector Deals, Grand Challenges and Missions, Foundations and Local Industrial Strategies. Delivery of ongoing aspects of the 2017 Industrial Strategy will continue, with some programmes continuing in their current form and other policies being evolved as part of the Plan for Growth.

15. Existing Sector Deals will continue, including the North Sea Transition Deal, which was published in March 2021. The Plan for Growth committed to set out visions for high-growth sectors and technologies where the country is well placed to develop a globally competitive advantage. The first of these sector visions in Life Sciences, has already been published with others to be set out by the relevant departments in the coming months.

16. In developing these visions, the Government will consider its role in supporting high-growth sectors, as well as how these sectors can also support wider Government objectives, for example levelling up or enabling our transition to Net Zero. In addition to these visions, the Government is supporting sectors as they transition to a low-carbon, sustainable and competitive future as well as encouraging the development of new industries, from offshore wind to hydrogen, carbon capture technologies and zero-emission vehicles. The Government has also provided significant support for sectors impacted by the Covid-19 pandemic, including through the furlough scheme, Government-backed loans, and grants for businesses forced to close.

17. Much of the Government's 2017 Grand Challenges and Missions work, including the Government's commitment to Net Zero, is now core Government policy. The time is right to evolve the Government's approach to ensure the country remains responsive to a changed global context and new trends, and to make the most of innovation and new technology for people and businesses. The recently published Innovation Strategy sets out a renewed approach to mission-based innovation. This strategy will play a vital role in supporting ambitions included in the Plan for Growth; detailing how the Government will make the UK a global hub for innovation. As set out by the Prime Minister, the Government will have a suite of new Missions that will build on the Government's established strengths in mission-based innovation and the lessons of the Grand Challenges to support the Government's priorities.

18. The work of the Foundations programme was centred on five pillars comprising of ideas, people, infrastructure, business environment and places, which has superseded by a family of strategies that support the Plan for Growth, including the National Infrastructure Strategy, Skills for Jobs White Paper and the Innovation Strategy.

19. Later this year, the Government will publish a Levelling Up White Paper setting out

how we will improve livelihoods across the country, building on the work undertaken as part of the Local Industrial Strategies.

Engagement with sectors and external policy evaluation for effective policy development

20. *How it intends to engage with sectors and seek external expert policy evaluation, to ensure robust future industrial policymaking processes.* (Paragraph 32)

21. The Government recognises the importance of working closely and collaboratively with key stakeholders, in the business community and beyond, to ensure that the Government's plans address challenges faced by business and grasp opportunities for future growth. There are several fora across Government that allow us to do this effectively.

22. The Government will continue to work closely with Sector Councils, many of whom have been key to delivering the 12 published Sector Deals, and through regular ministerial engagement with Business Representative Organisations on a range of policy areas, including Plan for Growth themes.

23. As set out above, the Prime Minister has also recently established the Build Back Better Business Council, which brings together a broad range of business leaders from across the whole British economy to work in partnership with the Government to unlock investment, boost job creation, promote Global Britain and level up the whole of the UK. Council members share their views on the economy, provide a commercial perspective on policy and highlight obstacles and solutions to economic recovery. The Council is advisory and holds no policy or decision-making powers, and the Government reviews the recommendations it receives from Council members through the lens of its objectives.

24. The Government will also work with the Productivity Institute, a UK-wide research organisation funded by UKRI through the Strategic Priorities Fund, which aims to advance knowledge and inform the significant decisions by governments and business leaders aimed at increasing productivity. The Institute brings together experts from a range of disciplines and backgrounds to work directly with policymakers, as well as businesses, to better understand, measure and inform government policy to help improve UK productivity.

25. Rigorous monitoring of delivery will take place through Outcome Delivery Plans (ODPs), and each department with responsibility for the individual policies and publications within the Plan for Growth will determine their own monitoring and evaluation processes in the usual way.

Regional and Local Policy Development and the Devolved Administrations

26. *The UK Government should clarify how the Devolved Governments will be involved in the design and delivery of future policies and strategies associated with the Plan for Growth. The UK Government should implement lessons from the devolved Governments' experience of engaging with the UK Government on policies relating to the Industrial Strategy's Foundations and Grand Challenges.* (Paragraph 51)

27. *In addition to co-production with the Devolved Administrations, the Plan for Growth should be developed with regional and local leaders in England with a focus on promoting local engagement with industrial policy, and not merely a strategy document for consumption in Whitehall.* (Paragraph 52)

28. *The Government should clarify through what mechanism it intends to incorporate local industrial and economic insights and intelligence into future national-level policies—in particular, into the Plans, Strategies and Reviews listed in the Plan for Growth which the Government has said will be published within the next 12 months.* (Paragraph 117)

29. The Government agrees with the Committee that its policies and strategies should support the whole economy and deliver for all parts of the UK.

30. In delivering the Plan for Growth, the Government will continue to work with the Devolved Administrations and regional and local leaders where appropriate to drive progress towards shared objectives and promote long-term growth and recovery across the UK. Engagement with the Devolved Administrations take place on both ministerial and official levels and include discussions on Business and Industry, Research and Innovation, and Net Zero. Individual departments responsible for delivering the policies and publications set out in the Plan for Growth will be best placed to make decisions on the optimal approach to that engagement, reflecting local insight and intelligence in their policy development.

Sectoral Policy

31. *While we recognise it has chosen not to replicate the Industrial Strategy’s formal structure of Sector Deals, Foundations, and Grand Challenges and missions, the Government should clarify what balance it has sought between vertical, horizontal and mission-led policy in the Plan for Growth. Doing this would ensure the Plan for Growth appropriately captures and balances the benefit of each approach.* (Paragraph 64)

32. The Government’s approach to sectoral policy draws on the academic consensus that identifies economy-wide horizontal interventions – on regulation, research, skills, infrastructure, business environment and innovation – as the bedrock of effective economic strategy, allowing the market to find and grow the highest potential industries. However, there is further evidence that highlights the benefits of sector-focused interventions to complement these cross-economy wide tailored horizontal interventions. The Plan for Growth adopts this balance of both horizontal and vertical policies.

33. The Government’s recently published Innovation Strategy sets out a renewed approach to mission-based innovation.

34. *In response to this report the Government should set out how it intends to take forward a sectoral approach to industrial policy. The Government should explain how reprioritisation may be consistent with maintaining the existing deals and whether a coordinated process will be established for agreeing new sector deals.* (Paragraph 86)

35. The Government remains committed to building long-term strategic partnerships with businesses across all sectors. The Plan for Growth committed to set out a vision for high-growth sectors and technologies where the country is well placed to develop a

globally competitive advantage.

36. As part of this plan, this summer, BEIS has already published the Life Sciences Sector Vision. This 10-year strategy will tackle health inequalities, enhance the UK's outstanding science and research environment, make the NHS a driver of innovation, and ensure the UK is the best place in the world to start and grow life science businesses.

37. The details of subsequent sector visions will be set out by the relevant departments in the coming months. In developing these visions, the Government will consider its role in supporting high-growth sectors where the country is well placed to develop a globally competitive advantage. The Government will also consider how these sectors can also support wider Government objectives, for example, levelling up or enabling our transition to Net Zero.

38. The Sector Deals Programme has seen the publication of 12 Sector Deals across 11 sectors between 2017 and 2021, and is now closed to new deals. The published Sector Deals are outcome focused, time limited and ongoing in varying states of delivery. Existing Sector Deals will continue, most recently the North Sea Transition Deal, which was published in March.

Sector Deal Review

39. *In light of the shocks experienced across the economy and society, the Government should establish a plan to review each sector deal to account for the impact Covid-19 has had on employment, pay and productivity.* (Paragraph 87)

40. The Government recognises the huge impact that Covid-19 has had across sectors and is committed to supporting businesses and individuals across all sectors through the provision economy-wide support packages, including the Coronavirus Business Interruption Loan Scheme, the Coronavirus Job Retention Scheme, and the Self-Employment Income Support Scheme.

41. The Government does not believe the Committee's recommendation to review each Sector Deal to account for the impact Covid-19 has had on employment, pay and productivity is the correct way to approach this issue. As set out above, the published Sector Deals are in different stages of delivery. For example, the AI Sector Deal has now been completed and the North Sea Transition Deal was recently published in March this year.

42. Instead, the Government will continue to engage with sectors to ensure it understands the challenges and opportunities they face, particularly in the light of the Covid-19 pandemic. For example, the Tourism Sector Deal is no longer the right focus for the sector given the impact of the pandemic on leisure, tourism, and hospitality. Instead, the Government has been working closely with industry to develop both the Tourism Recovery Plan and the Hospitality Strategy, which were published this year.

'Defensive' sectoral interventions and local delivery

43. *Government should develop clear 'defensive' interventions for sectors going through rapid change, to prepare workers and communities for the loss of jobs and/or*

businesses that will inevitably occur in their local communities, and to support them in taking advantage of new work and business opportunities. These interventions should be delivered locally so that workers and businesses are aware of the opportunities for support available to them and can therefore effectively engage with industrial policy in their local economy. (Paragraph 88)

44. The Government recognises that there are several sectors undergoing rapid change, including those who have been significantly impacted by Covid-19.

45. The Plan for Jobs programme is a part of the UK Government's focus on protecting, supporting and creating jobs across the whole of the UK.

46. The Plan for Jobs comprises of measures to help create, support and protect jobs. At Spending Review 2020, the Government provided £3.6 billion additional funding in 2021–22 to DWP to deliver employment support for people who need it the most – from helping the recently unemployed to swiftly find new work, to offering greater support for people who will find that harder. This includes funding for the Restart (£2.9 billion) and Kickstart Schemes (£2 billion). Other measures will include support to boost work search, skills development and apprenticeships. The Plan has been developed to run alongside existing provision in Scotland and Wales, with DWP working closely with the Devolved Administrations to ensure alignment.

47. The Government is providing reskilling activities through the Skills for Jobs White Paper, as well as through DWP Train and Progress and the DWP Youth Offer within the Plan for Jobs package.

48. The Skills for Jobs White Paper is focused on giving people the skills they need, so they can get great jobs in sectors the economy needs and boost this country's productivity. This Government is introducing employer-led Local Skills Improvement Plans as part of the Skills Accelerator, which will set out the key changes needed in a local area to make technical education and training more responsive to employers' skills needs. It is also ensuring people have the opportunity to study by delivering the Prime Minister's Lifetime Skills Guarantee to upskill at different points in their life. This includes a lifetime loan entitlement from 2025, funding free Level 3 qualifications in key areas for adults who do not already have a Level 3 qualification (equivalent to an advanced technical certificate or diploma, or A levels), and short, flexible ways to train through employer-led bootcamps. The reforms set out in the White Paper will transform technical education and training, boosting UK productivity, building back better from the Covid-19 pandemic, and creating a more prosperous country for all.

49. The Government is also developing sector specific support for those sectors experiencing short-term challenges. BEIS and DWP have been proactive in taking sector-specific interventions for sectors going through rapid change and to support them and their workers to harness new opportunities. For sectors that have a more immediate demand for vacancies and to facilitate economy recovery, DWP is working across Government, including with BEIS, to shape employment skills support that will unlock opportunities and ensure jobseekers are equipped for the future of work. For example, the hospitality sector has been one of the hardest hit by the pandemic, and its recovery is fundamental for the nation's recovery. To help the sector bounce back resiliently, BEIS has developed a Hospitality Strategy that sets out the Government's long-term vision to help the sector on

their road to recovery from the Covid-19 pandemic and build back better. The strategy is focused on three areas: supporting businesses to reopen, setting out measures to help the sector to recover in the short-medium term, and supporting the sector to be more resilient to future shocks.

50. The Government is collectively addressing barriers to entry in sectors that have immediate high demand or are growing, setting out the key actions that the Government and industry need to take to remove barriers and maximise employment. These sector visions and the short-term sector approach complement one another to address both short-term and longer-term labour market barriers.

51. Local Enterprise Partnerships (LEPs) have played a role in the economic recovery from Covid-19, including through their role in coordination and delivery of schemes such as the £900 million Getting Building Fund. Mayoral devolution has strengthened local leadership and institutions, devolving key powers over transport, planning, skills and funding away from Whitehall, so that they are exercised at the right level to make a difference for local communities.

52. People across the UK will benefit from support for local communities, skills and jobs through the launch of the £220 million UK Community Renewal Fund. The Fund is intended to help local areas across the UK to pilot programmes and to prepare for the introduction of the UK Shared Prosperity Fund.

53. Later this year, the Government will publish a UK-wide Levelling Up White Paper setting out how we will improve livelihoods across the country, including as we recover from the pandemic. The Government's plans for strengthening local accountable leadership, including considering the future of LEPs, will now be included in the Levelling Up White Paper.

Local Industrial Strategies

54. *We conclude that Local Industrial Strategies (LIS) are useful and should be continued in the future, but that the Government should set out how it will ensure that local areas are equipped with the skills, resource and incentives needed to produce and deliver effective local industrial policy. It should make engaging with and supporting local areas to develop such strategies (including in the devolved nations) a higher priority and should publish a national assessment of the opportunities and challenges in each region and potential points of collaboration across the country. Government should confirm whether it sees LEPs as the relevant delivery body for local industrial strategies in England and, if so, provide additional dedicated support for LEPs to build greater analytical, evaluation and policymaking resource.* (Paragraph 107)

55. *The Government should clarify whether a new structure will replace Local Industrial Strategies, or what form local growth plans will take in future. This would help to ensure a strategic approach can be taken to distributing funding through levelling up and community investment programmes including the Shared Prosperity Fund. Local growth plans should serve as a focal point for future strategic conversations about industrial policy—both at a local level, and between local and national government.* (Paragraph 115)

56. The Government has worked with all places across England, through the Cities and Local Growth Unit (MHCLG/BEIS) to develop Local Industrial Strategies (LIS). However, in the four years since the Industrial Strategy was produced, the UK's economic and business environment has changed.

57. Local places are best placed to set their own economic strategies to drive forward growth in their respective local economies. As part of the transition from the 2017 Industrial Strategy to the Plan for Growth, the Government is encouraging places to consider key sectors, assets and clusters they want to support to foster their long-term growth ambitions. This will build on the work undertaken as part of the LIS. The Government will continue to consider existing LISs and recovery plans when making decisions about how the Government supports areas.

58. This Government is also committed to ensuring that local areas are supported in building their skills capabilities. The Skills for Jobs White Paper outlines the Government's approach to local skills provision, including the pilot of employer-led Local Skills Improvement Plans in England, which will inform the national rollout of the programme, and ensure that plans lead to skills training that is more responsive to local skills needs. As mentioned in our response to recommendations 10, 11 and 33, we will also continue to work with the Devolved Administrations, as well as regional and local leaders where appropriate, at policy level to drive progress towards shared objectives and deliver the ambitions of the Plan for Growth.

59. The Government acknowledges the Committee's support for Local Enterprise Partnerships (LEPs). The Government wants to review the role LEPs and local businesses play in driving local growth and supporting the local economy, and make sure they are fit for purpose as we build back better. The Government has set out its commitment to reviewing the future of LEPs as part of the upcoming Levelling Up White Paper.

UKRI

60. *We recommend that UKRI put in place an action plan which:*

- *sets out how they will ensure that the ISCF stimulates innovation in all the nations and regions of the UK;*
- *details how UKRI will reverse the trend of funding moving sharply away from SMEs to larger businesses;*
- *addresses concerns that the collaborative co-investment bid process is not appropriate for SMEs which are unable to meet co-financing requirements.*
(Paragraph 151)

61. The Government recognises the concerns raised by the Committee regarding the Industrial Strategy Challenge Fund (ISCF) and have agreed a robust action plan that will address the recommendations made by the Committee, the Public Accounts Committee, and National Audit Office.

62. As outlined in The Queen's Speech 2021, levelling up opportunities across all parts of the UK is a key Government agenda. This is supported by UKRI through its mission to build a research and innovation (R&D) system in the UK, to which everyone can contribute

and from which everyone can benefit. The ISCF has made significant investments across the whole of UK.

63. Data to assess regional investment has been collected throughout the lifecycle of the ISCF with continued improvements made to the monitoring and evaluation of regional impacts. As this data set matures, officials in BEIS will continue to work with UKRI to investigate the drivers behind regional disparity of the ISCF funding distribution to date and will seek to improve participation across all parts of the UK for future Challenge-led funding. For example, the annual update of the ISCF Place Evidence Pack includes competition demand analysis and investigates how the ISCF differs on regions compared to other UKRI funding mechanisms. The Government's forthcoming Levelling Up White Paper will set out how we are levelling up through research and innovation.

64. UKRI is committed to increasing engagement with small and medium sized enterprises (SMEs) within the research and innovation system. The National Audit Office (NAO) report notes the ISCF has had success in attracting small business involvement (small and micro companies accounted for over 40% of project awards in Waves 1 and 2).

65. High levels of co-investment, with public and private sector funders working in partnership, have helped increase the overall investment, allowing projects to be funded that would otherwise have not happened. However, emphasis on increased match funding in Wave 3 may have caused a slightly lower level of SME involvement. UKRI will continue to monitor participant size within quarterly reporting at Wave- and Challenge-level and undertake a detailed analysis of Wave 3 competitions comparing overall demand and size of applicant with any narrowing of grant intensity.

66. Lessons from the approach to SME engagement across the current Challenges are informing the design of future Challenge-led delivery. This will consider the appropriate balance between risk and scale, including a more flexible approach to co-investment requirements for SMEs and emerging industries.

Advanced Research and Invention Agency (ARIA)

67. *The Advanced Research and Invention Agency (ARIA) could provide a mechanism to contract for innovation by driving public-private collaboration and encouraging competition between commercial organisations to secure alternative sources of investment for growth. We believe that an agency which can take risks and be flexible in the way it supports commercial innovation has the potential to accelerate progress against the Government's policy objectives.* (Paragraph 160)

68. *We note the conclusion of the House of Commons Science and Technology Committee that ARIA is a "brand in search of a product" and share concerns that its function remains uncertain. ARIA's remit and objectives are very broad, and we are concerned that its potential should not be diluted by a lack of clear focus.* (Paragraph 161)

69. The Government is pleased to see the Committee recognise the potential of the Advanced Research and Invention Agency (ARIA) to add to the UK's research ecosystem via its flexibility, optimisation for risk-taking, and ability to bring together partners from private and public spheres.

70. With minimal unnecessary bureaucracy, ARIA will be able to provide funding to creative ideas at speed. The agency will empower some of the world's most exceptional scientists and researchers to identify and fund transformational areas of research to turn ideas into new technologies, discoveries, products and services – helping to maintain the UK's position as a global science superpower.

71. With regards to the risk of dilution, ARIA will choose the size and remit of its programmes, but all will be properly funded, motivated by a clear, ambitious goal, and each will seek to achieve transformational advances. The Government has held from the outset that imposing a mission on ARIA could compromise the independence of its leadership and duplicate existing funding mechanisms in UKRI. Programmes like the Industrial Strategy Challenge Fund (ISCF) are able to stimulate public-private collaboration against Government-determined missions.

Relationship with business

72. British business should be provided with a clear picture of the landscape in which it will operate in the post-Brexit and post-Covid-19 era. We recommend that the Government publish an overview of the scale and nature of its future relationship with industry to clarify the mechanisms it will use for investing in commercial innovation. This overview should set out principles by which the Government will seek to support businesses, particularly SME's experiencing rapid growth. Further, the Treasury should set out its plans—as a co-owner of the new Plan for Growth—for modernising government procurement rules in the future. (Paragraph 171)

73. In addition to BEIS's Innovation Strategy, launched in July 2021, the Government has put in place a range of measures designed to support businesses, including those achieving or likely to achieve high growth. The support ranges from Government Strategies and Sector Councils to specific policies, such as the Future Fund: Breakthrough and programmes such as Help to Grow.

74. The provisions of Help to Grow: Management will support 30,000 UK small and medium sized enterprises (SMEs) over three years with an intensive management training offer, which will give them to leadership tools to increase productivity, seize investment opportunities and grow their businesses. Complementing this, Help to Grow: Digital will support 100,000 SMEs over three years with online advice and vouchers to subsidise the cost of digital technologies that are proven to increase firm level productivity.

75. Programmes run by the Government-owned British Business Bank (BBB) are designed to bring benefits to businesses that are start-ups, businesses with high growth potential that are looking to scale up, and those looking to stay ahead in their market. The BBB works with over 130 delivery partners and as at end of December 2020, are supporting over £7.9 billion of finance to over 93,000 smaller businesses.²

76. The Future Fund: Breakthrough launched in July 2021. This is a £375 million UK-wide scheme, which will encourage private investors to co-invest with the Government in high-growth, innovative firms. These R&D intensive companies accelerate the deployment of breakthrough technologies, which can transform major industries, develop new medicines, and support the UK transition to a Net Zero economy. Due to high research and development costs, breakthrough technology companies typically require more

² This does not include figures lent as part of the Covid-19 economic support schemes.

capital than other technology companies to fuel the later stages of their growth. Future Fund: Breakthrough is delivered by British Patient Capital a commercial subsidiary of the British Business Bank.

77. The Recovery Loan Scheme, which launched in April 2021, will ensure UK businesses of any size can continue to access loans and other kinds of finance up to £10 million per business as they grow and recover from the disruption of the Covid-19 pandemic. Businesses of all sizes and sectors can access free Government-backed advice and guidance from a number of sources, including Government-backed Growth Hubs across England and their equivalent in Northern Ireland, Scotland and Wales.

78. On the Committee's request for the Treasury to set out its plans for modernising Government procurement rules, last year (December 2020), the Cabinet Office published the Green Paper Transforming Public Procurement, setting out proposals and demonstrating the possibilities for public procurement rules reform.

79. The proposals aim to simplify complicated procurement processes, reduce bureaucracy, and create a fair, open and competitive system. This will make it easier for small businesses and voluntary and community organisations to compete for contracts while complying with the Government's international trade obligations.

80. The consultation has resulted in over 600 responses, which are now being analysed in detail. The Government aims to bring forward primary legislation as soon as possible to enact the reforms.

Updated industrial policy statement to the House

81. *To provide clear direction the Government should present to the House an updated industrial policy statement which sets out the Government's strategic assessment of industrial policy in the UK. The Government should provide:* (Paragraph 180)

- *Confirmation of who is leading industrial policy in the UK—is it the Prime Minister as Chair of the National Economy and Recovery Taskforce, the Chancellor of the Exchequer as author of the Plan for Growth, or the Secretary of State for Business, Energy and Industrial Strategy?*
- *Confirmation that officials in each relevant department will be assigned responsibility to lead on industrial policy in their area.*
- *A commitment to publishing the dates and minutes of the cross-cabinet NERT which will coordinate industrial policy.*
- *A commitment to publish industrial policy metrics and to report on those metrics on an annual basis at local as well as national level. The Government should support relevant departments and national agencies in collecting and publishing this data.*
- *A commitment to co-producing industrial policy with the devolved governments and regional and local leaders. The Government should set out the process and timeframes by which this will be achieved.*

82. Build Back Better: our plan for growth sets out the Government's plans to support economic growth through significant investment in infrastructure, skills and innovation. While the Plan for Growth is led by HM Treasury, it is a whole-of-Government endeavour. Individual commitments in the Plan for Growth will be delivered by the relevant department and each of these has a Senior Responsible Officer (SRO). For example, BEIS is leading on the Net Zero, Hydrogen and Space strategies.

83. The Government has noted the Select Committee's interest in the role of the National Economy and Recovery Taskforce (NERT) in developing industrial policy, and its recommendation to publish the dates and minutes of NERT meetings. However, it is a long-established precedent that information about discussions that have taken place in Cabinet and its Committees, and how often they have met, is not shared publicly.

84. As mentioned in the response to recommendation 2, each department has a published Outcome Delivery Plan (ODP), and a new focused performance reporting system at the centre will provide regular reporting to Cabinet Office and HM Treasury. This will provide an ongoing picture of departmental activity, including progress delivering policies within the Plan for Growth framework.

85. The Government recognises the importance of working across the whole of the UK and with regional and local leaders to realise the ambition in the Plan for Growth. The Government will continue to use its existing fora for engagement to help inform the publications and strategies that will flow from the Plan for Growth over the coming months.