

## **Written evidence submitted by PwC UK (PEGo171)**

Thank you for the opportunity to put forward PwC's perspective on the priorities for the UK's economic recovery.

We believe the UK has an opportunity to rebuild while addressing and accelerating responses to pre-existing and longstanding problems, including the skills shortage, widening regional and social inequality and climate change. We see the challenge both from our perspective as a firm addressing these issues within our own business (we employ 22,000 people in offices across the UK, almost half of which are outside London) and also as an advisor to our 27,000 clients, large and small, as many reinvent in their operations in response to the crisis. We therefore understand the need for Government and businesses to take strong, practical and decisive measures in a number of important areas set out in this letter. Please note that the views expressed in our response are informed by our research and ongoing work with our clients. This response is separate to and has not been influenced by any recent work we've undertaken for the Department for Business, Energy and Industrial Strategy, which remains subject to applicable contract terms including confidentiality obligations.

### **Upskilling the nation**

The UK needs an upskilling revolution to support people back into work post-crisis, but also to address job displacement as automation increases and nurture aspiration and fairness. The scale of the challenge requires a new national skills programme, and a bigger drive from businesses to identify and develop the new skills they need.

Through our work with clients, and the massive upskilling of our 276,000 people worldwide as part of our *New World. New Skills* initiative, we have seen first hand the importance of guiding business and employees through this transition, and crucially, supporting those people outside the workplace.<sup>1</sup>

Working with students and teachers through our *Tech She Can Charter* has shown us the benefits of a technology education, at an early stage, to better prepare young people for the future world of work.<sup>2</sup>

It is also critical that upskilling investments provide opportunities for under-represented groups. Within our own firm, for example, we have changed our apprenticeship offer to improve diversity and social mobility across our intake. Inequality has a huge societal and economic cost for the UK, and alongside government, businesses have a critical role in creating new opportunities and eliminating bias at all levels of their organisations. I am proud that PwC is ranked as the leading social mobility employer in the UK.

### **Reconfiguring the UK economy**

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<sup>1</sup> PwC New World. New Skills webpage: <https://www.pwc.co.uk/services/human-resource-services/insights/new-world-new-skills.html>

<sup>2</sup> PwC Tech She Can webpage: <https://www.pwc.co.uk/who-we-are/women-in-technology/tech-she-can-charter.html>

The Government has a unique opportunity to work with UK businesses to define an ambitious vision for how together we can rethink and reconfigure the economy.

This vision will need to set out the Government's approach to investments in upskilling, infrastructure and innovation, and determine how the UK's new independent trading relationships will support this reshaping of the economy. Achieving this will require strong engagement and coordination between national government and local leadership to ensure that new opportunities are not only matched to local needs, but help the UK achieve its net zero, 'levelling up' and international trade priorities.

As a UK-wide business, we see the economic and societal benefits of levelling up our own operations across the country, and are using our national presence to convene a series of regional workshops with businesses from October to better understand their priorities for the future. We would be happy to share the conclusions of this work with your Committee.

### **Decarbonising the economy**

We understand from our work with clients (we have a market-leading sustainability and climate change practice), and our own success in becoming operationally carbon neutral, the need for social and environmental goals to be integrated within the UK's economic recovery plan. PwC was among the UK businesses who recently called on the Government to ensure this. To help business decarbonise, the Government could also consider measures that would accelerate investment in more low-carbon power generation, as well as the development of Carbon Capture Usage and Storage (CCUS) and low-carbon hydrogen solutions.

The COP26 summit provides a pivotal opportunity to agree a coordinated approach to the critical issues of carbon taxation, accounting for the carbon cost of international production and transportation within international trade, and setting standards on climate-related financial risk disclosures. We believe that enhancing this type of reporting is crucial in driving changes in behaviour and practice.

PwC's purpose is to build trust in society and solve important problems. This is something we put at the heart of the work we do, using our position as one of the leading professional services firms, supporting clients that span across the whole of the UK economy, to understand and help solve a number of the challenges we face together as a society. In addition to our responses to your Committee's call for evidence questions, included below, we would welcome the opportunity to share with the Committee our specific expertise in any of the areas covered in our response.

## **PwC UK's response to the BEIS Select Committee's Post-Pandemic Economic Growth inquiry call for evidence**

### **Q1: What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?**

The Government's immediate priority is to work with businesses to repair the economic damage created by the pandemic and protect jobs. However, the guiding principle to securing a long-term recovery is the need to tackle the fundamental challenges the UK faced before the pandemic, including widening regional and social inequality, the skills crisis and the global need to combat climate change. To achieve this, the Government should look to prioritise its investments and support to:

- protect jobs and businesses within the sectors crucial for the future of the UK economy;
- commit to infrastructure that meets social, environmental and economic outcomes;
- rebalance the economy, ensuring opportunity is spread more equitably across both the country and society; and
- incentivise business investment into the types of transformation required to meet these fundamental challenges.

When combined with the new opportunities opening up as the EU transition period ends, both the Government and businesses are presented with an opportunity to reconfigure the economy to address these challenges, as well as to establish a new role and competitive advantage for the UK internationally.

It will be important for the Government to set out its long-term vision for the future of the UK economy. This should focus on its plans for supporting and investing in the upskilling, infrastructure and innovation required for this reconfiguration, and how it will partner with businesses to achieve this.

### **Q2: How can the Government borrow and/or invest to help the UK deliver on these principles?**

While higher levels of public borrowing, at low interest rates, can fund part of the recovery, achieving the priorities we set out in our response to Question 1 will require an unprecedented level of public-private partnership to support businesses and finance infrastructure.

#### *Prioritising infrastructure investment*

The Government's plans to announce the National Infrastructure Plan, combined with the launch of 'Project Speed' in June, should provide an opportunity to begin building the sustainable pipeline of future work, critical for securing the recovery of the UK's construction and engineering sectors, and driving the economic recovery.<sup>3</sup>

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<sup>3</sup> Prime Minister's Economy Speech: 30 June 2020 <https://www.gov.uk/government/speeches/pm-economy-speech-30-june-2020>

However, a new framework is needed to fully assess any particular project's social and environmental benefits, in addition to its economic value, and measure its contribution to outcomes such as net zero or social mobility. Consideration should be given to whether setting hurdle rates for projects could help balance these requirements.

There is also a need to prioritise investment in infrastructure that responds to trends that have emerged, or have been exacerbated by, the pandemic, e.g. an increase in remote working will require enhanced digital connectivity across the country and could stimulate some reverse urbanisation.

### *Funding and financing infrastructure investment*

Pension funds, insurance companies, sovereign wealth funds and dedicated infrastructure funds have a significant role to play in financing the infrastructure required to reconfigure the UK economy. The Government could consider a number of options to increase access to private sector funding and financing options, as well as increase the attractiveness of infrastructure investments more generally:

- Investigate what flexibility the UK's departure from the EU will allow for the relaxation of rules, especially for the life insurance sector, that could release significant amounts of capital for investment. However, this may have implications for the UK's equivalence with the EU regulatory regime and any changes will need careful consideration.
- Act as an enabler for private sector investment, e.g. acting as an anchor investor for infrastructure projects. The Government has done this with the Charging Infrastructure Investment Fund, which is investing public and private capital in the roll out of public electric-vehicle charging stations.<sup>4</sup>
- Use blended public-private finance solutions and infrastructure debt instruments that offer greater simplicity to investors from a tax perspective. In our experience working with clients, tax certainty, fairness and simplicity are the critical drivers for long-term investment. For any such programme to be successful, there will need to be a consideration of risk allocation, reflecting that Covid-19 has demonstrated to investors that traditional contracting structures are vulnerable to shocks (particularly those that are demand-based such as transport).

The Government has also announced its intention to publicly fund specific areas of infrastructure need e.g. social infrastructure. It is, therefore, expected that private capital will need to focus on areas with a consumer-funded revenue stream, such as utilities or digital infrastructure. Charging structures will need to be addressed to remain affordable.

### *Supporting businesses and incentivising innovation*

Large amounts of capital investment will be needed from banks and private equity to support businesses through the immediate challenges, and fund their investment in the greener

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<sup>4</sup> Details of the operation of the Charging Infrastructure Investment Fund  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/834758/Details\\_of\\_the\\_operation\\_of\\_the\\_CIIIF.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/834758/Details_of_the_operation_of_the_CIIIF.pdf)

supply chains, automation, upskilling, digital transformation, and carbon reduction strategies necessary for a resilient and sustainable recovery.

In particular, small and medium-sized businesses (SMEs), which account for around three-fifths of employment and half the turnover of the UK private sector, are unlikely to have the cash reserves required in the short to medium-term to invest.<sup>5</sup> Many will be trying to manage significant debt they have built up during the pandemic, and the Government will need to work with the financial services sector to help recapitalise these businesses.<sup>6</sup>

Also, UK businesses on average spend less on research and development than their European counterparts, and adoption of new technologies has been comparatively slow.<sup>7</sup> Based on recent conversations with clients, we believe that encouraging businesses to invest in transformation in the short term will require the Government to set out a clear, long-term strategy for fiscal stimulus, incentives and business taxation. It will also depend on businesses' ability to access the right guidance and support at a local level. The Government may wish to consider the following options:

- Adopt blended finance options to increase equity investment, e.g. technical assistance grants, risk underwriting or market incentives, to support investment. However, the Government should not accept all of the risk without a sufficient return on investment for the taxpayer.
- Incentivise private equity investment into struggling businesses, with the Government receiving a 'golden share', enabling a degree of control allowing it, for example, to restrict certain transactions and direct investments in upskilling or decarbonisation.
- Incentivise larger industry players (like grocery and technology leaders) to act as physical and digital platforms for smaller businesses, allowing them greater routes to market as well as vendor financing options to ease cash flow constraints. The Government could also simplify onboarding rules for this type of collaboration, while maintaining important checks for areas such as health and safety and anti-money laundering.

Specifically, to support business investment in decarbonisation the Government could offer low-cost finance incentives for SMEs to transition their operations to net zero. The Government could also accelerate investment in the development of more low-carbon power generation, as well as CCUS and clean hydrogen solutions, to help all businesses, and especially manufacturers, decarbonise. A recent report from PwC and Energy UK provides recommendations to the Government on how to achieve this.<sup>8</sup>

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<sup>5</sup> FSB Business Population Estimates for the UK and Regions in 2018 <https://www.fsb.org.uk/uk-small-business-statistics.html>

<sup>6</sup> TheCityUK report: Supporting UK economic recovery: recapitalising businesses post Covid-19 <https://www.thecityuk.com/assets/2020/Reports/fc19b9c385/Supporting-UK-economic-recovery-recapitalising-businesses-post-Covid-19.pdf>

<sup>7</sup> ONS Gross domestic expenditure on research and development, UK: 2017 <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/ukgrossdomesticexpenditureonresearchanddevelopment/2017>

<sup>8</sup> PwC and Energy UK report: Rebuilding the UK economy: fairer, cleaner, more resilient: How the energy transition can drive the economic recovery <https://www.pwc.co.uk/power->

**Q3: What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?**

Please see our response to Question 2.

**Q4: Whether the government should give a higher priority to environmental goals in future support?**

Together with a number of UK businesses, PwC has proposed principles for low-carbon economic growth, and has recently called on the Government to deliver a recovery plan that integrates social and environmental goals.<sup>9</sup> This includes ensuring that businesses that receive future support are well managed, with carbon reduction strategies that are based on science and aligned with national climate goals. New business models are needed to get to the Paris Agreement's 1.5°C goal within ten years.

The Government has the opportunity to embed environmental goals into the reconfiguration of the UK economy, aligning its priorities with the UK's legislated net-zero target. In addition to supporting training in green jobs, accounting for the environmental benefits of infrastructure projects, and incentivising green innovation, the Government could take on a leadership role, across the UK and internationally, to drive the changes needed to combat climate change.

The COP26 summit provides the Government with an opportunity to work with leading UK businesses and global partners to reach agreement on a joined-up approach to the critical issues of carbon taxation, accounting for the carbon cost of international production and transportation within international trade, and setting standards on climate-related financial disclosures (e.g. the recommendations by the Task Force on Climate-related Financial Disclosures). Enhancing this type of reporting is crucial in driving change because it provides financial market participants and other stakeholders with accurate information to make informed decisions.

The Government's quick response to the immediate economic needs created by the pandemic has demonstrated that decisive action is possible. We would expect this to translate into higher expectations from the public for the speed at which the Government will now tackle climate change. As an example, the Climate Assembly UK has demonstrated support among the public for action and making difficult choices.<sup>10</sup>

The transition to net zero is one of the defining business opportunities of the next 20 years, and the Government should set out how the UK trade policy will simultaneously align with environmental and climate goals, while advancing the UK's competitive advantage as part of

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[utilities/assets/documents/pwc-energy-uk-rebuilding-economy.pdf](#)

<sup>9</sup> Business leaders letter to the Prime Minister June 2020

<https://www.corporateleadersgroup.com/reports-evidence-and-insights/pdfs/final-290520-business-groups-ceo-resilient.pdf>

<sup>10</sup> Climate Assembly UK Interim briefing: Post lockdown steps to aid economic recovery should drive progress to net zero target <https://www.climateassembly.uk/news/interim-briefing-post-lockdown-steps-aid-economic-recovery-should-drive-progress-net-zero-target/>

recovery. The UK energy sector has one of the most advanced energy systems in the world. It is at the forefront of the transition to decarbonise power generation and it attracts significant private investment in innovative, startup businesses, relative to other sectors in the UK and internationally.<sup>11</sup>

**Q5: Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?**

Please see our response to Questions 6 and 7.

**Q6: How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?**

Protecting jobs within the sectors crucial for the future of the UK economy, and supporting the creation of new jobs in emerging or growing sectors will be vital for the recovery, as will a high level of upskilling to compensate for increasing levels of automation. This will require an ambitious skills programme that prioritises support for those most impacted, designed in close collaboration with businesses.

As the Job Retention Scheme winds down, there may be an increase in unemployment and a challenging job market, compounded by businesses seeking to build their resilience to future shocks through further automation. In some sectors (such as retail and consumer) the transformation and changes to jobs that was expected over five years will now likely take place over the next few months.

The skills that our clients have valued highly in their teams during the pandemic are those that have enabled them to adopt new technologies and ways of working quickly. This has also been true for us. This flexibility, underpinned by a strong foundation in digital skills, is now seen by businesses as critical to their workforce.

*Upskilling the nation*

A recent PwC survey found that 59% of UK workers without education beyond school age were not offered opportunities to digitally upskill by their employers, compared with 44% of university graduates.<sup>12</sup>

To help address this challenge, the Government could introduce an ambitious skills programme, building on the jobs schemes announced by the Chancellor in his Summer Economic Update. This programme could not only help to protect jobs in structurally sound sectors (e.g. tourism, hospitality, and leisure), but support the creation of new jobs in emerging sectors (including those critical to reconfiguring and decarbonising the economy), and upskill the UK's workforce to enable individuals to take on new roles. However, to create new jobs across the UK in support of the 'levelling-up' agenda, investments in upskilling will

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<sup>11</sup> PwC and Energy UK report: Rebuilding the UK economy: fairer, cleaner, more resilient: How the energy transition can drive the economic recovery <https://www.pwc.co.uk/power-utilities/assets/documents/pwc-energy-uk-rebuilding-economy.pdf>

<sup>12</sup> PwC Upskilling Hopes and Fears survey 2019 <https://www.pwc.com/gx/en/issues/upskilling/hopes-and-fears.html>

need to be closely coordinated with corresponding local investments in business support and infrastructure. The Government could consider doing the following:

- Create ‘Upskilling Zones’ across the UK, prioritising support for areas that are either most impacted by the pandemic, most likely to be impacted by automation, or that provide an opportunity for future growth in emerging sectors important to the reconfiguration of the UK economy. We outline this approach in our report *Making the UK fairer: How we work*, published as part of our Future of Government initiative.<sup>13</sup>
- Ensure upskilling investments provide specific opportunities for under-represented groups. It is critical that inequality is eradicated in the UK, with businesses creating new opportunities and eliminating bias at all levels of their organisations.
- Use the excess capacity expected in the higher education sector (from the expected drop in international student numbers) to deliver a national programme of digital upskilling. By using the accelerated adoption of virtual learning, universities could provide this training nationally, or even globally.

### *The need for businesses to take the lead*

The responsibility for upskilling primarily rests with businesses and extends beyond the upskilling of their own workforces. For successful upskilling on a national scale, businesses must work together, with their Local Enterprise Partnerships (LEPs) and trade bodies, to communicate their needs and collaborate with training providers to design their courses. We outline in our *How we Work* report how Luxembourg provides a forum through which its leaders of businesses, trade associations and trade unions can collaborate to deliver a pipeline of talent trained in the skills needed by employers in response to the risk of jobs lost through automation.<sup>14</sup> Changes to the apprenticeship levy to allow the pooling of skills funding could be another way of supporting this.

From our experience of working with clients across a range of sectors, understanding the opportunities new technologies and processes can bring to their organisations requires specialist advice, as well as coaching from trade bodies, technology companies, universities, and LEPs. PwC has developed a *Digital Fitness app* that helps users gain an in-depth understanding of established and emerging trends in and uses of new technologies. As part of our *New World. New Skills* initiative, and in response to the challenges posed by the pandemic, we have made the app freely available globally.<sup>1516</sup>

The PwC tech degree apprenticeship programme, which is specifically designed to equip young people with the digital skills in high demand within our firm, has demonstrated to us the benefits of close collaboration between businesses and local training providers. The

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<sup>13</sup> PwC Making the UK fairer: How we work report <https://www.pwc.co.uk/government-public-sector/assets/documents/uk-future-government.pdf>

<sup>14</sup> PwC Making the UK fairer: How we work report <https://www.pwc.co.uk/government-public-sector/assets/documents/uk-future-government.pdf>

<sup>15</sup> PwC New World. New Skills webpage: <https://www.pwc.co.uk/services/human-resource-services/insights/new-world-new-skills.html>

<sup>16</sup> PwC Digital Fitness App webpage <https://www.pwc.co.uk/issues/intelligent-digital/digital-fitness.html>



opening of our office in Bradford in 2019 has demonstrated the opportunities for social mobility when businesses work in close partnership with their local LEPs and local governments.<sup>17</sup>

### **Q7: Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post pandemic growth?**

It is appropriate for the Government to revisit and refresh the Industrial Strategy to ensure it aligns with the long-term vision for the UK economy. The Government will need to direct and coordinate its approach to investments in infrastructure, upskilling and innovation, and determine how the UK's future independent trading relationships will support this reconfiguration of the economy. The Government can also make the most of trends that have been accelerated by the pandemic, e.g. collaboration between businesses, onshoring of supply chains (transferring to the UK business operations that were based overseas), and repurposing of production lines, to help drive the reconfiguration and decarbonisation of the economy.

To achieve this, infrastructure projects, upskilling programmes and incentives for specific sectors must all be coordinated to ensure that the new opportunities they each create correspond with one another, are matched to local needs, and help the UK achieve its net zero and 'levelling-up' priorities. This will require strong engagement and coordination between national government and local leadership, using local networks and knowledge of local requirements. We outline the value of this approach in our report *Making the UK fairer: Where we live*.<sup>18</sup>

This will require local government, combined authorities and LEPs to revise their local industrial strategies in line with the Government's priorities for the recovery. For example, a similar approach was used in the economic recovery blueprint developed by the West Midlands Combined Authority.<sup>19</sup>

The sustainability and resilience of economic recovery will depend in part on the UK's ability to capitalise on the trends accelerated by the pandemic to drive job creation, innovation and shorter supply chains. The Government could consider:

- Facilitating greater collaboration between businesses, similar to that observed across the manufacturing and pharmaceutical sectors throughout the pandemic. It would require careful oversight and competition controls, but could drive innovation and position the UK to lead internationally.
- Enhancing collaboration to incentivise onshoring by allowing businesses to share the cost and risk of new manufacturing facilities. The Government could also provide incentives to onshore production through tax reliefs, active assistance and by

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<sup>17</sup> PwC opened its Assurance Centre in Bradford in 2019 and works closely with the Opportunity Area Partnership Board set up by the Department for Education, and local schools, to drive social mobility in Bradford.

<sup>18</sup> PwC Making the UK fairer: Where we live report <https://www.pwc.co.uk/government-public-sector/assets/documents/future-government-where-we-live.pdf>

<sup>19</sup> Recharge the West Midlands publication <https://www.wmca.org.uk/media/3975/west-midlands-economic-recovery-our-ask-and-offer-hd-spreads.pdf>

supporting the development of the skills base for production through a coordinated skills programme. The UK's current low carbon energy mix is well placed to attract manufacturing as companies look to reduce carbon content in their supply chains.

- Allowing certain businesses to share infrastructure and distribution networks could reduce costs, accelerate consumer choice, and lead to greater decarbonisation through the reduction of waste. Government approval could also be contingent on the businesses' decarbonising their shared infrastructure.

There are also opportunities from the increasing repurposing that emerged as a result of the pandemic (e.g. JCB and Dyson using a plant that made cabs for diggers to produce steel casings for ventilators), as well as determining to what extent the UK's manufacturing capacity could be retooled to support growth industries.

Targeted investments and incentives for technological innovation and automation should in part be directed to areas close to universities that are pioneering relevant research, or where centres of excellence exist. Clustering this type of investment can drive further innovation and international competitiveness. It would also allow for regional specialisations, which might also benefit the 'levelling-up' agenda. Further enhancing the ability which the UK has to attract and retain international students and entrepreneurs will also be beneficial.

**Q8: How should regional and local government in England, (including the role of powerhouses, LEPs and growth hubs, mayoralities, and councils) be reformed and better equipped to deliver growth locally?**

Please see our response to Question 7.

**Q9: What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the 'levelling-up' agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?**

Please see our response to Questions 2, 4, 6 and 7.

**Q10: What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)?**

The UK's resilience to future external shocks will largely rely on the Government's ability to drive investment in digitisation and automation, reduce the UK's exposure to supply chain disruptions and 'level up' the economy.

As the UK sets its new independent trade policy, priority should be given to striking deals that pave the way for the UK's accession to large trade partnerships, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Access to these trading blocs would open up new markets for UK businesses and allow for a greater diversity in supply chains.

For industries deemed critical to the UK's resilience, the Government may wish to use the

levers of enhanced collaboration and support, outlined in our response to Question 7, to onshore vital goods and services. The broader trend of onshoring can also be used to shorten supply chains generally, enhancing resilience and reducing the carbon emissions associated with transportation.

**Q11: What opportunities exist for the UK economy post-Brexit and the pandemic for export growth?**

Please see our response to Question 7.

**Q12: What role might Government play as a shareholder or investor in businesses post-pandemic and how this should be governed, actioned and held to account?**

Please see our response to Question 2.

*August 2020*