

Annual Report

Industrial Strategy Council



Annual Report

March 2021

About the Industrial Strategy Council

The Industrial Strategy Council ('the Council') is an independent non-statutory advisory group established in November 2018. It is tasked with providing impartial and expert evaluation of the government's progress in delivering the aims of the Industrial Strategy. Its membership is comprised of leading men and women from business, academia and civil society.

Acknowledgements

The Industrial Strategy Council would like to thank the research team for their contribution to this Annual Report. The Council would also like to thank Christine Gaskell, Jennifer Rubin and Rupert Harrison who stepped down as members of the Council earlier in the year but who made a significant contribution to the Council's work.

Contents

Foreword from the Chair	3
Executive Summary	4
Membership	8
Section 1: Introduction	9
Section 2: How the challenge has changed - Covid and productivity	10
How we work.....	10
Where activity takes place	15
How business operates.....	20
Section 3: An assessment of the Plan for Growth	25
Overarching recommendations	25
An assessment of policy content.....	28
Section 4: Lessons from implementation of the 2017 strategy.....	38
Policy delivery progress	38
Lessons learnt.....	40
Section 5: The Council's work	41

Foreword from the Chair

The last 12 months has been a period of significant economic and social change, with a global pandemic shifting how we work, where we work and the way in which businesses operate and the UK leaving the European Union. This has added to the importance of considered and co-ordinated supply-side policies capable of delivering growth in productivity and pay across all parts of the UK.



This final Annual Report from the Industrial Strategy Council (ISC) provides its independent assessment of the Government's 2017 Industrial Strategy and the lessons that contains for its 2021 Plan for Growth. This independent evaluation is, the Council believes, a crucial ingredient of rigorous, transparent and accountable public policy, especially for supply-side policies whose payoffs only arise over the medium term.

On behalf of the Council, it has been a pleasure and a privilege to provide that independent and rigorous evaluation of the Government's Industrial Strategy over the past 2½ years. I hope the extensive research and outputs of the ISC over that period will make a lasting and significant contribution to public policy design, implementation and evaluation in this crucial area for all of our living standards.

Executive Summary

In the light of Covid, the case for a strategy to boost the productivity, prosperity and earning power of people throughout the UK is stronger than ever. That was the aim of the UK Government's 2017 Industrial Strategy. It has now been replaced by the recently published Build Back Better: our plan for growth (Plan for Growth).

Whether it is called an Industrial Strategy or a Plan for Growth, the basic premise is the same – a programme of supply-side policies to drive prosperity in and across the economy. In this final Annual Report, the Industrial Strategy Council assesses progress on the 2017 Industrial Strategy and draws out lessons for the Government as it moves forward with its new plan.

The UK has a real opportunity over the next decade to make significant progress on boosting innovation among companies and sectors, reducing inequalities across regions, and harnessing the benefits of a productivity-enhancing and fair transition to Net Zero emissions. Those opportunities are both domestic and global, as the UK re-thinks and re-establishes its role in global trade and value chains following Brexit.

The Covid crisis has had a huge economic and social impact and will have a lasting influence on how we work, where activity takes place, and the way businesses operate (Section 2). These changes present opportunities that could boost productivity and reduce spatial inequalities. New ways of working, such as hybrid working for many office-based workers, have the potential to increase productivity and enhance well-being. There is an opportunity to deliver a wholesale improvement in UK digital infrastructure and skills as part of the recovery. And new ways of working and doing business could help in delivering Levelling Up across the UK.

The Covid pandemic has also highlighted the importance of building resilience in the economy. The successful development and deployment of Covid vaccines highlights the benefits of supporting and co-ordinating across Government departments and across sectors through strategic industrial policies, building on existing strengths and capabilities. The Council is publishing a report, alongside this Annual Report, on the lessons from that case study for future growth strategies.

The Council continues to believe that the key ingredients of a successful Industrial Strategy or Plan for Growth are **scale**, **longevity** and **policy co-ordination**. Based on extensive cross-country and historical experience, these are necessary conditions for any sustained improvement in productivity, pay and prosperity. Yet, too often in the past, UK growth plans have failed to satisfy one or more of these principles.

Using these high-level principles, and the Council's extensive work to monitor and evaluate the 2017 Strategy, the Council has looked to draw out some lessons it hopes the Government will find useful as it moves forwards with the Plan for Growth (Section 3). Specifically, the Council has four overarching recommendations that it

believes would help to ensure the Plan for Growth builds on what the 2017 Industrial Strategy started, namely a sustained improvement in long-term living standards across the UK.

1. Having an ambitious strategy spanning a wide array of policy areas, sectors and government departments is a good thing. But all good strategies require prioritisation too. Supply-side policies need to be focused and financed at scale if they are to succeed. One of the Council's main concerns with the 2017 Industrial Strategy was that, with 142 policy measures, it spread itself too thinly. The Council have identified around 180 policies and commitments in the Plan for Growth. That begs questions about the scope and scale, and hence likely success, of this plan. **The Council believes greater prioritisation is likely to be needed if the Plan for Growth is to meet its objectives.**
2. The Plan for Growth focusses on three key pillars of growth – infrastructure, skills, and innovation. These are necessary ingredients of growth and a focus on them is welcome. They are not, however, sufficient. When developing its own framework for monitoring and evaluation, the Council looked beyond these “traditional” drivers of productivity to measures of social, human, and natural capital, as well as broader welfare impacts. That better reflects the known drivers of productivity, earnings and prosperity. **The Council welcomes the intention to set out clear metrics to monitor progress but encourages the Government to widen its framework beyond the “traditional” drivers of productivity.**
3. Industrial policies benefit the economy through their engagement with, and promotion of, private sector activity. Historically, partnerships between the public and private sectors have been a key driver of innovation, productivity, and wealth-creation. A particular strength of the 2017 Industrial Strategy were the elements of “co-creation”. One example was Local Industrial Strategies, with local areas working in partnership with government. A second was sector deals. The Council's work on vaccine development further highlights the power of co-creation. The principle of co-creation is under-emphasised in the Plan for Growth. **The Council believes that active engagement and co-creation, with business and local actors, is key to ensuring the success of the Plan for Growth.**
4. The Council welcomes the planned focus on delivery, with senior cross-Whitehall governance and regular reporting on progress. But best practice internationally, and indeed domestically in other areas of policy, calls for arms-length, independent and rigorous oversight and evaluation of delivery and success. **The Council believes the Government should set up an independent body, ideally in statute, tasked with providing impartial and expert evaluation of the Government's progress in delivering the Plan for Growth.**

The Plan for Growth focuses on three core pillars of growth (infrastructure, skills and innovation) and three priority areas (Levelling Up, Net Zero and Global Britain). The Council's assessment of these areas is set out below:

5. On **infrastructure**, the government has a strong plan backed by significant spending commitments that are of the scale needed. Having a National Infrastructure Strategy, with external scrutiny and evaluation provided by the National Infrastructure Commission, should also help to ensure both longevity and policy co-ordination. **The Council believes the infrastructure component of the Plan for Growth satisfies the necessary success criteria and is a role model for how industrial strategy should be pursued across the other pillars.**
6. The strong focus on **skills** is welcomed by the Council. The 2017 Industrial Strategy was light on labour market and skills policies. The Council's own work has highlighted the scale of the UK's potential future skill gaps – gaps made worse by the Covid crisis – and highlighted the importance of developing vocational skills and a new norm of lifelong learning. These are all priority areas in the Plan for Growth. Technology, demography and sustainability, as well as the lasting effects of Covid, are likely to lead to significant changes in the nature of work over coming decades, with profound implications for skills and learning, regulation, welfare and tax systems. **To meet these challenges, and building on its current plans, the Council believes the Government needs to develop a comprehensive Labour Market Strategy, co-ordinated across government and in collaboration with employers, the education sector and trade unions.**
7. The Plan for Growth sets out many initiatives aimed at boosting **innovation**. A number of these are welcome, including the new Advanced Research and Innovation Agency (ARIA), the "Help to Grow" initiative aimed at boosting management skills and digital investment and the continued commitment to the R&D target. But innovation is about much more than cutting-edge technology in the manufacturing sector; it is about a wider set of investments (in data, software, design, people etc.) across a wider set of sectors. This is particularly important for the UK's almost 6 million registered SMEs. **The Council hopes the forthcoming Innovation Strategy will take a whole system approach to this critical area of public policy.**
8. The Council believes addressing regional disparities is fundamental to boosting productivity, pay and prosperity. The Plan for Growth highlights **Levelling Up** as the Government's most important mission. This is welcome. But the proposed approach appears over-reliant on infrastructure spending and the continued use of centrally controlled funding pots thinly spread across a range of initiatives. Evidence, historical and international, suggests this is unlikely to be a recipe for success. Sustained local growth needs to be rooted in local strategies, covering not only infrastructure but skills, sectors, education and culture. These strategies need to be locally designed and

focussed, as with the Local Industrial Strategies drawn up under the 2017 Industrial strategy. There also needs to be investment in the local capacity and capability to then implement these strategies. **The Council believes a comprehensive reorientation of the Government's approach to Levelling Up is needed, including through its forthcoming White Paper on Devolution, if it is to be successful.**

9. The Council was critical of the degree of focus, financing, and policy co-ordination on **Net Zero** in its previous Annual Report. In the past year, the Government has made significant progress. The Prime Minister's Ten Point Plan for a Green Industrial Revolution provided concrete policy proposals, increased the scale of funding, and laid the foundations for a more joined up Government approach. **The Council believes the Government's plans are a significant step forward but are not yet a practical roadmap for delivering Net Zero, with several areas at present lacking the required scale to make progress at the required speed.**
10. The Council strongly supports having a vision for Global Britain as a priority, not least in the light of Covid and Brexit. The Plan for Growth sets out some good high-level objectives around international cooperation, free and fair trade, and export promotion. But it does not contain much detail on how these objectives will translate into actionable policy plans. The Council's research has demonstrated the benefits of having comprehensive strategies to promote sectors where the UK has a comparative strength in global value chains. **The Council believes there is a strong case for using sectoral policy in this strategic way to promote the development of key UK industries on the international stage.**

A key part of the Council's role has been to hold government to account on delivery. Implementation of the 2017 Industrial Strategy has been good in some areas, but weak in others (Section 4). Whilst around 60% of the 142 policies in the 2017 Industrial Strategy have been implemented, around 25% are in progress or delayed and for the remaining 15% progress is unclear. **The status of these unimplemented policies is uncertain in the light of the change of Government strategy and the Council believes clarity or closure of these policies will be important as a matter of good governance.**

The recommendations and assessments above draw on the Council's collective experience and its extensive programme of work over the past 2½ years. Since the last Annual Report, the Council has published seven research and evidence papers on topics including skills, local policy and growth, sectoral policy, and the development of greener supply chains. In 2020 the Council also launched its blog, Productivity Matters, and has published a total of 25 blogs. Section 5 sets out the Council's contributions since it was formed in November 2018. **The Council hopes its outputs will make a significant and lasting contribution to research and public policy thinking on supply-side issues.**

Membership

- **Andy Haldane (Chair)** - Chief Economist, Bank of England
- **Kate Barker** - Chair of trustees, Universities Superannuation Scheme and member of the Geospatial Commission
- **Emma Bridgewater** - Founder of Emma Bridgewater Ceramics
- **Jayne-Anne Gadhia** - Founder and Executive Chair of Snoop
- **Vivian Hunt** - Senior Partner, McKinsey & Company
- **Rotha Johnston** - Chair of Northern Ireland Screen
- **Juergen Maier** - Chair of the Digital Catapult and Co-Chair of the national Made Smarter manufacturing programme
- **Paul Marshall** - Co-founder and Chairman, Marshall Wace LLP
- **Charlie Mayfield** - Chair of Be the Business
- **Nicola Mendelsohn** - Advertising executive; Vice-President for Europe, the Middle East and Africa for Facebook. Non-Executive Director of Diageo
- **Archie Norman** - Chair, Marks & Spencer
- **Hayley Parsons** - Welsh entrepreneur and investor, and Founder of GoCompare
- **Roy Rickhuss** - General Secretary of Community and member of the General Council of the Trades Union Congress
- **Nancy Rothwell** - President and Vice-Chancellor of the University of Manchester and Professor of Physiology, Co-chair of the Council for Science and Technology and past President of the Royal Society of Biology
- **Matthew Taylor** - Chief Executive, Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA)

Section 1: Introduction

The creation of the Industrial Strategy Council was a commitment in the UK Government's Industrial Strategy White Paper published in November 2017. The Council's remit is to provide impartial and expert evaluation of the Government's progress in delivering the aims of the Industrial Strategy – a long-term plan to boost the productivity and earnings power of people throughout the UK.

The publication of [Build Back Better: our plan for growth](#), hereafter referred to as simply the Plan for Growth, brought with it the end of the UK Industrial Strategy and the Industrial Strategy Council. But the Secretary of State for Business, Energy and Industrial Strategy asked the Council to publish its Annual Report as a statement of progress of the Industrial Strategy and to inform the Government's work going forward.

In light of the Covid crisis, the case for a strategy to boost the productivity, prosperity and earning power of people throughout the UK is as strong as ever. Whether it is called an Industrial Strategy or a Plan for Growth, the basic premise is the same – a programme of supply-side policies to drive prosperity in and across the economy.

The UK already faced a significant productivity challenge, with a decade of weak productivity growth, stagnant real wages, and some of the largest regional disparities in the developed world. **Section 2** set out how the Covid crisis could have a lasting impact on how we work, where activity takes place, and the way businesses operate. This offers the significant potential for future productivity growth.

The Council continues to believe that the key ingredients of a successful Industrial Strategy or Plan for Growth are **scale, longevity** and **policy co-ordination**. Based on extensive cross-country and historical experience, these are necessary conditions for any sustained improvement in productivity, pay and prosperity. **Section 3** uses these high-level principles and the Council's extensive work to monitor and evaluate the 2017 Industrial Strategy to draw out some lessons for the Plan for Growth. It provides some overarching recommendations that will help to ensure the Plan for Growth delivers long-term benefits for the UK, building on the 2017 Industrial Strategy.

Holding government to account on implementation of the Industrial Strategy is an important part of the Council's role. **Section 4** provides a review of the implementation of the 2017 Industrial Strategy and sets out lessons learned that should help to ensure that the Plan for Growth is implemented, monitored, and evaluated effectively.

Section 5 sets out the Council's contributions since it was formed in November 2018.

Section 2: How the challenge has changed - Covid and productivity

Even before the Covid crisis struck, the UK already faced a significant productivity challenge, with a decade of weak productivity growth, stagnant real wages, and some of the largest regional disparities in the developed world. Covid has created additional challenges and opportunities that would have been unimaginable just a year ago. This section examines how these challenges have accelerated pre-existing trends, in particular the role of technology and automation. The challenges are considered along three dimensions: how we work, where activity takes place, and the way businesses operate.

How we work

Covid is reshaping where we work, how we work and when we work.

Hybrid working will most likely be the model that endures for desk workers who can work from home. On balance, new ways of working will increase productivity and enhance quality of life for some.

Different groups of workers will be affected differently. It will be crucial to mitigate the potential negative consequences in labour market outcomes for those worst affected.

The pandemic has forced the adoption of new ways of working. Different groups of workers have been impacted in different ways. Below we look at three groups of workers to understand the impact of these changes:

- (1) desk workers – those who can work from home
- (2) critical & key workers – health care, public services, security, post workers, supermarket staff, delivery drivers etc.
- (3) locked-down workers – those that are in locked-down industries such as hospitality, accommodation, entertainment, and food services

Desk workers

For desk workers, the shift to home working has been one of the key impacts of the pandemic, and one that is likely to persist, at least to some extent. Whilst working from home was a trend that pre-dated Covid, it was a very gradual trend. The availability of technology and software enabled desk workers to stay connected throughout lockdowns and meant that the transition to home working was rapid and relatively smooth. As of April 2020, nearly half (46.6%) of people in employment did

some of their work from home, of whom the vast majority (86.0%) stated this was because of Covid. More than half of Londoners (57.2%) did some work at home.²

In the short-term, there are challenges to full-time home working – for example, blurred boundaries between home and work environment and extra workload due to the pandemic. However, these challenges are not expected to persist in the longer term as the pandemic retreats and a new hybrid-model (a mixture of home and office working) emerges. **The challenge for the medium to long term will be to develop a hybrid model that harnesses the best of both working locations.** The shift to a hybrid model needs to be facilitated by high quality, affordable childcare and regulation that makes it easier for employees to work flexibly. For example, rather than having the right to ask their employer to work from home, workers would instead have the right to work from home.

Flexibility is the key advantage of homeworking. One of the most tangible benefits is the amount of time saved on the daily commute. The ONS estimates the average UK commuter used to spend 221 hours per year travelling to and from work.³ In addition, there is evidence emerging around the intangible benefits from remote working. According to the Remote Employee Experience Index (REEI),⁴ developed in association with Slack, a software company, knowledge workers are generally more satisfied with working remotely (+9.2 points). The biggest increases are seen in work-life balance (+25.7), satisfaction with working arrangement (+20.1), managing work-related stress and anxiety (+17.3) and productivity (+10.7).⁵

Other sources confirm homeworking has no negative productivity impact. The Harvard Business Review found that ‘knowledge workers’ felt they were more productive when working from home because they spent less time in large meetings, more time interacting with stakeholders, and felt more empowered to take ownership of their own schedules.⁶ A survey by Deloitte found 55% of respondents felt that their colleagues were as productive, if not more productive now, than before the

² , ONS (2020), *Coronavirus and homeworking in the UK*, July 2020, Available at: www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/coronavirusandhomeworkingintheuk/april2020

³ Based on analysis of the 2018 ONS Labour Force Survey by TUC www.tuc.org.uk/news/annual-commuting-time-21-hours-compared-decade-ago-finds-tuc

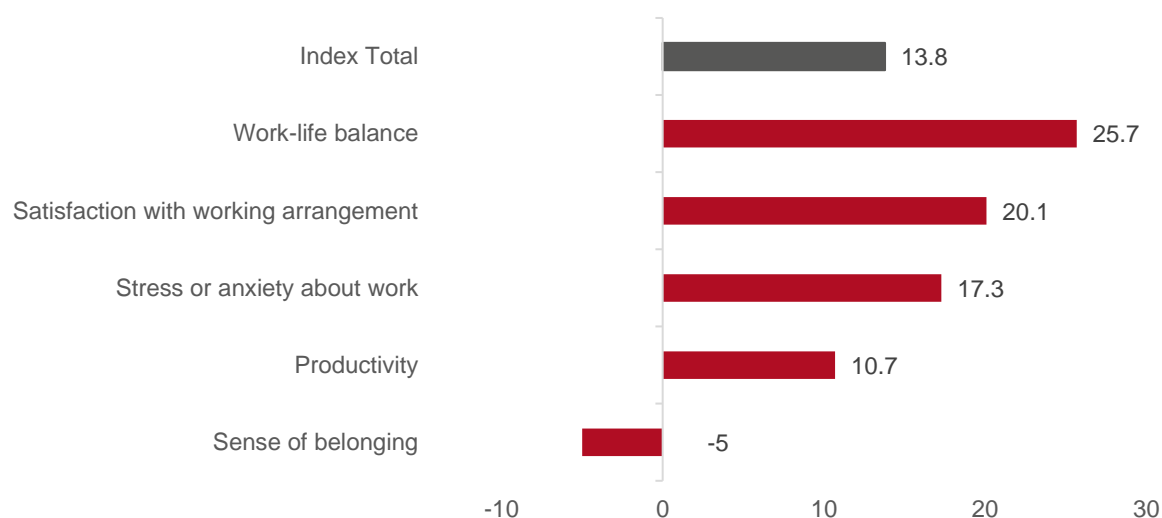
⁴ Based on data from a survey of 9,032 knowledge workers who identify as “skilled office workers” in the U.S., the U.K., France, Germany, Japan and Australia. See: www.futureforum.com/2020/10/07/rewiring-how-we-work-building-a-new-employee-experience-for-a-digital-first-world/

⁵ More detail available at: www.slack.com/intl/en-gb/blog/collaboration/workplace-transformation-in-the-wake-of-covid-19

⁶ Birkinshaw J., Cohen J., Stach P. in: Harvard Business Review (2020), *Research: Knowledge Workers Are More Productive from Home*, Available at: www.hbr.org/2020/08/research-knowledge-workers-are-more-productive-from-home

lockdown.⁷ Research by Birmingham University and the ESRC, found that homeworkers were on average as productive as before the pandemic.⁸

Figure 1: Remote employee experience index



Notes: The highest possible score is 100 and would indicate that all employees feel working from home is better than working in the office. 0 indicates that working from home is the same as working in the office.

Source: slack.com, www.slack.com/intl/en-gb/blog/transformation/remote-employee-experience-index-launch

The current experience has shown desk workers adapted quickly to home-working and should be able to transition smoothly to hybrid working where the constraints of a physical location have been freed, allowing people to develop work patterns that best suit their lifestyle and employer needs.

Critical workers and key workers

Frontline workers have faced serious challenges in response to the pandemic. From increased risk of infection to enforcing social distancing rules, evidence suggests that the nature of their jobs has become more complex and stressful.⁹ **Crucially, the pandemic has under-scored the importance of these critical and key workers.** The case for better pay and conditions for this group has gained momentum, most notably in relation to NHS and social care staff, with the latter having a high prevalence of low-paid and insecure jobs. The pre-Covid calls to increase focus on

⁷ Delloite.com, *Working during lockdown. The impact of COVID-19 on productivity and wellbeing*, viewed February 2021, Available at: www2.deloitte.com/uk/en/pages/consulting/articles/working-during-lockdown-impact-of-covid-19-on-productivity-and-wellbeing.html

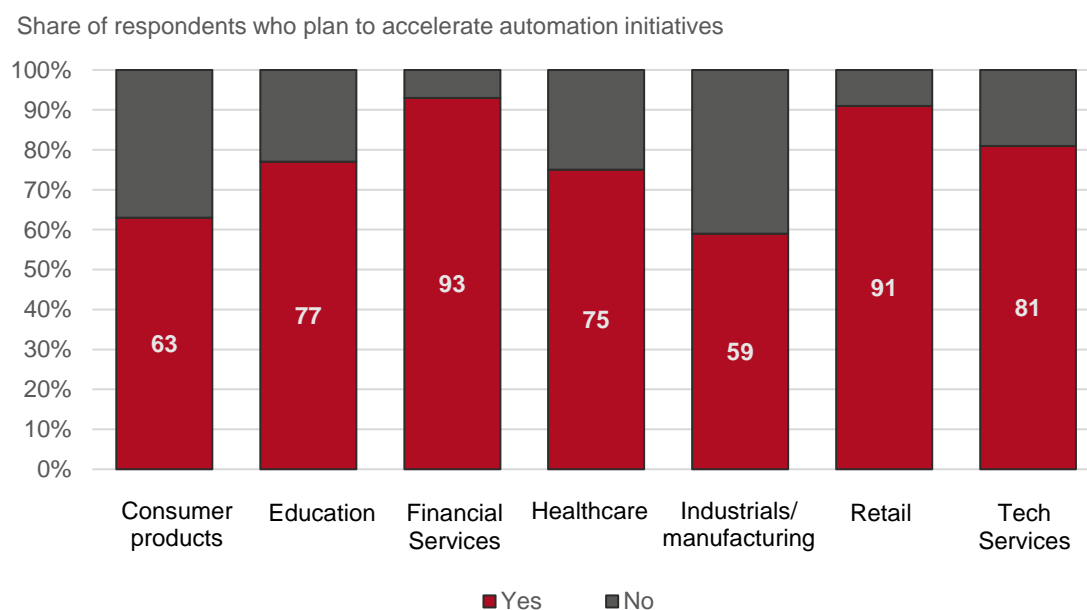
⁸ Birmingham Business School Blog (2020), *Remote work and worker well-being during the pandemic*, November 2020, Available at: www.blog.bham.ac.uk/business-school/2020/11/02/remote-work-and-worker-well-being-during-the-pandemic/

⁹ Zhang et al. (2020), *Occupational Stress and Mental Health: A Comparison Between Frontline Medical Staff and Non-frontline Medical Staff During the 2019 Novel Coronavirus Disease Outbreak*, Front Psychiatry, Available at: www.ncbi.nlm.nih.gov/pmc/articles/PMC7785830/

measures of well-being and social value, beyond GDP could more accurately evaluate frontline workers’ contribution to the economy.

In addition, some key workers will require more direct support in adjusting to the post-Covid reality, especially in terms of re-skilling. Research suggests that the pandemic accelerated the implementation of technology in many sectors¹⁰ - for example, self-checkouts at the supermarket, contactless payment options, click and collect for retail and hospitality (see Figure 2). In the short-term, as the economy adjusts, it will create uncertainty for this group of workers. However, in the longer term, it provides the opportunity to move into higher value-added roles. To facilitate a smooth transition, there will need to be a focus on (1) identifying and investing in the future skill needs of the economy (2) making this training and development accessible to those who need it most and (3) social programmes to support workers who have lost their jobs e.g. in providing advice about training initiatives and (4) better-coordination between industries, unions, local and national government, to support workers into new roles. As discussed in Section 3, this calls for a comprehensive and co-ordinated Labour Market Strategy.

Figure 2: Acceleration of automation initiatives due to Covid-19



Notes: Three out of four companies plan to accelerate automation initiatives due to Covid-19

Source: www.bain.com/insights/will-the-pandemic-accelerate-adoption-of-artificial-intelligence/

¹⁰ McKinsey & Company (2020), *How COVID-19 has pushed companies over the technology tipping point—and transformed business forever*, Available at: www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever

Locked-down workers

Locked-down workers have been considerably impacted by the pandemic in the short run, as the social distancing measures have meant that they could not perform their roles in a safe way. As of 31 October 2020, the sector with the highest proportion of its workforce on furlough was the accommodation and food services sector at 27%, followed by arts, entertainment and recreation at 24%.¹¹ In some instances, digital has helped some workers to continue to work using digital platforms like Patreon, which allows individual artists to run a subscription service.¹² However, until the pandemic retreats, for the most part, this group of workers have been effectively shut out of the jobs market.

As the recovery takes hold, the majority of furloughed or locked-down workers would be expected to return to their jobs. But **reskilling and reallocation support will be needed in parts of the economy where demand is unlikely to return**. While the recovery in some sectors can be expected to be very rapid, the prospects for reopening of the economy remain uncertain and some damage, in terms of lost capacity and jobs, will have already been done.

One change that affected workers in all three groups is the need to perform multiple, mutually exclusive tasks – for example, parents having to oversee home schooling during the lockdowns. Multitasking, although inevitable, has a negative impact on productivity as a result of switching costs¹³ and can increase stress, anxiety and depression.¹⁴ The ONS surveyed parents who were home schooling their children between 3 April and 10 May 2020. They found that 34% of women and 20% of men agreed that their well-being was negatively impacted and 43% of home-schooling parents agreed that it was negatively affecting the well-being of their children.¹⁵ Evidence shows that working-from-home mothers are doing about 90 minutes extra childcare on a typical workday relative to working-from-home fathers.¹⁶ Analysis by the ONS finds that many working parents in Great Britain have adapted

¹¹ ONS (2020), Coronavirus Job Retention Scheme statistics: December 2020, Available at: www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-december-2020/coronavirus-job-retention-scheme-statistics-december-2020

¹² Robertson A., in: The Verge (2017), *Inside Patreon, The Economic Engine of Internet Culture*, August 2017, Available at: www.theverge.com/2017/8/3/16084248/patreon-profile-jack-content-crowdfunding-art-politics-culture

¹³ American Psychological Association, *Multitasking: Switching costs*, viewed February 2021, Available at: www.apa.org/research/action/multitask

¹⁴ Mark W Becker, Reem Alzahabi, Christopher J Hopwood (2012), *Media Multitasking Is Associated with Symptoms of Depression and Social Anxiety*; *Cyberpsychology, Behavior, and Social Networking*, available at: www.researchgate.net/publication/232926411_Media_Multitasking_Is_Associated_with_Symptoms_of_Depression_and_Social_Anxiety

¹⁵ ONS (2020) Coronavirus and homeschooling in Great Britain, Available at: www.ons.gov.uk/peoplepopulationandcommunity/educationandchildcare/articles/coronavirusandhomeschoolinggreatbritain/apriltojune2020

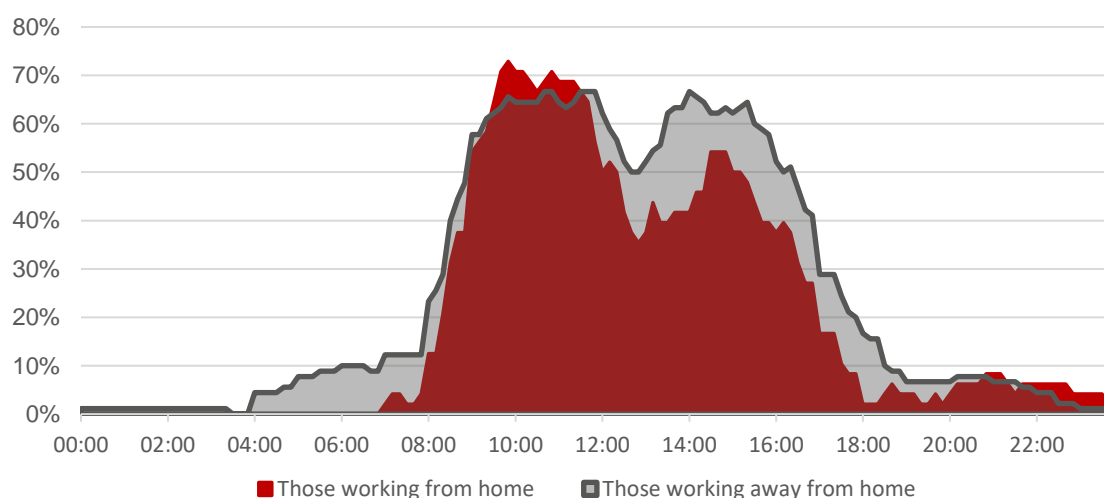
¹⁶ Abi Adams-Prassl, Teodora Bonev, Marta Golin, Christopher Rauh (2020), *Inequality in the impact of the coronavirus shock: Evidence from real time surveys*, *Journal of Public Economics*, Available at: www.sciencedirect.com/science/article/abs/pii/S0047272720301092

their routines to accommodate their new childcare commitments, prompted by the coronavirus lockdown (see figure 3).¹⁷

While we anticipate these impacts to be short-term, there is a lasting lesson here – the need for formal flexible working for parents, in order to ensure they can continue to participate in the workforce and combine work and family commitments.¹⁸ This may call for a change in social and contractual norms around flexible working.

Figure 3: Parenting and changes to working patterns in lockdown

Percentage of group who were working by time of the day (weekdays only) Great Britain, 2020



Notes: Those working from home were more likely to work in the morning and at night, freeing up the afternoon. Those working away from the home were more likely to work unsociable hours

Source: Office for National Statistics – Parenting in Lockdown

Where activity takes place

The Covid crisis will make Levelling Up more difficult in the short term, but could support it in the longer term, especially if there is equal access to digital infrastructure.

The crisis can provide new momentum towards economic transformation of lagging areas.

¹⁷ ONS (2020), Parenting in lockdown: Coronavirus and the effects on work-life balance, Available at: www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/articles/parentinginlockdowncoronavirusandtheeffectsonworklifebalance/2020-07-22

¹⁸ Hupkau C., Petrongolo B. (2020); *Work, care and gender during the Covid-19 Crisis*, Centre for Economic Performance, Available at: www.cep.lse.ac.uk/pubs/download/cepcovid-19-002.pdf

The accelerated adoption of digital technology and automation will support supply chain resilience and greener outcomes.

The impacts of the pandemic varied not only across individuals, but also across UK regions. Covid has accelerated pre-existing economic trends, in particular changing consumption patterns, such as from the high street to online, with implications for activity in local economies.

Pre-pandemic trends

Consumption trends before the pandemic have been accelerated in response to lockdown and social distancing measures. This is particularly true for online retailing which is likely to continue to grow in the long term. The ONS reported that total online retailing values increased by 46.1% in 2020 when compared with 2019, the highest annual growth reported since 2008.¹⁹ Food stores (+79.3%), "other stores" (+73.9%), household goods stores (+73.4%) and department stores (+65.9%) all saw record annual increases in values of internet sales in 2020, compared with 2019.²⁰

In particular, online grocery shopping has gathered intense pace. Companies like Amazon, Oddbox and Deliveroo are all adapting their business model to increase their presence in this market. The increased digitalisation of grocery shopping with a focus on sustainability and waste reduction, contributed to the increased adoption of Artificial intelligence (A.I.) in food retail and production. Companies like Afresh are developing cutting-edge A.I. to reduce food waste.²¹ In addition, disruption to supplies and rapidly changing consumption patterns increased demand for more accuracy in production. Collectively these trends will result in further movement of activity from the front end (i.e. shop floor) to the backend (i.e. software development) of production.

This increased uptake in online shopping will continue to reduce the demand for physical stores, accelerating the changes we have seen in recent years. There have been more store closures than openings since 2015, but with the net change accelerating rapidly during 2020 (see Figure 4).²²

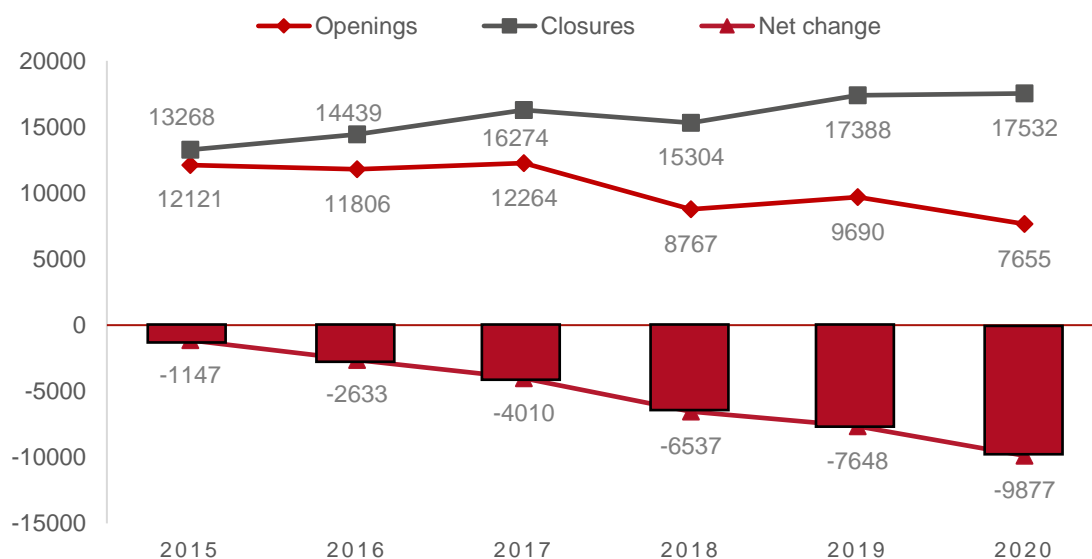
¹⁹ ONS (2021), *Retail sales, Great Britain: December 2020*, Available at: www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/december2020

²⁰ *Ibid.*

²¹ Louise N. in: Techstartups (2020), *Afresh bags \$12 million Series A follow-on funding to eliminate food waste and make fresher, healthier food accessible to all*, Available at: www.techstartups.com/2020/07/20/afresh-bags-12-million-series-follow-funding-eliminate-food-waste-make-fresher-healthier-food-accessible/

²² Pwc.co.uk, *Store Openings and Closures – 2021, viewed February 2021*, Available at: www.pwc.co.uk/industries/retail-consumer/insights/store-openings-and-closures.html

Figure 4: Retailer openings and closures



Source: www.pwc.co.uk/industries/retail-consumer/insights/store-openings-and-closures.html

The move away from bricks and mortar retail, the increased use of technology and A.I., coupled with the move to home working and changing consumer preferences, are accelerating changes to the nature and composition of the high street. Analysis by PWC shows that the presence of mobile phone stores, fashion retailers, betting shops, banks, travel agents, and convenience stores declined between 2016 and 2020. In the same period the presence of independent coffee shops, pet shops, exercise, and fitness stores and artisan supermarkets were on the rise.²³

During the pandemic, buy local and buy independent initiatives have gained considerable momentum, and have resulted in increased local spending. Data on consumer spending in London after the first English lockdown has shown that the city's recovery was driven mainly by the suburbs as spending shifted away from the centre.²⁴ In addition, there was a rise in websites supporting local independent retailers – for example, www.bookshop.com/ and www.notonthewestend.co.uk/.²⁵ Based on research by YouGov, shopping locally in independent stores is a trend that is likely to continue in the longer term. They found that 46% of shoppers will continue to purchase from local sources to some extent when lockdown ends, and one in four

²³ PwC, *Store Openings and Closures – 2021*, viewed February 2021, Available at: www.pwc.co.uk/industries/retail-consumer/insights/store-openings-and-closures.html

²⁴ Gianni De Fraja, Jesse Matheson, James Rockey, Daniel Timms (2021) *The geography of working from home and the implications for the service industry*; voxeu.org, [link](#); *Suburbs lead London's economic recovery while city centre struggles*'.

²⁵ The Guardian. 19 August 2020. Available at: www.theguardian.com/business/2020/dec/06/boom-in-websites-supporting-local-uk-shops-amid-covid-lockdowns

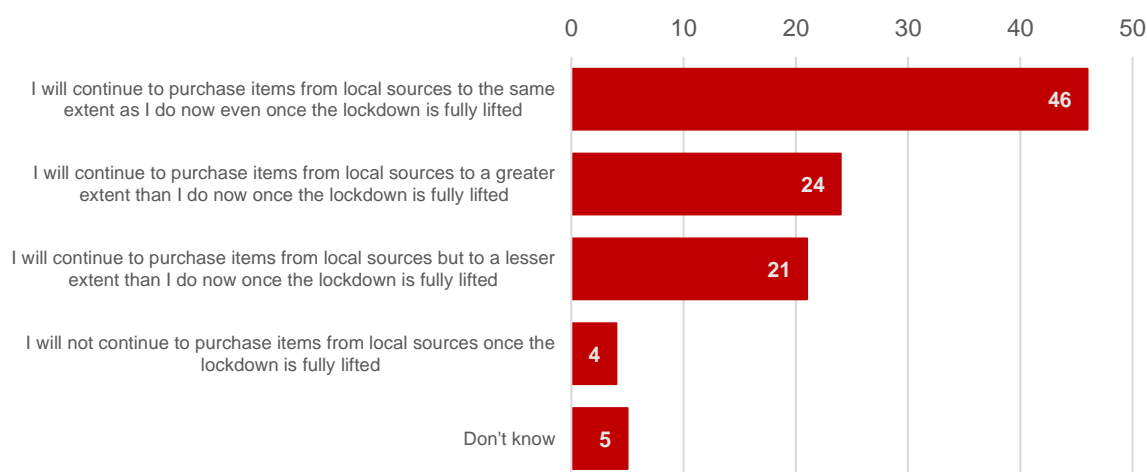
(24%) will shop locally to an even greater extent once the lockdown is fully lifted (see figure 5).²⁶

To ensure that these independent retailers can continue to compete, particularly online, to support local economies, they will need digital and technical support. The Help to Grow initiative announced in Budget 2021 is one mechanism through which this support might usefully be provided.

Figure 5: Shop local trends post-lockdown

Brits don't intend to stop shopping locally, even when lockdown ends.

Which, if any, of the following best applies to you regarding your shopping habits after lockdown is fully



*Overall, 70% OF Brits who shopped locally during the pandemic say they will continue to do so at the same or even greater level when lockdown is fully lifted.

Source: www.yougov.co.uk/topics/consumer/articles-reports/2020/07/10/-covid-19-coronavirus-UK-high-street-local-effect

The changes to the geography of economic activity in the UK are not limited to high streets. Higher spending in local areas, the increased demand for local products from independent stores, and reduced business travel are redefining the role of the city. Typically, headquarters locate near a perceived large pool of talent and transport hubs.²⁷ As companies are now less constrained by geography thanks to home working, they can hire from a global talent pool and conduct meetings online, reducing the need for large headquarters in city centres. While the need for office space is not expected to disappear, given the benefits of physical collaboration, it is reasonable to expect demand to reduce in the longer term.

²⁶ Yougov.co.uk, *Could Covid-19 save the high street?*, viewed January 2021, Available at: yougov.co.uk/topics/consumer/articles-reports/2020/07/10/-covid-19-coronavirus-UK-high-street-local-effect

²⁷ Hbr.org, *The Uncertain Future of Corporate HQs*, viewed January 2021. Available at: www.hbr.org/2020/09/the-uncertain-future-of-corporate-hqs

Levelling up - short term risks and long-term opportunities

The ability of local areas to recover after this crisis will depend on their ability to adapt to an increasingly digitalised economy. Unfortunately, some areas are starting from a more disadvantaged position than others. Aitken et al. (2019) show the share of premises that have ultra-fast internet has reached 75% in London but only 31% in Wales.²⁸ Surveys of specific online activities show a similar pattern, with 59% of respondents in London saying they use the internet to find information for work and study, against only 38% in Yorkshire and the Humber, and below 50% in the North East and North West.²⁹

Recessions tend to exacerbate regional inequalities. After crisis poorer areas typically take longer to recover, even though they may have suffered less severe initial losses. Research finds that the share of exporting jobs in an area is also positively correlated with productivity and the vibrancy of a local labour market and, in turn, the ability to rebound after a shock.³⁰ Larger metropolitan areas with more diversified economies, including larger shares of high value industries, tend to recover more quickly.³¹ High streets and suburbs that have a sufficient numbers of home workers within close proximity, like London and the South East, are also likely to fare better post-pandemic, with the amount of home working likely to be much higher.³² Towns and cities that needed ‘levelling up’ – of which there were 36 before the pandemic according to the Centre for Cities – may need greater and longer-lasting support to recover post pandemic.³³

At the same time, the post-pandemic recovery and accompanying behavioural changes provide an opportunity to tackle some of the key long-standing problems in regional development. The Covid crisis could be used as an opportunity to accelerate the process of regional economic transformation, with activity (working and doing business) more evenly distributed geographically due to digital transformation. The pandemic might also provide momentum to improve local governance. An OECD survey of 300 regional and municipal governments shows that better provision of services (especially health), greater regional resilience, and

²⁸ Aitken, A., Boshoff, J., Nguyen, D., Rincon-Aznar, A., and Stochino, A. (2019), “Places and Spaces: Mapping Britain’s Regional Divides”, NIESR General Election Briefing, December 2019.

²⁹ Ofcom Nations and Regions Technology Tracker 2019, January 2021, available at: www.ofcom.org.uk/data/assets/pdf_file/0026/143981/technology-tracker-2019-uk-data-tables.pdf

³⁰ Centreforcities.org, *Covid and levelling up*, January 2021, available at: www.centreforcities.org/reader/cities-outlook-2021/covid-and-levelling-up/

³¹ EY (2020), *Moving to the Next Level. UK Regional Economic Forecast. England’s regions, cities and towns*. December 2020, Available at: www.ey.com/en_uk/growth/economics-for-business/levelling-up-regional-economy-post-covid-19-crisis

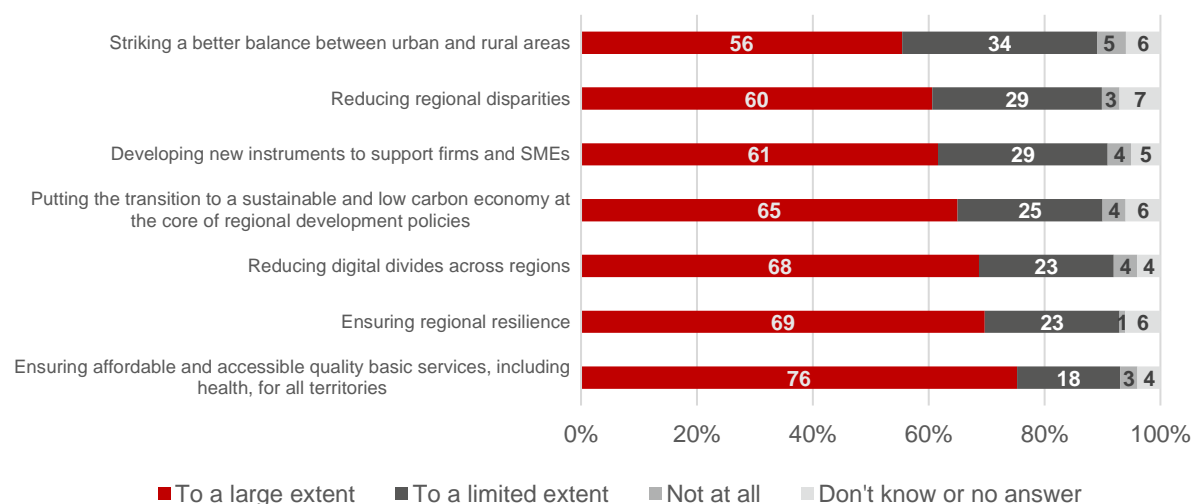
³² The Guardian (2020), *Suburbs lead London’s economic recovery while city centre struggles*. Viewed December 2020, available at: <https://www.theguardian.com/business/2020/aug/19/suburbs-lead-londons-economic-recovery-while-city-centre-struggles>

³³ Centreforcities.org, *Covid and levelling up*, January 2021, available at: www.centreforcities.org/reader/cities-outlook-2021/covid-and-levelling-up/

the reduction in digital divides across regions should become priorities post-Covid (Figure 6).

Figure 6: Regional development policy priorities arising from Covid crisis

Original question: To what extent would you like the COVID-19 crisis to reshape regional development policy priorities in the future by putting more emphasis on the following



Source: OECD-CoR, 2020

How business operates

Depressed business investment during the Covid crisis will have negative consequences for productivity.

Companies will need to change their operating models to ensure they offer the flexibility and connectivity required for the new hybrid way of working.

The drive towards digital transformation and technological upgrading provides a way out of the low-investment, low-productivity equilibrium.

Need for a new operating model

The Covid crisis has created an opportunity for a step change in how businesses operate. In addition to the shift to home working, the pandemic is forcing companies to accelerate their transformation to digital as the main channel for reaching customers. **A rethink of business models is required so that firms can manage dispersed teams efficiently and benefit from new digital technologies.** Hybrid working is likely to facilitate management styles which promote empowerment and autonomy, encourage flexibility, and create flat hierarchies. If business can develop an operating model that incorporates the best of home and office working, and facilitates genuinely flexible working, this should have a positive impact on productivity and well-being. For firms who cannot compete on

salary, this new model could enable them to develop an attractive proposition for employees.³⁴

There is existing evidence of this type of operating model being extremely successful. Netflix, established in 1998, started out by mailing out physical products. They utilised technology to transform their business model and employed a flat, flexible, operating model resulting in them becoming a global market leader in streaming virtually on demand, with 54% market penetration in 2019.³⁵ According to McKinsey, companies like Netflix have clear processes with flat structures, where people are valued for their skills and are truly agile. The flat structure has removed the traditional boundaries allowing for effective collaboration where individuals are empowered and leaders spend more time connecting with teams.³⁶

Investment challenge

Whilst the pandemic has created new long-term opportunities for businesses, it has also limited their ability to deliver them in the short-term. Increased digital adoption and the transition to new operating models will require considerable investment.

The pandemic has damaged businesses investment. Low levels of investment in the UK is not a Covid phenomenon. During the period 1997-2017, UK private sector investment as a share of GDP was the lowest among the G7 countries. However, in 2020 business investment fell to levels not seen since 2012. According to ONS data, business investment fell 27% in 2020 Q2, recovering only slightly in the third quarter, with investment still more than 20% below where it was at the end of 2019. Evidence from the Bank of England's November 2020 Decision Maker Panel survey found that businesses expected investment to be 25% lower in the fourth quarter of the year than it would have been due to Covid.³⁷ There are signs that business investment will remain depressed in the medium term. The OBR forecasts business investment to fall by 2.2% in 2021, but then predicts it will enter a path of rapid recovery, taking until mid-2022 to regain its pre-virus peak.³⁸

Many businesses will also emerge from the pandemic with significantly weaker balance sheets and with potentially lower risk appetite. The sudden loss of

³⁴ McKinsey Quarterly (December 2020), *How COVID-19 is redefining the next-normal operating model*, available at: www.mckinsey.com/business-functions/organization/our-insights/how-covid-19-is-redefining-the-next-normal-operating-model

³⁵ Hrb.org (October 2018), *How Netflix Expanded to 190 Countries in 7 Years*, Available at: www.hbr.org/2018/10/how-netflix-expanded-to-190-countries-in-7-years

³⁶ McKinsey Quarterly (December 2020), *How COVID-19 is redefining the next-normal operating model*, available at: www.mckinsey.com/business-functions/organization/our-insights/how-covid-19-is-redefining-the-next-normal-operating-model

³⁷ BankofEngland.co.uk, *Impact of Covid-19 on UK businesses – evidence from the Decision Maker Panel in 2020 Q4*, Available at: www.bankofengland.co.uk/agents-summary/2020/2020-q4/impact-of-covid-19-on-uk-businesses-evidence-from-the-decision-maker-panel-in-2020-q4

³⁸ The Office for Budget Responsibility (2021), *Economic and fiscal outlook – March 2021*, Available at: <https://obr.uk/efo/economic-and-fiscal-outlook-march-2021/>

revenue, additional cost of making workplaces Covid-secure, and in many cases, the necessity to take out additional loans to survive the lockdowns will mean that many firms will first have to focus on reducing their debt burden, at the cost of new investments. Survey evidence shows that many businesses rapidly re-prioritised investment decisions to preserve cash flows during the pandemic.³⁹ The ONS find 15% of businesses that have not already permanently stopped trading had low or no confidence of surviving the next 3 months and 32% had less than three months' cash reserves.⁴⁰

Against this backdrop, the impact of Covid on business investment might pose a real challenge for reviving productivity growth in the UK. Compared to its peers, the UK already has lower aggregate productivity and a disproportionately longer 'tail' of low-productivity firms. As investment in human, physical and intangible capital has been shown to have a strong impact on firms' productivity, any persisting stagnation in business investment might lead to further widening of the gap between the UK and other economies, as well as between high and low productivity firms within the UK.⁴¹

Longer-term opportunities

At the same time, the Covid crisis presents an opportunity to deliver a wholesale improvement in UK firms' digital infrastructure and skills, building on the adjustments companies have needed to make during the pandemic to improve their digital skills and streamline their estates. Be the Business research has shown that lockdown created three years of innovation in just three months.⁴² If sustained after the pandemic, this could provide an impulse for new investment and deliver a significant productivity boost. Research has already shown that the pandemic is speeding up the exit of the less productive companies. A study by the University of Nottingham shows that the less productive industries have seen larger reductions in output than the more productive ones.⁴³ Similarly, less productive firms across all industries are more likely to exit than the more productive ones.

³⁹ ONS.gov.uk, (January 2021), Business investment in the UK: July to September 2020 revised results, Available at: www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/julytoseptember2020

⁴⁰ ONS.gov.uk, (November 2020) Business insights and impacts on the UK, available at: www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/coronavirusandtheeconomicimpactsoneuk/19november2020/pdf

⁴¹ Ft.com, viewed December 2020, available at: www.ft.com/content/21abdaf0-b3b6-4cf9-93f2-007fc1b1b1c8

⁴² Bethethebusiness.com, *The UK's technology moment – why 2020 can be the year that changed our trajectory on tech*, viewed October 2020, Available at: www.bethebusiness.com/media/the-uks-technology-moment-why-2020-can-be-the-year-that-changed-our-trajectory-on-tech/

⁴³ Bloom et al., Centre for Finance, Credit, and Macroeconomics, Working Paper 20/13, *The impact of Covid-19 on productivity*, available at: www.nottingham.ac.uk/cfc/documents/papers/2020/cfc-2020-13.pdf

New capital spending will for many businesses be driven by the necessity to enhance their online presence which, in turn, will require investment in data management systems and put a premium on acquiring skills to derive value from new data. Even for firms at the cutting edge of innovation, the pressure will grow to apply new techniques, from better digital marketing to using A.I., to manage production and supply chains more efficiently. Finally, most firms will need to devote resources to reform their internal processes so that they are better suited to managing operations with greater reliance on online presence, data collection, new technologies and remote working.

Box 1: Opportunities from Brexit

The UK's departure from the EU has been one of the most radical shifts in economic policy in recent decades.

Leaving the Single Market has inevitably led to some disruption, as trading with the UK's largest and the closest partner has now become more difficult. The burden of non-tariff barriers has already increased the cost of doing business for exporters into the EU and some firms have established separate operations on the continent.

Covid has added another level of complexity to the situation. The pandemic-induced shift to digital, as well as the increased importance of supply chain resilience, will have implications for cross-border trade, international cooperation, and global value chains.

But Brexit will also give rise to new opportunities. What are they and how can Government realise them?

New powers

After Brexit, the UK has greater flexibility over three policy areas key for future industrial policy:

- **Regional development funding:** Having withdrawn from the European Regional Development Fund, and partially replacing it with the UK Shared Prosperity Fund, the UK now has an opportunity to improve the way regional development funding is allocated to better reflect the UK's economic geography and priorities. With Levelling Up at the top of the government's agenda, there is scope for using this new institutional architecture to achieve greater equality across UK regions.
- **Industry support:** The UK also has more flexibility over financial support for industries and companies. While still partly bound to the EU state aid regime via provisions in the UK-EU trade agreement, it will now have greater room for intervention. Historically, the UK has been reluctant to use

those state-aid powers allowed by EU treaties. Brexit could be an opportunity for government to be bolder about investing in its key strengths.

- **Trade:** The government has greater powers over trade policy and tariffs. The introduction of the new UK Global Tariff has shown the government is keen on actively using them. The UK Trade Policy Observatory characterised the new regime as a reasonable compromise. These new trade policy powers can be used to play to the UK's industrial strengths.

New markets and new trade links

Brexit also provides an impetus to explore new markets and to shift the structure of UK trade to capture a greater proportion of the total value-added. Faster export growth in non-EU economies offers the potential to offset at least some of the negative impact of greater restrictions on EU trade. The UK is well placed to access many of these markets, with North America being a prime example, due to strong cultural and historical ties, common business culture and common language. Forging new supply chains and integrating the UK into those new markets will be especially important in areas where the UK has a comparative strength.

New value proposition

Brexit has forced UK policy makers and businesses to consider their unique selling points. As pointed out in previous ISC publications, clarity on economic strengths and weaknesses is crucial for success. The UK's strengths in academic research, and status as the European science and technology research leader, provides one such pillar. But there are others, including the creative, industrial and financial services. It is important to identify and prioritise them and commit to their long-term support.

Section 3: An assessment of the Plan for Growth

The Council believes that the key ingredients of a successful Industrial Strategy or Plan for Growth are **scale**, **longevity** and **policy-co-ordination**. This section uses these high-level principles, and the Council's extensive work to monitor and evaluate the 2017 Industrial Strategy, to draw out lessons for the Plan for Growth. It provides some overarching recommendations that in hopes help to ensure the Plan for Growth continues what the 2017 Industrial Strategy started, namely a sustained improvement in long-term living standards across the UK. It also provides an assessment of the policies associated with the three pillars of growth it sets out (infrastructure, skills, and innovation) and the three priority areas (Levelling Up, Net Zero, and Global Britain).

Overarching recommendations

Prioritisation

Having an ambitious strategy spanning a wide array of policy areas, sectors and government departments is a good thing. The 2017 Industrial Strategy was ambitious in its attempt to provide an overarching framework for industrial policies and to co-ordinate those policies across Whitehall. Whilst the Council's assessment is that it has not always lived up to this ambition, such policy co-ordination will be critical in future to ensure the Plan for Growth is delivered.

All good strategies also require prioritisation. Supply-side policies need to be financed at scale and focussed if they are to succeed. One of the Council's main concerns with the 2017 Industrial Strategy was that, with its 142 policies different policy measures, it tried to do too much and spread itself too thinly. The Council's 2020 Annual Report concluded that the Industrial Strategy had made progress, but that a refresh and reprioritisation was needed if it was to meet the challenges facing the UK economy. A year on, that even more true in the light of Covid.

The Plan for Growth is the Government's response to those challenges. It is an ambitious and expansive plan, embracing many Government departments, many sectors and containing a wide-ranging set of policy initiatives. The Council has identified around 180 policies and commitments in the Plan for Growth, many of which do have funding assigned to them. Around 14 of them are commitments to publish a strategy for a specific policy area, which may multiply initiatives further.

That number of policy initiatives begs questions about their scope and scale and hence the likely success of this plan. It will certainly make it difficult to co-ordinate

this number of policy initiatives across Whitehall and in a way which actively involves and engages the business sector and local actors. **The Council believes greater prioritisation is likely to be needed if the Plan for Growth is to meet its objectives.**

Framework and success metrics

The Plan for Growth focusses on three pillars of growth – infrastructure, skills and innovation. These are three necessary ingredients of growth and their importance is supported by an extensive literature. A focus on them is welcome. They are not, however, sufficient conditions for growth. It is well-recognised that growth in living standards and productivity typically relies on a broader set of “capitals” than the traditional ones. That includes measures of natural capital (nature and the environment), social and human capital (trust, relationships and well-being) and institutional capital (both national and local institutions, suitably co-ordinated), among others.

For example, recent work has highlighted the important links between ‘good work’, well-being and productivity, at both the individual and organisational level.⁴⁴ The recently published Dasgupta Review for the UK Government⁴⁵ has highlighted the importance of bio-diversity for future sustainable growth, while monitoring progress towards Net Zero will require a broader set of indicators (see Box 2). And historical evidence, and the Council’s own work, emphasises the importance of institutional capacity and capability, nationally but especially locally, in delivering growth.⁴⁶

That is why, when developing its own framework for monitoring and evaluation of the 2017 Industrial Strategy, the Council looked beyond the “traditional” drivers of productivity to include measures of social, human, and natural capital, as well as broader welfare impacts. Taking that whole-system view better reflects the known drivers of productivity, earnings and prosperity over the longer term.

The Council welcomes the intention to set out clear metrics to monitor progress but encourages the Government to widen its framework beyond the “traditional” drivers of productivity.

Co-creation with the private sector

Industrial policies benefit the economy in large part through the effects they have in stimulating activity in the private sector, supporting innovation, jobs and wealth-creation. The role of industrial policies is to provide a supporting framework within

⁴⁴ www.carnegieuktrust.org.uk/news/tackle-poor-quality-work-to-help-solve-uks-productivity-puzzle-says-new-carnegie-uk-trust-rsa-research/

⁴⁵ www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review

⁴⁶ See Acemoglu and Robinson (2012). *Why Nations Fail: The Origins of Power, Prosperity and Poverty* and <https://industrialstrategyCouncil.org/understanding-policy-making-processes-behind-local-growth-strategies-england>

which the private sector is encouraged to flourish. This objective is best achieved by actively engaging and involving private sector actors in designing and implementing this framework, drawing on their detailed knowledge and capacity to execute on the plan – a model of co-creation.

This is plenty of empirical and historical evidence to support this public/private partnership model as a means of supporting innovation, productivity, and wealth-creation. One prominent example is the so-called mission-led approaches to industrial strategy, which for their success rely on an active partnership between the public and private sectors.⁴⁷

A particular strength of the 2017 Industrial Strategy were the elements of “co-creation” that it included, engaging and involving businesses and local actors in the design and implementation of the framework. One example was the Local Industrial Strategies which local areas (Local Enterprise Partnerships (LEPs) or Mayoral Combined Authorities (MCAs)) developed in partnership with central Government, drawing on local knowledge and with extensive and collaborative local participation. A second example were Sector Deals, which involved partnerships between Government and business in drawing-up and implementing growth plans for defined industries.

The Council’s work on vaccine development highlights the power of co-creation. Development of the Oxford/AstraZeneca vaccine inside a year was made possible through a partnership between the public, private and voluntary sectors. For example, overcoming challenges such as streamlining clinical trials required co-ordination between public health bodies, regulators, scientists, industry and volunteers, supported by civil servants working to secure timely funding to de-risk the process for Oxford and AstraZeneca.

This model of co-creation is, the Council believes, significantly under-emphasised in the Plan for Growth. For example, the status of both Local Industrial Strategies and the Sector Deals is uncertain under the plan. **The Council believes that active engagement and co-creation, with business and local actors, is key to ensuring the success of the Plan for Growth.**

Independent and expert evaluation

Supply-side policies take time to have a material and enduring impact and need longevity. This requires a consistent focus on delivery, monitoring and evaluation. It also requires departments across Whitehall to work together. A key benefit of having an Industrial Strategy or Plan for Growth is the common vision that it provides, as a means of helping deliver that co-ordination. This is particularly true for the objectives around Net Zero and Levelling Up, where the scale is significant and the initiatives span several government departments

⁴⁷ See for example www.ucl.ac.uk/bartlett/public-purpose/publications/2019/may/mission-oriented-uk-industrial-strategy

The Council welcomes the planned focus on delivery, with cross-Whitehall governance at senior levels and regular reporting to Cabinet Office and HM Treasury on progress. But best practice internationally, and indeed domestically in other areas of policy, calls for arms-length, independent and rigorous oversight and evaluation of delivery and success. With the demise of the Industrial Strategy Council, there is now a notable institutional gap in the UK's policy framework for doing so.

The OECD has defined some principles to guide the design of these institutions, including independent governance, transparent process, solid research capacity, economy-wide frame of reference, and linkages to policy-making mechanisms within government.⁴⁸ There are external bodies in the UK that fulfil these principles for some areas of the Plan for Growth, notably the Committee on Climate Change for Net Zero and the National Infrastructure Commission for infrastructure. But the abolition of the Council means no such body exists to hold Government to account on the Plan for Growth overall.

The Council believes the Government should set up an independent body, ideally in statute, tasked with providing impartial and expert evaluation of the Government's progress in delivering the Plan for Growth.

An assessment of policy content

The Plan for Growth focuses on three core pillars of growth and three priority areas. Based on its research and experience with evaluating the 2017 Industrial Strategy, the Council's assessment of these areas is set out below.

Infrastructure

The policies outlined in the Plan for Growth indicate the Government is committed to investing significantly in infrastructure. The document reiterates the pledge from the Autumn 2020 Spending Review to spend £100bn in capital investment in 2021-22, of which £27bn is on economic infrastructure. According to the National Infrastructure Commission (NIC), this would constitute "a substantial increase [in spending] compared to recent years", equivalent to just under 1.2% of GDP, compared to around 0.9% of GDP in recent years.⁴⁹

The NIC was created in 2015 and provide expert, impartial advice to government on long-term infrastructure. The involvement of the NIC in shaping these infrastructure interventions in the Plan for Growth, and their oversight of them, makes it more likely that they are well-designed and will be delivered. The alignment of the Plan for

⁴⁸ Banks, G. (2015). Institutions to promote pro-productivity policies: Logic and lessons, OECD Productivity Working Papers, 2015-01, OECD Publishing, Paris. Retrieved from: www.oecd-ilibrary.org/economics/institutions-to-promote-pro-productivity-policies_5jrql2tsvh41-en

⁴⁹ <https://nic.org.uk/studies-reports/annual-monitoring-report-2021/>

Growth with the existing National Infrastructure Strategy will help facilitate co-ordination of policy actions across government departments.

The Council believes the infrastructure component of the Plan for Growth satisfies the success criteria of longevity, scale and policy co-ordination and is a role model for how industrial strategy should be pursued across the other pillars.

Skills

The strong focus on skills in the Plan for Growth is welcomed by the Council. The 2017 Industrial Strategy was light on labour market and skills policies. The Council's own work has highlighted the scale of the UK's potential future skill gaps – gaps made worse by the Covid crisis. It also highlighted the importance of developing vocational skills and developing a new norm of lifelong learning. These are all priority areas in the Plan for Growth.

The skills challenge is a large and growing one. Council work highlighted that, by 2030, 7 million additional workers (or 20% of the current labour market) could be under-skilled for their job. These skills gaps are expected to be most acute in digital and managerial skills. As Section 2 highlights, digital skills will be increasingly important if hybrid working becomes the norm for some workers. And a green recovery will not be possible without investment in the skills of the workforce.

Long-standing shifts in technology, demography and sustainability are likely to lead to significant changes in the nature of work over coming decades. On top of that, several new labour market issues have been exposed by the Covid crisis. That includes poor job prospects of young adults and school leavers, re-employing those whose jobs have been lost, a lack of social protection within parts of the gig economy and the appropriate levels of pay for key and essential workers. Meeting those labour market challenges calls, the Council believes, for an ambitious labour market strategy. The policies set out in the Plan for Growth, while going in the right direction, probably lack the scale and scope necessary to meet those challenges.

Labour market policies intersect several Government departments. Progress will require the Department for Education, the Department for Work and Pensions and BEIS to work much more closely than in the past, with strong engagement with private businesses, the education sector and trades unions. This is another area where a co-creation model will be essential for success

The Council believes that, building on its current plans, the Government needs to develop a comprehensive and ambitious Labour Market Strategy, co-ordinating across government, and in collaboration with employers, the education sector and trade unions.

Innovation

The Plan for Growth sets out many initiatives aimed at boosting innovation. Many of those are focused on R&D. The Plan for Growth rightly maintains the R&D Roadmap target of spending 2.4% of GDP on R&D by 2027 and includes £14.6bn of direct public funding in 2021/2. Achieving the 2.4% target will require further substantial increases in investment. The R&D Roadmap commits to £22bn (an additional 50%) of public funding by 2024/5, but a significant increase in private R&D will nonetheless be needed to meet the target.

The creation of the new Advanced Research and Innovation Agency (ARIA) is also welcome and something the Council previously highlighted as an important institutional step forward in catalysing research and innovation in the UK.

The innovation process is, however, about much more than R&D at or close to the technological frontier. There are approximately 3 million active firms in the UK⁵⁰, of which only around 60,000 claim R&D tax credits each year. The remaining 98% of firms need also to be provided with incentives to innovate if the UK is to drive forward improvements in productivity.

There are many ways that firms can invest in innovation outside of R&D. This is especially true of firms outside the manufacturing sector, where much of R&D spending is concentrated. This includes investments in: better software; the curation and analysis of data; all types of design, not just of goods; the creation of new literary, musical and artistic works; improved organisation of business processes; better marketing; and training to create a more productive workforce, including management training.⁵¹ The consultation on extending the scope of R&D tax credits to include investments in data and analytics is welcome, but embraces only a subset of these investments.

The Plan for Growth does go some way to recognising, and supporting, these investments. Specifically, it includes a programme to improve the management and organisational skills of 30,000 SMEs and a scheme to assist 100,000 SMEs in the adoption of software and digital solutions. These are welcome initiatives. But their scope needs to be seen against the backdrop of a population of 5.9 million registered SMEs. There is an opportunity to expand the scope of innovation through the upcoming Innovation Strategy, National Data Strategy and Digital Strategy. This could help support wider innovation investment, not just through R&D.

Successful adoption of new technology requires investment in physical capital, skills and business processes. The Plan for Growth provides relatively little by way of additional incentives for longer-term business investment. While the 'super deduction' announced in the Budget is likely to be effective in bringing forward

⁵⁰ ONS Business Demography

⁵¹ See for example, Haskel, Goodridge and Wallis (2014). [Estimating UK investment in intangible assets and Intellectual Property Rights](#)

investment, its temporary nature means it does not provide a long-term incentive to invest.⁵² And empirical evidence for the UK suggests increases in corporation tax could have a significant negative effect on business investment.⁵³

In last year's Annual Report, the Council highlighted the need to scale up the British Business Bank (BBB). Whilst that recommendation was made before the Covid crisis struck, the crisis has exposed why this was needed. The BBB has done an excellent job in rapidly expanding its capacity to deliver Covid-related financial support to businesses. It will be important to maintain the expanded scope and scale of the BBB's operations in the period ahead to meet the financing needs of SMEs in particular.

Moreover, consideration is needed of how to manage the large volume of corporate debt built up during the Covid crisis, especially among SMEs. Covid-related business loan support schemes account for about 16% of the £430 billion in all loans outstanding to private non-financial corporations.⁵⁴ If deleveraging is not managed effectively, there is evidence this could result in a long period of weak business investment growth, with negative long-run consequences for innovation and productivity.⁵⁵ Thinking of ways to manage the burden of this debt for viable firms could also help to reduce business failures and support employment.

In summary, while there are a number of useful innovation initiatives in the Plan for Growth, further consideration is needed of supporting the innovation system as a whole, particularly for smaller businesses, the services industries and those firms who sit inside the technological frontier. **The Council hopes the forthcoming Innovation Strategy will take a whole system approach to this critical area of public policy.**

Levelling Up

It is clear Levelling Up offers significant potential rewards for the UK economy. Council research estimates that Levelling Up of places classified as “falling behind” to the UK average would lead to aggregate UK productivity being around 3% higher. Unlocking the potential of local economies will be more crucial than ever as the UK begins to recover from the economic and social impacts of the Covid pandemic.

The first step in designing an effective strategy for Levelling Up is to define some success criteria – for example, an objective of bringing productivity in left-behind NUTS2 regions up to 90% of the national average. The Plan for Growth does not contain any success criteria for Levelling Up, which makes it difficult to judge

⁵² See for example, House and Shapiro (2006). [Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation](#)

⁵³ See for example, Wallis (2019). [Tax incentives and investment in the UK](#)

⁵⁴ See <https://blogs.lse.ac.uk/businessreview/2021/02/02/a-wave-of-covid-related-bankruptcies-is-coming-to-the-uk-what-can-we-do-about-it/>

⁵⁵ See for example, Borensztein and Ye (2020). [Corporate debt overhang and investment in emerging economies: Firm-level evidence](#)

whether the scale or scope of existing initiatives is adequate. It will also make it difficult to monitor or evaluate whether these policies are succeeding over time.

The research undertaken by the Council makes clear that there is no singular policy that can effectively drive local economic growth on its own. Rather, it is only by putting in place a broad range of local foundations that local growth can be realised and sustained. The Council itself has set out “six foundations” for growth.⁵⁶ These are: scale and longevity of investments, collaboration, making areas attractive places to live, universities and innovation, digital and transport infrastructure and skills and supporting future sectors.

Transport infrastructure features strongly in the Plan for Growth, which by itself is positive. But it is clearly only one foundation of success for “left behind” places. The approach in the Plan for Growth appears over-reliant on infrastructure spending, with too little emphasis on the other five foundational elements identified by the Council.

Every place has its own set of local strengths and challenges. Differences within region are often as large, or larger, than differences between regions. It would be unrealistic to expect central Government to have an in-depth knowledge of local economies. This highlights the value of the 2017 approach of co-created Local Industrial Strategies, with local government developing locally-tailored plans, developed in partnership with local partners and central Government.

The status of these Local Industrial Strategies is, at present, unclear. As they drew on extensive research, and involved intensive collaboration between local actors, it would be a significant loss if the insights contained within them, and the networks established through them, were to go to waste. It is also unclear who will oversee delivery of local plans, as Local Enterprise Partnerships (LEPs) are not mentioned in the Plan for Growth.

The Plan for Growth does contain a number of funding sources (some new, some existing) to support Levelling Up. These include the Levelling Up Fund, the UK Community Renewal Fund, the UK Shared Prosperity Fund and the Towns Fund. It is difficult to judge whether this funding is sufficient for the scale of the challenge without some clearer sense of the success criteria for Levelling Up. More generally, however, this centralised competitive funding-based approach to Levelling Up sits rather uncomfortably with the six foundational pillars. For success, these need to be constructed locally. Competitively-bid central funding limits the scope for effective co-creation between national and local actors. The funding covers only some of the six foundations. And it generates a potentially unlevel playing field, disadvantaging those areas with least capacity and capability to mount a successful bid.

Council research shows that strong local leadership and efficient governance are key to driving local economic growth. Local strength is founded on the strength of local institutions. A study of EU countries found that devolution of fiscal powers to

⁵⁶ See <https://industrialstrategyCouncil.org/what-does-it-take-level-places>

subnational governments was negatively correlated with the level of regional inequality within the sample countries.⁵⁷ More broadly, the evidence suggests that devolution plays a crucial role in the Levelling Up agenda.

At present, there are large imbalances in the capacity and capability of local institutions across the UK.⁵⁸ Indeed, this has actively contributed to the opening-up of regional disparities in a vicious circle for left-behind regions. Levelling Up capacities and capability, and the local institutions in which they are embedded, will be crucial if economic Levelling Up is to succeed. At a minimum, that will require long-term funding certainty (multi-year financial settlements and capital funding) for local institutions.

In a forthcoming report, the Council will set out a set of policy and guiding principles that should underpin effective devolution.⁵⁹ For example, there should be a clear mechanism for devolution of a wide range of powers to a sub-national level. Devolution of spending powers is an essential tool for Levelling Up, with a greater fraction of spending decided locally in line with local needs and priorities.

A Devolution White Paper is planned by the Government but has already been postponed on multiple occasions. There is the opportunity for this to be written in collaboration with local leaders from both the public and private sectors, in a model of co-creation. Given the importance for success of devolving locally powers, monies and people, this devolution plan will need to be ambitious in scope.

The Council believes a comprehensive reorientation of the Government's approach to Levelling Up is needed, including through its forthcoming White Paper on Devolution, to achieve this crucial objective.

Net Zero

The Council was critical of the degree of focus, financing and policy co-ordination on Net Zero in its 2020 Annual Report. However, over the past year, the Government has made significant progress. The introduction of the Ten Point Plan for a Green Industrial Revolution set out concrete policy proposals to support green jobs, and accelerate the path to net-zero. As part of this plan, the government announced £12 billion of investment, focused on reducing emissions in the energy, buildings, and transport sectors, as well as supporting innovation and finance.

The ten-point plan provided some concrete policy proposals, increased the scale of funding for Net Zero and laid the foundations for a more joined up Government approach. Nonetheless, the scale of the challenge very likely exceeds the

⁵⁷ Ezcurra, R., & Pascual, P. (2008). Fiscal Decentralization and Regional Disparities: Evidence from Several European Union Countries. *Environment and Planning A, Economy and Space*, 40(5), 1185–1201.

⁵⁸ See <https://industrialstrategycouncil.org/understanding-policy-making-processes-behind-local-growth-strategies-england>

⁵⁹ To be published on 31 March 2021.

commitments made so far. According to PwC, £40 billion of investment is needed every year for the next decade to meet the Net Zero target.⁶⁰ Of the £12 billion announced in the ten-point plan, only £3 billion was new money.⁶¹

This leaves the plan heavily reliant on private sector investment, with the government aiming to attract three times the committed public sector investment. Despite progress to encourage private investment, including through climate-related financial disclosures by the financial sector, the scale of this challenge looks considerable.

While the ten-point plan was light on mechanisms to support the transition, the recent release of the industrial decarbonisation strategy goes some way to addressing this. This includes the use of public procurement to create demand for green industrial production, new product standards to enable manufacturers to clearly distinguish their products from high carbon competitors, and the use of carbon pricing. Furthermore, the Industrial Decarbonisation Challenge fund has been allocated to nine green tech projects across the country, helping industry to increase its use of low carbon energy sources.

The ten-point plan mentions increased investment in the off-shore wind sector and new technologies, such as floating turbines. These policies will support the decarbonisation of the energy sector, increasing scale, and reducing costs as well as increasing UK comparative advantage. While additional investment in nuclear technology is also welcome, there was a lack of mention of onshore wind and solar, both of which could also play an important part in decarbonising the energy sector. Banning petrol and diesel vehicles by 2030, alongside investment in automotive supply chains and innovation, will also support transition to electric vehicles and help to scale up the industry.

Carbon capture, utilisation and storage (CCUS) and hydrogen will support industry, especially heavy industry, in their efforts to decarbonise. In the 2020 spending review, the government announced an increase in the CCUS infrastructure fund to support the deployment of four CCUS clusters. In addition, £240 million has been announced for the low carbon hydrogen fund, as well as an aim to increase low carbon hydrogen production to 5GW by 2030, and to develop the first town heated entirely by hydrogen by the end of the decade. When compared internationally, UK investment in hydrogen is overshadowed by countries such as Germany, which have allocated a further €7bn as part of their hydrogen strategy. Further investment is likely to be needed for CCUS and hydrogen to support industrial decarbonisation.

The Future Homes Standard will play an important role in the decarbonisation of our homes. From 2025, all new homes will need to be zero-carbon. This means hundreds of thousands of new homes built between now and 2025 will require some form of retrofitting alongside existing homes. The Plan for Growth mentions 600,000

⁶⁰ PwC. (2020). Unlocking capital for Net Zero infrastructure.

⁶¹ The Guardian. (2020). Is £12bn enough to get UK on track for net zero carbon emissions?

heat pumps will be installed every year by 2028, lower than the estimated 900,000 that is needed and rising to 1.5 million before 2035. Currently, fewer than 30,000 heat pumps have been installed each year.⁶²

As the economy transitions to Net Zero, industries and workers will face disruptive change. While the ten-point plan estimates that hundreds of thousands of new jobs will be supported, these jobs may not be in the industries or regions faced with tougher transitions and at higher risk of losing jobs. In addition, as skill requirements differ from carbon-intensive industries, people will need to be reskilled or upskilled to take up new opportunities. The ten-point plan mentions little to support this skills adjustment for workers.

Policy co-ordination is essential in delivering a productivity-enhancing and a just-transition to net-zero. An example where more co-ordination is needed is between local and national government. Local authorities will have an important role to play in achieving net-zero by leading the governments work on decarbonising sectors such as housing and transport. According to the Local Government Association (LGA), the Government needs to outline national and local government responsibilities, as well as support councils to develop local Net Zero delivery plans.⁶³

In summary, the Council welcomes the progress made in the past year and the ten-point plan. It represents significant progress and lays the foundations for a more joined-up Government approach. **The Council believes the Government's plans are not yet a complete roadmap for delivering Net Zero and several areas still lack the required scale to make progress at the required speed.**

Global Britain

The UK has for years benefited from an ever-more integrated global economy and increasing cross border capital flows. It has for many years been a European leader in inward Foreign Direct Investment (FDI). But investment flows into the UK have declined since the financial crisis – a time when trade protectionism has been on the rise and competition between countries as an investment destination has increased. In this context, the UK's leading position (2nd largest destination for global FDI and 5th in world ranking of exports in 2019⁶⁴) is being challenged.

Brexit is reshaping the UK's trade policy and might affect its investment attractiveness too. It will very likely change relative comparative advantages and, consequently, reshape the structure of the economy. In addition, the Covid pandemic has hit global trade and value chains and has the potential to affect global investment decisions and redraw global supply chains.

⁶² Committee on Climate Change. (2020). [Reducing UK emissions Progress Report to Parliament](#).

⁶³ House of Commons Public Accounts Committee. [Achieving Net Zero](#). Forty-Sixth Report of Sessions 2019-21.

⁶⁴ [UK Trade in Numbers](#)

The Plan for Growth lists a number of useful directions of travel in furthering the objectives of Global Britain. This includes “removing market access barriers”. The launch of the Office for Investment, New Export Development Guarantee and General Export Facility and the Britain is Great campaign are all initiatives that would support this objective.

The Plan for Growth states that a refreshed Export Strategy will be published within 12 months to “align support for exporters with our plan for growth and sectoral priorities”. It contains relatively little, however, on how trade and investment policy will be used actively to support the UK’s key sectors. The Council’s publications suggest there is considerable potential here, by more closely aligning UK with international best practice. This means designing and implementing both *defensive* and *strategic* sectoral interventions.

The Covid crisis makes the case for defensive sectoral intervention more important than ever to secure resilience in supply chains. The fracturing of global supply chains during the Covid crisis put at risk the supply of certain essential goods and services, including medical equipment. This underlines the importance of building domestic capacity in some sectors and industries to secure supply of these good and services – as a complement to, rather than substitute for, international supply chains. The role of defensive sectoral policies is to help achieve that resilience.

This needs to be complemented with a set of bold strategic sectoral interventions. These should aim to promote, at scale, a well-defined set of sectors likely to deliver the largest future pay-offs to productivity and living standards, in line with comparative advantage. These policies are well-established, and have been pursued with real success, in a number of other countries.

When judging which sectors best serve the objective of boosting UK productivity and living standards, three relevant factors are:

- “Sector share”: boosting productivity in sectors that already make a material contribution to UK employment and output will, in general, have a larger impact on aggregate productivity.
- “Catch-up potential”: sectors whose productivity lies a long way below the frontier of international best practice have greater potential to “catch-up” and boost aggregate productivity.
- “Future growth”: sectors that have the greatest potential to push the technological frontier in future are likely to make larger contributions to future productivity growth.

The ideal focus for strategic sectoral policies would be sectors satisfying all three criteria. In practice, in a dynamic economy such as the UK, there are relatively few sectors meeting all three criteria. Indeed, often there are trade-offs between them: for example, between supporting fast-growing sectors that are small in scale and

concentrated in relatively more prosperous parts of the UK (life sciences, aerospace) versus supporting larger sectors concentrated in the less well-performing parts of the UK which have more limited upside potential (construction, retail).

That these choices are difficult does not detract from the need for them to be made, on a strategic basis, to support the UK's trade and investment policy and global ambitions. A detailed understanding of the position of UK industries in global value chains, actually and prospectively, would help in making these choices.

The Council believes there is a strong case for using sectoral policy in this strategic fashion to promote the development of key UK industries on the international stage.

Section 4: Implementation of the 2017 Industrial Strategy

A key part of the Council's role has been to hold the Government to account on implementation of the 2017 Industrial Strategy. While the Government has now moved away from the 2017 Industrial Strategy, it is still important to review its implementation and learn any lessons to ensure that the Plan for Growth is implemented, monitored, and evaluated effectively.

Last year's Annual Report provided an initial assessment of the 2017 Industrial Strategy, with the caveat that the long-term nature of the policy commitments it contained meant that it was too early to reach definitive judgements on their success. Overall, good progress had been made on implementation, though many policies were not operating with the consistency and co-ordination, nor with the scale, necessary for success.

A total of 142 policies across the five Foundations of the Industrial Strategy were previously identified by the Council, based on the commitments set out in the Industrial Strategy White Paper in 2017. This section provides an update on the progress made since the 2020 Annual Report on those 142 policies and the lessons learnt from their implementation. The analysis in the section highlights the importance of having an independent body, ideally set in statute, that can provide impartial and expert evaluation of the Government's progress in delivering the aims of the Plan for Growth.

Policy delivery progress

At the time of writing the 2020 Annual Report, most policy commitments in the 2017 White Paper had been launched and had moved into the delivery phase of implementation. Policies were previously categorised as either: complete, in progress, in early development or pending.⁶⁵ Given it has been almost four years since the launch of the Industrial Strategy White Paper and the environment in which we now find ourselves has changed drastically, not unexpectedly some policies have been delayed and a few decommissioned altogether.

⁶⁵ Complete - Government has implemented the policy (the roll-out of the policy has been completed, e.g. funding has been paid out to recipients). In progress - Government is taking steps towards the delivery of the policy and has not missed its delivery deadline. Early development - Government has not taken any action towards the implementation of the policy or missed its delivery deadline.

Figure 7: Implementation of policies in the 2017 Industrial Strategy

Status	Annual Report 2020	Annual Report 2021
Complete	56	86
In progress	64	29
Early Development or Pending (2020)	22	-
Delayed or Decommissioned (2021)	-	6
Unable to find details	-	21

Figure 7 shows that an additional 30 policies have now been implemented, taking the total number of policies implemented to 86. This accounts for 60% of the policies identified as commitments in the Industrial Strategy White Paper. Of those implemented since the 2020 Annual Report, there has been some notable fund launches including:

- £2.5bn fund to improve connectivity between cities and neighbouring towns and improve public and sustainable transport.
- £2.3bn government capital grant programme to help unlock housing development in areas with greatest demand.
- £830m Strategic Priorities Fund to support high quality multi-disciplinary programmes.
- £200m invested via the Local Full-fibre Networks Challenge Fund, with the ambition for 10 million premises to be connected over next decade.

29 policies are considered to be ‘in progress’ but not yet fully delivered. It is notable, though, that not all policies have an announced delivery date, and many are commitments to review existing policies rather than enact new ones. More fundamentally, many are long-term policy commitments with the flow of resources and implementation spanning several years. Of these 29 policies currently in progress, 11 are on track to be delivered later this year or by early 2022 and five have a delivery deadline of 2022 or later. The other 13 do not have a clear date for delivery.

Three policies have been significantly delayed and the delivery of another three policies has been abandoned. As outlined above, this is not unexpected as the environment in which we operate evolves, priorities change, and departments adapt accordingly. Two of the abandoned policies have been incorporated into different, albeit related, programmes. All of the policies that are delayed could be categorised as ‘softer commitments’. These policies are not critical to the ongoing success of the Industrial Strategy nor have they any financial commitment associated with them. Still, they are announced commitments that have not been delivered.

There are 21 policies that it has been impossible to determine the status of. This highlights poor policy delivery and tracking by the Government.

This assessment focuses only on implementation. The Council have not tracked the extent to which the full set of policy commitments have been evaluated by Government departments.

Lessons learnt

This is the second time the Council has undertaken the process of tracking the implementation of the 142 policies in the 2017 Industrial Strategy. This year's process has been much more demanding than the last. With no single government team or body tracking those policies, the Council believes tracking the policies in the Plan for Growth will prove problematic in future. In addition, **the status of unimplemented policies is unclear in the light of the change of Government strategy and the Council believes clarity or closure is needed as a matter of good governance.**

Knowledge of the policies in both the 2017 White Paper and Plan for Growth is dispersed across government and often sits with one or two individuals within each of the 20 government departments and arm's-length bodies initially tasked with the implementation. As staff move on to different roles, so it seems does the knowledge of the policies. There is a real risk this happens with the Plan for Growth without the appropriate structures in place.

The Council research team found some resistance from individuals to report on the progress of individual policies, especially when these were behind schedule or were being dropped all together. Without Council tracking of these policies, there appears to be very little accountability for the commitments made in 2017. This contains an important lesson for policy accountability in future.

Those in government tasked with implementing the 2017 Industrial Strategy policies found the governance structure to be somewhat complex and fragmented. The roles of the various government departments in joint policies can be unclear, making escalation routes and communication on these policies confusing. Some believe the implementation process has been significantly hampered by an overreliance on existing Whitehall structures, processes, and ways of working, further compounded by the large scope of the expected deliverables.

This Plan for Growth sets out plans to address these problems, with the creation of a new focused performance reporting system at the centre of Government which will provide an ongoing picture of departmental activity, with regular reporting to the Cabinet Office and HM Treasury. This appears to be an improvement over previous systems from an administrative perspective but does not expose these policies to expert external scrutiny and evaluation.

Section 5: The Council's work

Since it was formed in November 2018, the Council has had an ambitious work programme. Its outputs have been used to inform the Council's assessment and recommendations in relation to the 2017 Industrial Strategy, but also to contribute to the debate and evidence base on successful supply-side policies. To ensure transparency, all the Council's work has been published on its webpage. Since the last Annual Report, the Council has published seven papers on topics including skills, local policy and growth, sectoral policy, the contribution of Universities and Colleges to the Industrial Strategy, and the development of greener supply chains.⁶⁶

In 2020 the Council also launched its blog, *Productivity Matters*, and has published a total of 25 blogs including some high-profile contributors.

Over the course of 2020 changes were made to the work programme to reflect both the Covid crisis and the priorities of government. The clean growth project was launched reflecting the governments ongoing commitment to a Net Zero economy by 2050 and the project on place was scaled up to reflect the continued focus of Government on its Levelling Up agenda. A specific project focused on lessons for Industrial Strategy from the development of Covid vaccines was also added to the work programme and the findings of the project have been published alongside this Annual Report.

Below we set out the highlights of the Council's work programme. All those papers referenced below will remain available on the Council website. **The Council hopes its outputs will make a significant and lasting contribution to research and public policy thinking on supply-side issues. They are crucial to the long-term health and prosperity of the UK, its nations and its citizens.**

Success Metrics

In line with the Council's role in monitoring and evaluating progress, the Council agreed and published a series of Success Metrics for the Industrial Strategy. The success metrics cover key elements of the 2017 Industrial Strategy, such as headline outcomes, Grand Challenges, Foundations, and Sector Deals. By working closely with stakeholders both within and outside of Government, the Council aimed to capture a broad range of indicators for the whole of the UK, and in many cases, distributional comparisons across places and sectors as well as international comparisons.

⁶⁶ See <https://industrialstrategyCouncil.org/index.php/news-publications>

Box 2: Considerations for evaluation of progress towards Net Zero

As the economy transitions to Net Zero, industries and workers will face disruptive change. Places more reliant on carbon-intensive industries, such as Yorkshire and the Humber and the North West, will face tougher transitions than those that are less reliant on carbon-intensive industries or that have a more diversified economy. Workers will also need to retrain or upskill to meet the growing and changing skills demands required to deliver Net Zero.

Whilst there are many challenges to overcome, there are also many opportunities to deliver employment, wage growth, drive improvements to firm performance and productivity, and level-up left behind towns and cities. Metrics are needed to ensure progress towards Net Zero and to ensure the transition is a productivity-enhancing and fair one. This will require new and more reflective metrics, many of which are different to traditional measures used to measure success and will require measures that capture the distributional impact of the transition to Net Zero, as well as industrial policies and social programs.

Capturing a broader set of success metrics is essential in measuring the success of the transition and holding the government to account when progress has stalled. More needs to be done in these areas to ensure progress can be supported and captured:

- **Timeliness:** Current measures are published with insufficient frequency and often with long time lags.
- **Inclusive transition:** Monitoring a just-transition requires a distributional dimension, which is unavailable in most current metrics.
- **Input indicators:** Current measures tend to be outcome rather than input indicators. A mix is needed to allow an assessment of whether effort today is enough to meet future targets.
- **Timeframes and attribution:** The long-term nature of Net Zero policies means that it will take time for progress to show up in the data. As a range of factors may influence some metrics, it is also difficult to demonstrate causality. Better metrics should be developed now to allow future evaluation to be better.
- **Data for sectors at regional and local level:** Local authorities need more support with data collection and metric development to help them build their own decarbonisation strategies, as well as monitor and evaluate their own progress to Net Zero.

While productivity and the traditional economic performance indicators are important in evaluating the success of the industrial policies, the Council acknowledged the need to look beyond traditional measures to those more inclusive of the environmental and social aspects of progress. This included measures on social and natural capital, well-being impacts, and the distribution of wealth.

The Council has been continuing to develop its thinking on success metrics. In particular, the Council recognised that a more comprehensive set of metrics are needed to monitor progress towards Net Zero and to ensure the transition is a productivity-enhancing and fair one. Box 2 summarises the initial findings from that project.

While the relationship between economic performance indicators and productivity impacts are well documented, the link between productivity and other social metrics, like well-being, are less well understood. At the level of individual firms, experiments have shown that increased worker happiness is linked with higher productivity, while higher levels of stress, poor mental and physical health is linked with lower productivity. At broad regional level, however, areas with high productivity, like London, tend to have the lowest average wellbeing and vice versa. There is a gap in the evidence to link these disparate findings. To address this, the Council has a tendered project being conducted by Frontier Economics to undertake econometric analysis of ONS data to better understand the relationship between wellbeing and productivity. The project will link household survey data, that includes measures of wellbeing, with business surveys, that can be used to measure productivity. The project will attempt to quantify the link between productivity and wellbeing at the sector level within Travel to Work Areas. This work will be published in due course.

Skills

The Council's Skills insight project evaluated the key challenges facing the UK skills landscape and the extent to which policies in the Industrial Strategy addressed them, based on the best available evidence and independent policy analysis. The Council's work focused on future UK skills needs and what might be needed to close predicted future skills gaps.

UK Skills Mismatch 2030

The first paper was completed in collaboration with McKinsey Global Institute. In it the Council analysed the extent of the skills mismatch in the UK workforce in 2030. The report used an innovative methodology to model future skills needs of the UK economy. It highlighted the scale of the potential future skills gap, finding that by 2030, 7 million additional workers (or 20% of the current labour market) could be under-skilled for their job requirements.

It also drew attention to the biggest skills challenge of the next decade – basic digital skills – pointing out that up to two-thirds of the workforce could face some level of under-skilling. Management skills were also highlighted as a significant skills gap.

Rising to the UK's Skills Challenges

The second paper set out the policy challenge to address those skills gaps. The report stressed the need to step up employer investment in training, the crucial role of managers in skills development, the significance of strategic local partnerships in skills policy, and the need to create a positive lifelong learning culture.

Places

The Places Insight Project has significantly contributed to the evidence base around places and Levelling Up. Since the establishment of the Council, four research reports have been published, all of which have important implications for the Government's Levelling Up agenda.

UK Regional Productivity Differences: An Evidence Review

The first paper highlighted that differences in productivity across UK regions are large, in absolute terms and by international standards, and are longstanding. Highly productive regions tend to out-perform low-productivity regions along a number of dimensions – from the skills and health of the workforce to the quality of local institutions and infrastructures.

Implications for policy:

- Longer-term certainty – removing the tendency to abolish and recreate regional policy
- Foster local growth strategies that employ a broad approach
- Keep the spotlight on places whose productivity levels and growth rates are well below the national average

Understanding the policy-making processes behind local growth strategies in England

The second report provided insight into the policy-making processes behind Local Industrial Strategies (LISs), a key commitment in the Government's 2017 national Industrial Strategy. The paper demonstrates that there is value in the development of industrial policy at the local level through Local Enterprise Partnership and Mayoral Combined Authorities, to bring together stakeholders constructively to agree on local priorities based on evidence.

Implications for policy:

- Better communication and understanding between central government and localities is required to improve policies and make them longer-term. The research also emphasises the importance of transparency and candid communication on how political uncertainty influences central policymaking.
- Regional disparities are not only visible in productivity figures, but also in Local Enterprise Partnership capacity. There is a need to level up not only places but also their institutions.
- Access to sub-regional data needs to be improved and monitoring and evaluation of policies should be made a priority.

What does it take to “level up” places?: Evidence from international experience

This research identified six “foundations” for levelling up based on four international case studies: scale and longevity of investments, collaboration, making areas attractive places to live, the role of universities and innovation, digital and transport infrastructure, skills and supporting future sectors. The foundations are cross-cutting and underpin local economic growth and all of them need to be addressed to level up places.

Implications for Levelling Up:

- Vision and leadership – Levelling Up is possible, but it requires a clear vision, strong local leadership and appropriate powers.
- Longevity and scale – Levelling Up requires time and cross-party consensus on key policies.
- People in places – inter-group inequalities are more challenging to address than inter-regional inequalities. Policy makers should carefully consider potential effects of displacement and gentrification.
- No size fits all and no single policy is enough – there is no single “silver bullet” policy and place-specific strategies are needed to effectively drive local economic growth in different contexts.

Devolution and governance structures in the UK⁶⁷

Shortly after this Annual Report, the Council will publish a research paper on Local Governance Structures and Devolution in the UK. It will look at the current state of local governance and the successful elements of different governance arrangements.

⁶⁷ The report will be published on 31 March 2021 here www.industrialstrategyCouncil.org/places-insight-project

Universities and Colleges and the Industrial Strategy

Universities and Colleges and the Industrial Strategy: Exploring data on knowledge exchange, research and skills

The Council sought to highlight the role of the higher education sector in creating prosperity in the UK at both national and local levels. In collaboration with Universities UK, the Council undertook a data exploration project to map the contribution that further and higher education institutions make to the UK economy.

The project aimed to provide easier access to data which can be used to measure and monitor the key aspects of the relationship between higher education and the wider economy. It also set out to provide a data tool (see the 'Visualisations' section of the report [here](#)) that would allow the wider public to access and use this data more easily.

The project's findings highlighted the scale of the contribution of the higher education sector to the economy. For example, it showed that university-owned spin-outs (firms using university-developed ideas) generated £1.4 billion across the UK in 2018/19. It also pointed to some less well-known facts. It highlighted that teaching-led universities outperform the research-led ones in start-up generation, and that the correlation between university funding and their contribution to the economy (based on different metrics) is not clear.

Sectors

The Council's sectors project undertook a comprehensive review of UK and international evidence to shed light on what makes an effective and successful sectoral strategy.

The Sectoral Landscape – an evidence review

The first paper set out the broad trends in the sectoral composition of the UK economy. It aimed to establish a robust evidence base on which the UK's selective policy interventions can be developed and assessed.

The research highlighted the heterogeneity of the UK's sectoral landscape, the need for both focus and versatility of sectoral policies, and the importance of designing interventions for service industries.

Effective Policy Approaches to Sectoral Issues

To help inform and improve future policy the second paper set out principles for successful design and implementation of sector support policies. The paper showed that industry support is now a common practice in key developed economies and called for an ambitious, strategic, and far-sighted sectoral strategy in the UK.

The Council argued that targeted sectoral policy was needed to shore up the economy in the UK, in the aftermath of the Covid crisis, and to maintain its long-term competitiveness. The report pointed to the need for government to engage in both 'defensive' and 'strategic' sectoral policies.

It also highlighted that the clarity on what government aims to achieve with each sectoral intervention, and sufficient scale and longevity are the key ingredients of a successful policy. The reports argued that governments need in-depth knowledge of individual industries to tailor interventions to their specific needs. It also flagged that high-quality service-sector interventions will become increasingly important in future. Finally, it made suggestions about how the UK's current approach to sectoral policy could be improved.

Clean Growth

The Clean Growth insight project set out to evaluate the role of industrial policies in delivering a productivity enhancing, inclusive, transition to Net Zero.

Developing greener supply chains

This was published in January 2021. It explores the challenges and opportunities in developing clean, resilient, and competitive supply chains. The paper highlighted that despite the positive developments and opportunities, progress is not being made fast enough in making supply chains greener. A three-minute [animation](#) was also published for this release.