ICAEW
REPRESENTATION 21/25

BUSINESS AND TRADE COMMITTEE INQUIRY: INDUSTRIAL STRATEGY

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ICAEW welcomes the opportunity to submit evidence on the Industrial Strategy Inquiry published by the Business and Trade Committee on 29 January 2025. ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. ICAEW represents more than 208,000 members and students around the world and in all sectors and sizes of business. 99 of the top 100 global brands employ ICAEW Chartered Accountants.

KEY POINTS

- Characteristics of successful industrial strategies around the world are market-led approaches with targeted state policies for high value, future oriented sectors.
- The new Government's Industrial Strategy has got off to a good start. The sectoral approach has chosen those sectors in which the UK has a strong competitive advantage. The ten-year perspective will help to embed a stable framework which provides certainty for businesses to invest, if the churn of policy initiatives is reduced.
- An industrial strategy is a component of, but not the full answer to the challenges of growth. General economic policy, with particular emphasis on tax and proportionate regulation, remains of vital importance.
- If it is to secure its mission to "kickstart economic growth by securing the highest sustained growth in the G7" the Government needs to unleash a revolution in its approach to incentivising investment and growth to produce levels of growth not seen in this country since the 1990s. An Industrial Strategy is part of this revolutionary approach, but October's Budget made the task of growth more difficult.
- The role of government is to ensure policies across departments are consistent with the Industrial Strategy. Early announcements on Level 7 apprenticeships do not bode well for consistency and collaboration. The Industrial Strategy should also include clear, measurable metrics to track progress.
- Government must decide and articulate its risk appetite regarding market dynamism and the level of direct public funding that will be provided as part of the Industrial Strategy.

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ANSWERS TO SPECIFIC QUESTIONS

What Industrial Strategy will maximise economic growth, productivity and good, high-skilled jobs across the UK, how the Government's plan measures up to this design - and how the Government should best measure progress?

1. An industrial strategic approach should not mean a rejection of the market to produce innovation, improved productivity and rising living standards. In the 21st century global economy, strategic state support for business growth and economic policy objectives is the norm, not the exception. Shared characteristics of successive industrial strategies around the world include effective collaboration, coordination and communication between the state and private sector and targeted industrial policies focused on high-value, future-oriented sectors. South Korea targets support focused on high value sectors such as semiconductors; Singapore has effective planning and coordination between public and private sectors through its Economic Development Board; and Switzerland focuses on niche, high value sectors such as pharmaceuticals, precision instruments and financial services.
2. In this context, the proposed industrial strategy has made a promising start. It has a long-term perspective over a ten-year period which, if done correctly, may reduce policy churn and provide the market with a clear direction and stable framework; this may allow the private sector to invest and innovate with a higher level of confidence. It has also provided a sectoral approach which highlights the UK's comparative advantages and indicates a focus on playing to the economy's strengths.
3. The Government does however need to decide and provide clarity at the outset the degree of explicit financial support that will accompany the Industrial Strategy. We accept the challenging economic and fiscal circumstances the new government inherited. Professional and business services are largely relatively lightly capitalised, although this may need to alter with investment in technology, and do not require injections of public money. However, some sectors, such as advanced manufacturing and defence, do require state investment to maintain and enhance competitiveness in global markets.
4. Industrial strategy should also not be synonymous with government's complete economic policy and growth agenda. Done well, the industrial strategy will make a large contribution to growth by focusing interventions on certain parts of the economy, but other elements of policy are crucial too. General tax policy is important to growth. Building housing and infrastructure in, for example, the Cambridge area to help facilitate the strong sectors in life science and higher education is important but should not be seen as part of an industrial strategy.
5. The committee's predecessor in the 2015-2017 Parliament recommended a set of clear, outcomes-focused metrics that can be used to measure progress. This must be a basic requisite to allow the relative success or failure of Industrial Strategy to be judged.

What fraction of the 'growth gap' between currently forecast (e.g. by the Office for Budget Responsibility and the International Monetary Fund and the Government's growth target (namely highest sustainable growth rate in the G7) could, and should, the Industrial Strategy help close?

6. The government, indeed, the entire country, has a significant challenge. The current forecast for economic growth for the UK in 2025 is in the range 1.6 - 1.7 per cent. The US has projected growth in 2025 of 2.4 - 2.7 per cent. Between 2008 and 2023 the UK average annual economic growth was 0.7 per cent. If it is to secure its mission to "kickstart economic growth by securing the highest sustained growth in the G7" the government needs to unleash a revolution in its approach to incentivising investment and growth to produce levels of growth not seen in this country since the 1990s, while recognising the fiscal constraints it is operating under.
7. Introduction of an industrial strategy is part of that revolution and should make a significant contribution. However, as we said in our response to question 1, it is not the full answer. All parts and activities of government require aligning to the central and primary task of growth;

activities which do not achieve this objective, given the scale and urgency of the challenge, should be abandoned.

8. To assist with this, the role of government in industrial strategy is one of collaboration, coordination and consistency. Policies in one part of Whitehall should not be taken forward which contradict the growth mission or are at odds with growth prospects for the prioritised sectors. For example, we are concerned that proposed changes to Level 7 funding through the Growth and Skills Levy undermines several elements. First, at a broad policy level, this proposal seems to be an example at an early stage in the new government's life that policies can run counter to its intention to have growth as its primary mission. Such a measure for apprenticeships in growth sectors such as law, accountancy and consultancy will compromise growth plans, especially for smaller, regionally based players, choke off social mobility and halt growth in the UK by moving activity offshore. We are concerned that this is an early indicator that industrial policy will not have appropriate coordination of decisions taken across government. Of course, industrial policy is one facet of the Government's economic and growth policy; but we do believe an effective industrial strategy with a sectoral approach towards targeted priority sectors should deploy strong coordinated policy responses across all of Whitehall to ensure decisions made across different departments do not potentially adversely affect growth prospects

9. The challenge of such growth has been made more difficult following the Budget in October 2024. Fiscal decisions are obviously a matter for the Chancellor and ultimately Parliament to approve; however, growth will come from the private sector innovating, growing and taking advantage of commercial opportunities based upon the framework the government sets.

10. ICAEW's Business Confidence Monitor is one of the UK's largest and most comprehensive business surveys, providing a key barometer of business conditions and the sentiment of business leaders making investment and employment decisions. BCM has been running since 2004, providing longevity, consistency and an ability to highlight upcoming trends. BCM data historically shows that the level of confidence in one quarter has a correlation with levels of growth in subsequent quarters.

11. The Budget made the conditions for growth more difficult. BCM findings for Q4 2024, when the Budget was published, showed that business sentiment contracted sharply, only just remaining positive and considerably below its long-term average. Confidence declined across all sectors and regions. In terms of business challenges, the tax burden has become the most prevalent rising challenge, reaching the highest level since BCM started over twenty years ago. Members highlighted the rise in employers' NICs and reductions in IHT Business Property Relief contained in the Budget as specific disincentives to grow and invest.

12. Speaking to members overseas, it is becoming apparent that other countries are prioritising measures to enhance the competitiveness of the tax regime and a deregulatory agenda. We are not suggesting a 'race to the bottom' on tax rates or on regulation, but it is important that general economic policy needs to consider the burdens arising from taxation, including in its administration, and proportionate regulation. Industrial strategy, as a component of economic and business policy, needs to reflect this.

13. As part of its reporting, government also has to introduce clear, specific and measurable metrics to determine how this significant gap between current growth projections and its mission ambition can be addressed, including the contribution measures the Industrial Strategy will make.

Whether the Government should prioritise economic sectors or 'grand challenges'? If sectors are the right focus, has the government prioritized the right growth-driving sectors of the economy? What is the best design of industrial strategy for these sectors? How should Government identify and investment in the sectors of the future?

14. A sectoral and mission or challenges-based approach to industrial and economic policy are not mutually exclusive. As we stated in answer to question 1, a characteristic of successful industrial strategies around the world is a targeted focus on high value sectors. It is right that a UK industrial strategy should play to our country's strength and opportunities in the global

economy. That should not stop some of the major trends facing the global economy and society, particularly the technological revolution centred around advances in artificial intelligence, a transition to a net-zero economy, an ageing population and growing threats to defence and security being addressed across all aspects of government, including economic and business policy. In some instances, the two areas are very closely aligned; a Chartered Accountant working in manufacturing stated: “we cannot have a defence industry without secure and preferably NATO based, if not UK-based, supplies of raw materials, technology and solid-state electronics.” A sectoral approach to industrial strategy should provide targeted focus to those areas in which we have a comparative advantage.

15. At worst, a sectoral approach can lead to lobbying and special pleading for those sectors with both resources and proximity to power. However, the government’s identification of the eight sectors are the right ones in which the UK has both a present comparative advantage and future global export potential. We would suggest an additional sector – that of UK higher education – should be included as a growth sector; the UK is second only to the United States for the excellence of our universities, they are a significant source of soft power for the UK and produce economic activity through the attraction of researchers, undergraduates and graduates both domestically and overseas. Crucially, UK universities generate research and innovation which, properly applied and commercialised, can produce significant beneficial spillovers for the country.

16. An industrial strategy could be misinterpreted as state imposed. This would be the wrong approach which would doom industrial strategy to failure. Industrial strategy cannot be top down but needs to be aligned with the trends and requirements of the market and its actors, carried out with full partnership with business. Active and meaningful engagement with sector groups and councils, such as the Professional and Business Services Council, Creative Industries Council and the Defence Growth Partnership, are important mechanisms to ensure positive dialogue and co-creation of measures to boost sectoral growth. Given the composition of the UK business base and their importance to the economy, it is essential that small businesses are included in such groups and their views heard to ensure an industrial strategy is relevant and meaningful to them.

17. In terms of identifying and investing in the sectors of the future, it would be wrong for government to attempt to pick winners. This approach was partly the reason for failure of industrial policy in the 1970s. Technology and business are moving at ever faster paces and it is impossible to predict the successful enterprises of the future. However, recognition of the importance of good data would help. This is a vital prerequisite for securing more effective decision making and economic growth. The 2016 independent review of UK economic statistics by Sir Charlie Bean revealed significant shortcomings in economic statistics, particularly in relation to services. A member who was involved in the creation of a sector deal in 2018 stated that “accurate government data was rarer than hen’s teeth. Six years on, no progress has been made whatsoever. You can’t manage what you can’t measure.” This should be the focus of the new Government Digital Service under the Department for Science, Innovation and Technology.

How should the Government approach economic sectors which have not been prioritised, including the foundational industries and supply chains that the growth-driving sectors depend on?

18. As the green paper rightly points out, the UK has significant strengths which should provide real optimism as to the opportunities for growth for our country in the next few decades. However, it is also fair to say that the frequent series of ‘once-in-a-lifetime’ shocks in quick succession over the past 15 years, from the global financial crisis, Covid-19, the war in Ukraine and subsequent wave of high inflation, has revealed the UK economy to be less resilient than it should be. This makes us more reliant on, and more vulnerable to, external factors and circumstances, which in turn leave us more exposed to supply-side challenges and price spikes. Although the Industrial Strategy rightly focuses on targeted sectors for growth, the importance of key foundational industries and value chains cannot be ignored.

What is the right balance of investment in 'horizontal' policy, such as skills, infrastructure, clean energy, and transport, and sector-specific investment?

19. This question cuts to the heart of the interchange between general economic policy and industrial strategy. Horizontal policies remain essential to the production of a successful economic policy delivering growth. To use an old adage, 'a rising tide floats all boats'. However, a sectoral approach, combined with good horizontal policies, allows fast boats (that is, priority sectors) to travel further and faster. Supply-side policies remain an essential part of economic policy.

How should government modernise key institutions and 'levers' to support its industrial strategy, in particular to:

1. ***Foster higher levels of innovation which diffuse more effectively through the economy.***
2. ***Make better use of public procurement.***
3. ***Mobilise equity investment and banking finance.***
4. ***Sharpen the spur of competition.***

20. It is welcome that the green paper identifies four central factors that the industrial strategy will address: persistently low levels of investment; regional imbalances and the role of major city regions; weak diffusion and adoption of technologies, ideas, and processes; and slowing market dynamism.
21. This green paper rightly identifies that persistently low investment has been one of the reasons for poor rates of productivity and economic growth. We welcome the government's manifesto commitment to "meaningful partnerships with industry to keep the UK at the forefront of global innovation". Government plans to scrap short funding cycles for key R&D institutions in favour of ten-year budgets are also welcome and much needed. A firm commitment to ensure 3% of GDP is spent on R&D is also required, as well as a roadmap for achieving this, including levers relating to regulation and taxation and support from HMRC.
22. We believe that an overhaul of the government's guidance on R&D tax relief, along with a commitment to update the guidance regularly to reflect new technologies, will help to embed the merged R&D relief rules. This guidance needs to be developed in consultation with businesses and advisers to reflect real-life examples of qualifying R&D projects across a range of industries.
23. Incentivising R&D is inseparable with innovation. We therefore welcome the government's commitment to maintain the current structure of R&D tax relief over the next parliament, which we believe will provide much-needed stability and certainty.
24. Government is right to highlight the pressing need for companies to adopt new methods of technology and management processes. However, the levers for doing so are frequently poorly designed, bureaucratic and therefore unsuccessful, despite the best intentions. A recent example was the AI Upskilling Fund pilot which supported SMEs in the professional and business services sector by match-funding AI skills training for their employees. This was a positive intention but could have been improved by simplification of the application process. Assistance in design by sector councils may go some way towards rectifying these issues.
25. Industrial strategy will largely be focused on supply-side reforms, but helping to boost demand through the smart use of procurement will also assist. The United States' Defence Advanced Research Projects Agency (DARPA) is possibly the best example of state-backed technological innovation which produces spillovers into society and the private sector.
26. We particularly welcome that the committee has highlighted 'the spur of competition'. This is closely linked with the green paper's emphasis on slowing market dynamism. We have said elsewhere in this response that an industrial strategy has to work with the grain of the market rather than to assume mass state intervention. Implicit within this is a harsh and unpalatable

truth; a business lifecycle will mean that a company will start, it may grow, but then it will die. At a macro level, this is to be welcomed: it is an example of Schumpeter's creative destruction, in which capital moves from ineffective parts of the economy to more productive functions. In an era of rapid technological change, this process will inevitably occur more frequently.

27. But at a micro level, this process is painful. Within the Industrial Strategy, government needs to assess its risk appetite for market dynamism. A higher risk appetite may mean faster market dynamism, but the cost is greater frequency of company failure. It is right that individual MPs will undertake their responsibilities to their constituents in wishing to safeguard long-standing local businesses and state that something must be done when they fail. Both government and Parliament need to identify and assess their risk appetite and accept that businesses, even in growth sectors, will fail.

What duties, powers and resources does the Industrial Strategy Council need to effectively oversee the Industrial Strategy?

28. The Industrial Strategy Council should produce an Annual Report to include a basket of consistent key metrics, which should be subject to independent assurance. This will enable transparent communication of progress to non-governmental institutions and enable dialogue. There should then be periodic opportunities for public dialogue.

29. We would recommend that relevant sector bodies, such as the Professional and Business Services Council, should be used as an effective vehicle for dialogue between the Industrial Strategy Council and businesses within the growth sectors. We think government should consider whether sector council representation should also be included on the Industrial Strategy Advisory Council as a means of providing a direct link between the Council and the growth sectors coordinating Sector Plans. The Industrial Strategy Council should ensure transparent due process is followed in decision making and hold public consultation to support its operation – for example, consultation might be appropriate in setting its objectives and KPIs.

30. The Industrial Strategy Council also needs to determine how different organisations can convene to help with specific objectives and issues. Organisations should be invited to offer expertise on selective, specific issues. This is especially important with a focus on sectors but will also be necessary to enable success with technology as well as place.

End, 21.02.25
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