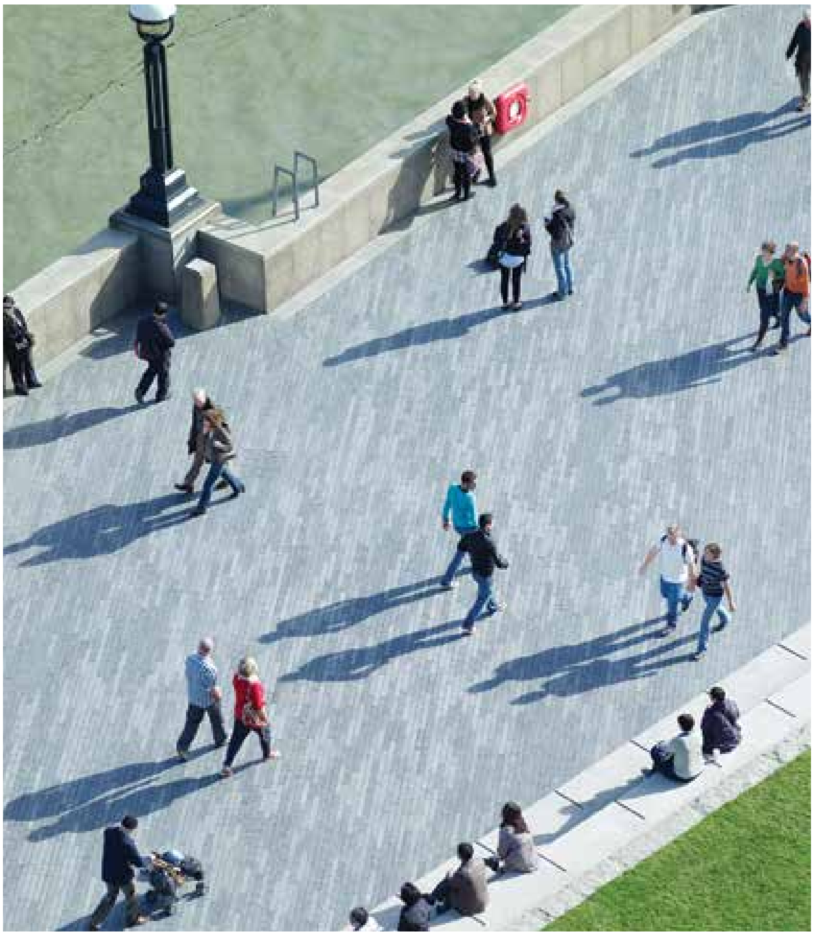
April 2017: *PwC response to UK government consultation paper "Building our Industrial Strategy".*

A modern industrial strategy to underpin UK economic success



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PricewaterhouseCoopers LLP (PwC) welcomes the UK government's recent initiative to develop a broad-based long term Industrial Strategy to underpin business growth and enhance productivity performance.

This is a timely initiative. Facing the potential challenges of Brexit, UK businesses need a consistent policy framework to support investment and guide key decisions over the years ahead.

The UK government is right to focus on a "horizontal approach" to Industrial Strategy, which does not seek to favour individual sectors or businesses. The objective should be to create the best conditions for businesses of all types and across all sectors to contribute to national economic growth.

Four main themes should underpin the government's Industrial Strategy: developing skills and education; upgrading national infrastructure; supporting investment, innovation and business growth; and ensuring a more regionally balanced economy. This paper sets out recommendations on a wide range of specific policies and themes in all of these areas, with supporting analysis.

The policies needed to implement a successful Industrial Strategy are not just the responsibility of one or even a few government departments. They cut across all areas of government policy. The tax system – which shapes the competitiveness of the economy in so many ways and affects business of all sizes – should play a key role.

A successful Industrial Strategy needs to be based on a consistent long-term approach to policy. But it also needs to be focussed on delivery. The outcomes from key policies need to be delivered efficiently and effectively so that economic benefits are realised in a timely fashion.

Introduction and context

PricewaterhouseCoopers LLP (PwC) welcomes the UK government's recent initiative to develop a broad-based long term Industrial Strategy to underpin business growth and enhance productivity performance. We especially welcome the consultative approach being taken by the government on this issue, as the UK's Industrial Strategy will not be successful unless it is informed by the views of individual businesses and their representative organisations.

This initiative is very timely. Facing the potential challenges of Brexit, UK businesses need a consistent policy framework to support investment and guide key decisions over the years ahead. With the right policies, the UK can and should maintain its position as one of the world's leading economies.[1]

A modern Industrial Strategy differs from the interventionist policies pursued in the UK in the 1960s and 1970s. We have learned from that experience – and from policies in other countries – that a much better approach is a "horizontal" strategy aimed at improving the economic conditions affecting businesses across all sectors.

Though the manufacturing industries are a vital part of the UK economy, accounting for around 10% of output and 8% of employment, the majority of our economy is now driven by services – which make up around 80% of output and employment. A modern Industrial Strategy therefore needs to be relevant to all sectors and industries, as well as manufacturing.

The government has identified ten "pillars" for its strategy and these cover most of the main areas of policy which have a bearing on our economic and business performance as a nation. Underpinning this ten pillars we see four broad themes which are needed to underpin a successful Industrial Strategy for the UK economy.

1. Developing skills and education
2. Upgrading national infrastructure
3. Supporting investment, innovation and business growth
4. Ensuring a balanced economy, in terms of sectors and regions

In this response, we have identified some of the key actions needed in these four key areas, as well as setting out our views on the broader issue of the need to raise the productivity and potential of the UK economy. We have not attempted to answer in detail the 38 consultation questions posed in the Green Paper but we have kept these questions in mind as we have prepared this response.

This response is informed by the wide array of research that PwC has carried out for its clients on the key themes underpinning a broad-based industrial strategy. It has been prepared with input from a wide range of subject matter experts within PwC, including economics, skills and education, infrastructure, the digital economy, trade and investment, tax policy, energy, climate change and regional economic development. It has also been reviewed and approved by the PwC Executive Board, chaired by Kevin Ellis – our Senior Partner.

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[1] PwC's latest "World in 2050" projections indicate that in 2030 the UK and Germany will be the only two European economies in the top 10 world economies at PPP exchange rates and the UK will still be the sixth largest at market exchange rates: https://www.pwc.com/gx/en/issues/economy/the-world-in-2050.html

The productivity challenge

The government's approach to industrial strategy is rooted in the objective of raising the rate of productivity growth in the UK. That, in turn, is the key to achieving better long-term economic growth and rising living standards. Recent productivity performance has been disappointing in the UK and in other advanced economies. So the UK is not alone in facing this productivity challenge.

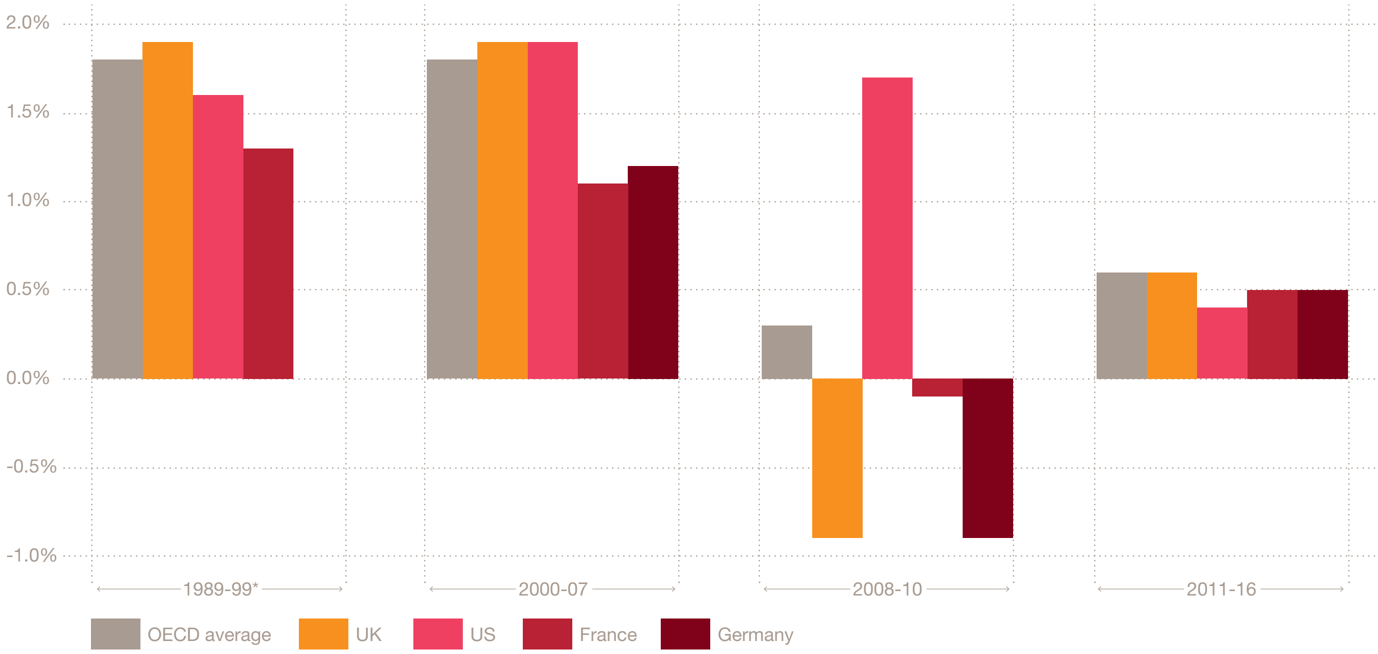
The chart below summarises the UK's productivity performance relative to other advanced economies since the late 1980s using OECD data. There are two clear patterns shown by the data in the chart.

First, there has been a clear slowdown in productivity growth across all major advanced economies since the financial traumas of 2008/9. Across the OECD economies as a whole, productivity growth over the last six years of economic recovery has been running at around a third of the rate seen in the two decades before the financial crisis – 0.6% per annum compared to 1.8%. Sluggish productivity growth is therefore not unique to the UK economy; it is a feature common to many economies across the western world.

Second, apart from the period around the global financial crisis (2008-2010), UK productivity growth has performed reasonably well relative to other major advanced economies. In the period 1989 to 2007 and since 2011, UK output per person employed has grown in line with or slightly ahead of the OECD average – and our productivity growth has generally exceeded the performance of our two largest European neighbours, Germany and France.

Sluggish productivity growth since financial crisis

Percentage per annum change in output per person employed



*Data for Germany not available 1989-99
Source: OECD Economic Outlook, November 2016

The government can play an important enabling role in ensuring all regions and sectors can make their full contribution to national productivity

The government consultation paper highlights the notion of a "productivity gap" between the level of output per person employed in the UK and other leading G7 economies. However, the measurement of this gap is fraught with difficulty. It is very sensitive to the exchange rate used for comparison of GDP in different countries, and it does not take account of other structural differences between economies – including the degree of labour market flexibility. We believe a more powerful motivating force for a renewed focus on Industrial Strategy should be to counter the slowdown in productivity growth – which is common to all the leading economies in the western world.

The drivers of productivity growth in the UK and other major economies have been studied and analysed extensively by economists and policy-makers since the 1950s. In the wide range of studies which have been conducted on this topic, four general themes stand out.

The first is the importance of education and training in raising the skills of the workforce and the ability of workers to contribute to the development of high value-added and high-growth sectors in manufacturing and services. A second key issue is the quality of the infrastructure available to businesses which want to grow and develop – particularly transport infrastructure, but also housing, broadband and access to competitive sources of energy. A third key theme is the way in which government policies support investment, innovation and business growth – including the impact of taxation, business regulation and access to overseas markets. Finally, to achieve its full economic potential, an economy needs to be able to harness the contribution of all regions and all sectors. While there is no perfect or "correct" regional and sectoral balance in a large complex national economy like the UK, the government can play an important enabling role in ensuring all regions and sectors can make their full contribution to national productivity.

The sections below expand our thinking on these four themes in turn, followed by some proposed next steps and policy priorities for developing the UK government's Industrial Strategy.

Developing skills and education

The quality of the education system in primary and secondary schools provides a vital underpinning for the skills base of the UK economy. The ability of young people throughout the country to access a high standard of basic education which prepares them for the world of work is an essential input into ensuring a productive, flexible and high-performing economy.

The UK also has a world-class universities sector, which not only benefits the national economy but also attracts research funding and students from around the world. The latest Times Higher Education Supplement rankings table includes 5 UK universities in the top 25 positions, alongside 17 US universities. The rest of the world put together has only 3 places in the top 25.

Maintaining and enhancing the quality of our basic education system and our universities therefore needs to be a key element of our Industrial Strategy – and there are no grounds for complacency as countries around the world seek to upgrade their systems of basic and higher education.

Where the UK education and skills system needs more significant improvement, however, is in the provision of vocational skills and education for the two-thirds of those leaving school who do not go on to university.[2] PwC research finds that countries with well-developed systems of vocational education for those who don't go to university – such as Germany, Austria and Switzerland – have higher employment rates for young people. We estimate that matching the performance of these leading economies in vocational education could boost UK GDP by around £45 billion or 2.3%.[3]

The weaknesses in the UK's vocational education system are well-documented and are longstanding. The traditional apprenticeship model which was embedded in many established manufacturing businesses was undermined in the 1980s and 1990s – partly because of the large shake-out of industrial employment. The UK has been slow to develop an apprenticeship model which meets the needs of the services industries which now dominate our economy, though that deficiency is being remedied with the development of modern apprenticeships. PwC has sought to play its part within the professional services industry by being in the vanguard of services businesses offering higher apprenticeships as a direct entry route for school leavers. Nearly three-quarters of new apprenticeships in the UK are now in three broad sectors of the services industries: business, administration and law; health, public services and care; and retail and commercial enterprise.[4]

Policies have therefore been moving in the right direction to strengthen technical and vocational education in the UK. The recent Budget announcements of extra funding for skills training is welcome, alongside the simplification of the structure of vocational qualifications, and a recognition of the value of technical qualifications (T-levels) alongside A-levels – though the value of these initiatives will hinge on successful implementation. But more can still be done to support the development of vocational skills. Business surveys show high levels of skill shortages, with 83% of UK Chief Executives registering concern about getting the skills they need – according to PwC's latest CEO survey.[5] In manufacturing industry, around a quarter of businesses see skill shortages as a constraint on their output, according to the CBI, while the PwC/CBI Financial Services Survey shows that nearly a third of all UK financial businesses feel constrained by a lack of professional staff. These shortages could intensify if new post-Brexit immigration controls make it harder for businesses to recruit skilled workers from overseas.

The ability of young people throughout the country to access a high standard of basic education which prepares them for the world of work is an essential input into ensuring a productive, flexible and high-performing economy

[2] https://fullfact.org/education/are-there-record-numbers-young-people-going-university/
[3] http://www.pwc.co.uk/services/economics-policy/insights/young-workers-index.html
[4] See http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06113 for more detail on apprenticeships in England
[5] http://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2017/uk/key-findings.html

In addition to the continued development of the apprenticeship system and providing appropriate financial support for UK vocational training, including Further Education Colleges, we would emphasise two additional broad directions for policy.

First, vocational education and training needs to be more employer-led and responsive to local business needs. In support of this approach, PwC has recently published a set of proposals for a more devolved system of vocational education and training – including more meaningful devolution of funding to local bodies including Local Enterprise Partnerships (LEPs), an enhanced careers advice service, and skills planning better attuned to meeting local needs.[6]

Second, reforms to National Insurance could more effectively target incentives for all workers to undertake vocational training. At present, there is a zero rate of employer National Insurance for apprentices under 25 and all workers under 21. However, there is a case for providing a much wider incentive for employers to support their workers through training and skills development by introducing a lower rate of employer National Insurance – and possibly a reduced rate of employee National Insurance too – for all employees working towards a recognised vocational qualification. This could also act as an incentive for older workers to retrain or acquire new skills – as the rapid pace of technological change is likely to require many more mature workers to acquire new skills later in their working lives.

Reforms to National Insurance could more effectively target incentives for all workers to undertake vocational training

[6] For more details see http://www.pwc.co.uk/industries/government-public-sector/education/skilling-up-the-regions-driving-productive-and-inclusive-growth.html

Upgrading national infrastructure

A second key area where the UK government can help provide economic conditions which will support business is in terms of ensuring that investment in the country's infrastructure supports economic growth

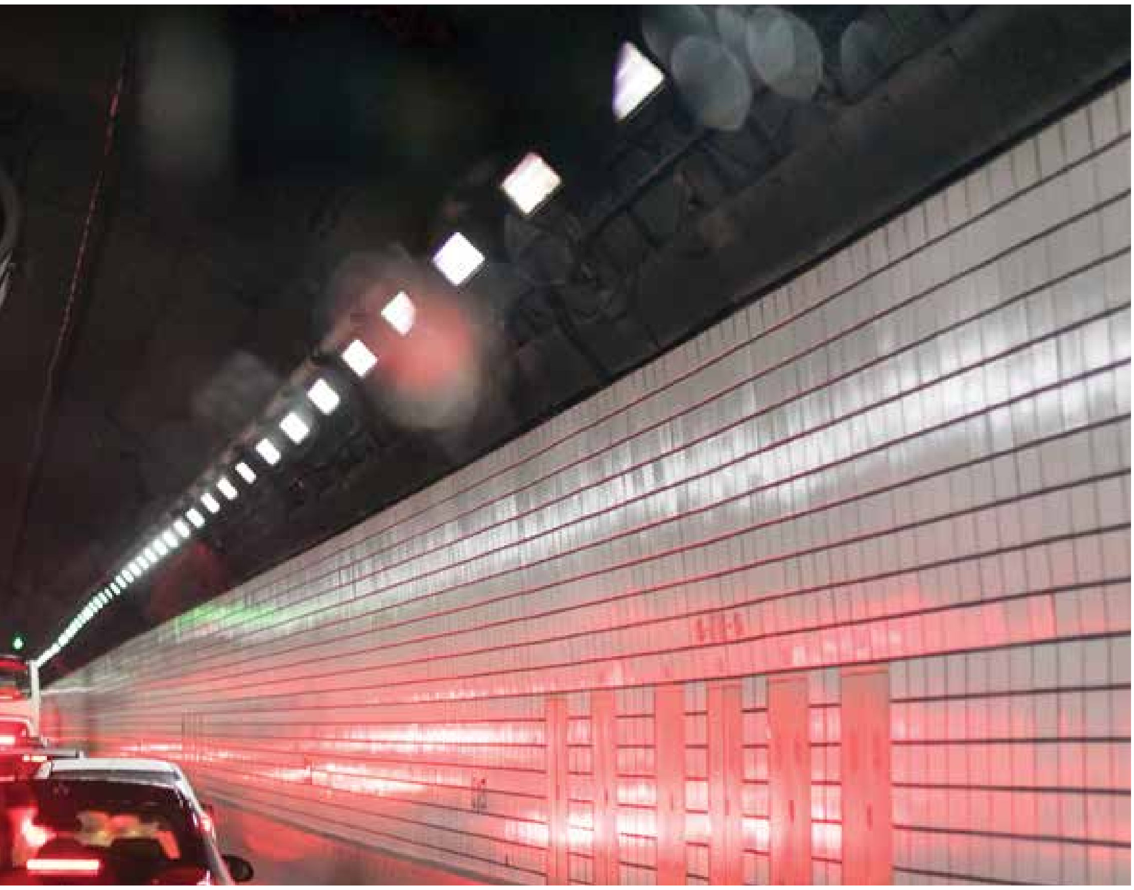
A second key area where the UK government can help provide economic conditions which will support business is in terms of ensuring that investment in the country's infrastructure supports economic growth. This is particularly important in terms of investment in transport infrastructure, where the government owns and is responsible for maintaining and upgrading the core road and rail networks – as well as providing strategic oversight of airport and port developments. Government policy also plays a key role in other aspects of infrastructure development – including housing, digital networks and energy supply.

Transport infrastructure

The UK has already embarked on the most ambitious programme of investment in transport infrastructure that we have seen for many decades. A number of major rail projects are under construction or in the pipeline – including Crossrail 1 and 2, HS2 and the Northern Powerhouse Rail. The road programme has been expanded and construction is now starting on some long-overdue upgrades to strategic links including the A14 linking the Midlands to the East Coast ports. The government has given its backing to a third runway at Heathrow Airport after nearly two decades of planning and discussion.

The challenge the UK now faces is to maximise the potential of these projects as they move from the planning phase, through construction and delivery and into operation. It will clearly be important that not only is this programme of investment delivered, but that it creates value for money in terms of the economic benefits and impact. We believe that four main challenges lie ahead in achieving this.

First, projects need to be delivered efficiently, cost-effectively and without unnecessary delays – to realise the economic benefits as quickly as possible. Part of the key to success in achieving this lies in the planning phase, so that projects are planned and designed with efficient and cost-effective procurement and construction in mind.[7] While it will always be necessary to take into account the environmental impact of major transport infrastructure upgrades, a balance needs to be struck between the need for environmentally sensitive planning and the potential impacts on costs and economic benefits.[8]



It is important that alongside major transport infrastructure projects such as HS2 and the upgrading of the A14, we do not lose sight of the benefits of smaller schemes which can relieve local pinch points – on both the road and rail networks

[7] See PwC's Transport Central website for more detail: http://www.pwc.co.uk/industries/government-public-sector/transport/insights/transport-central/video-transcript-rebalacing-economy-better-connectivity.html

[8] PwC's Total Impact Measurement and Management methodology provides a tool to help balance economic and environmental impacts: http://www.pwc.com/gx/en/services/sustainability/publications/total-impact-measurement-management.html

Second, alongside delivering new transport infrastructure, we need to make efficient use of our existing road and rail networks. Technology can be a powerful enabler towards more efficient transport use, as we have already seen through its impact on travel information, electronic ticketing and variable speed limits. One major area of potential application for new technology is road pricing, which can help ensure motorists take into account the costs of congestion and are incentivised directly to use the road network at less busy times or to choose less congested routings. Technology can also be an enabler of more efficient use of vehicles – for example through the development of driverless vehicles and by enabling car-sharing and the multiple use of vehicles (eg Uber). On the rail network, there is significant potential for enhanced signalling and train control to expand the capacity and reliability of service using existing infrastructure.

Third, realising the full benefits from large projects like HS2 and the expansion of Heathrow will require a joined up approach to planning across transport modes. New HS2 stations will need good road links and an expanded Heathrow will require enhanced road and rail connectivity to ensure good surface access. An integrated approach to planning across road, rail, airports and ports is vital to ensuring we realise the full economic benefit from new infrastructure developments.

Finally, it is important that alongside major transport infrastructure projects such as HS2 and the upgrading of the A14, we do not lose sight of the benefits of smaller schemes which can relieve local pinch points – on both the road and rail networks. Large projects should not be allowed to "crowd out" high value-added local transport schemes which can be vital to linking up smaller towns to the strategic road network, or can help to relieve congestion hotspots.

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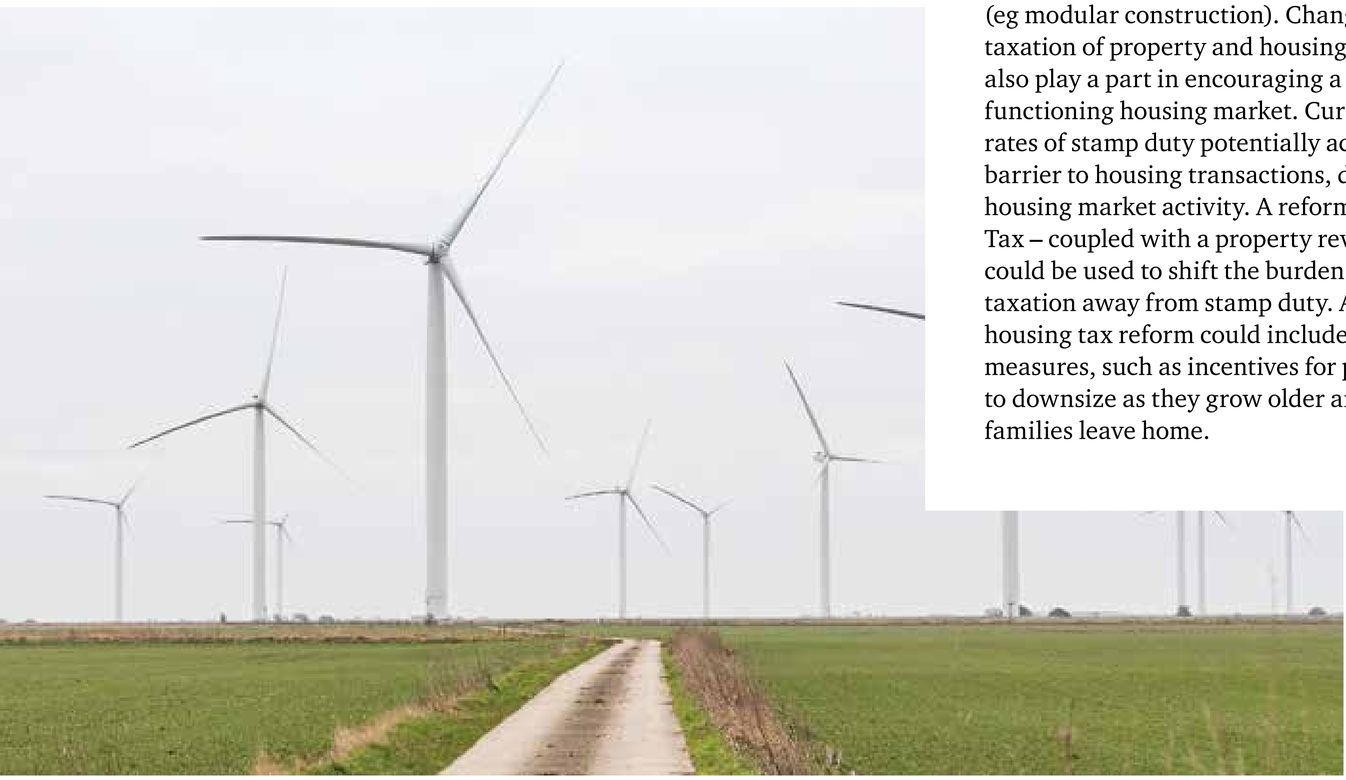
Other infrastructure issues

While transport is probably the area of infrastructure development where the government can have the greatest direct impact on productivity and competitiveness, there are other areas where government policy is an important enabler of an efficient and productive economy.

These include the digital infrastructure and access to high-speed broadband, where various reports have showed the UK lagging behind other countries. In a recent CBI infrastructure survey, a third of firms reported that digital infrastructure does not meet their needs and three-quarters reported a lack of speed as the primary concern.[9] The government's new Digital Strategy, published last month, is very welcome but it will require active co-operation with the private sector and a regulatory framework which incentivises investment in the next generation of wireless technology (5G) to ensure it is delivered.

Energy policy is another area where government sets the policy framework but the private sector will need to undertake the investment needed to take us on a path towards a low-carbon economy. PwC's latest Low Carbon Economy Index showed the UK making good progress towards a decarbonised economy in its latest annual review, with carbon intensity of GDP down by 6%, one of the highest figures achieved by any economy. But we will need a stable long-term policy framework which continues to incentivise investment in low carbon energy sources and energy efficiency if the long-term objective of a decarbonised economy is to be achieved.

The third key area where the UK government can support infrastructure investment is by encouraging and supporting housebuilding – particularly in London and the South-East where house prices are so high and young people find it extremely difficult and costly to get on the housing ladder. This is partly a matter of increasing the supply of land and utilising more efficient building technologies (eg modular construction). Changes to the taxation of property and housing could also play a part in encouraging a better functioning housing market. Current high rates of stamp duty potentially act as a barrier to housing transactions, dampening housing market activity. A reform of Council Tax – coupled with a property revaluation – could be used to shift the burden of property taxation away from stamp duty. A broader housing tax reform could include other measures, such as incentives for people to downsize as they grow older and their families leave home.



[9] Thinking globally delivering locally – CBI/AECOM infrastructure survey, November 2016: http://www.cbi.org.uk/index.cfm/_api/render/file/?method=inline&fileID=860BAA45-F34B-4303-B05609B8235A8E14

A third key theme for the government's Industrial Strategy is the way in which a whole range of government policies support a climate in which businesses have a strong incentive to invest in the growth of their businesses. The UK has traditionally sought to maintain a business-friendly investment climate for businesses of all sizes. Surveys consistently show that the UK is the top destination in Europe for inward investment.[10]

The Brexit decision creates potential challenges for investment in the UK, as leaving the EU Single Market and Customs Union could cause businesses in some sectors – such as financial services and car manufacturing – to re-evaluate their investments in the UK. This makes it even more important that the broader business climate here in the UK remains highly competitive and that tax and regulatory barriers to business expansion and investment are kept to a minimum.

Trade policy

Barriers to trade are generally unhelpful for productivity growth and investment, as internationally competitive and high-productivity businesses are attracted to locate in countries which have good access to other international markets. Trade in services is particularly important for the UK, with services exports making up 12% of our GDP – the highest in the G7. PwC research suggests that the combination of access to the European Single Market and the opening up of the global economy in the 1990s provided a powerful boost to productivity in tradable services activities, including financial and professional services.[11]

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[10] See, for example, https://www.gov.uk/government/news/uk-remains-number-one-investment-destination-in-europe

[11] Does trade hold the key to the UK services productivity puzzle? PwC UK Economic Outlook, July 2015: http://www.pwc.co.uk/assets/pdf/ukeo-section4-services-productivity-july-2015.pdf

The new Department for International Trade should therefore look for other ways of encouraging stronger trade links in the short-term

Retaining good access to markets in Europe after Brexit and reducing barriers to trade with other major economies around the world will provide a vital underpinning to UK productivity growth in the decades ahead. In relation to the rest of the EU, the UK should be seeking to get as close as we can to the current Single Market access in goods and services. In relation to other countries, in the short-term we should be seeking to maintain the current degree of access we enjoy through existing agreements negotiated through the EU. Over the long-term, the UK should aim to strike balanced and mutually beneficial Free Trade Agreements (FTAs) with countries outside the EU – focussing on the largest and fastest-growing markets around the world. The UK should also remain a strong supporter of the multilateral approach to reducing trade barriers championed by the World Trade Organisation.

It is widely recognised, however, that negotiating large comprehensive Free Trade Agreements can take many years. This process also cannot properly begin until the UK's exit agreement from the EU clarifies its status within the world trading system. The new Department for International Trade should therefore look for other ways of encouraging stronger trade links in the short-term. This should include a focus on practical administrative and regulatory changes which could reduce the barriers and costs associated with "doing business" in other countries. It could also include a stronger focus on export promotion in key sectors, including services, as well as ensuring that UK businesses have access to competitive sources of export finance.

Innovation, research and development

As in other countries, the UK government plays a key role in supporting research programmes in universities and in business to support the process of innovation and research and development. A number of these programmes rely on co-operation with other European Union countries, so it will be very important to maintain these forms of collaboration after Brexit as a support to the UK's more innovative and high-tech sectors.

Firms operating in the UK also benefit from tax relief for research and development expenditure and the Patent Box system which was introduced in 2013 as part of the recent programme of corporation tax reform. Together with tax relief for research and development, the Patent Box helps to incentivise the process of innovation in business, and there may be scope for broadening these incentives in the drive to boost productivity through the development of new technologies.

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Broader tax reform

Business growth and investment in the UK has benefited in recent years from the gradual reduction in the corporate tax rate from 30 percent in 2008 to 19 percent now – which has been an incentive for international businesses to locate more of their activity in the UK. There have been some offsetting changes to restrict allowances and reliefs, which follows an established pattern of approaches to tax reform around the world – creating a broader tax base so that the tax rate can be reduced. In general, low tax rates are conducive to investment, employment and economic growth and so tax reform should be seen as an essential part of the UK government's Industrial Strategy.

There are many other areas of taxation in the UK which would benefit from fundamental reform, and which could help support the growth of the economy. These include income and employment taxes, the taxation of savings and capital gains, taxation of property and VAT and other expenditure taxes. In terms of VAT and excise duties, the UK government will have more freedom to change these taxes once we are outside the EU, so Brexit could be a spur to tax reform. The need to simplify the tax system and tackle the increased complexity which has progressively added to the burden on business should be a further spur to reform.

With the exception of recent changes to corporation tax, the last major wave of UK tax reform took place in the 1980s under the Chancellorship of Nigel Lawson. There is therefore a major opportunity to revisit some of the more fundamental aspects of the UK tax system in the decade ahead – with the objective of supporting other aspects of the Industrial Strategy while also addressing other longer-term issues such as demographic change and environmental challenges. However, in order to do this successfully, it is very important to take a longer term and holistic approach to the tax system. That has the advantage of providing businesses and individuals with a road map for future changes so they can plan and adapt accordingly. Consultation is also important to prepare the ground for significant policy change. Without this longer-term approach and a process of consultation and engagement with business, piecemeal changes to the tax system can unravel.

There are many other areas of taxation in the UK which would benefit from fundamental reform, and which could help support the growth of the economy

Ensuring a balanced economy

As we observed at the outset, the structure of the UK economy is very heavily reliant on the services sector. This is sometimes seen as a source of economic weakness or vulnerability, but the UK services sector is very diverse and contains many industries and activities that sell their services overseas – contributing to a substantial services trade surplus. Governments are not best placed to decide which sectors or types of business have the best growth potential. They should be trying to create conditions in which all types of business in a wide range of sectors can contribute to economic growth.

There is, however, a strong case for seeking to promote an approach to economic growth which allows all regions within the UK economy to benefit. This has been one of the motivations behind the Northern Powerhouse, Midlands Engine and other regional initiatives. The idea of promoting a more balanced economy regionally is one which PwC has supported –for example through the Demos-PwC Good Growth for Cities index.[12]

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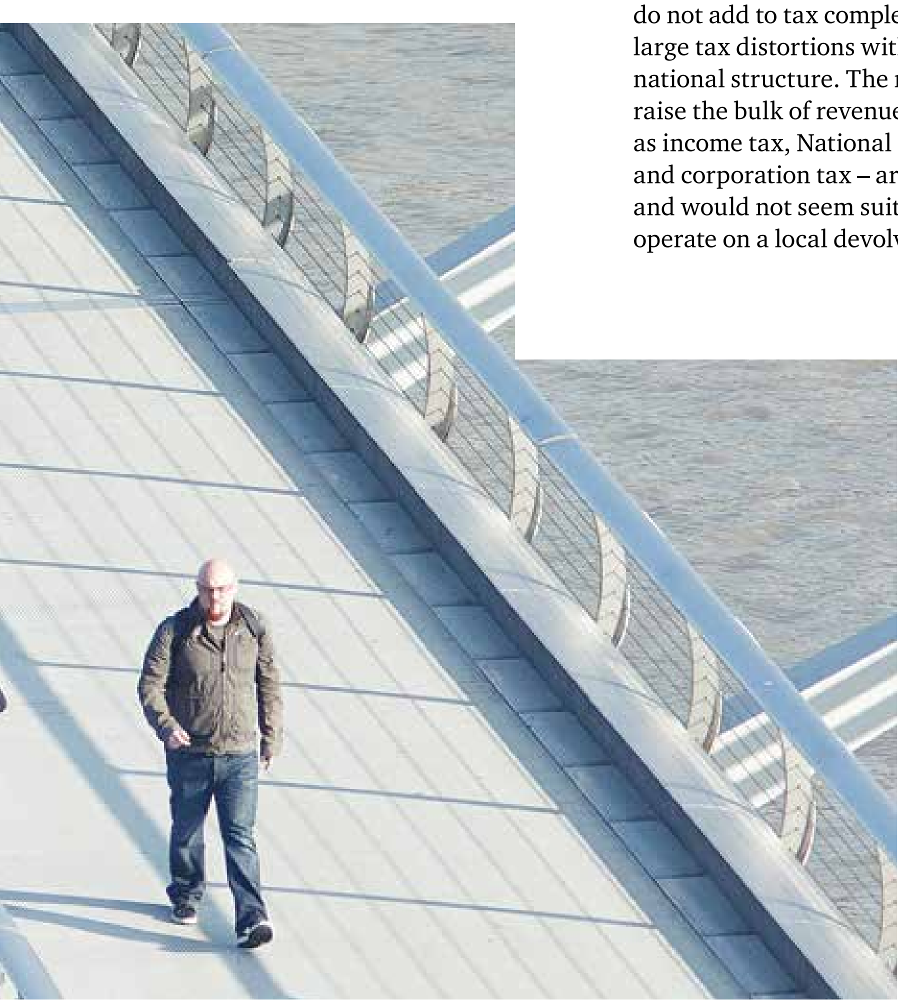
[12] http://www.pwc.co.uk/industries/government-public-sector/good-growth.html

The development of transport infrastructure to improve connectivity within the UK is an important mechanism for ensuring more balanced growth – not just between London and the South East and the rest of the UK, but also within individual regions. There are many locations in the south of England which have been by-passed by economic growth and development, particularly coastal areas. Regional policies therefore also need to tackle differences within the major regions of the UK – the North-North divide and the South-South divide – which often reflect disadvantages of outlying towns and smaller cities relative to the larger urban centres which are more attractive to business.[13]



Devolution of responsibility for specific policies to local and regional bodies can also help to support economic development, by allowing decisions to be more responsive to local requirements. We have already argued for this approach in terms of skills and training and there are other areas where responsibility for taking specific government spending and other decisions can be usefully devolved – as the government has recognised by supporting devolution deals with cities and regions. The process of devolution to Scotland, Wales and Northern Ireland has also worked reasonably well and now has widespread support. The devolution of tax-raising powers can support this approach by allowing local government to see more of the proceeds from local growth. But it is important that moves in this direction do not add to tax complexity and create large tax distortions within a common national structure. The main taxes which raise the bulk of revenue in the UK – such as income tax, National Insurance, VAT and corporation tax – are national taxes and would not seem suitable in general to operate on a local devolved basis.

There are other areas where responsibility for taking specific government spending and other decisions can be usefully devolved

[13] See "Getting the balance right in the UK regions" PwC UK Economic Outlook, November 2014: http://www.pwc.co.uk/services/economics-policy/insights/uk-economic-outlook/ukeo-nov2014-getting-the-balance-right-in-the-uk-regions.html

Next steps and policy priorities

Our main recommendations to the government on its Industrial Strategy are as follows.

1. The UK government is right to focus on a "horizontal approach" to Industrial Strategy, which does not seek to favour individual sectors or businesses but creates the conditions in which all types of business can contribute to national economic growth.

2. Four main themes should underpin the government's Industrial Strategy: developing skills and education; upgrading national infrastructure; supporting investment, innovation and business growth; and ensuring a more regionally balanced economy.

3. Vocational training is the main weakness on the skills agenda, though new apprenticeships and other initiatives have started to improve the situation and policy is moving in broadly the right direction. More devolution of skills planning and funding to local bodies could be helpful, as could changes to the National Insurance system to incentivise training.

4. The UK economy has embarked on a very ambitious programme of road, rail and airport investment over the next couple of decades. The emphasis now needs to be on efficient, cost-effective and timely delivery of projects; making more efficient use of existing infrastructure, particularly through the use of technology; joined up planning across transport modes; and ensuring that we continue to invest in smaller local schemes as well as delivering major strategic projects.

5. Alongside transport, the UK government has a key strategic role in overseeing investment in digital infrastructure and broadband, setting the framework for energy policy, and supporting and encouraging housebuilding – particularly by ensuring the release of land but also possibly with supporting tax reforms.

6. Trade policy, tax and spending support for R&D and related activities, and broader tax reform are three key levers which government can use to support innovation, investment and business growth. Tax reform needs to be approached as part of a longer-term strategic plan which takes a holistic approach to key areas of the tax system, rather than through piecemeal change.

7. There are risks that the process of Brexit has a negative impact on the UK's attractiveness as an investment location. In the short-term, the government should be seeking to maintain the best possible access to EU markets after Brexit, while also focussing on improving the climate for "doing business" with other countries and enhanced export promotion. Free Trade Agreements with other large and fast-growing economies will have potential long-term benefits but will take many years to agree and implement.

8. The UK has a strong position in key tradable services sectors. Future initiatives to improve access to overseas markets should focus on services exports as well as goods and manufactures.

9. There are a number of ways in which the Industrial Strategy can support a more regionally balanced UK economy, especially through transport infrastructure investment and a more comprehensive devolution of responsibility to local bodies – including in the area of skills. Devolution of tax-raising powers can be helpful by enabling local governments to see the benefits of growth, though we need to guard against adding complexity and distortions within a common national tax structure.

10. Three powerful cross-cutting themes underpin these recommendations: (i) we need a consistent long-term plan in all the key areas of Industrial Strategy; (ii) the value of taking a holistic view of the way government policy can affect the economy, including the potential impact of reforms and changes to the tax system; and (iii) the importance of delivering outcomes from key policies efficiently and effectively so that economic benefits are realised in a timely fashion.

The UK government is right to focus on a "horizontal approach" to Industrial Strategy

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Design Services 30659 (04/17).