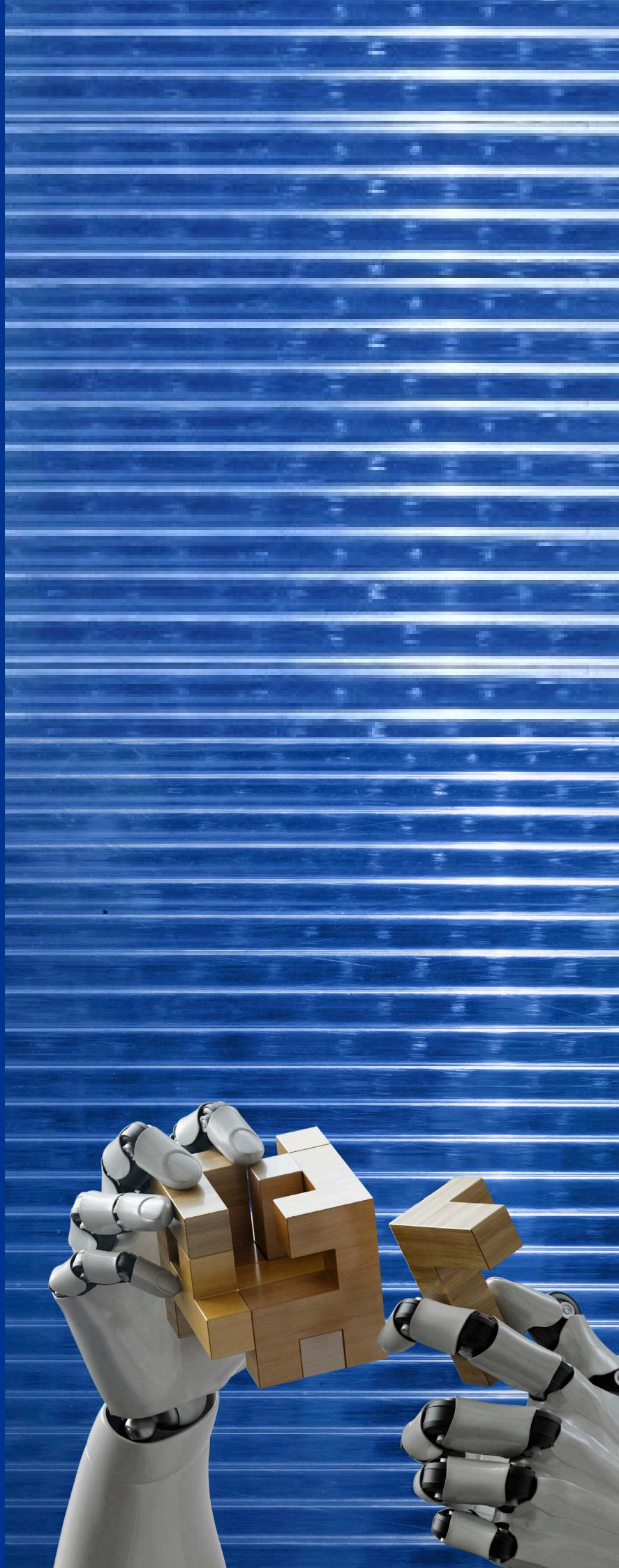


Executive summary

An Industrial
Strategy for all

Spring 2017

Executive Summary of KPMG's
Response to the Government's Green
Paper 'Building our Industrial Strategy'



An Industrial Strategy for all

KPMG's response to the Government's Green Paper on the UK's Industrial Strategy, published in January 2017, is anchored in the insights we gain every day from working with our clients and partners, here and around the world, in a fast-moving and rapidly changing business environment.

The Green Paper is wide-ranging covering ten separate 'pillars' designed to drive growth and productivity across the country. Our response to the specific pillars is detailed in the table on the next page. In general, our view is that a strategy where growth is underpinned by a convergence of enabling 'pillars' such as skills or infrastructure, around place and sector is a sound approach. However there are a number of broad themes to consider which we outline later in this executive summary and in our full response which is available [here](#).

The context in which we work across the UK, and in which the Industrial Strategy must be built, is one of enormous change. It is hard to conceive of a sector or area of life that is not feeling the impact of the 'Fourth Industrial Revolution'. This provides the backdrop to the UK's need for an Industrial Strategy. No strategy can work without a sense of how the UK fits into this rapidly evolving new world. Equally it needs to take account of the macro-economics of globalisation. And, of course, Brexit.

Previous British Governments have grappled with the conundrum of how interventionist to be on industrial policy. Some decided to 'leave it to the market'. Other previous British Governments have sought to direct British industry from Whitehall, regardless of world economic factors.

The role for Government in today's fast moving times is to create stable platforms, partnerships and frameworks, and enable businesses to innovate, grow and prosper in a collaborative environment, confident there is a strong commitment from policy-makers to the long-term direction of travel. The Government's Industrial Strategy has the potential to be the sails, harnessing momentum, and the rudder, setting the direction, for the British economy as we sail into rough waters.

But the private sector too must play its part if the Industrial Strategy is to succeed. Business has a critical role to play in building our economic future and this goes beyond being simply the engines of productivity. By operating responsibly, offering inclusive opportunities for existing and future workforces, embracing technology for innovation, and working collaboratively with Government bodies across the nation to drive growth, business can help policy-makers manage the social impact of the seismic changes we are living through. The Industrial Strategy must ensure the whole country prospers and no-one is left behind.

Great Britain is geographically small, but huge in terms of talent, innovation and potential. As Britain leaves the EU, opportunities and threats will emerge which will test our ingenuity and adaptiveness. At KPMG we remain confident that the British people are more than capable of meeting the challenges ahead.

KPMG LLP, April 2017

Executive summary: Ten pillars

KPMG's view of the ten 'pillars' of the Government's Industrial Strategy

1 Investing in science, research and innovation

Britain will prosper post-Brexit as a high-tech, high-skills economy, with a world-class science and technology base, with partnerships between research institutions, universities and businesses, and faster routes to commercialisation of ideas, innovations and products.

2 Developing skills

We see major improvements in education and skills as a necessary precursor to industrial prosperity and growth. Our report Variables for Sustained Growth in January 2017 shows how equipping the UK workforce with the right blend of skills is essential, alongside an immigration policy based on our economic needs.

3 Upgrading infrastructure

We need to balance regional requirements, local objections, and the national interest as part of a national strategy. No region can be left behind, which means broad criteria for deciding where to build new infrastructure projects.

4 Supporting businesses to start and grow

We want new businesses and entrepreneurs to have access to finance to kick-start and scale-up their enterprises. We argue for other forms of support such as mentoring, coaching and other practical advice as new businesses incubate and grow.

5 Improving procurement

We need a strategy which embraces the opportunities digitalisation and online technology present, with a focus on developing the capabilities of the Civil Service, which will need to migrate from purchasing skills to proficiency in complex commissioning.

6 Encouraging trade and inward investment

As we leave the EU, our international trade policies will be transformed. At the same time we need to ensure Britain remains an attractive place for investors. Trade and investment (both Foreign Direct Investment and Overseas Direct Investment) need different approaches but both would benefit from a more co-ordinated and holistic approach.

7 Delivering affordable energy and clean growth

In order to unlock the benefits of the transition to a low carbon economy, business needs greater certainty about the long-term policy framework for energy, for example on the future of carbon pricing in the 2020s, the UK's membership of the EU Emissions Trading Scheme, or the future of the Levy Control Framework.

8 Cultivating world-leading sectors

Within a framework of horizontal enablers, business-led sector deals make sense but a sector structure must allow for convergence and emergence of new sectors. Enabling sectors, and those sectors most affected by Brexit, should be prioritised. The Government will need a framework for prioritising competing sector deal proposals. Additionally, we call on the Government to recognise the economic role of sectors which do not produce 'goods' in the traditional sense.

9&10 Driving growth across the whole country and creating the right institutions to bring together sectors and places

We believe that every region and community should benefit from the changes to our economy through a 'cluster' model. In previous eras of industrialisation, some parts of the country boomed while others languished. In this revolution, which is based on knowledge, information and skills, we need to open every area of the UK to the new opportunities, and leave no area behind. The regions themselves are best placed to identify areas of focus and they should be empowered to make choices as to how to drive growth around key sectors in specific places.

Broad themes of our response

Horizontal enablers are the right approach but long-term commitment is essential

In developing our Industrial Strategy, policy-makers need to prioritise the aspects that only Government can and must be responsible for. KPMG supports the broad concept contained in the Green Paper of focussing on horizontal industrial pillars or ‘enablers’ (such as skills or infrastructure). However, we believe that it will be essential that these enablers are underpinned by effective frameworks in the form of the tax and regulatory environments in which they operate, recognising the potential impact that digitalisation will have. It is also important that the Industrial Strategy developed now, endures for the long-term.

Prioritisation and criteria for making choices are important

As sectors converge and evolve, our view is that the Government is right to avoid a return to the past policy of ‘picking winners’. But there will still need to be choices made around how and where to focus resources, and how to intervene in ways which help and not hinder growth. This may mean specific interventions to develop ‘clusters’ of growth based on places, sectors, or even specific technologies and businesses, where such interventions fit into the wider strategy and the national interest.

Ideology should not trump pragmatism. Nor should the Government’s approach be completely uniform. During past industrial revolutions, each city-region developed its own industrial strength based on its local geography, climate, natural resources, traditions and civic leadership. Our economy reflects a range of historical, cultural and societal factors, and our Industrial Strategy needs to be equally variegated and nuanced. Some areas and sectors will need little or no support. Others will need hands-on intervention.

Crucially, Government needs to recognise that the criteria for deciding where and when to invest in infrastructure, or to support specific industrial sectors, must be broad, and allow scope for decision-makers to take strategic decisions in the national and regional interest.

A narrow cost-benefit analysis runs the risk of ignoring the wider desire for a balanced regional economy, and may result in parts of the UK being left behind. When it comes to decisions around high-speed rail links, for example, the economic needs of regions beyond London and the South East must be addressed. Regions themselves must also play a role.

The Industrial Strategy should facilitate faster routes to market

The Industrial Strategy needs to facilitate faster routes to market. This could be through closer collaboration between business and academic institutions, through more incentives to commercialise intellectual property developed in the UK and through support for innovative start-ups.

Within that context, KPMG supports the idea of ‘sand boxes’, which means specific geographical areas or clusters of businesses within a specific sector, where the traditional barriers of red tape and regulations are relaxed, where innovation is encouraged, where mistakes can be made and learned from, and where potential problems can be fixed. As an example, an innovation such as driverless vehicles, which is both exciting and challenging to implement, is already benefiting from taking the initial first steps towards such a ‘sand box’ approach ahead of a national roll-out. We believe that a bolder, more extensive sand box approach in which ground-breaking technologies could be user-tested in controlled and ring-fenced environments could catalyse the uptake of new technologies.

The Industrial Strategy must work for every community

As a firm with a long-term commitment to social mobility and diversity, underpinned by a broad range of measures (as outlined in our most recent annual report), KPMG is passionate about promoting an Industrial Strategy which works for every community and every part of the UK. From the windows of our London headquarters in Canary Wharf, we can see concentrations of both great wealth, and also great disadvantage, within a few yards of one another.

In the modern world, Britain cannot afford to be held back by a failure to tap into the true potential of every citizen. We want to see this conviction running through the UK's Industrial Strategy, especially the skills element of it.

Simplification, better connectivity and a more streamlined, 'joined-up' approach will be key

As the old sectoral walls come down in our economy, so our institutions and our regulatory frameworks need to reflect this change. We are not alone, nor the first, in calling for Government to be more cohesive and 'joined-up'. But the imperatives of the Fourth Industrial Revolution, global change and Brexit make this need even more stark and urgent.

In designing a new Industrial Strategy, there is an opportunity to simplify, streamline and better connect frameworks, systems and organisations at both national and regional levels. This should eliminate duplication of effort, focus resources and make the overall 'system' easier to navigate from the perspective of the businesses that we need to drive productivity and growth across the country. This needs to happen across the landscape: within Government by departments working more closely together, with regard to regional and devolved administrations and between public and private sector bodies working in partnership.

And in parallel there is a need to ensure that our regulatory frameworks from tax to planning permission are appropriately structured such that 'grit in the system' does not hinder growth whether that be through getting ideas through to marketable products or converting expressions of interest from an inward investor into operations on the ground.

Brexit presents opportunities for the Industrial Strategy

KPMG believes that a UK Industrial Strategy must also take full account of the impact and opportunities of Britain's exit from the European Union (EU). Our Industrial Strategy will be anchored on new trading arrangements, new partnerships and collaborations, and new competitors and threats. All of our institutions, from Government departments, to small and medium enterprises (SMEs), must recognise that the world is changing. Such times of change demand bold strategies in order to embrace the opportunities disruption presents.

The Government's negotiations on Brexit must be dove-tailed into the development of the UK's Industrial Strategy, with the needs of British businesses at the forefront of our negotiators' minds.

Some aspects of businesses' needs post-Brexit are covered in the Green Paper, but others are not. We consider it an omission which needs addressing that the Green Paper makes no mention of immigration policy. This is a key concern for businesses reliant on overseas workers and where skills needed to help drive growth and productivity are not readily available in the UK. The number of working-age immigrants coming to the UK has a huge influence on specific areas of our economy, for example social care, hospitality and agriculture. Brexit will have a deep impact on our economy, society and culture.

Our thinking as a nation, including our Industrial Strategy, will need to catch up with the waves of change sweeping over us.

Developing the Industrial Strategy will require broad engagement

KPMG operates across the UK and is part of a global network of member firms, in countries each grappling in their own way with the challenges of the age. We can draw on this wealth of insight and experience to help the UK Government shape its Industrial Strategy. We look forward to helping to develop and support an Industrial Strategy for all.

Our full response to the Government's Green Paper is available [here](#).

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