Going for growth: KPMG's vision for the Modern Industrial Strategy

November 2024

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KPMG UK's response to the Government's Green Paper 'Invest 2035: The UK's Modern Industrial Strategy'

Contents

Executive Summary

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Encouraging sustainable growth lies at the heart of everything that we do at KPMG. We've worked with thousands of clients over our 154-year history to help them maximise their growth potential. It's in our DNA.

That's why we welcome the publication of the Government's Modern Industrial Strategy. And this will not be a surprise to many of our clients as we've been calling for one to be published for a number of years.

Why? Because we're increasingly living in a period of constant and profound change as a country. In the last decade alone, we've witnessed a steady drumbeat of events, both here in the UK and globally, that have changed the terms of trade for business. Economic and political developments that used to be viewed as once-in-a-generation shocks for business; now, almost an annual occurrence.

From my conversations with business leaders one aspect has remained constant: the uncertain policy environment has hampered businesses' ability to invest for the long term. The Modern Industrial Strategy marks a significant opportunity to provide this stability, offering a roadmap that can help to unlock the UK's full economic growth potential.

We need to find a better way to enable chief executives to invest. Too often the debate on economic growth has been trapped in a binary political debate: between those who believe that Government should dictate the industries of the future, and those who think Government should simply get out of the way of business.

We can take a different approach in the UK. A plan where Government sets the overarching vision for the UK economy, providing policy direction and targeted initiatives to crowd in further business investment, stepping in where the private sector alone wouldn't otherwise have the ability or incentive to invest.

The Modern Industrial Strategy's eight priority sectors represent the best of UK business. And it's quite right that the Professional and Business Services (PBS) sector has been recognised for its growth potential: not just as an important sector in its own right, but for its role in multiplying growth across the wider economy. We have the breadth of expertise to help the other seven priority sectors thrive and make mission-led Government a success.

We can only achieve this if the policy landscape allows us to do so. Our detailed response to the Government's Green Paper sets out the key policy levers that can help to achieve this. Taken together, we are proposing **a five-point plan to enable professional services, as one of the Government's priority sectors, to drive UK economic growth:**

1. **A new partnership between Government and professional services,** driven by a 10-year policy roadmap that recognises and amplifies the role of services in driving UK growth.

2. **A world-class regulatory framework for the UK economy** that is proportionate, robust and sufficiently agile to respond to a changing business landscape, with swift progress made in particular on audit and corporate governance reforms.

3. **A professional services workforce fit for the future economy,** allowing PBS firms to attract the best domestic and global talent equipped with the skills to maximise future growth priorities, including in digital and ESG.

4. **A more productive PBS sector that reaps the benefits of AI,** including a new Early Adopter Scheme that rewards adoption of new technologies within the sector, and a more liberal approach to sharing high-quality public sector data.

5. **An ambitious approach to strengthening regional prosperity,** with significant investment to improve regional transport and connectivity, allowing professional services firms to fulfil their potential as key regional growth enablers.

Let's not waste this opportunity. We cannot afford for this Modern Industrial Strategy to join the ranks of many long-term economic plans that have simply collected dust on shelves in Whitehall, no matter how well-intended they were at the time.

We have huge potential and investment to unlock, provided we maintain a laser-like focus on the economy of 2035 and beyond, protected from the turbulence of day-to-day global politics. I look forward to working closely with the Government, and the newly created Industrial Strategy Council, to make this commendable long-term vision for a competitive UK economy a reality.

Jon Holt, Chief Executive and Senior Partner, KPMG UK and Switzerland

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Our policy recommendations

A new partnership between Government and PBS that emphasises the significant contribution the sector makes to the UK economy as a key growth enabler, delivered by:

1. **An enhanced, more positive shared narrative on the significance of PBS to the UK economy,** with key principles for positive engagement between government and the sector set out in the upcoming PBS sector plan.

2. **A strengthened and revamped Professional and Business Services Council**, with a clear remit set at ministerial level and new powers for the council to steer the delivery of the PBS sector plan implementation.

3. **Strengthening the focus of professional services in UK export strategy,** including priority involvement in export missions and trade negotiations, as well as prominence in future GREAT campaigns.

Strengthen further growth of the PBS sector by providing greater policy certainty over key areas, including AI, tech and access to talent, delivered by:

4. **A ten-year Professional and Business Services sector policy roadmap**, setting out the UK Government's key ambitions for the sector and the policy levers it will prioritise, including next steps on audit and corporate governance reform.

5. **An R&D and wider tax system that incentivises implementation of transformative AI and technology** within the PBS sector, mirroring existing incentives towards the invention of technology.

6. **A clear set of next steps on the regulatory environment for PBS firms**, so that we can maintain and attract the best talent from around the world.

A professional services workforce fit for the future, with young people ready for the world of work and PBS firms able to attract, develop and retain the best talent from across the globe, delivered by:

7. **Greater investment in careers advice in schools**, including a focus on 'essential' and digital skills, to ensure that young people leave education with soft skills and financial literacy skills required to thrive in PBS.

8. **Immediate clarity on the development of the Growth and Skills Levy** to support recruitment cycles within PBS for next year's intake – and inclusion of Level 7 apprenticeships within the scope of the new Levy.

9. **A joined-up approach to the UK's visa system** to allow PBS firms to attract the best overseas talent, including new mutual recognition of professional qualifications agreements with other countries.

Increased uptake of new technologies and data analytics within the PBS sector, with greater facilitation of public sector data sharing with private companies in a safe and transparent manner, delivered by:

10. **A new targeted tax scheme – Early Adopter Credit –** that incentivises the capital investment required for end-to-end application of AI in professional services and wider sectors.

11. **Additional guidance on the use of industry data sets within professional services** to allow greater progress in using AI to deliver value to our firms and clients.

12. **A set of measures to encourage greater sharing of public sector data**, including new data sharing standards, and exploration of data sandboxes to allow for analysis without the transfer of physical data.

A world-class regulatory framework governing professional services, enabling our sector to thrive and allowing us to play a full role in driving sustainable growth in the UK, delivered by:

13. **Continuing to progress the primary legislation to underpin the audit and corporate governance reform programme**, with a priority focus on establishing the new regulator, ARGA.

14. **Keeping the UK's competitiveness on the global stage front of mind in making policy decisions**, with professional services regulators set secondary objectives to support economic growth.

15. **Harmonising regulatory requirements and reducing frictions between different jurisdictions** to support the growth of UK professional services firms in an increasingly connected global economy.

Strengthened regional prosperity across the UK through targeted investments and coordination of economic clusters, allowing PBS firms to fulfil their potential as key regional growth enablers, delivered by:

16. **Ensuring that PBS firms can benefit from incentives offered by Investment Zones and Freeports** in the same way that capital-intensive industry does.

17. **Improving transport and digital connectivity between – and within – the UK's regions**, to allow PBS firms to access a wider range of talent and clients.

18. **A coordinated approach to developing economic clusters**, to allow PBS firms to benefit from a high concentration of knowledge-intensive industries and talent spread across the country.

An effective framework for establishing and implementing Industrial Strategy policy priorities in partnership with business, and a SMART analytical framework to measure progress in delivering inclusive growth, delivered by:

19. **Agreeing a broad, diverse membership of the Industrial Strategy Council**, with representatives from small businesses and start-ups, and involvement of diverse communities and worker representation.

20. **Establishing growth sector-specific Councils within the broader Industrial Strategy architecture**, including a specific council for professional and business services.

21. **Setting SMART outcomes to measure the success of the Industrial Strategy's investment and policy initiatives**, with a focus on both sustainable growth and broader societal outcomes.

1. Supporting Professional and Business Services as a growth sector

Our response to Green Paper questions #1 and #2 on identifying growth-driving sectors, and the most important sub-sectors, for delivering on the UK government's growth objectives.

The UK's Professional and Business Services (PBS) sector is a UK success story. It makes a significant contribution to the UK's economic growth, employing over 5 million people and worth over £271bn to the UK economy (source: PBSC).

We very much welcome the UK Government's recognition of this economic importance, identifying PBS as one of the eight priority growth-generating sectors in the Modern Industrial Strategy Green Paper. Our response provides our perspective from the professional services sub-sector within wider PBS.

PBS as a priority sector

As a sector, Professional and Business Services occupies a unique vantage point overlooking the UK economy.

We are, as our response will set out, a successful and productive sector in our own right. But we play a dual role too, helping UK businesses of all sizes to develop and grow across the whole country.

Put simply, **we are an enabler for wider prosperity**. Business leaders look to us as trusted advisers in all sectors of the economy, helping to inform investment decisions and support transformations on issues as varied as net zero, AI, and international trade. This activity has a significant positive impact on the commercial prospects of our clients, helping to drive further business success across the UK.

We therefore have the potential to be a key facilitator in delivering on the Government's central mission to be the fastest growing economy in the G7. But it's not just about directly advising on business growth. The PBS sector also acts as the rivets in the UK economy, providing stability and financial sustainability across the UK. Within our sub-sector, in addition to our advisory services, we also provide the audit, assurance, and tax work that keeps corporate Britain moving.

The trusted hand of professional services firms is visible in all aspects of business life in the UK, whether it is helping businesses to ensure they pay the right amount of tax, get their accounts filed on time, or implementing new IT systems. All these activities are fundamental foundations for sustainable growth.

Our client base is broad and varied, and there are few sectors, or parts of the country, which we do not regularly engage with. We work with organisations with vastly different profiles, ranging from global technology and financial services companies to advanced manufacturers through to public sector institutions and multi-generational family-owned businesses. These organisations vary in size too, from entrepreneurial start-ups to multi-national corporations.

We are able to be the 'eyes and ears' of business: we understand what is worrying business leaders when they wake up in the morning; what it would take for them to invest further in the UK; and which other countries are catching their eye for future investment. Our work helps enable the smooth and effective functioning of the capital markets.

We're also a training ground for the financial teams that support business, drive growth and provide many of the CFOs, CEOs and business leaders of the future. We nurture talent and expertise right from the start of careers – whether on graduate schemes or undertaking degree apprenticeships – and help to produce world-class business leaders, equipped with the financial acumen to support UK Plc across key growth industries and in the UK's capital markets.

Our offer to the Government is clear: use us. Tap into our knowledge of business priorities when formulating policy. Where conventional data is less appropriate or less available, the PBS sector can provide an expert perspective. When a crisis hits, lean into our convening power and allow us to bring together a cross-section of sectoral interests to discuss and develop the best way forward for growth.

And when you need an international business perspective, recognise we are part of large global networks with a wealth of knowledge on what works and what doesn't.

A new partnership with Government

We have a great story to tell as a sector, but we can't tell it alone. Government can, and should, play an important role in talking up the value of the entire range of Professional and Business Services.

However, too often, we are a sector that can become an easy political target, particularly where PBS firms interact with the public sector. In recent years, consultancy in particular is more likely to have featured in the same breath as 'war on waste' than on the pivotal role it plays in unlocking productivity and growth across the country.

This negative framing undermines our ability to support the Government's missions, and can have a damaging effect on both morale within, and the attractiveness of, our sector, particularly to those starting out in their career.

We need to kickstart a new era – a new partnership – between Government and professional services. The inclusion of PBS as a priority sector is a great start. It will help to recognise the mutual benefits that we can bring when it comes to UK growth, and ensure that our sector can play our part and inform decisions appropriately.

We would encourage the Government to use the proposed PBS Sector Plan as a platform for further strengthening two-way dialogue, including through a revamped Professional and Business Services Council (PBSC). This Council has, in the past, been an effective forum for bringing together professional service leaders from across the sub-sectors to identify barriers to growth.

However, in recent years – and despite the best efforts and close engagement of dedicated government officials – it hasn't enjoyed the level of ministerial attention and priority that it requires for it to be a useful forum for shaping policy. As part of the PBS Sector Deal, the PBSC should have a refreshed membership and a clear mandate and ministerial direction, including powers to identify potential pilot schemes for key government initiatives, such as skills reforms.

Recognise our export potential

In an increasingly global world – where we face stiff competition from other advanced economies for our services, as well as geopolitical trade headwinds – championing our sector is crucial not only in the UK, but globally too.

The UK PBS sector's export potential is already significant, accounting for £125bn in exports a year. The UK is the second largest exporter of business services in the world and our expertise is renowned across the world. (Source: gov.uk).

Despite this, many people will instinctively think of manufacturing and goods when it comes to exports. This is understandable: some of the UK's best products are exported around the world with great success. **But services – and professional services in particular – should be considered in the same way if we are to strengthen UK exports.** For example, the UK PBS sector plays a hugely important role in advising clients on the Energy Transition, with the UK playing a leading role amongst G20 countries when it comes to decarbonisation. The PBS sector can help export the learnings to other countries.

We would encourage the Government to ensure that the sector gains representation on key trade missions in the future, plays an integral part from the start of all trade deal negotiations, and is championed by Embassies around the world as part of the UK Government's GREAT campaign.

OUR RECOMMENDATIONS:

Overarching ambition: A new partnership between government and PBS that emphasises the significant contribution the sector makes to the UK economy as a key growth enabler.

Delivered by:

- **An enhanced, more positive shared narrative on the significance of PBS to the UK economy,** with key principles for positive engagement between government and the sector set out in the upcoming PBS sector plan.
- **A strengthened and revamped Professional and Business Services Council**, with a clear remit set at ministerial level and new powers for the council to steer the delivery of the PBS sector plan implementation.
- **Strengthening the focus of professional services in UK export strategy,** including priority involvement in export missions and trade negotiations, as well as prominence in future GREAT campaigns.

2. Tackling barriers to investment in the PBS sector

Our response to Green Paper question #7 on the most significant barriers to investment in the Professional and Business Services sector.

The outlook for investment in the professional and business services sector is broadly positive. Our sector has some of the world's best established and trusted brands across the full spectrum of PBS, including accountancy, legal, consulting, recruitment, advertising, and others. This brings with it an inherent attractiveness to investors, whether they are based UK or globally.

Our sector is 'bankable' – investors recognise the prospect for making a return in professional and business services, relative to other sectors. But the conditions need to be right to enable this: these investors want certainty on government policy, particularly in relation to access to talent and use of new technology. As a result, while the investment potential exists, barriers to unlocking this potential remain.

Importance of policy stability

We stand apart from many other sectors – including several of the other growth-priority sectors in the Modern Industrial Strategy Green Paper – in that access to capital, or indeed public investment, isn't a significant ask. **We aren't here to simply request co-investment from Government**, particularly at a time of challenging public finances.

Rather, our barriers to investment require Government action that doesn't come with a significant pound sign attached to it, but are nonetheless incredibly valuable for PBS firms operating in a globally competitive landscape. And much of this centres around **certainty and stability**.

In recent years, businesses have sought greater certainty around economic and business policy, We therefore welcome the focus from the new UK Government on providing greater clarity on the direction of travel on policy. The recently published Corporate Tax Roadmap, designed in close consultation between HM Treasury and business leaders, is a shining example of best practice in this area.

We understand – and support the idea – that 'certainty' does not mean fixed, locked in policies over the course of a five-year parliament or beyond. We have seen enough domestic, geopolitical and macroeconomic developments over the course of the last decade to recognise the need for flexibility in policy direction and ability to change course if circumstances are fundamentally different.

However, this must be weighed up against the cost – including in investment attractiveness – of regular and significant chopping and changing of policy direction, particularly in response to short-term domestic political challenges.

There are three particular areas where professional and business services firms face a particular lack of certainty – AI and tech, access to talent and the wider regulatory landscape – which government should target in the forthcoming PBS Sector Plan to help to strengthen productivity within our sector.

Artificial Intelligence

Artificial Intelligence has the potential to be a key enabler of professional and business services firms, helping to unlock significant productivity gains that free up more time for skilled consultants, tax professionals and accountants to focus on more complex, value-judgement decisions. It has wide applicability across high-skilled services and, if implemented successfully, can have a transformative impact on service delivery and productivity.

We already see significant benefits from the adoption of AI within our own firm at KPMG UK, and are using AI across many areas of our business, grouped into three categories of activity:

- We are using AI technology (including generative AI, machine and deep learning, and advanced analytics and statistics) to transform how we deliver our core services to clients, including use of Microsoft Co-Pilot and our own multi-technology platform AVA.
- We are introducing AI assets into the delivery of our services that are hybrid advisory-technology solutions where, for example, AI can be used to perform data analysis and

automation as part of the broader advisory and assurance services and solutions we offer to our clients.

- We are helping our clients to meet their business objectives. This includes:
    - Deploying AI technologies to drive their business strategies, whether that be to achieve cost reductions and efficiencies or support their growth ambitions more broadly.
    - Supporting our clients develop 'Trusted AI' through helping them design and embed governance, risk management and legal frameworks to underpin stakeholder confidence in the way they are deploying AI.
    - Working with clients on workforce issues, supporting them to redefine their workforce of the future as well as helping their teams acquire the skills they need to adopt productivity enhancing tools.

However, the use of AI and tech varies across professional and business services, and there are specific challenges faced by smaller firms as well as those facing sector-specific regulation. A lack of certainty around the direction of travel on technology policy is also a barrier to investment in AI and tech in our sector.

The upcoming PBS sector plan should consider how AI and tech policy can influence the prospects of wider adoption across the sector. This should include a focus on the tax system as an important lever for encouraging adoption, with incentives targeted towards implementation of transformative technologies, rather than simply towards the invention of technology through the R&D and patent box regimes, as we will set out later.

In addition, the government should work towards providing clear, consistent regulatory guidance that balances innovation with consumer protection, safety, and ethical considerations. This involves not only drawing from frameworks in other jurisdictions but also engaging in proactive dialogue with institutions to address the current state of regulatory uncertainty. By clarifying the regulatory environment, the Government can alleviate the limbo that some institutions currently feel they are navigating, enabling them to strategise and implement AI technologies with the confidence that they do so in a safe and ethical way.

Access to talent and wider regulatory landscape

The second and third areas – access to talent and wider regulatory landscape – are closely linked, and are discussed in more detail in our response below. **Our profession's growth rests in part on our attractiveness to talent.** We operate within a highly competitive global economy, with a potential workforce that is both highly skilled and internationally mobile.

This talent closely follows regulatory developments within the sector – both in the UK and globally – when deciding where to locate. Greater certainty within our own UK PBS sector, and across the regulatory and policy environment that safeguards it, is important for us to maintain and attract this talent. As we will set out, we believe that greater clarity on the regulatory environment, and the role and operation of our regulators (including, on the horizon the sector's proposed new regulator ARGA) is important.

More broadly, misalignment of different policy ambitions and incentives across fiscal, economic tax, and regulatory policy can be a barrier. These interventions often pull in different directions and do not always drive towards the same outcome. For example, the focus on the one hand may be on tax incentives, regulatory appetite for innovation and growth, but on the other the focus is on authorisation processes and supervisory intensity.

Specifically from an audit perspective, there is a balancing act between protecting the public interest and prioritising audit quality whilst also promoting competition and reducing 'red tape.' In the case of the audit and corporate governance reforms (which are discussed in more detail below), we believe that audit quality should remain the overriding objective; that the regulatory framework is proportionate, and covers the relevant stakeholders across the corporate reporting ecosystem; and that the reforms recognise the landscape as it stands today.

We now have an opportunity – with the creation of a PBS sector plan – to tackle these barriers to investment and misalignment of policy incentives. A comprehensive decade-long focus on growing the sector through new policy initiatives can play a key part in this.

OUR RECOMMENDATIONS:

Overarching ambition: Strengthen further growth of the PBS sector by providing greater policy certainty over key areas, including audit and corporate governance, AI and tech and access to talent.

Delivered by:

- A ten-year Professional and Business Services sector policy roadmap, setting out the UK government's key ambitions for the sector and the policy levers it will prioritise, including next steps on audit and corporate governance reform.
- An R&D and wider tax system that incentivises implementation of transformative AI and technology within the PBS sector, mirroring existing incentives towards the invention of technology.
- A clear set of next steps on the regulatory environment for PBS firms, so that we can maintain and attract the best talent from around the world.

3. Attracting, retaining and investing in PBS talent

Our response to Green Paper questions #8 and #9 on the barriers to investment in people and skills, and the role that government and employers can play in addressing these.

As professional services firms, we are – above all else – people businesses. Our ideas, scrutiny, and innovations all start with our world-class workforce.

That's why **talent is perhaps the single most important issue for the PBS sector**. Our ability to attract, retain and develop some of the brightest people, regardless of their background is critical to the ongoing success of our sector.

We have a strong track record in being an agile, flexible sector that finds new ways to attract talent from a range of socio-economic demographics and locations. But we face a growing number of headwinds that are making this more of a challenge and place strain on the nature of our employment practices.

Whether that's a polarised debate on migration and salary thresholds or lack of mutual recognition of professional qualification post-Brexit, all of this has the potential to add 'grit' into the system. The recent increase in employers' National Insurance contributions may well also negatively impact hiring trends in the private sector, particularly within sectors such as PBS which has the ability to move some operations offshore should costs make this a necessity.

Our overarching view – which is shared by clients across the full range of sectors – is that **there needs to be a more positive, refreshed narrative from the government on the people and pay agenda**. The Government is right to say that being pro-worker and pro-growth can go hand-in-hand: in our sector in particular, we have shown that it is not a binary either-or debate, and we continue to invest in our people.

But that isn't true in every sector. The UK's record in investing in upskilling its workforce is mixed. As the Institute for Fiscal Studies (IFS) points out, average employee training participation declined from 25% to 20% in the UK between 2010 and 2019, with only three European countries – North Macedonia, Slovenia, and Cyprus – experiencing a more pronounced decline in the 2010s.

Without a clear narrative about the importance of investing in skills, this trend may well continue into the future, with firms naturally focused on the more immediate, increased costs of new Government initiatives – for example, in relation to the Make Work Pay proposals – rather than the benefits of upskilling employees.

Improving pay, flexibility and conditions is undoubtedly important: we have long been a supporter and signatory to the Living Wage. However, people investment should be viewed holistically, encompassing aspects of mental health and wellbeing for example, which can have a significant impact on productivity. At KPMG, we have partnered with the University of Cambridge for five years to explore how different kinds of support can boost individual mental wellbeing, both now and in the future.

In the more immediate term, we would encourage the Government to focus on a few key areas relating to talent and skills in the PBS sector plan: 'essential' and digital skills; social mobility; apprenticeships and the Growth and Skills Levy; and global mobility. We will explore each of these in turn:

'Essential', digital and ESG skills

The PBS sector, and KPMG UK as a firm, are a significant employer of early-careers talent: whether that's employing university graduates, apprentices, school leavers, or other routes.

At these early careers levels, one of the key skills gaps that we experience within professional services is a lack of work readiness. While our education system sufficiently prepares young people for exams and assessments, it fails to adequately prepare them for the world of work. As a result, at KPMG UK we place a priority focus on the development of essential skills – including communication, teamwork and time management – alongside technical skills in the early days. Many other businesses do the same.

We believe there needs to be greater investment in careers advice in schools with a key focus on the essential skills required for the modern day workforce. This includes the development of 'soft skills' and financial literacy, as well as the options open to children whatever their background. This should be developed in partnership between Government and business.

For PBS firms, **this should also include developing the specialist knowledge base to deliver ESG reporting and other services related to sustainability and net zero, together with a focus on digital skills.** Digital literacy has already emerged as a critical skills need for the future workforce. We have around 3,800 trainees (approximately 20% of our workforce in the UK) and we see them as 'emerging talent' who, on completing their training, need to be adept with both digital and AI tools.

This shouldn't, however, start in the workplace; it needs to take place in schools too, especially if we want to attract more students into STEM roles. This would help to ensure that our future workforce is well placed to reap the benefits of AI relative to other countries. Indeed, KPMG's CEO Outlook 2024 showed that talent is a key concern as CEOs attempt to attract and retain professionals with the right digital skills to support technology-enabled business transformation.

Bridging the skills gap is pivotal for the responsible adoption and deployment of AI and related technologies. To support this, the Government's investment in education and training programs should not only emphasise technical AI skills but also extend to encompass a broader spectrum of digital competencies, ethical understanding, and cybersecurity awareness.

The training programs must be tailored to cater to the diverse needs of the workforce, recognising that different roles will demand varying levels of expertise – from general awareness to in-depth knowledge of AI, including its ethical and responsible development practices. By ensuring that individuals involved in creating AI solutions, as well as end-users, are equipped with the necessary skills, we can guarantee a holistic understanding and drive ethical use of AI technologies across society.

Beyond skills-specific measures, there is more that Government can do to facilitate the journey of young people into relevant employment opportunities, with greater signposting of employment vacancies open to people aged 18, promoted to those nearing completion of their academic studies.

For businesses seeking to strengthen their workforce through employing young people leaving education, more visibility and guidance on developing policy areas – particularly in respect of T-Levels and the Lifelong Learning Entitlement – would be welcome. Existing guidance can be complex for organisations to follow, and there is often a lack of visibility around the benefits to employers. We are well placed as a sector to support the development of new, clearer guidance.

Finally, the creation of Skills England presents an opportunity to address economic and geographical skills gaps, driven by their data-led approach to labour market analysis, which we welcome and can help support as a sector. This has the potential to unlock productivity gains from supply side reforms, provided there is a tight focus on future workforce needs and essential STEM skills.

Social mobility

We are one of the leading sectors supporting greater social mobility. The firm has prioritised social mobility for over a decade, and are proud to be the only business to have been recognised in the top five of the Social Mobility Employer Index every year since it started in 2017.

Underpinning this is a series of commitments to help strengthen social mobility, including setting a target to having 29% lower socio-economic background representation at partner level by 2030. This is not just a nice to do activity. We recognise that we make our best decisions by drawing on the talents of a broad, diverse range of employees – and that includes those from more deprived socio-economic backgrounds.

As a firm with a strong regional footprint, **we also take a place-based approach to supporting communities and recruiting the best talent.** Geography or class barriers limit firms' access to the labour market, and in the longer term, the prospects for productivity and growth across the country.

However, we recognise that some firms within professional services – particularly SMEs – may still be at an earlier stage of their journey in supporting social mobility, and we would welcome measures to encourage the sharing of best practice within and between the various sub-sectors of PBS.

Again, Skills England has the potential to strengthen the pool of available talent across geographies, and open up opportunities within PBS for those who might not have considered a career in our sector, nor fully appreciate the wide range of routes into firms like KPMG that are now available.

Growth and Skills Levy

Apprenticeships have been a critical part of our efforts to improve social mobility. Each year, we welcome significant numbers of apprentices into our firm, across the range of our business activities, recognising the need to provide alternative routes to university to enter our sector.

As a firm, we are increasingly shifting towards a more apprenticeship-led approach to recruitment at early years, reflecting the success that we have had with the many apprentices that have joined us. We are not alone in taking this approach within PBS. This positive development reflects the government's own focus on making the wider tertiary system more flexible, accessible and able to deliver work-ready individuals. We are keen to lean in and play our part in supporting that approach across the whole system.

Alongside many businesses, we have long called for the Government to introduce greater flexibility in the Apprenticeship Levy, and we welcome efforts to do so with the proposed Growth and Skills Levy. We believe that – if implemented successfully – the new Growth and Skills Levy should address perceptions that the mechanism is a 'tax', and instead promote its virtue as an investment in the development of future skills and capability. The £800m currently unaccounted for in levy receipts and the lack of autonomy over levy funds is severely hampering this, and needs to be addressed if employers are truly to see a positive change.

We would urge the Government to use the Modern Industrial Strategy as a moment to provide greater clarity in two particular areas relating to the Levy. **First, the degree to which employers are able to use the levy for other types of training beyond traditional apprenticeships, remains unclear.** More flexibility is welcome, but early years recruitment cycles typically begin at least a year in advance of onboarding graduates and apprentices. Unless the scope is clarified soon, it will become increasingly difficult for employers to factor in the new levy as they prepare for new cohorts joining in 2025.

Second, the emphasis within the Growth and Skills Levy for employers to use more of their levy funds for younger people could have a negative impact on Level 7 apprenticeships, where, in our firm, the average age of those participating is between 22 and 23. As it stands, employers will soon have to self-fund all Level 7 apprenticeships, which are the equivalent of masters' degrees.

The proposed change potentially undermines the spirit of the levy to invest in training the future workforce of the UK, and may force employers to take from other budgets earmarked for learning to make up the shortfall. Level 7 apprenticeships aimed at building strategic skills – such as Finance, Leadership and AI – will all be impacted. It could also require repositioning of early years programmes, with employers transforming what is currently a Level 7 apprenticeship into a professional qualification instead. This may negatively impact recruitment across PBS and growth sectors as well as progression through apprenticeships, including for those from lower socio-economic backgrounds. We would encourage an early rethink on this issue.

Global mobility

Alongside our efforts to strengthen the UK's existing domestic labour force, **UK professional services firms also have a strong track record in attracting the brightest and best talent from around the world into our PBS sector**. As a UK-Swiss entity, we recognise that both our firm and our sector can benefit from strong links and partnerships with the wider international community.

We deploy international talent across a wide range of our activities, often for short-term projects and specific transactions on behalf of UK clients as well as multi-national corporations. Our ability to recruit and mobilise talent rapidly to work on time-sensitive projects continues to be a crucial aspect of our business models, even in an increasingly hybrid world. Similarly, we need to continue to be a magnet for international talent for those who wish to undertake more permanent positions in the UK.

The UK undoubtedly has some inherent advantages that make it an attractive place to pursue a professional services career – including world-class universities and high-performing PBS firms. We are also home to a number of preeminent professional qualifications, such as the ACA Chartered Accountant qualification. However, **competition for talent within the global economy is only growing**. Countries that adopt an agile, flexible approach to global mobility will be well placed to win the lion's share of world-class talent.

As the new Government looks to attract inward investment – building on the success of its latest Global Investment Summit – it is vital that it works with business to **develop a migration and visa system that is attractive to international talent**, whilst recognising the Government's wider commitments to ensure we protect our borders.

This needs to be a joined-up approach, which considers how the visa system for students, those working post-qualification, and the salary points system can work together to unlock strategic skills needed in growth sectors. In particular, a new approach should ensure that migration salary levels are set at a level that does not prevent access for high skilled workers in areas of shortage.

Another aspect that needs particular attention is mutual recognition of professional qualifications (MRPQ). MRPQ qualifications are particularly important for our sector, given the often cross-border nature of our work. In practice, it means that an auditor who can sign accounts in one country might not be able to do so in another, unless they requalify.

While this does not in itself prevent us from recruiting from overseas, it does add 'friction' to the system. For example, those who do join our UK firm from overseas and become senior enough to sign financial statements will have to undertake re-training, regardless of level of experience in their home country.

Similarly, people qualifying in the UK who seek to work overseas may also face issues in terms of whether they might need to requalify if they go to work in another territory. This potentially restricts opportunities for UK colleagues to broaden their experience by working overseas, and bringing their new knowledge back into the UK. There are also broader benefits of placing individuals with a good understanding of the benefits of investing in the UK in to businesses in other countries.

We would encourage the Government to seek more mutual recognition of qualifications with other countries and territories, including the EU, to reduce the 'grit in the system' for individual PBS firms. This will allow for more portability of qualifications for professionals who may seek to work overseas, and help to maintain the profession's attractiveness.

Business has an important role to play in helping government to understand the impact of any migration skills changes on their operations. Regular, open dialogue between industry and key policy makers will be key. Given the inherent global focus of PBS firms, our sector should have a seat at the table in discussions between the Industrial Strategy Council, a strengthened Migration Advisory Council, and Skills England going forwards.

OUR RECOMMENDATIONS:

Overarching ambition: A professional services workforce fit for the future, with young people ready for the world of work and PBS firms able to attract, develop and retain the best talent from across the globe.

Delivered by:

- Greater investment in careers advice in schools, including a focus on 'essential' and digital skills, to ensure that young people leave education with soft skills and financial literacy skills required to thrive in PBS.
- Immediate clarity on the development of the Growth and Skills Levy – to support recruitment cycles within PBS for next year's intake – and inclusion of Level 7 apprenticeships within the scope of the new Levy.
- A joined-up approach to the UK's visa system to allow PBS firms to attract the best overseas talent, including new mutual recognition of professional qualifications agreements with other countries.

4. Encouraging data & technology adoption in PBS

Our response to Green Paper questions #10-13 on the barriers to investment relating to research and development, tech adoption, and use of data.

Good people create good ideas – and there's plenty of examples of our world-class universities and research hubs leading the way in new innovations, particularly as we look ahead to the opportunities that new technologies and AI present, including within professional services.

But good ideas aren't an end in themselves. The UK's relatively poor rate of conversion from innovation to commercialisation – in other words, translating new inventions into commercial goods and services domestically – is well recognised. And as the Government's Green Paper sets out, **there is much more we can do to improve the adoption and diffusion of new innovations**, and technology in particular, which can in turn reap substantial productivity benefits.

Alongside this, we recognise the growth and productivity gains that can be achieved through smarter use of data across our sector, as well as more widely within the UK economy. We have a team of more than 300 data scientists and AI specialists here in KPMG UK – as well as 3,500 across our global firm – helping ensure that our own firm and our clients can benefit from this.

We need to work together – as business and Government – to focus on two particular priorities for the professional services sector: incentivising technology adoption, and reducing barriers to data sharing. We will take each of these in turn.

Incentivising technology adoption

We know – from our KPMG UK Pulse of Fintech 2024 report – that there are significant opportunities for growth via technology solutions. This is true across many sectors.

Within our own sector and firm, we have seen two particular trends over the last ten years relating to digital innovation. First, the emergence and rapid development of collaboration and communication platforms; and second, a notable jump in the spread and sophistication of data and analytics technologies.

These technologies now enable rapid, multilocation ways of working that have had a positive impact on availability and location of talent, as well as our ability to partner with other providers and to support our clients in an integrated way. This shift was accelerated by COVID but has been in progress for a decade.

Data and analytics technologies have moved from a niche part of our activity to a common feature of most advisory work in the last decade. As our clients have produced more data in all aspects of their operations, the work to advise, transform, and assure our clients' operations almost always has a significant element of data analysis. That analysis has become more sophisticated as platform tooling and infrastructure have responded to the depth and breadth of data on all elements of our clients' business.

Looking ahead, the emergence of new AI technologies – with their ability to automate, augment and enhance knowledge work – is likely to have a more significant impact on the PBS sector's ability than most other sectors of the economy. While in the short term this may mean a degree of automation to help strengthen productivity and efficiency, in the longer term it can also pave the way for the development of new services tailored to our clients' needs.

Yet, if we look across our sector, **there remains material challenges to further adoption of these technologies**, ranging from the cost of capital, investor caution, and skilled workforces, among others. We would highlight a few in particular:

As noted earlier in our response, the first is around the ***skills*** required of staff to take part in the transformation of all sectors with AI and cloud technologies. Availability of talent in the UK with the technical and business problem-solving skills to help our clients, in what is a rapidly evolving space, should not be a barrier to growth.

The second is around a lack of ***tax incentives*** to support greater adoption. The UK's current innovation incentives landscape, notably the R&D tax regime and the patent box, has been built around rewarding the inventor, not the user. This supports hi-tech industries and life sciences, but does not support early adoption of new technologies, either of transformational digital technology or green tech. The move to full expensing of capital expenditure does reward broader investment, but is largely focused on more capital-intensive businesses such as manufacturers or logistics companies.

The professional services sector is impacted by this, and it is a barrier to our sector making productivity gains. There is no tax difference between relying on old analogue processes and systems and investing in new ones. In some cases, because of the timing and availability of reliefs it may be preferable to stick with the former.

A targeted incentive scheme ("early adopter credit") that rewards the capital investment and ongoing spending required for end-to-end application AI would accelerate adoption both for professional services firms of all sizes and across sectors. This could be administered in a similar way and with similar HMRC resources to the existing R&D credits regime. PBS taxpayers would be able to identify specific spend categories relating to end-to-end application AI and claim a refundable P&L credit. If the category were appropriately defined and targeted, the cost and administration burden to HMRC should be limited, and the payback for productivity and long-term sector profitability significant.

More broadly, as we look beyond the immediate professional services sector, there is now an opportunity for Government to play an active role in supporting the development and adoption of new technologies through its key manifesto pledges.

In particular, we welcome the Government's proposals to use the funds it has through the National Wealth Fund and creation of GB Energy to de-risk and catalyse private sector investment in new technologies, rather than investing in existing mature technologies. This can support growth and the energy transition in areas such as hydrogen, carbon capture and storage, floating offshore wind, port facilities and associated supply chains.

Data sharing

Alongside AI, data analytics can help the professional services sector become more efficient, productive and globally competitive.

We are supportive of the Government's overall ambitions to provide better access to data. In particular, a National Data Library could be transformational to both the public and private sectors if it is successful in liberating valuable public sector data and enabling data-linking to drive new insights and digital products.

Quality data that is accessible – whilst protecting the individual – is foundational to modern organisations within our own sector and more widely, and should be considered as vitally important to the future of the UK and the technology that it enables. As it stands, however, a number of barriers to data sharing exist across our sector and the wider economy.

There is a widespread cautious attitude across the industry towards the use of specific data sets in AI. This caution is largely driven by concerns over potentially breaching intellectual property rights or existing usage permissions tied to these data sets. However, this cautious approach is applied broadly, without much consideration for the different ways these data sets could be utilised safely and legally. Essentially, despite opportunities to use certain data sets in a way that respects legal boundaries and permissions, the industry tends to adopt a uniformly conservative stance. This may be due to a lack of detailed guidance on navigating IP and wider data and permissions issues and the desire to minimise legal and reputational risks. We have set out suggestions below that we believe will help change this approach.

There are also specific challenges when it comes to sharing and utilising public sector data. A significant portion of public sector data is held by private companies that run public services on behalf of Government, and are therefore not widely accessible.

Historically, not enough has been done to secure ownership of this data within the public domain, and therefore companies can – and do – refuse to share this data on grounds of commercial sensitivity. This can inhibit innovation across both the public and private sectors. **More could be done to retain ownership of this data via public sector procurement contracts**, and this should be explored upon contract renewals by Government.

There is also a culture of reluctance to share data across Government, often driven by concerns around quality, safety, and public trust. Public sector data owners may be reluctant to share data for a number of reasons, including concerns that poor quality data used by downstream digital products may damage trust or raise liability issues; critical media coverage over management of data by an organisation; and breach of law, particularly if the data owner doesn't feel sufficiently informed about existing regulations (e.g. GDPR).

This is not a problem solely for the professional services sector, but with significant data analytics capabilities to support our clients, any excessive restrictions on accessing this public data have the potential to inhibit growth. **Government should consider frameworks for reporting data quality in a transparent way to promote data sharing.** This may involve exploring methods that avoid the transfer of data, such as providing data sandboxes or other exploration environments that enable analysis without the transfer of physical data, such as the Financial Conduct Authority's (FCA's) AI Lab.

Enhanced encryption and anonymisation techniques can also support sharing of sensitive data. In addition, the use of techniques such as synthetic data can minimise the risk of data breaches, whilst providing enhanced analysis capability.

The use of federated models should also be considered. This enables collaborative data processing and machine learning across multiple, decentralised databases without needing the data to be moved or combined into a single location. It reduces risks around shared data as the data does not need to technically transfer.

Similarly, **clear data standards for sharing data should be explored**, ensuring end users properly understand the data and use it to draw the same conclusions based on a common understanding. In the long term, this could be enhanced by developing common data standards – including international standards – that could drive better integration of datasets, particularly in privatised markets. Clear governance and accountability for data standards and their application will also be important so that roles and responsibilities are clear to both data owners and data end users.

Data analytics and data sharing will continue to evolve at pace, and Government will need to find the right mechanism to ensure that the regulatory landscape facilitates the greater use of data sharing. At a minimum, existing legislation that has historically not been drafted with modern data sharing ambitions in mind – such as GDPR and intellectual property rights – should be assessed by Government to see how they remain fit for the current ambitions to share data more broadly. It also will be important to incorporate a mechanism for continued learning on the ethical use of data, understanding its purpose and its quality as well as the potential limitations on use cases.

OUR RECOMMENDATIONS:

Overarching ambition: Increased uptake of new technologies and data analytics within the PBS sector, with greater facilitation of public sector data sharing with private companies in a safe and transparent manner.

Delivered by:

- A new targeted tax scheme – Early Adopter Credit – that incentivises the capital investment required for end to end application of AI in professional services and wider sectors.
- Additional guidance on the use of industry data sets within professional services to allow greater progress in using AI to deliver value to our firms and clients.
- A set of measures to encourage greater sharing of public sector data, including new data sharing standards, and exploration of data sandboxes to allow for analysis without the transfer of physical data.

5. A world-class regulatory framework for PBS

Our response to Green Paper questions #18-25 on barriers to investment relating to competition, regulation, crowding in investment, mobilising capital, and trade and international partnerships.

Regulatory clarity is a vital underpinning of growth in any sector of the economy – bringing with it the certainty that investors and stakeholders need to operate successfully in the UK.

Audit and Corporate Governance reform

Our sector is no different. **We therefore welcome the Government's commitment to pressing ahead with the audit and corporate governance reform programme**, in particular, the introduction of draft legislation as outlined in the King's Speech in July 2024.

Audit and corporate governance has a major role to play in the growth agenda, strengthening confidence in business and capital markets. So it is important that the reform programme succeeds in delivering a world-class, proportionate regulatory system that ensures that all the key players in the corporate reporting ecosystem – directors of public interest entities (PIEs) as well as management and auditors – deliver on their obligations.

Much has changed since the audit reform process commenced with the Kingman Review in 2018. Since then, the ecosystem has evolved substantially. For example, there is new leadership at the Financial Reporting Council (FRC), with a proactive approach involving increased engagement with stakeholders and a focus on economic growth. Challenger firms have increased their market share in the FTSE350. Large audit firms have voluntarily adopted operational separation and are seeing marked improvements in audit quality as a result of significant investment. Non-financial reporting, such as that required under new ESG reporting regulations, together with associated assurance, have moved up the agenda, and the opportunities technology presents have come to the fore.

It is therefore important that Government uses this moment to assess how the landscape has changed, and consider what is appropriate for today's world. We must harness the potential for the audit and corporate governance regulatory framework to contribute to economic growth in the UK. At the same time, the delivery of high-quality audits and corporate reporting that serves the public interest – and maintains the attractiveness of our profession – must remain a priority for policymakers.

We have consistently said that **establishing the Audit Reporting and Governance Authority (ARGA)** as the successor to the FRC, and on a statutory basis, is critical and will be one of the real 'shifting of the dial' elements of the programme. It is important that ARGA is given appropriate powers over directors of PIEs – otherwise, the current asymmetry may persist whereby the regulator can take enforcement action against the auditors of PIE's financial statement, but not against the directors who are responsible for preparing them, unless they are members of one of the professional accountancy bodies. This reform would not create new responsibilities for directors but simply give ARGA the ability to enforce existing duties in respect of audit and financial reporting. ARGA also needs to be appropriately resourced to be able to deliver on its remit.

We look forward to expanding on these observations as we continue our engagement with the Government on the audit and corporate governance reform proposals ahead of the publication of the draft bill expected next year.

Broader regulation

The public policy decisions that Government will need to take on audit reform will also need to reflect the wider issues on regulation across the UK economy, notably their role in acting as growth levers – or growth inhibitors – and their interaction with other interconnected markets and regimes.

There is undoubtedly a delicate balance to achieve on regulation. A well-regulated environment is attractive for investment, as firms want stability and functioning markets. However, the risk is over-regulation that stifles innovation and results in unproductive cost.

We have to make sure that our regulatory frameworks are providing the right long-term signals

for investment, and we welcome the focus the Government has placed early on in achieving this, including through the creation of the Regulatory Innovation Office.

This is not a good/bad debate on regulation, as the Prime Minister rightly pointed out at the recent Investment Summit. We need to use regulation in a smart way if the Government is to meet its growth mission ambitions, particularly given the UK does not have the fiscal headroom to replicate approaches such as the US Inflation Reduction Act and its $370bn of tax credits, or the EU's Green Deal.

That means that any regulatory solutions that the Government pursues must ensure a stronger, and more objective, focus on growth, productivity, and skills. At the same time, wider government policy for investors, and in relation to tax and regulation, must also be aligned.

Our own regulators have an important role to play in pursuing this too. **We believe that regulators should have formal and explicit growth objectives**, measured through clearly defined metrics and with appropriate oversight, with progress reported annually and publicly.

There is already precedent for doing this. The Financial Services and Markets Act 2023 gave financial regulators (PRA, FCA) secondary objectives to support economic growth and the international competitiveness of the UK. As part of this, they are required to report on this objective annually to HM Treasury. We believe this is a useful model that could be replicated across other sectors, including within professional and business services.

These measures will, we believe, help to strengthen our regulatory system and support sustainable growth across the UK economy. But it's important that we avoid simply viewing regulation within a domestic bubble: our regulatory landscape matters too for those looking to attract new investment into the UK.

We would encourage the UK Government to explore ways to facilitate greater regulatory alignment across key markets to ensure we have the market dynamism required for economic growth. Given the extent of our existing alignment, the EU should be the key priority. While we recognise the political sensitivities on this topic post-Brexit, the EU remains our biggest trading partner. Ultimately, a close, constructive relationship with the EU is good for growth. However, regulatory alignment with other key trading partners should also be explored, including the United States.

More broadly, **further clarity is needed on how the Government aims to support the development of international partnerships for growth driving sectors** – specifically professional services. With our peers we are among the most globally connected firms in the world, with a high capacity for cross sectoral learning and collaboration. We support a number of significant trade corridors, and as a UK-Swiss entity, the UK-Switzerland trade corridor is particularly important to KPMG. We would be happy to convene member firms from across our global network with the UK government to explore this further.

Detail would also be welcome on efforts to promote the PBS sector overseas, as outlined in our opening section. Use of the Government's international network of embassies and trade missions could help to better support the professional services sector back in the UK.

OUR RECOMMENDATIONS:

Overarching ambition: A world-class regulatory framework governing professional services, enabling our sector to thrive and allowing us to play a full role in driving sustainable growth in the UK.

Delivered by:

- Continuing to progress the primary legislation to underpin the audit and corporate governance reform programme, with a priority focus on establishing the new regulator, ARGA.
- Keeping the UK's competitiveness on the global stage front of mind in making policy decisions, with professional services regulators set secondary objectives to support economic growth.
- Harmonising regulatory requirements and reducing frictions between different jurisdictions to support the growth of UK professional services firms in an increasingly connected global economy.

6. Regional PBS and the importance of clusters

Our response to Green Paper questions #14-15 and #26-29 on barriers to infrastructure investment, and the importance of place and economic clusters.

UK growth is intrinsically linked to the performance of our regions. KPMG itself is a UK-wide business with a regional heritage. Outside of London we have a £1 billion business, employing 8,000 colleagues who work across all sectors of the economy.

As a sector, we are embedded within regional economies and have deep knowledge of local business priorities, allowing us to support the place agenda and identify clusters.

It is, in some respects, a successfully devolved sector. Our people can build successful careers within our regional offices, progressing to the most senior and well-remunerated roles, without having to relocate to London or the South East at any stage. This is something that cannot be said for all aspects of our economy.

We have a wealth of insights to help inform the Government's plans as it progresses with the place-based aspects of the Green Paper. For now, we have focused our response on a few key aspects of the regional growth agenda for us as a PBS firm as well as our clients.

Targeted regional investments

Our regions have huge potential, and much of the focus in unlocking this in recent years has been on identifying priority areas for investment in particular areas of the UK. We have been very supportive of this agenda, having heard loud and clear from our clients that the need to level up the UK economy continues to grow, regardless of who is in power.

We very much welcome the gradual shift towards placing local people in charge of the issues affecting them – including through the establishment of Combined Authorities and metro mayors – but we also recognise that central Government can play an important role in stimulating regional growth.

We therefore welcome the Government's intention to revise its fiscal rules, which will allow for greater spending on transport and infrastructure, which is critical for connecting people and places.

As a firm, we aim to be the most connected professional services firm in the UK, and opening access to talent, connecting cities and regions with improved transport links, and improving digital coverage is critical to the productivity of firms such as ours as well as wider UK growth prospects.

It is clear, however, that investment is needed to improve standards within – and between – regions and urban areas. Our current transport infrastructure, especially in the north, is a major barrier to growth. The reality is that the UK economy continues to be hampered by a poorer quality of transport infrastructure compared to our Western European peers.

Currently it is easier to get from Leeds, Manchester or Birmingham to London than to travel between these cities. **Poor transport connectivity and reliability not only affects our firm, in terms of access to talent, but our ability to serve clients too.** Train delays, service unreliability, and congested traffic all represent productivity challenges for our people travelling to client offices.

We need better, more strategic public transport investments. **We would encourage a greater focus on strengthening intra-regional connectivity**, particularly in the North of England (for example, between Liverpool and Hull), in order to connect local people to a wider pool of employment opportunities. For professional services firms in particular, this would allow us to further strengthen our social mobility and outreach to areas of the country often labelled as 'left behind.'

With a large portion of economic activity shifting online, access to a fast and reliable internet network is also imperative for professional services firms seeking to improve their productivity. Enhanced digital technology must be considered a key element of any local infrastructure plan, with workers in more remote parts of the country standing to benefit from a greater range of job opportunities if successfully implemented.

More widely – and particularly in light of the Government's ambition to provide increased certainty and stability for business – we would encourage the Government to maintain existing interventions introduced in recent years aimed at incentivising investment into specific regions, for example through investment zones, levelling up funds, and freeports. Many businesses we work with have made investment decisions factoring these in, on the understanding that they would at least be maintained in their current form for the duration intended.

For professional services firms, given the enabling and central role that our sector plays in the regional economy, it would be beneficial for these recent fiscal interventions to apply to PBS firms, including investment zone incentives for PBS firms within these areas. These could be widened to support the Government's eight growth-priority sectors, given that they are currently almost entirely targeted at manufacturing and industrial investment.

Supporting clusters

We agree with the Government's cluster analysis within the Green Paper, and the importance it gives to supporting existing geographic economic strengths.

We know from our work with regional businesses across the country that existing excellent clusters already exist; for example, burgeoning 'green' clusters in the Humber, Teesside and Aberdeen; well-established financial services hubs across the UK's major cities such as Birmingham, Edinburgh, and Leeds; advanced manufacturing across the Midlands, North West, and South Yorkshire; and specialist LawTech centres such as Newcastle.

Individual regions are best placed to understand their own economic needs, as the Government rightly intends for them to do through the development of Local Growth Plans. We now need to make sure that there is a clear process for each region to identify their own unique strengths as we look ahead to the next decade, as well as ensuring there is an honest recognition of the limitations**. It is inefficient to have local strategic plans all chasing the same prize.**

This will require a ground-up approach, with local structures working with universities and existing institutions in the area to identify these regional priorities, which should be underpinned by supporting data from central Government.

This activity should fit within the broad parameters of the refreshed Modern Industrial Strategy set by Government, which – as the Green Paper rightly does – establishes the overarching framework for growth. Once this is set, regions should be provided with the space to consider how to implement it based on their own economic needs.

We should also learn lessons from the previous Industrial Strategy, which focused on the right desired outcomes in relation to regional growth, but failed to provide sufficient incentives to encourage the then LEPs to understand how they could differentiate themselves from other regions. As funding was centred around the Grand Challenges, LEPs coalesced around these, but this was at the cost of diversity of approach. To avoid repeating the same mistake, **we should encourage a focus on local strengths that do not look identical to others.**

We also believe that more nuance is needed around cluster development, including how the clusters interrelate to one another. We benefit from agglomeration across city and town centre business hubs: our offices are located in many cases among high concentration of knowledge intensive operations and talent. However, the linkages between these hubs, nearby industrial-intensive industry, and wider value chains is critical. Again, this underlines the need for smarter investment in transport and infrastructure between hubs, to maximise the impact of a cluster approach.

Enhancing devolution

Underpinning much of this agenda needs to be a strengthened system of regional devolution, and we look forward to engaging with the Government's forthcoming English Devolution White Paper.

We have long been supporters of devolution, including to Combined Authority level. Having worked with local partners on major projects across the UK, we know that decisions taken in the places they impact, by people who understand the area they represent, are likely to have better outcomes.

While we recognise the challenging fiscal landscape we operate within, we believe that **more devolved funding will be required in order to allow regions to make a success of the clusters approach**.

We have seen in recent years that individual regions can have clear visions for the future, but unless they are matched with greater devolved funding it is difficult for them to make a real impact on the ground. We run the risk of similar initiatives becoming no more than heavily bureaucratic processes unless this imbalance is addressed.

More devolved funding, with flexibility for delivery, is therefore required if we are serious about empowering regions to lead their economic success in the years ahead. Not only will this funding provide impetus for each area to focus on long-term priorities, it will also help to engage local businesses who have otherwise disengaged from previous Industrial Strategy processes as a result of limited funding being attached.

Strengthening our nations

Successful delivery of the Modern Industrial Strategy will also require strong partnership with the devolved Governments. **It needs to be a truly UK-wide effort** that draws on the experience and insights of businesses and civil society across England, Scotland, Wales, and Northern Ireland.

Our presence in the UK nations – including offices in Aberdeen, Edinburgh, Glasgow and Cardiff – gives us a perspective on how Scotland and Wales's developing economic strengths (KPMG Ireland is a separate Member Firm covering both Northern Ireland and Republic of Ireland).

Increasingly, we see our nations' competitive strengths emerging, which bring with them specific policy challenges that devolved Governments, in alignment with the UK Government's Industrial Strategy, will need to prioritise. We will take each nation in turn.

Scotland

Scotland continues to enjoy a number of sectoral strengths, with clean energy in particular being highlighted by the Scottish Government's Green Industrial Strategy as a priority.

Alongside the development of Green Freeports and the new headquarters of GB Energy in Aberdeen, energy and natural resources will continue to be an important growth opportunity for Scotland. There is therefore a need to ensure that we have the right skills across the workforce in Scotland to drive this growth and attract investment. Another key focus is in tech and digital – ranging from fintech to gaming industries – where there are strong hubs in places including Dundee. Given the pace of change in this sector, a similar holistic view of skills needs will be important.

More broadly, wider key sector strengths for Scotland include food and drink, industrial manufacturing, and – increasingly – space. Reviewing the structure and training for apprentices will be key to ensuring we have the right workforce to lead in these areas. This is particularly important in Scotland, where the current apprenticeship levy operates differently from other devolved governments. Many private businesses we speak to find it very difficult to access funding to support training needs.

Wales

In Wales, too, we see significant potential for economic growth, building on existing strengths in areas such as industrial manufacturing. But, reflecting on our conversations with businesses across the country, there is a belief that **more can be done to both strengthen the vision of the future Welsh economy**, and to improve the underlining drivers of growth and productivity within Wales. In particular, businesses would welcome more clarity from the Welsh Government, including a vision for growth, so that they can make business investment decisions for the long-term.

A new UK Labour Government presents an opportunity to simplify and strengthen the connection with the Labour-led Welsh Government. This should include an assessment on how existing Welsh Government priorities – including the commendable Wellbeing of Future Generations Act – should interact with the UK government's stated missions around growth and job creation, particularly where the strategies appear to head in different directions.

It also represents an opening for the Welsh Government to showcase the strengths of the Welsh economy more forcefully, in order to attract the inward investment needed to meet the Prime Minister's growth mission. This should include **a clear focus on the green economy**, including existing strengths in renewable energy and recycling, where Wales performs particularly well. Wales also has a strong new economy too – including world leading compound semi-conductors – but the Industrial Strategy, working in tandem with the Welsh Government, needs to back these initiatives in order to make them a success and supercharge them.

There is a real need to agree how Wales positions itself and an assessment of how the private sector can support the current Welsh Government workforce – through, for example, digital transformation support – at the same time.

Alongside this, **there is a clear need to focus on cross-cutting enablers of growth in Wales**, particularly in relation to transport and infrastructure. Despite progress on projects such as the Valleys rail development scheme, hurdles remain – including, for example, congestion on the M4 into Wales. Similarly, efforts should continue to be targeted at improving both healthcare and skills within Wales to ensure that they do not become a further drag on the Welsh economy.

OUR RECOMMENDATIONS:

Overarching ambition: Strengthened regional prosperity across the UK through targeted investments and coordination of economic clusters, allowing PBS firms to fulfil their potential as key regional growth enablers.

Delivered by:

- Ensuring that PBS firms can benefit from incentives offered by Investment Zones and Freeports in the same way that capital-intensive industry does.
- Improving transport and digital connectivity between – and within – the UK's regions, to allow PBS firms to access a wider range of talent and clients.
- A coordinated approach to developing economic clusters, to allow PBS firms to benefit from a high concentration of knowledge-intensive industries and talent spread across the country.
- Enhancing existing sectoral strengths in our devolved nations, with close cooperation between Westminster and devolved administrations to build compelling economic visions for Scotland and Wales.

7. Making it a success: partnerships and effective monitoring

Our response to Green Paper questions #30-35 on the role of the Industrial Strategy Council and the government's analytical framework for the Industrial Strategy.

Partnerships and effective monitoring and evaluation are both critical aspects of any successful Industrial Strategy. It is only by Government working in partnership with a wide network of businesses, investors, local and devolved Government, and wider civil society that we can forge a route to inclusive, sustainable growth.

Similarly, it is only by robustly monitoring and evaluating progress, using the right analytical frameworks – with clear, targeted outcomes in place – that we can make sure that the Industrial Strategy has a long, durable, and measurable positive impact on the UK economy.

However, both partnerships and frameworks are easier to aspire to than to achieve in practice. We need to ensure the right institutional and governance arrangements are in place at the start of the Industrial Strategy.

Industrial Strategy Council

We very much welcome the creation of an independent Industrial Strategy Council. In order for it to succeed, the composition of the Council needs to be broad, with representatives from SMEs, start-ups, and diverse communities all included, and workers represented in an appropriate way too.

It also needs to represent the depth of expertise in key challenge areas, as opposed to simply focusing on sector-specific representation. We would also recommend a single point of contact for central Government to help break down departmental barriers, recognising that cross-departmental support on the Industrial Strategy's strategic themes (for example, the energy transition) is crucial, rather than operating in Whitehall silos.

The Industrial Strategy Council's governance and decision-making should also be **collaborative and collective**. It should align around policy consensus, aim to limit the dominance of any one sector or individual, and implement mechanisms to facilitate collective decision making.

Alongside the main Council, we believe that there is a need for the Government to establish growth sector-specific councils, to allow for more focused discussions and tailored solutions for different industries. For professional services, this new body would need to work closely with the Professional and Business Services Council on the delivery of key policy priorities for the sector, as outlined earlier.

Analytical frameworks

While we note the Government's Theory of Change is aimed at illustrating the relationship between the Industrial Strategy and growth, the Green Paper does not currently outline the analytical framework that will be used to measure the impact of the overall strategy.

As the Industrial Strategy itself should be fully evidence-based – to drive the most impact and value from the Government's investments and supporting policies – we would expect to see this fully considered at a later stage, with further details and an opportunity for stakeholders to comment issued in due course.

This analytical framework and monitoring and evaluation plan should be designed to consider a range of strategic outcomes that are clearly detailed and SMART. The high-level outcomes detailed on pages 55 and 56 of the Government's Green Paper are not currently SMART, which will make it more difficult to robustly measure success against them in the future.

The SMART outcomes should reflect a breadth of tangible outcomes linked to the overall primary objective of long-term sustainable growth. This should, in particular, be supportive of net zero, regional growth, and economic security and resilience. There would also be merit in considering broader societal outcomes in the framework, including social and distributional impacts.

The monitoring and evaluation plan should also clearly detail how the additionality of the strategy and the policies underpinning it will be assessed, with consideration of the use of quasi-experimental techniques wherever feasible. Given the complexity of drivers of economic growth and the interrelated nature of the drivers, there will be a particular need for robust evaluation to understand what is working well, and less well, and why.

By putting this in place, the Government will be better placed to achieve something that we have long called for: an Industrial Strategy for all that promotes inclusive, sustainable growth. We look forward to working with the Government over the coming months to make this a reality.

OUR RECOMMENDATIONS:

Overarching ambition: An effective framework for establishing and implementing Industrial Strategy policy priorities in partnership with business, and a SMART analytical framework to measure progress in delivering inclusive growth.

Delivered by:

- Agreeing a broad, diverse membership of the Industrial Strategy Council, with representatives from small businesses and start-ups, and involvement of diverse communities and worker representation.
- Establishing growth sector-specific Councils within the broader Industrial Strategy architecture, including a specific council for professional and business services.
- Setting SMART outcomes to measure the success of the Industrial Strategy's investment and policy initiatives, with a focus on both sustainable growth and broader societal outcomes.

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