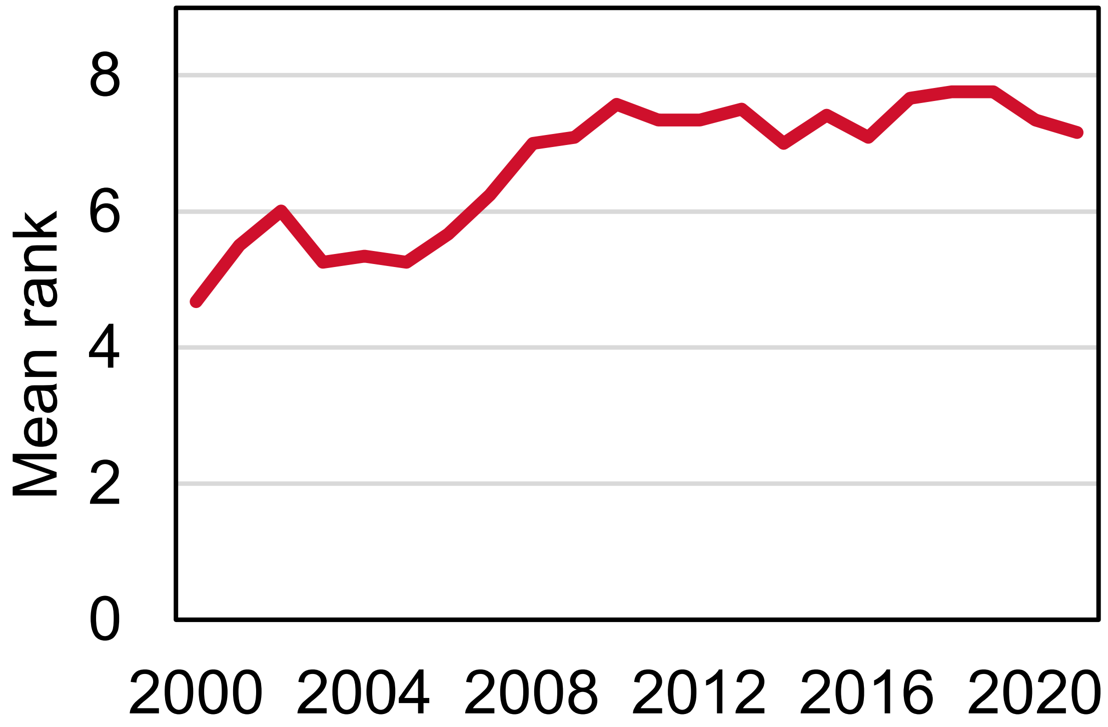


Figure 5b illustrates the rank persistence of the top 10 firms in each industry over time. The rank persistence measures how many of the top 10 firms in an industry were also in the top 10 3 years ago.

The time series shows that from 2020 to 2022, the likelihood of the largest firms in an industry remaining the largest firms has increased. It shows that while the rank persistence was around 5 before 2008, it has been between 7 and 8 up until 2020.

Figure 5c: Markups, mean and 90th percentile price-cost markup of UK companies, weighted by turnover

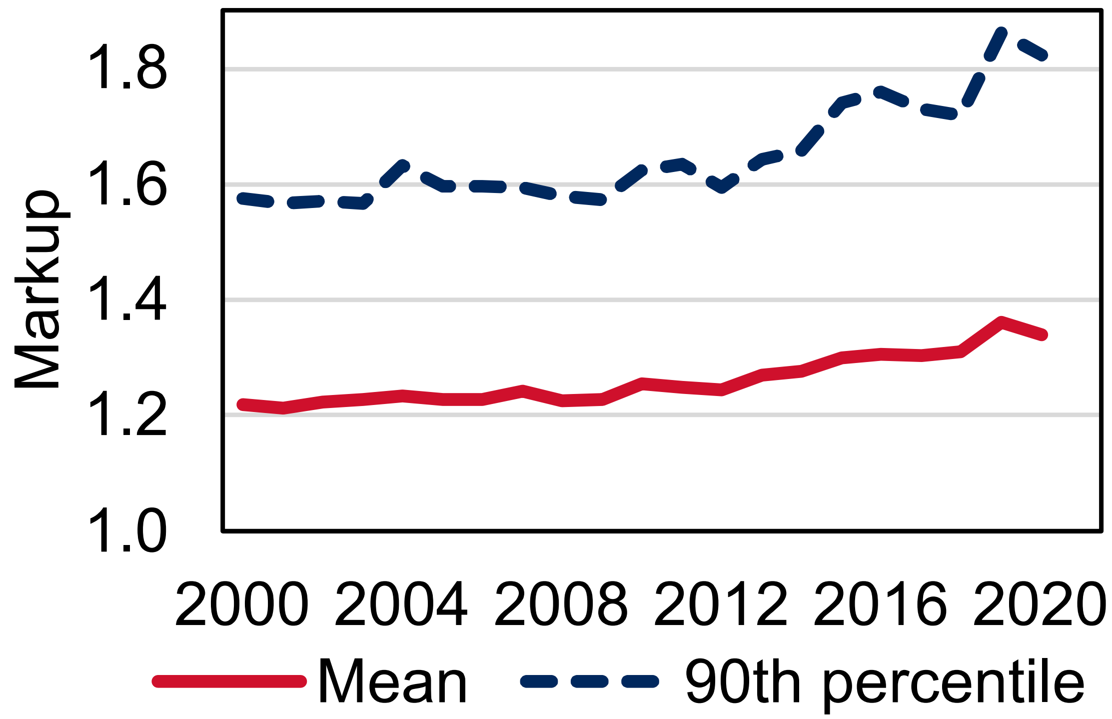


Figure 5c illustrates data on the markup of prices over marginal costs from 2000 to 2020. It shows that average markups have increased since 2008 from just over 20% to about 35%. It also shows that the increase in markup has been higher for the 10% most profitable firms.

Figure 5d: Entry barriers, entry and exit rates of UK companies

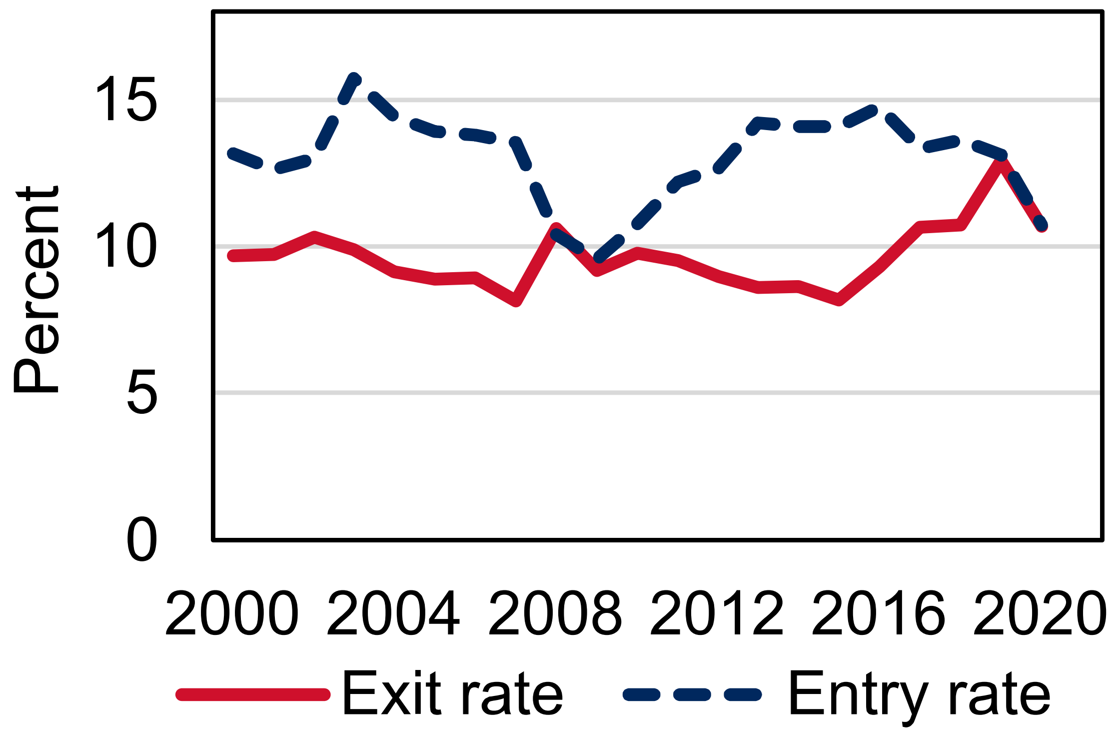


Figure 5d illustrates the entry and exits rates of UK companies between 2000 and 2020.

It shows that entry and exit rates have been relatively stable over the period 2000 to 2020 with 2 exceptions. First, the financial crisis in 2007/08 coincided with a sudden spike in the exit rate and a decrease in the entry rate, which took until 2013 to recover. Second, since 2015 exit rates have been increasing, with the exception of 2020 and from 2016 entry rates have been declining.

Source: Competition and Markets Authority (2022) The State of UK Competition Report (https://www.gov.uk/government/publications/state-of-uk-competition-report-2022/the-state-of-uk-competition-report-april-2022#concentration-industry-structure-and-distributional-impacts50)

Questions

18) Where you identified barriers in response to question 7 which relate to competition, what evidence can you share to illustrate their impact and what solutions could best address them?

19) How can regulatory and competition institutions best drive market dynamism to boost economic activity and growth?

Regulation

Regulation can address market failures, create economic certainty, and drive innovation to stimulate growth while protecting consumers and businesses [footnote 143]. This is vital for the industrial strategy and across the growth mission and other missions [footnote 144].

For instance, a clear direction of travel provides businesses with the stable conditions and clear incentives to invest in technology and adopt products which move away from higher emission activities, towards net zero.

For regulation to be effective, it must be created in partnership with business and regulators, and must consider implementation and enforcement. To that end, the government is keen to understand how current regulations and the regulatory environment are impacting the growth-driving sectors, and will act where regulations are identified that are not fit for purpose or which will not drive the transformational change sought.

For example, on company law, the government is making reforms, including immediate changes to non-financial reporting regulations, with further consultation to follow.

The government will also identify where new regulatory frameworks can assist in the development of new technologies and allow for new products to be more effectively regulated and approved.

For example, establishing the Regulatory Innovation Office will help position the UK as the best place in the world to innovate, speeding up regulatory decisions for new technologies, from engineering biology to drones, in line with the industrial strategy.

The government is also looking at regulation which impacts the whole economy, including regulation that relates to planning and infrastructure, the energy transition, transport, and childcare.

The wider regulatory landscape and the ability of the regulators to drive growth are key parts of the wider growth mission. The government will provide more information on its approach to regulation in due course.

Question

20) Do you have suggestions on where regulation can be reformed or introduced to encourage growth and innovation, including addressing any barriers you identified in question 7?

Crowding in investment

UK firms have access to one of the world's leading financial services sectors. Despite this, as outlined already, the UK has consistently invested less than its international peers, with levels varying depending on firm size, sector, and region.

Additionally, while FDI is a UK strength, the Harrington Review noted that some of the UK's international peers are more strategic and better organised in attracting globally mobile investment [footnote 145].

There is no single solution to boosting investment in the growth-driving sectors, so the industrial strategy is considering a range of policy areas, including – but not limited to – mobilising capital to ensure businesses have sufficient access to finance and using procurement policy to deliver value for money while supporting growth.

Questions

21) What are the main factors that influence businesses' investment decisions? Do these differ for the growth-driving sectors and based on

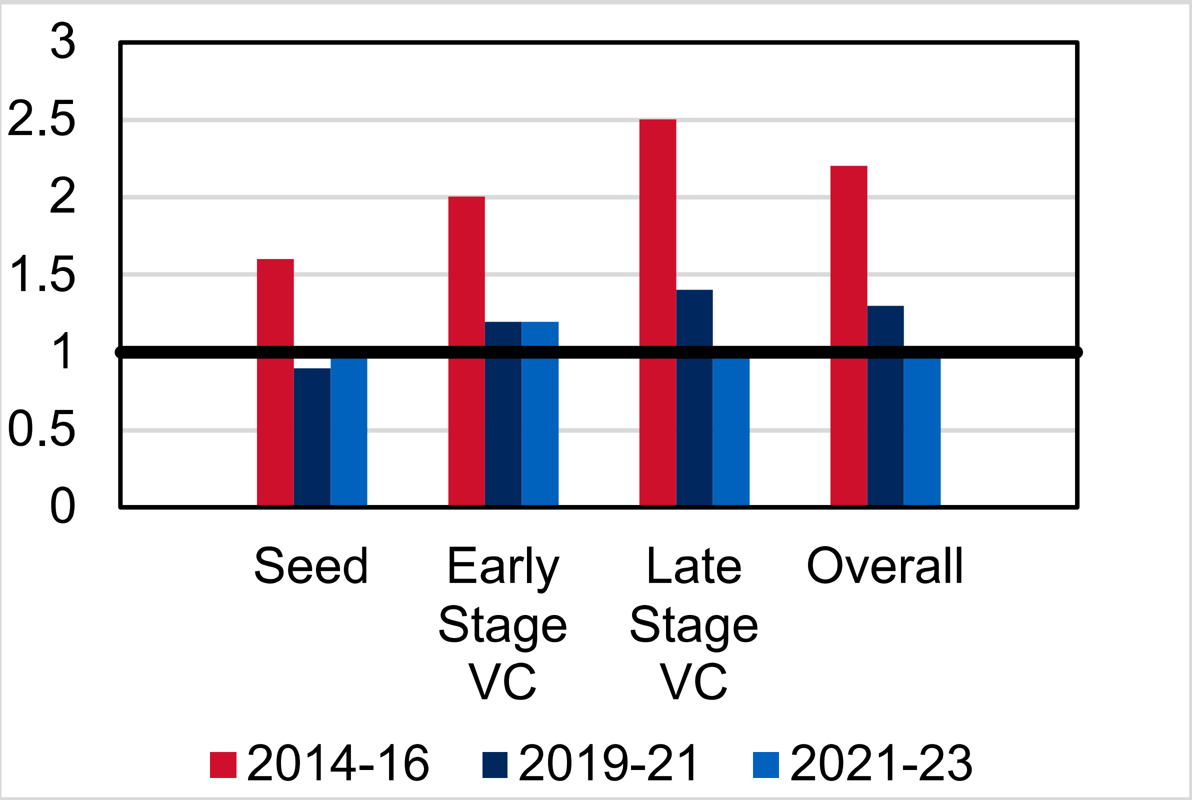
the nature of the investment (for example buildings, machinery and equipment, vehicles, software, RDI, workforce skills) and types of firms (large, small, domestic, international, across different regions)?

Mobilising capital

The UK has a complex landscape of public and private business finance providers and institutions. Some areas operate well or have seen significant progress. For example, over the last decade, the UK has closed the gap in venture capital (VC) investment with the US when measured as a share of GDP (Figure 6). This achievement has been led by investment in the fintech sector, in which the UK ranks second globally and has 48% of European deal value [footnote 146].

However, the government knows from businesses that there is still much to do to improve ease of access to growth capital and scale-up finance in the UK. Barriers include risk aversion, information failures, and coordination challenges. Access to finance can vary between regions, is more scarce and expensive for SMEs, and can differ across sectors based on factors such as capital intensity, technology risks, and stage of growth [footnote 147].

Figure 6: US-UK venture capital investment multiples – GDP adjusted



This figure is a bar chart which shows how levels of venture capital (VC) investment compare between the United States and United Kingdom at different stages of fundraising.

Values are expressed as multiples of GDP. A value greater than one (represented by the black line) shows the US is investing more than the UK as a proportion of GDP.

The chart shows how the UK has closed the VC gap between 2014 to 2016 and 2021 to 2023. Compared with the US, in 2021 to 2023, the UK invested more as a proportion of GDP in early stage VC, and slightly less in seed and late stage VC. Across all 3 stages, the UK and US invest comparable amounts as a proportion of GDP.

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Source: Department for Science, Innovation and Technology and British Business Bank analysis of Pitchbook and GDP data.

A range of government tools are relevant to these challenges and opportunities. For the most important international and large domestic investors, an expanded Office for Investment (the UK government's investment promotion function) will provide a seamless journey, convening departments to ensure levers are pulled to unblock barriers.

To help UK SMEs get access to the capital they need to start, scale, and grow in the UK, the British Business Bank (the UK government's economic development bank) offers a range of debt and equity products through over 200 delivery partners.

To boost investment and increase pension pots, the Chancellor of the Exchequer and Minister for Pensions are leading a landmark Pensions Investment Review. In addition, for firms who trade or could trade with international markets, UK Export Finance mobilises private capital and de-risks transactions.

The government's approach to attracting international investors will be underpinned by the National Security and Investment Act and other protective tools, which will continue to protect national security while facilitating safe investment.

The government also uses grant funding and other financial instruments to unlock investment, including examples of grant programmes for specific sectors and Innovate UK's portfolio of grants, contracts and investments used to leverage private capital in innovative firms with ground-breaking technology.

In line with recommendations from the National Wealth Fund Taskforce, the government is creating the National Wealth Fund which will unlock billions of pounds in private investment, supporting the industrial strategy.

While in the first half of 2024 more capital was raised in London than the next 3 highest European exchanges combined [footnote 148], the UK could also do more to leverage its strengths in financial services to generate UK firms who are truly global players who can scale-up, grow, and list in the UK. In 2024, the Financial Conduct Authority reformed the UK's listing rules to provide greater flexibility and boost international competitiveness, complementing broader reforms including the Lord Hill Listing Review and Wholesale Markets Review.

Questions

22) What are the main barriers faced by companies who are seeking finance to scale up in the UK or by investors who are seeking to deploy capital, and do those barriers vary for the growth-driving sectors? How can addressing these barriers enable more global players in the UK?

23) The UK government currently seeks to support growth through a range of financial instruments including grants, loans, guarantees and equity. Are there additional instruments of which you have experience in other jurisdictions, which could encourage strategic investment?

Taxation

The government is committed to competitive corporate taxes, as sustainable growth can only be delivered if businesses have the confidence they need to invest and grow in the UK.

Businesses and tax experts have been clear that a stable and predictable tax environment provides the confidence needed to encourage investment, innovation, and growth over the long term. Corporation tax is particularly important in companies' investment decisions and is an area where there is an appetite for stability following several years of significant change.

In addition to targeted reliefs available to specific sectors, such as creative industries, the UK has an attractive corporate tax regime, with the lowest headline rate of corporation tax in the G7 alongside cross-cutting generous tax support for investment, R&D expenditure, and the development and commercialisation of patents [footnote 149].

The government recognises the importance of predictability and stability within the tax system. To provide this, alongside the budget the government will publish a corporate tax roadmap setting out its approach to corporation tax for the coming years. This will include clear commitments to key features of the system and highlight several areas where the government will be exploring change.

Procurement

The public sector spent over £385 billion in 2022 to 2023 on procurement, making up almost a third of all public spending [footnote 150]. This expenditure plays a crucial role in boosting investment and growth through facilitating competition and enabling market entry, supporting the research and innovation ecosystem, as well as delivering infrastructure, public services, and national security.

Government will use the legal framework created by the Procurement Act 2023 to:

- deliver economic growth
- raise standards
- deliver greater social value

opening up procurement to new entrants such as small businesses and social enterprises.

The act will launch in February 2025, alongside a refreshed national procurement policy statement which will set out its strategic policy priorities for public procurement and to which all contracting authorities will have to have regard when the new regime comes into force. It will apply the full potential of public procurement to deliver value for money, and will set clear strategic direction for procurement in line with the government's missions – including economic growth in support of industrial strategy objectives.

The Cabinet Office is separately consulting stakeholders on the development of the new National Procurement Policy Statement.

International partnerships and trade

The UK is a proud trading country and among the most open economies in the world. The UK holds strong and constructive partnerships all over the world, built on principles of openness and shared prosperity and a commitment to upholding the international rules-based system.

The UK is a truly global economy with connections extending to the whole world. This is facilitated by trade agreements with the EU and the Trans-Pacific Partnership all the way through to a cutting-edge digital economy agreement with Singapore and digital partnerships with Korea and Japan. The UK continues to trade more with the EU as a bloc than any other trading partner. In the 12 months to June 2024, 47% of the UK's total trade was with the EU [footnote 151].

International partnerships

The UK's multilateral and bilateral economic partnerships with other countries are crucial to increasing growth by:

- opening up investment and export routes
- tackling barriers to trade
- partnering to create shared markets

The UK works closely with international partners to tackle issues affecting the global economy and shared economic resilience, including cooperating to reduce critical dependencies. Alongside partners in the G7, the UK has agreed to enhance resilient supply chains through partnerships around the world, especially for critical goods such as critical minerals, semiconductors, and batteries.

In support of the industrial strategy, the government will enhance the UK's already strong bilateral relationships by building on previous agreements and partnerships such as the UK-US Atlantic Declaration and the UK-Japan Hiroshima Accord.

The government is also developing new agreements, such as the UK-Germany Treaty, and delivering an agenda of strengthened cooperation with the EU, as agreed by the Prime Minister and the President of the European Commission.

Strategic investment partnerships, such as with the United Arab Emirates and Qatar, will also support economic links, capital flows, and longer-term investment pipelines.

The UK has strong foundations, but there is more that government can do to ensure that its work with other countries brings tangible benefits for sectors at the forefront of growth.

To deliver the industrial strategy, the government will build international partnerships that support growth-driving sectors, and help to manage the geopolitical risks and opportunities affecting growth.

The UK's overseas trade and diplomatic network – one of the largest in the world – will proactively support international business to invest in the UK, and UK companies to export and find new markets. This approach will be complementary to other government work in this area, including the Strategic Security Review and the Strategic Defence Review.

Trade

Trade is an important driver of economic growth.

Openness to global markets gives firms access to better, cheaper, and a wider variety of inputs to their production processes, while also expanding the markets into which firms can sell products. This encourages firms to scale up domestic production, increasing the overall level of output in the economy, as well as creating efficiencies from economies of scale and learning from a broader range of companies.

In addition to boosting standards of living, consumers also benefit from a wider variety of goods and services. Research shows a 10% increase in openness is associated with a 4% increase in income per head [footnote 152] and that UK firms that export goods are 21% more productive than non-exporters [footnote 153], [footnote 154], [footnote 155].

Growth in UK trade has been weak in recent years, with UK trade intensity [footnote 156] down 2.5 percentage points in the 12 months to June 2024 compared with its pre-COVID-19 (2018) level [footnote 157]. Within the headline figures, stronger UK services trade has offset a weaker goods trade performance [footnote 158].

The government hears from business that trade barriers inhibit key UK industries from trading, ranging from product-specific prohibitions of UK imports to differences between UK and partner country regulations and standards. UK firms could export more: in 2022, around 11.9% of UK registered businesses were exporters [footnote 159], while 19% of registered businesses had never exported but stated they could export, rising to 22% in 2023 [footnote 160].

Harnessing the potential of digital trade, which accounts for over half (55%) of UK exports in 2020, is also central to delivering a strong and resilient economy in the UK [footnote 161] and digital trade agreements (such as the UK-Singapore Digital Economy Agreement) and cooperation with partner countries can support consumers and businesses to access new opportunities and safeguard the broader digital environment.

The government also hears from business that occupational regulation and recognition of professional qualifications (RPQ) arrangements are a key facilitator of trade in services and support labour market outcomes [footnote 162]. The professional and business services sector can particularly benefit from international RPQ because it contains several important regulated professions.

The government wants to work with the EU to boost jobs, economic growth, and UK-EU trade, including by tackling barriers to trade through seeking to strengthen mutual recognition of professional qualifications.

Efficient customs and border processes also have a positive impact on UK trade by reducing complexity and costs for imports and exports, while protecting against illegitimate trade and enabling the UK to meet its legal obligations under international agreements. Simplifying customs and border processes and providing comprehensive guidance and support to businesses help to reduce administrative costs, including in growth-driving sectors [footnote 163].

The government will set out its trade strategy, aligned with the industrial strategy, to help businesses to overcome barriers and maximise trade for the growth-driving sectors and across the whole economy.

Questions

24) How can international partnerships (government-to-government or government-to-business) support the industrial strategy?

25) Which international markets do you see as the greatest opportunity for the growth-driving sectors and how does it differ by sector?

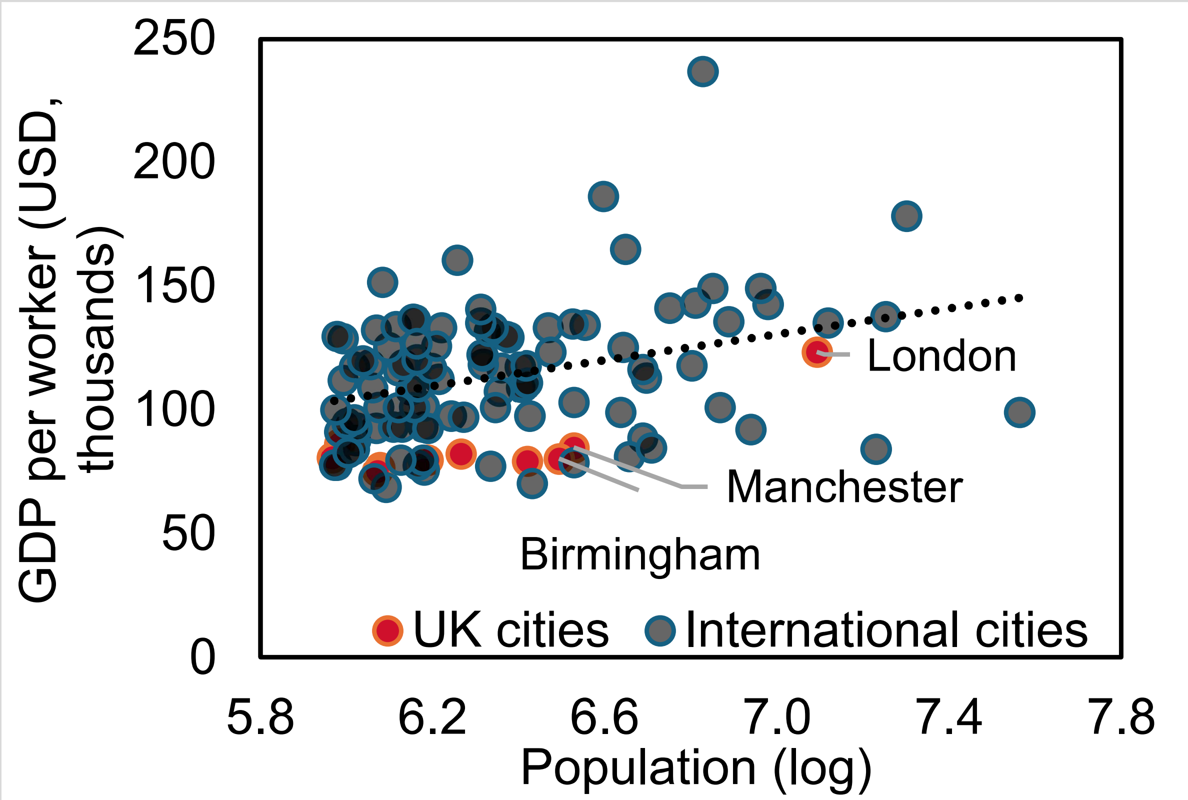
Place

A core objective of the industrial strategy is unleashing the full potential of our cities and regions by attracting investment and creating the best environment for businesses in them to thrive.

The UK's economic performance is skewed towards London and the South East, while other city regions have historically underperformed relative to both the national economy and their international counterparts (Figure 7). The world-leading industries in London and the South East have a critical role in driving national prosperity.

However, there is enormous untapped potential outside the capital and its surrounding areas. City regions like Greater Manchester, the West Midlands, and Glasgow, are not generating the growth and local prosperity that urban agglomerations of their size should. Centre for Cities analysis shows that for the 8 largest cities outside London, the combined gap between actual and potential productivity is £47 billion per year. When including the next 25 city regions outside the Greater South East (which also underperform), this increases to an estimated £66 billion per year[footnote 164].

Figure 7: Productivity and population, major international cities



This figure is a scatter plot which shows the 112 cities in the G7 which are the size of Nottingham or larger. For each city, it plots GDP per worker (USD, thousands) against a log of their population in 2018. Red dots represent UK cities, while blue dots represent international cities.

The scatter plot shows a general positive relationship (represented by the dotted black trendline) between GDP per worker and the log of population across G7 cities. It shows that the larger the population of a city, the higher the GDP per capita.

All UK cities fall below this trendline showing that UK cities' GDP per worker is lower than their international comparators, given their population.

Source: [Centre for Cities (2024) Climbing the Summit, Big Cities in the UK and G7 (https://www.centreforcities.org/publication/climbing-the-summit/)](https://www.centreforcities.org/publication/climbing-the-summit/)

Within sectors, businesses co-locate in clusters to take advantage of economies of scale, talent pipelines, land, supply chains, knowledge spillovers, and more. The UK has world-leading clusters across the country, including:

- life sciences in Cambridge and the Liverpool city region
- financial services in Edinburgh, Leeds and London
- advanced manufacturing in Broughton and Newport, Greater Manchester, the West Midlands, the North East, and South Yorkshire

- digital industries in Bristol and Northern Ireland
- clean energy industries in Aberdeen and Derby
- many more

The industrial strategy will coordinate sectoral and business environment policies to overcome place-based barriers in key clusters and enhance their attractiveness as destinations for private investment.

Growing high-potential clusters

The industrial strategy will concentrate efforts on places with the greatest potential for the growth sectors: city regions, high-potential clusters, and strategic industrial sites. The success of the industrial strategy's growth-driving sectors can only be achieved if these clusters reach their full potential, supported through a place-based approach to policy.

Local growth plans are a cornerstone of the place-based approach. These locally owned, 10-year strategies will set out how mayoral combined authorities (MCAs) will use their devolved powers and funding to drive growth in their region. They will build on the region's unique strengths and opportunities to support sectors, identify wider business environment priorities, and provide a framework to unlock private investment. They represent strategic partnerships between central government and MCAs to identify priorities for growth and will be aligned to the industrial strategy.

Alongside this, the government will explore how to build on existing place-based initiatives to support high-potential clusters and align them behind the industrial strategy. This includes considering how the industrial strategy can be a 'lens' for informing the recommendations for new towns locations, creating new large-scale settlements in places where high housing demand constrains the growth of high-potential clusters.

The government will explore how to create the best pro-business environment possible in city regions and high-potential clusters, helping their sectoral strengths to flourish. It will:

- harness research and development (R&D) investment to build strong regional innovation ecosystems
- use financial mechanisms like the National Wealth Fund to support investible propositions across the UK
- ensure investment is a catalyst for growing city regions
- support local businesses and education providers to understand and address the skills needs specific to their areas through tailored Local

Skills Improvement Plans

Finally, the government will explore how the industrial strategy can identify, select and intervene in industrial sites across the UK to realise ambitious propositions and become magnets for globally mobile investment. For example, many peer countries are intervening to de-risk, reduce development timescales, and accelerate growth in strategic industrial sites through planning reforms and other policies.

Working in partnership with national and regional leaders

The industrial strategy will support a joined-up approach to unleashing regional growth. This is not the first time a national government has tried to deliver a place-based industrial strategy, but this time there are stronger foundations for success.

The government is committed to devolving significant powers to Mayoral Combined Authorities across England, giving them the tools they need to grow their sectoral clusters and improve the local business environment. Partnership with devolved governments will make this a UK-wide effort and support the considerable sectoral strengths of Scotland, Wales and Northern Ireland.

Methodology for identifying high-potential clusters

The government is working with local partners to bring together qualitative and quantitative evidence to understand the strong sectoral clusters that exist across the UK, both emerging and established. This work will build on the Innovation Clusters Map published by the Department for Science, Innovation, and Technology (DSIT) in February 2024 [footnote 165]. Patterns of clustering differ between different sectors, for example, between manufacturing and services.

The starting point is that successful clusters are characterised by strong concentrations of employment, output, high productivity and innovation. Within this, clusters can be strong in different ways: either having deep expertise in a concentrated spatial area, or encompassing related businesses and employees in broad spatial areas that cross administrative boundaries.

Clusters can take any geographical shape and often span large geographical areas, cutting across local government boundaries and nations of the UK. When defining clusters, the government will need to strike a balance between alignment with existing administrative and policy structures, and not imposing arbitrary restrictions.

This green paper seeks evidence and analysis to build on this high-level methodology. The responses will be used alongside further work and engagement with experts inside and outside of government, and within places themselves, to deepen the understanding of sectoral clusters and helpful placed-based policy interventions for growing sectors and attracting investment.

Questions

26) Do you agree with this characterisation of clusters? Are there any additional characteristics of dimensions of cluster definition and strength we should consider, such as the difference between services clusters and manufacturing clusters?

27) What public and private sector interventions are needed to make strategic industrial sites ‘investment-ready’? How should we determine which sites across the UK are most critical for unlocking this investment?

28) How should the industrial strategy accelerate growth in city regions and clusters of growth sectors across the UK through local growth plans and other policy mechanisms?

29) How should the industrial strategy align with devolved government economic strategies and support the sectoral strengths of Scotland, Wales and Northern Ireland?

Partnerships and institutions

The ambition set out across this paper can only be realised in partnership. Only by working with the network of businesses, investors, civil society, international partners, local leaders and devolved governments who play a critical role in the UK economy, can we shape and deliver an industrial strategy that can truly drive growth.

At its core, industrial strategy is rooted in building institutional capacity to develop and deliver effective economic policy [footnote 166], [footnote 167]. Past industrial strategies have been held back by weak coordination and delivery, hence this is a key focus of this industrial strategy. This includes:

- building structures and ways of working which allow for holistic policy solutions, that cut across departmental boundaries and are transformational in scope – for example, through a mission-based approach [footnote 168]
- creating ongoing and open dialogue between business, experts, and policymakers which ensure that policy is fit for purpose, including being able to receive timely feedback from users in order to create, amend, or stop policy [footnote 169]
- creating mechanisms which allow government to monitor its progress and to learn lessons from the past, from business, from other countries, and from other areas of policy at the national and sub-national level [footnote 170], [footnote 171]
- placing greater emphasis on effective policy delivery, including working collaboratively with delivery partners inside and outside government [footnote 172]
- creating stable and certain policy direction to allow business and delivery partners to plan and make long-term (investment) decisions, with less policy churn [footnote 173]

To this end, the industrial strategy will operate through new institutional structures that should set the foundations for long-term and agile implementation, working with groups of engaged experts who can guide development and delivery. A new independent Industrial Strategy Council will support long-term stability and place expertise at the heart of the strategy.

The government will convene and co-design with all 8 growth-driving sectors.

For each, an ambitious sector plan will be designed in partnership with business, devolved governments, regions and other stakeholders, through bespoke arrangements tailored to each sector. The government will also explore how it can improve the way that it interfaces with sectors and works across departments, drawing on the success of models like the Office for Life Sciences.

The government will engage widely throughout the development of this strategy. The start of this is drawing insight through this green paper. Beyond this, we will conduct roundtables and conversations in the coming months to gather expertise and insight to shape our approach. This includes engaging:

- businesses through Ministerial meetings, CEO roundtables, and regional visits to ensure the government's plans reflect what it means to run and grow a business – industrial strategy mission groups will bring together business, from scale-ups to large enterprises, to develop targeted solutions on barriers to investment and growth

- business representative organisations and trade unions through regular ministerial calls – an industrial strategy forum will bring these groups together to test ideas, consider cross-cutting themes, and provide updates on the development of the strategy
- devolved governments, elected mayors, and other local leaders, including through the Council of the Nations and Regions, and Mayoral Councils, to galvanise regional and place-based growth opportunities, and align where appropriate
- thought leaders and experts through policy labs to stress-test ideas in detail and consider examples of what has and has not worked well in the past
- international partners through government-to-government dialogues to exchange policy views and identify areas for cooperation

Industrial Strategy Council

To underline the government's commitment to business, it will establish a statutory, independent, and evidence-led Industrial Strategy Council (ISC), reporting to the Business and Trade Secretary and the Chancellor of the Exchequer.

The ISC will be responsible for informing and monitoring both the development and delivery of the industrial strategy over the long term, ensuring that policy interventions are informed by a broad and high-quality evidence base. The ISC will make recommendations, focusing on growth-driving sectors and the pro-business environment. It will also monitor and evaluate impact – data and analysis will be central to this.

The ISC, supported by a secretariat of analysts and policy professionals, and by bodies across the public sector, will:

- monitor progress on growth-driving sectors and policies
- undertake analysis to improve the evidence base to include in its reports and advice
- feed into policy development through public reports, ministerial commissions, and private discussion papers

The government will legislate to establish this statutory body as soon as parliamentary time allows, building cross-party support in the process.

Legislation will ensure the ISC's permanence as an institution and that it has the necessary powers to deliver its objectives.

In the meantime, to ensure that the industrial strategy is developed with independent expert advice, the government is introducing an interim Industrial Strategy Advisory Council. The advisory council will be chaired by Clare Barclay, CEO of Microsoft UK, who brings a wealth of leadership experience at the top-flight of UK business across technology, innovation, and AI.

Further members will be confirmed in due course, drawn from across business, academia and trade unions to provide a broad range of skills and expertise.

Business partnership framework

The government is developing a business partnership framework to underpin the design and implementation of the industrial strategy and wider policies.

We recognise that government can improve the interface between government and business, better help businesses to navigate the policy landscape, and build government's capability to better understand business needs. The framework could include:

- a new approach to business engagement, setting out best practice and simplifying routes to engagement – this would offer support to those working with sectors and in business-facing roles and encourage development of policy in a more open way with businesses from the start
- a new business academy for government, with a targeted learning and development offer, underpinned by a standards framework setting expectations for all business-facing civil servants from entry to expert level
- a new approach to secondments, to support civil servants to spend up to a year in business to increase their experience and understanding of the issues businesses face, to bring back to government and improve policy development
- a data-led approach to gathering timely analysis, insights, and intelligence from business and wider sources, and sharing these widely across government

Questions

30) How can the Industrial Strategy Council best support the UK government to deliver and monitor the industrial strategy?

31) How should the Industrial Strategy Council interact with key non-government institutions and organisations?

32) How can the UK government improve the interface between the Industrial Strategy Council and government, business, local leaders and trade unions?

Next steps

This green paper sets out government's commitment to develop a modern, targeted industrial strategy with the objective of long-term, sustainable, inclusive, and resilient growth, by spurring investment into all parts of the UK.

In the coming months the government will work with business, unions, experts, representative groups, and other stakeholders to develop the industrial strategy. In addition to the work of the Industrial Strategy Advisory Council, the government will be holding focused roundtables and conversations across the UK between now and spring.

The government will work closely with regional, local, and devolved government partners to build out local plans for growth aligned to the national Industrial Strategy framework.

The response to this green paper will be included in the final industrial strategy and growth-driving sector plans, to be published alongside the spending review in spring 2025. The industrial strategy's implementation will be driven through dedicated teams, working closely with the Industrial Strategy Advisory Council.

Annex – theory of change

Economic growth is a complex issue with interrelated short-term and long-term drivers, many of which are structural in nature [footnote 174].

To effectively prioritise policies within the industrial strategy, targeted at the right sectors and types of economic activity, the government needs to rationalise this complexity into a series of potential causal pathways. This will also help to identify where to further develop the evidence and analysis.

To this end, a high-level theory of change is in development to illustrate the logical relationships between industrial strategy policies and growth. For a given programme or policy, a good theory of change needs to set out:

- impact: the high-level goal of the programme
- outcomes: what needs to happen to achieve the policy or programme's objectives
- intermediate outcomes: the intermediate steps necessary to get from outputs to real-world impact
- outputs: the actions that the UK government will need to take (including implementing policies) in order to affect the (intermediate) outcomes
- inputs: the resources and conditions necessary for the UK government to deliver these outputs

Using this terminology, the ultimate impact of the industrial strategy theory of change is the overarching objective of long-term, sustainable, inclusive, and secure economic growth. The government has also developed an indicative set of high-level outcomes to guide policy development over the coming months. Specifically, the industrial strategy will enable:

- successful sectors: raise investment in growth-driving sectors to increase their size and productivity
- successful places: grow or establish high-productivity clusters of growth-driving sectors across the UK, driving up overall GDP growth and increasing opportunity through the benefits of increased agglomeration
- successful markets: boost market dynamism, innovation, and technological adoption and diffusion through increased competition, an improved capability offer to businesses, and coordinated fiscal and non-fiscal measures
- successful people: reduce skills mismatches and boost higher-paid employment in growth-driving sectors, including via increased enrolment in apprenticeships and technical education
- successful institutions: improve UK industrial policy stability and coordination through building partnerships and the creation of a statutory Industrial Strategy Council empowered to advise, make recommendations, and monitor industrial strategy policy

The theory of change is a work in progress.

Over the coming months, the government will work alongside the Industrial Strategy Advisory Council and other stakeholders and experts to build a set of intermediate outcomes: measurable variables that are critical to achieving its outcomes and ultimate impact. This will allow the government to identify the outputs that should be prioritised within the industrial strategy.

Example

The successful sectors strand of an industrial strategy theory of change might identify a goal for higher investment in the industrial strategy growth-driving sectors.

The sector plans would be developed to help drive investment in these sectors and secure their growth. They would do this by developing a long-term vision for each sector and identifying barriers to growth and policies to unlock investment.

This in turn will require a variety of government resources as well as complementary actions by businesses.

In terms of the theory of change, definitions in this scenario are:

- outcome: successful sectors
- intermediate outcome: higher investment
- output: sector plans
- inputs: government resources and complimentary actions by businesses

Developing this understanding of the industrial strategy's contribution to economic growth and other strategic objectives using a theory of change will also enable the government to identify and map critical interdependencies with:

- other policy activity
- the wider growth mission
- other missions, such as the clean energy and opportunity missions

In parallel, logical frameworks are in development, which the government will use to explore and assess the potential causal pathways prioritised by the theory of change. Logical frameworks do this by assessing the assumptions required for these pathways to exist and the risks around those assumptions. They can therefore inform an assessment of whether an action or policy will meaningfully contribute to the industrial strategy's objectives.

Once the government has a prioritised set of outcomes and outputs to meet the industrial strategy's objectives, this will be used to develop policies and an associated monitoring and evaluation framework. This will also be done in partnership with the ISC and others.

Having a robust method to assess the performance of policies is critical to the successful delivery of the industrial strategy. It will allow the government to assess whether policies are delivering on their stated objectives and therefore whether implementation should be improved or the policy stopped or revised.

Questions

33) How could the analytical framework (for example, identifying intermediate outcomes) for the industrial strategy be strengthened?

34) What are the key risks and assumptions we should embed in the logical model underpinning the theory of change?

35) How would you monitor and evaluate the industrial strategy, including metrics?

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