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POLICY BRIEF

Making sense of Labour's modern industrial strategy

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Summary

This policy brief sets out five ways in which the Labour Government's Green Paper – Invest 2035 – should be refined and strengthened if it is to make sense as a fully fledged Industrial Strategy in the White Paper promised for Spring 2025.

- The **growth mission** of the Strategy needs to be more clearly stated not only in terms of growth 'in what' but also growth 'for what'. The transition from Green to White Papers should make it explicit that growth is to achieve Net Zero, regional balance and security/resilience (if they remain the government's intentions for growth) and not pursued simply for its own sake.
- **Mission priorities** should be based on how it is expected the Strategy will promote the desired scale and shape of growth. They should be couched in terms of mission driving technologies and places as well as sectors where investment/innovation are most required to lever growth and where various forms of government intervention can induce additional and sustainable growth.
- **Diffusion and transformation objectives:** The outcomes generated by growth in the target mission driving sectors, technologies and places will need to be diffused across the rest of the economy if they are to have a transformative impact on overall productivity and living standards. This is unlikely to happen without encouragement and support and will require:
    - **A wider sectoral framework** which recognises that absorption of innovation and good practice are an essential part of this process and that there are distinct mechanisms in different sectoral categories by which this will take place and can be encouraged
    - **A place-based framework** that depicts the relative needs and opportunities of different places and sets out the appropriate strategic policy direction for each combination of need and opportunity – including those places most likely to remain left behind
- **Strategic policy instruments**: A wide range of policy instruments (including funding, regulation, procurement and fiscal instruments) should be mapped and devolved in ways tailored to the specific requirements of the missions, priority sectors, technologies and places in order to shift the wider economy onto a stronger and sustained growth path
- **Monitoring and evaluation**: Testing and learning as the Strategy unfolds will be required to refine its assumptions and hypotheses in leaner, smarter and continuous ways so that feedback loops operate in real time.

The modern Industrial Strategy

The Green Paper - Invest 2035 – sets out the Labour Government's "10-year plan to deliver the certainty and stability businesses need to invest in the high growth sectors that will drive our growth mission". As well as its growth objective, the Strategy is intended to promote Net Zero, regional growth, and economic security and resilience. Invest 2035 initiates a consultation which will culminate in the final strategy to be published alongside the Spending Review in Spring 2025.

It identifies eight "growth driving sectors"[1] on which it will concentrate in "places with the greatest potential … city regions, high-potential clusters, and strategic industrial sites". Coordinated sector-specific and cross-cutting policies will support businesses to overcome barriers and invest. These will be guided by four principles: building long term stability; using the power of strategic government; a commitment to free and fair trade; and easing the investor journey.

The Strategy's Sector Plans and business environment interventions will be designed and implemented in lockstep with local and devolved leaders. It will be a partnership formalised through the establishment of a statutory and independent Industrial Strategy Council and the newly established Council of the Nations and Regions and the Inter-Ministerial Group on Business and Industry and the Mayoral Council. These structures are to provide for stability and longevity.

The Strategy is avowedly practical and pragmatic. It places private business, entrepreneurship, and innovation at its heart with central, devolved and local governments playing strategic, coordinating and enabling roles across a wide range of policy levers. The targeted growth driving sectors include services as well as manufacturing, the importance of place in developing and growing competitive clusters is recognised, and a wide range of policy levers is proposed. As the IfG review observed[2], "it is far from the subsidy-allocating caricature portrayed by critics of industrial strategy".

The government should be commended for the speed with which the draft strategy was produced, for a statement which cuts to the chase, and for setting out a pragmatic way forward in both the short and longer terms. As a Green Paper, the strategy is cast at a general level which camouflages issues of definition, theories of change, critical assumptions and risks, and the inevitable trade-offs required. These will hopefully be resolved during the Strategy's transition from Green to White Papers.

In this Policy Brief we present and discuss key issues that need to be addressed before the final specification of the Strategy in Spring 2025.

The growth mission

As is recognised in the Autumn Budget 2024 Statement[3], the Government expects the Industrial Strategy (alongside other complementary supply side measures such as planning reform) to have a positive impact on growth that is not fully captured in the growth forecast of the Office of Budget Responsibility (OBR) over the next five years. If we are to assess how the Industrial Strategy is going to enhance the pace of growth in the United Kingdom it is essential to have a clear understanding of the causal mechanisms by which the desired growth outcomes will be

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[1] Advanced manufacturing, clean energy industries, creative industries, defence, digital and technologies, financial services, life sciences and professional and business services.

[2] https://www.instituteforgovernment.org.uk/comment/invest-2035-promising-launch-industrial-strategy

[3] Page 61 ;
https://assets.publishing.service.gov.uk/media/672232d010b0d582ee8c4905/Autumn_Budget_2024__web_accessible_.pdf

achieved in the different sectoral and spatial contexts in the UK (referred to in the Green paper as the theory of change (ToC)).

The Strategy will need to demonstrate how it expects to generate growth *additional* to that already factored into the OBR forecast which shows fairly anaemic growth for the medium term. It should enable the Government (and wider stakeholders) to monitor and evaluate whether any changes in behaviour, outputs and outcomes induced by the Strategy are consistent with the desired growth impacts and how they might need to be modified as the Strategy unfolds to ensure these are achieved.

The OBR acknowledges that public investment could have a growth impact in the longer term primarily through significant crowding-in of additional private sector investment[4]. The NIESR[5] suggests a number of ways this could occur. These include spillovers from improved infrastructure to the private sector that enhances its productivity, boosts to business confidence from knowing the public sector is investing for the long term, and catalytic public funding (e.g. on research and development) that induces significant additional private sector investment.

The Industrial Strategy suggests these causal channels would be strengthened with a focus on the eight sectors/places it has identified with the greatest potential for growth. The underlying proposition is that their additional growth will be sustained at a scale that will have a positive multiplier impact on growth across the economy as a whole and over the longer term. The broad mechanisms by which growth barriers are expected to be overcome can be deduced from the rationale for government intervention set out in Invest 2035. In summary, this rationale is to reduce uncertainty, foster competitive markets, build partnerships and increase coordination, and maximise positive spillovers.

The Strategy's primary objective is stated as inducing stronger growth in ways that will also promote Net Zero, regional growth, and economic security and resilience. However, the latter are cast almost as subsidiary objectives with the underlying assumption that they can be achieved at the same time as securing higher growth. We suggest an alternative and more effective way of formulating this would be to turn Net Zero, regional growth and security/resilience into primary objectives to shape the type of growth being pursued.

This is the case made by the Grantham Institute (2024)[6]. "Investing in the opportunities afforded by the global transition to an efficient, resilient and inclusive economy needs to be a bigger part of restoring productivity and output growth for the UK to gain a competitive lead in the innovative markets of the 21st century." It is also the way the purpose of an Industrial Strategy is specified in an earlier report - UCL-IIP (2019)[7] - to "steer the direction of innovation led economic growth" and to "solve grand challenges through cross-sectoral missions".

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[4] Page 81 : https://obr.uk/docs/dlm_uploads/OBR_Economic_and_fiscal_outlook_Oct_2024.pdf
[5] https://www.niesr.ac.uk/wp-content/uploads/2024/09/Public-investment-and-potential-output.pdf
[6] https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2024/01/Boosting-growth-and-productivity-in-the-UK-through-investments-in-the-sustainable-economy.pdf
[7] https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/190515_iipp_report_moiis_final_artwork_digital_export.pdf

Adopting this approach in the transition from Green to White Papers would mean making it explicit that growth was to be pursued to achieve Net Zero, regionally balanced growth and security/resilience rather than to secure higher growth per se.

The theory of change (ToC)

The Green Paper acknowledges the importance of setting out the causal mechanisms by which the desired growth outcomes are to be pursued in the different sectoral and spatial contexts of the UK. The expectation is that this ToC will be specified and populated with metrics in the White Paper.

As above, we suggest that the desired shape of the transformed growth prospects (i.e. to Net Zero, regional growth and security/resilience) should be an integral part of the growth mission. That would mean that the selection of priorities for the ToC - strategic sectors, technologies and places - would need to be driven by criteria relating to the purpose and form of growth as follows (drawing on the rationale for the Strategy set out in the Green Paper):

- Identifying and reducing *uncertainty* in the sectors, technologies and places where growth and productivity improvements are likely to have the most benefit over the longer term for society as a whole in terms of Net Zero, regional growth and security/resilience and, we would add, for the most vulnerable people and places in particular.
- Generating the most *favourable multiplier effects* throughout the whole economy – through sectoral, technological and spatial input-output relationships and supply chain linkages – and especially in the more deprived parts of the country.
- Crowding in *private sector resourcing for innovation and investment where it is currently least likely to be forthcoming* and where public sector interventions can have the most additional impact – intensively within businesses and extensively across them in the key sectors and places.

Below we outline a high-level ToC based on whatever priority sectors, technologies and places are finally chosen. We have drawn from Itad (2020)[8] for some of the transformational elements that we think need to feature in the ToC.

- **Inputs and outputs:** Funding and measures to identify and reduce uncertainty where it hinders the desired shape of growth: to increase coordination/build partnerships/enhance clusters in the priority sectors, technologies and places; to foster competitive markets; to maximise positive and minimise negative spillover effects in wider sectors/localities especially in inter-connected value chains; and to provide catalytic funding to mobilise significant private sector investment, skills development, research, innovation and trade.
- **Intermediate outcomes:** Strengthened or new partnerships and clusters in the priority sectors, technologies and places; improved quality and availability of information; increased coordination and information sharing; shifts in system thinking, structures and functions (especially with regard to regulation); reduced uncertainty and its transformation into

[8] Itad (2020) : Signals of Transformational Change ; https://www.climateinvestmentfunds.org/sites/cif_enc/files/knowledge-documents/tc_signals_brief.pdf

manageable risks; improved business confidence to invest, research and innovate, and trade in new spatial and/or product markets overseas; increased pilot and pipeline development activity; increased availability of lower cost finance (especially from new or under-used sources such as pension funds); reduced entry barriers for new and small businesses – especially in the priority sectors, technologies and places and their supply chains.

- **Outcomes:** Increased scale and sustainability of additional: partnerships/clusters in the priority sectors, technologies and places; flows and quality of information and learning; numbers of business providers; flows of finance and funding sources; private investment over and above what otherwise would have been forthcoming in intangible (R&D) as well as tangible assets (plant and machinery); absorption, diffusion and purchase of growth driving technologies and products/services in wider sectors, places and overseas.
- **Impacts:** Transformation of markets with mainstreaming of new sources of financial flows, skills, innovation, products, services; increased total factor productivity and value-added growth in the priority sectors, technologies and places, their supply chains and their customers; and at a scale and sustainability sufficient to increase total productivity, trade and GDP growth across the UK economy over the longer term.

This is a general statement of the ToC which includes effects for which some of the metrics are likely to be difficult to specify and quantify robustly. The White Paper will be the appropriate place to provide the full details of the metrics to populate the ToC, drawing on the consultation which has now concluded. However, it would not have been unreasonable for the Green Paper to have offered some metrics for key outcome variables like growth – i.e. whether it referred to productivity, GDP, GDP per capita or, as now seems to be the government's preference, real household disposable income. It might also have been expected that it would have defined the priority growth sectors according to some standard variables – like their share of total GDP or employment. That would, at least, have given some sense of the relative scale of the sectors in the total economy. One response[9] to the Green Paper suggested that, on a liberal definition, its target eight growth driving sectors comprised 80% of total tradable jobs and output. That hardly comprises a razor-sharp strategic focus. The final list in the White Paper will have to be much narrower and its selection more carefully designed.

It should be emphasised that the generalised ToC suggested above does not include the causal channels by which the objectives of the Strategy to promote Net Zero, regional growth, and security/resilience might be achieved. Separate causal channels are likely to need to be specified within the ToC, or in nested ToCs relating to these objectives, to identify and resolve potential inconsistencies and trade-offs between them and the overall growth objective.

Target sectors

A key assumption relates to the focus of the current draft of the Strategy on sectors and specifically on the eight growth driving sectors it identified. We have already suggested that, if the shape of growth is to be an integral part of the growth mission, then sectors will need to be

[9] https://www.centreforcities.org/blog/the-industrial-strategy-and-the-big-cities/

complemented with technologies and places. Centre for Cities (2017)[10] challenged the focus on sectors arguing that industrial strategy should be about places (specifically cities) on the grounds that there are big differences in the performance of the same sectors in different places across the country. The growth impacts of some of the eight growth driving sectors identified in the Green Paper from a national, top-down analysis are not likely to be uniform across different places. This suggests that if the Strategy is to secure regional growth, it should tackle the issues that make some places less productive.

The intention as stated in the Green Paper is to work in lockstep with local and devolved governments. But their strengths could be in very different sectors and they will want to play to their local competitive advantages rather than to promote sectors simply because they are stated as top-down priorities for the deployment of Industrial Strategy measures and funds. This means that the ongoing formulation and refinement of the Strategy will need to be flexible in recognising local strengths and supply chain relationships – and not necessarily confined to the priority sectors. Local discretion will not only be required but should be encouraged.

As already noted, the target eight sectors will need to be more consistently defined than in the Green Paper (e.g. as combinations of specific 2-digit SIC (2007) Divisions). Their component sub-sectors are not clear and there may be overlaps between them. For example, are defence and life sciences included in advanced manufacturing? This makes it impossible to estimate the contribution of each to overall GDP and to assess the validity of the assumption implicit in the Green Paper that improvements in the performance of the sectors induced by the Strategy could be of a scale that would transform the long-term growth of the total economy or achieve growth across the regions.

Nor is it clear how any such transformation might be brought about through these particular sectors – i.e. the mechanisms by which they generate sustained knock-on effects throughout the economy. A key risk is that a focus on the sectors with the highest growth potential (however defined) may not be appropriate or provide good value for scarce public money and may simply lead to agency capture (a traditional criticism of industrial policies). The businesses within the target sectors may already be performing at their potential or close to the performance frontier and any government support may not necessarily induce significant *additional* improvements in their productivity or growth – i.e. over and above what they would have achieved without it.

An alternative selection method might be to focus attention on businesses in those sectors that are some distance from the performance frontier but could be brought closer to it through government support. This would especially be so if the impact on these sectors was at a scale (directly or indirectly) more likely to induce significant increases in the growth of the economy as a whole and/or in lagging regions and localities.

[10] https://www.centreforcities.org/publication/10-ideas-place-based-industrial-strategy/#:~:text=1.The%20industrial%20strategy%20should%20be%20about%20cities%20not%20sectors&text=If%20the%20same%20sectors%20perform,than%20focusing%20on%20sector%20deals

We suggest that, whatever the rationale and methods by which priority sectors and sub-sectors are selected, they need to be more transparent in both their intent and associated metrics in the final version of the Strategy. They could then be replicated at different spatial levels and over time to monitor and evaluate achieved outcomes and performance.

A broader sectoral framework

The previous Industrial Strategy Council under Theresa May's Government (ISC (2020))[11] emphasised that industrial policy should be broad in scope – across services, not just manufacturing. This was because of their sheer scale and extent of tradability, their lagging productivity, post COVID-19 challenges and their importance to manufacturing as a productivity-enhancing input.

The current Strategy commendably includes some services in its eight growth driving sectors. It also proposes clusters as the appropriate unit for analysis – following BCG (2023)[12] which argues that this requires a different mindset from traditional economic development strategies. The latter are often built around sectors and usually benefit just the businesses in that sector. Clusters, on the other hand, are groups of interconnected companies and institutions in a particular field that are geographically concentrated. Unlike sectors, a cluster approach aims to create greater synergies and unlock support from companies throughout the full stakeholder ecosystem.

However, focusing on a specific set of sectors even in cluster form is not fully consistent with the finding that the puzzle of poor UK productivity is not so much about sectoral 'imbalances' across the economy (e.g. 'too little' of this or that sector) as it is about the slowdown of productivity growth within all sectors. Coyle and Mei (2023)[13] demonstrate that the whole-economy slowdown was largely a result of slowdown within sectors and that reallocation played a small role.

If industrial policy is to be broad in sectoral scope in recognition of this, then as ISC (2020) pointed out, a sectoral framework is needed that reflects the different mechanisms by which improved growth and performance could be brought about in specific sector sets across a wide range of sectors. It argued that sectoral policies should be tailored to the specific characteristics of sectors along the following dimensions:

- sector's reliance on capital-intensity
- tangible vs intangible capital (including management practices),
- R&D vs technology adoption
- distance from the productivity frontier (high vs low-tech)
- dispersion of productivity performance (frontier firms vs the long tail)
- interaction between sectors, location, and the sector's skills requirements.

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[11] ISC (2020). *The Sectoral Landscape; An Evidence Review*; https://industrialstrategycouncil.org/sites/default/files/2020-10/The%20Sectoral%20Landscape%20-%20Research%20Paper.pdf

[12] BCG (2023). *Selecting the right clusters for economic growth*; Daniel et al; BCG; November 2023; https://www.bcg.com/publications/2023/how-to-create-an-economic-growth-plan

[13] Coyle and Mei (2023). *Diagnosing the UK productivity slowdown: which sectors matter and why?*; January 2023; https://onlinelibrary.wiley.com/doi/10.1111/ecca.12459

This suggests the need for a supplementary sectoral typology which acknowledges that growth outcomes in specific sectors do not just 'trickle down or out' to other parts of the economy. Diffusion and absorption of innovation and good practice have to be encouraged and supported. And there will be distinct mechanisms in different sectoral categories by which this happens. A typology that recognises this is proposed in Bogliacino and Pianta (2016)[14].

Taxonomy of sectors according to the mechanisms by which performance and productivity improvements are induced through innovation and skills
Science based: Innovation is based on science and R&D where research laboratories are important, leading to intense product innovation and a high propensity to patent. Examples: Pharma, communications, computer and related activities, medical, precision and optical instruments, research and development.
Specialised suppliers: Produce machinery and equipment - the innovative feedstock for other sectors. Some R&D but main innovative input comes from tacit knowledge and design skills embodied in the labour force. Average firm size is small. Innovation carried out in close relation with customers. Examples: Mechanical engineering, electrical machinery and apparatus, other transport equipment, fintech.
Scale and information Intensive: Scale economies are relevant (automotive and basic metals) and a certain rigidity of production processes exists, so that technological change is usually incremental. Important process innovation coexists with new product development. Examples: Pulp, paper and paper products, printing and publishing, motor vehicles, basic metals, financial intermediation.
Supplier dominated: Typically, traditional sectors where small firms are prevalent and technological change is introduced through the inputs and machinery provided by suppliers from other industries. Firms in this group do not carry out much R&D or other innovative activities. Examples: Textiles, clothing, hotels and catering and what has recently been called the 'foundational economy' – including retail, social care and child care, and the voluntary sector.

Adapted from Bogliacino and Pianta (2016)

This taxonomy could provide an analytical underpinning for refinement of the Industrial Strategy because it suggests different policy levers would be required to induce increased innovation, adoption of technology and improved growth in each of the four sectoral categories. It gets away from a one-size-fits-all approach as a focus on clusters might become.

For innovation, productivity improvement and growth, it would be necessary for each of the above sectoral categories to benefit from tailor-made measures supporting the accumulation of specific knowledge and competences and the strengthening of innovative capabilities, through a combination of supply push, user-producer interaction and demand pull. Targeted industrial policies are needed that consider the specific factors supporting growth in each industry group.

Places

If the desired shape of growth is to be regionally balanced, then the Strategy needs to give more emphasis to the importance of place. A measurable outcome for regional growth is not specified in Invest 2035 nor is there a guide as to how places should be defined or priorities considered

[14] Bogliacino and Pianta (2016). *The Pavitt Taxonomy, revisited: patterns of innovation in manufacturing and services*; Economia Politica; Vol 33. August 2016; https://www.researchgate.net/profile/Francesco-Bogliacino/publication/304711062_The_Pavitt_Taxonomy_revisited_patterns_of_innovation_in_manufacturing_and_services/links/631f4fb6071ea12e362aaa4d/The-Pavitt-Taxonomy-revisited-patterns-of-innovation-in-manufacturing-and-

amongst them. It is, in this sense, a spatially blind strategy which constitutes a major risk in achieving the regionally balanced objective.

We suggest the Strategy should include a place-based growth framework of the kind presented in the following matrix of needs and opportunities. It would depict the relative capacity, needs and opportunities of different places and the appropriate strategic policy direction for each quadrant in the matrix.

The spatial priority that might be inferred from the Green Paper would seem to be in those places with existing or potential strengths and growth opportunities that could be enhanced to secure overall growth – notably in the city regions which currently lag London and counterpart competitive European cities in terms of productivity levels and growth. These areas are likely to populate the top right-hand quadrant of the matrix – shaded blue.

A place-based strategic growth framework		
Places with ...	**Low growth opportunities**	**High growth opportunities**
High capacity and low needs	Strengthen the flow of opportunities	Strengthen local capacity further to exploit the opportunities
Low capacity and high needs	Intensive and persistent actions to strengthen the demand side, supply side and access to opportunities	Strengthen the supply side to access the opportunities

The specification of the Strategy and its policy interventions – and their potential benefits – need to be mapped according to the characteristics of the places most likely to be affected. This will require an assessment of the spatial pattern of needs and opportunities across the country to develop a place-based growth framework and map it across the UK at as granular a level as possible.

There are various methods and metrics by which this could be done. The Building Back Britain Commission suggested a method based on its productivity potential index[15]. Recent work by the Local Government Association (LGA(2022)[16]) used participation and vacancy rates to identify both need by local authorities (low participation rates) and growth opportunities (high vacancy rates). Mealy and Coyle (2019)[17] used two indices – the Economic Complexity and Product Complexity Indices (ECI and PCI) – to provide insights into the distinctions between high and low-income places. The IFS[18] derived an index (based on employment, skills, health and pay) to map the pattern of most and least left-behind places across the UK – see Figure 1.

[15] A group of independent businesses producing new analysis and ideas to help unlock economic growth, boost productivity and create more opportunities for people in every part of the country.
https://www.buildingbackbritain.co.uk/building-back-britain-launches-the-productivity-potential-index

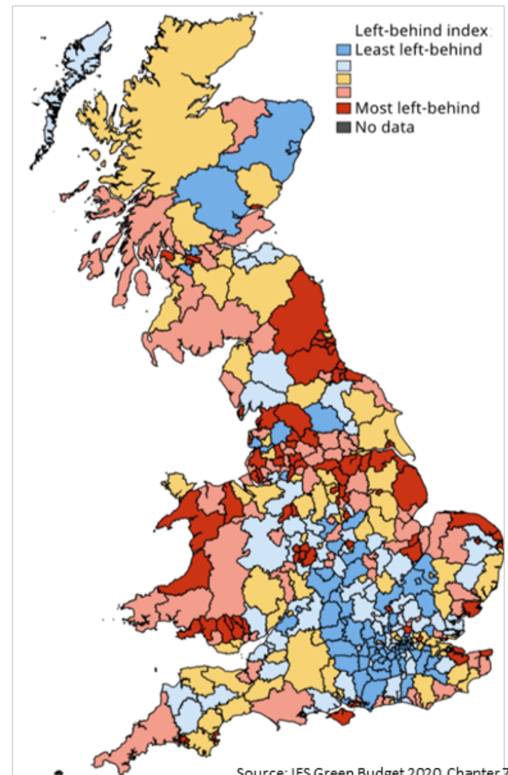
[16] LGA (2022). *Work Local: Unlocking talent to level up*; May 2022; https://www.local.gov.uk/publications/work-local-unlocking-talent-level

[17] Mealy and Coyle (2019). *To them that hath: Economic complexity and local industrial strategy in the UK*; Bennett Institute Working Paper; November 2019; https://www.bennettinstitute.cam.ac.uk/wp-content/uploads/2020/12/working_paper_21_Nov_Penny_Mealy_Diane_Coyle_Bennett_Institute.pdf

[18] https://www.productivity.ac.uk/wp-content/uploads/2023/07/WP035-Capital-Shocks-FINAL-180723.pdf

These pieces of work and others[19] suggest that it would be possible to develop a granular map of spatial growth potential and opportunities to overlay on the map of spatial needs to generate a spatial growth framework. Such a framework could help define the spatial dimensions of the growth strategy across different parts of the country.

Figure 1: Left behind places in England, Scotland and Wales



Source: IFS Green Budget 2020, Chapter 7: "Levelling up: where and how?"

The inaugural report by the Building Back Britain Commission (2024)[20] used its productivity potential index to select areas of the country for priority attention that had the potential to increase local and regional growth. It identified 146 authorities in England with the most mixed performance across its five metrics relating to health and social care, education and skills, digital infrastructure, housing, and transport. While they may be succeeding on some of these metrics, others are holding them back from reaching their full potential. They are likely to be in the amber shaded quadrants of the strategic growth framework proposed above. Acting on these weaknesses could release stronger productivity improvements than a focus on those areas already performing well on all five metrics. Moreover, it would demonstrate how pursuit of the Government's growth mission needs to coordinate across the policy areas of health, housing, education/skills, digital infrastructure and transport.

Consideration will also need to be given to the spatial location of supply chains for the eight sectors. For example, the defence sector can be highly spatially concentrated, but its supply chains spread much further afield with many component manufacturers in smaller towns and more rural areas. Mapping these input-output relationships will be important to identify the places where infrastructure, skills, business support could contribute to, and help spread, the benefits of improved productivity and growth performance in the priority sectors.

If the Strategy is effective in its primary priority to build on existing strengths, it would seem to follow that those places/sectors currently left behind (the red shaded quadrant of the matrix) will be likely to get further left behind. This may be a trade-off that the government has made in its pursuit of growth. If so, its consequences for such places should be explicitly recognised and policy responses proposed.

[19] https://academic.oup.com/cjres/article/17/1/1/7490839
[20] https://87eecd37-3820-494b-94ad-3d87df468362.usrfiles.com/ugd/87eecd_fbd5fac4489545148be69eba40c995c6.pdf

Industrial strategy instruments

Mapping and devolving policy instruments

The policy instruments proposed in Invest 2035 are commendably broad in scope, but there is limited consideration of where or how they might be used. This should be addressed in the next phase of strategy development so that policies can be matched onto the final ToCs and tailored to the specific characteristics of the missions and priority sectors such as their capital or R&D intensity, their distance from the productivity frontier, the dispersion of productivity performance, the nature and location of their supply chains, and their reliance on public procurement. The Organisation for Economic Co-operation and Development (OECD) (2022)[21] sets out an industrial policy framework which might be helpful in this regard.

The Green Paper emphasises the critical role to be played by extended devolution in the design and delivery of the Strategy. The 2024 English Devolution White Paper[22] gives further shape to this ambition by dentifying the primarily economic powers it proposes for devolution in England – namely, transport, infrastructure, regeneration, housing, planning and skills. This gives some indication of the powers that are to be devolved and those that are best kept within the purview of central government. How this balance will be translated into the design and delivery of the industrial strategy needs to be set out in the final version of the Industrial Strategy White Paper.

However, as IfG (2024)[23] pointed out, different places will move at different speeds, so it is not credible to expect all parts of England to take on the same devolved powers on the same time scale. The question then is how and when new or extended devolution should be prioritised within the context of the Industrial Strategy. We offer some thoughts on this drawing on Hallsworth (2011)[24] which proposed a 'system stewardship' approach to enable a policy to evolve in possibly unforeseen directions but also to nudge the system in a variety of ways towards higher-level goals. Hallsworth (2011) proposed four criteria to assess the appropriate level of devolution. These were:

- the extent and nature of the risks involved
- the need and appetite for uniformity of responses
- the complexity of the problem
- the capacity of different actors in the system to be able to respond.

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[21] OECD (2022): *An Industrial Policy Framework for OECD Countries*; https://www.oecd-ilibrary.org/docserver/0002217c-en.pdf?expires=1714383673&id=id&accname=guest&checksum=96B92D081571EF632D47336B429B2EBD

[22] https://assets.publishing.service.gov.uk/media/676028c9cfbf84c3b2bcfa57/English_Devolution_White_Paper_Web_Accessible.pdf

[23] https://www.instituteforgovernment.org.uk/sites/default/files/2024-10/Completing-the-map-english-devolution_1.pdf

[24] https://www.instituteforgovernment.org.uk/sites/default/files/publications/System%20Stewardship.pdf

There will need to be central oversight of the ways in which policy interventions are being adapted and delivered at devolved levels to try to steer them towards the high-level objectives of the Industrial Strategy. This will require them to:

- set goals
- establish rules
- require feedback and
- respond accordingly.

The interaction between the devolution level and the central oversight mechanisms is depicted in the table below (adapted from Hallsworth (2011)).

Devolution and central oversight		
Devolution criteria	**Devolution level**	
	Low (more centralised)	**High (more localised)**
a) Risk b) Uniformity c) Complexity d) Capacity	Need to be right first time Accepted standard procedures Simple, familiar problems/solutions High central capacity or can be built	Need for exploration and adaptation Encouragement of diversity Complex, uncertain - experimentation High local capacity or can be adapted
Oversight functions	**Central government oversight mechanisms**	
a) Goals b) Rules c) Feedback d) Response	Specific, clear, consistent Formal, extensive, targets Performance monitoring Direct intervention	High level, resilient to adaptation Enabling within well-defined boundaries Responsive to emerging solutions Accepting, steering, nudging

Achieving this systemic balance will be particularly critical where the Strategy seeks to reduce uncertainties and transform them into risks that can be mitigated in catalytic ways and crowd in private investment. Experimentation and diversity may well be in order and best promoted by devolution but learning and scaling up may require some national action and funding. It is also very likely to require the provision of infrastructure and the introduction or revision of regulations and standards. If the Strategy is to be effective in this, there needs to be a process by which key uncertainties are identified and methods to reduce them delivered and the context for scaling up of risk taking put in place. The following ideas are proposed for UK government, devolved administrations and local governments:

- to assess the uncertainties that might affect their ability to meet their primary objectives and the innovations that could help transform them into manageable risks.
- to engage with the private and voluntary sectors and the research community to identify the priority areas where better understanding of uncertainty and targeted innovation could safeguard and generate societal benefits.
- to establish strategic ‘uncertainty’ or ‘preparedness’ research funds and portfolios to prompt experimentation, learning and (where appropriate) adoption in the priority areas at national, sectoral and local levels with mixed and recyclable finance.

Blended finance

Constrained public spending means the Government is keen to lever in private investment to meet its ambition for increased growth in all parts of the country. This ambition is understandable given the scale of private capital that is available but not deployed for growth-related investments in the UK. An Economy 2030 report[25] proposed 'blended finance' as a mechanism for tapping into the UK's vast pool of private long-term capital – the second largest in the world. A report[26] on place-based impact investment (PBII where blended finance is often a critical component) suggested it could increase the currently very low proportion (less than 3%) of local government pension scheme (LGPS) funds invested in local growth-related assets.

Blended finance refers to mechanisms by which private capital looking for market rates of return is mobilised to fund sustainable growth by catalytic funding from the public sector with non-market objectives and riskier return profiles. The public contribution can take a variety of forms such as technical assistance, first-loss capital, repayable grants, loan guarantees and co-investment via equity or debt. It is usually priced at concessional rates and woven together with private funding through co-investment vehicles to finance specific investment projects or a portfolio fund for growth projects.

Experience, primarily in overseas development, suggests blended finance can achieve high mobilisation ratios – the level of market-related finance relative to the concessional finance - ranging from 1.5:1 to as high as 6.3:1[27]. However, its use in funding sustainable growth remains nascent in developed countries. There is a lack of commonly accepted terms and documentation and transactions can, therefore, take a long time to arrange which increases cost and reduces usability[28].

It is also constrained by limited deal-making capability and capacity, a scarcity of well-developed bankable projects and a fragmented, uncertain policy and regulatory context. All these need to be addressed if blended finance is to achieve traction at the scale required[29].

This will require standardised transaction structures that acknowledge the red lines around investment opportunities and regulatory and tax requirements for private institutions, insurers and pension funds. 'Off the shelf' blended finance investment products could then be shaped that recognise these private sector constraints[30].

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[25] https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/10/Finance-for-the-future.pdf

[26] https://www.impactinvest.org.uk/wp-content/uploads/2021/05/Place-based-Impact-Investing-White-Paper-May-2021.pdf

[27] https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2021/11/Blended-Finance-for-Scaling-Up-Climate-and-Nature-Investments-1.pdf

[28] https://www.engage.hoganlovells.com/knowledgeservices/insights-and-analysis/blended-finance-combining-public-and-private-funding-to-meet-sustainable-financing-needs

[29] https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2021/11/Blended-Finance-for-Scaling-Up-Climate-and-Nature-Investments-1.pdf

[30] https://www.engage.hoganlovells.com/knowledgeservices/insights-and-analysis/blended-finance-combining-public-and-private-funding-to-meet-sustainable-financing-needs

However, blended finance must not become 'PFI mark 2', offering "better value for money for the private sector than for the taxpayer"[31]. It should not simply shift public responsibilities off the public balance sheet or offer a risk/reward balance that favours the private sector disproportionately or defer costs or liabilities for accounting purposes.

Alternative financing models should be explored to avoid the problems of PFIs. Aubrey (2024)[32], for example, urging the government to reconsider plans to use PFI forms of blended finance for transport infrastructure alongside the speculative housebuilding model, and warning that this approach will fail to deliver the homes promised. The report proposed an alternative market funding model that integrates housing and infrastructure – potentially unlocking billions in investment while protecting the public finances. Blended finance needs to be considered against such alternatives.

Tax incentives

The potential role for tax incentives as an instrument for improving performance in the growth driving sectors and places is not developed in the Green Paper. Yet fiscal incentives are available for investment/R&D in general and investment in specific places and sites - Investment Zones (IZs), Freeports and Enterprise Zones (EZs) (Enterprise Areas in Scotland). Consideration needs to be given to whether a sectoral dimension could be introduced for general investment and R&D incentives and what improvements could be made regarding existing spatial incentives.

By the end of 2026 fiscal incentives will have expired in all of the 48 current EZs in England and the 18 Enterprise Areas in Scotland. Fiscal incentives in the Welsh EZs and the only EZ in Northern Ireland have already expired. Their extension and location should be appraised.

The current suite of IZ and Freeport fiscal incentives is relatively weak. While 10% of qualifying land and property expenditure is tax deductible in IZs and Freeports (as compared with 3% off-zone), this can only be claimed over the same 10-year period as the rest of the country. If local growth is to be accelerated in low opportunity / high need areas (traditionally regarded as high risk for speculative industrial and commercial property development[33]), then accelerated (100% first year) land and property capital allowances are needed, as for the current plant and machinery incentive.

Moreover, with the introduction of full expensing, allowances for plant and machinery are the same nationwide and are no longer "enhanced" for IZs or Freeports. Consideration should be given to further enhancing this incentive to accelerate Freeport, IZ and any future zone delivery.

[31] https://publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1201/120103.htm
[32] https://www.bennettinstitute.cam.ac.uk/wp-content/uploads/2024/10/New-towns-and-urban-extensions-report.pdf
[33] https://www.productivity.ac.uk/wp-content/uploads/2023/07/WP035-Capital-Shocks-FINAL-180723.pdf

The transition from the Green to the White Paper should consider the potential role for tax incentives in left-behind places. Figure 2 demonstrates the current dearth of fiscal incentives in some areas, notably South Wales, East Lancashire, West Yorkshire and Lincolnshire. Many of the current EZs, particularly those along the M4 corridor and in the home counties are not in left behind places.

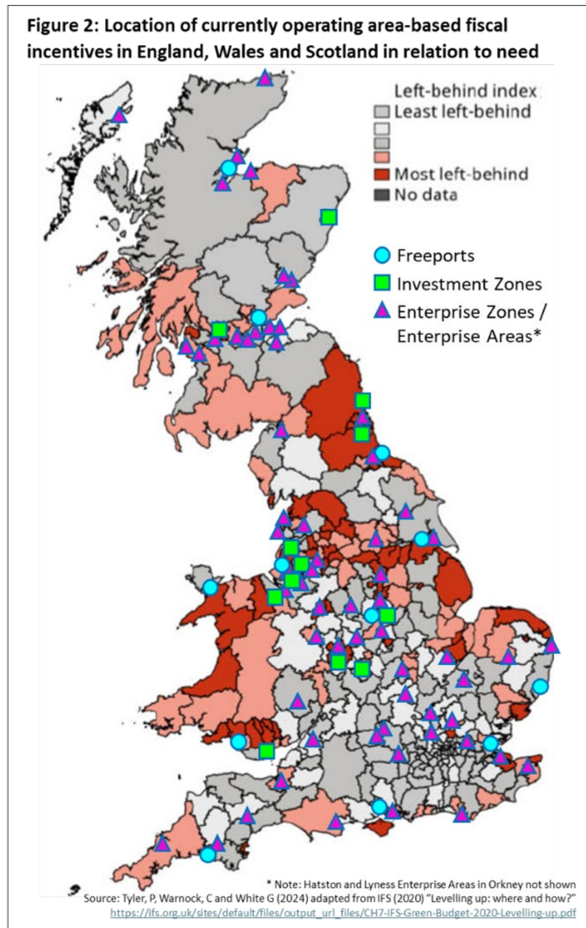

Figure 2: Location of currently operating area-based fiscal incentives in England, Wales and Scotland in relation to need

* Note: Hatston and Lyness Enterprise Areas in Orkney not shown
Source: Tyler, P, Warnock, C and White G (2024) adapted from IFS (2020) "Levelling up: where and how?" https://ifs.org.uk/sites/default/files/output_url_files/CH7-IFS-Green-Budget-2020-Levelling-up.pdf

One such intervention to address this deficit could be the designation of areas in left behind areas – **Inclusive Growth Areas**[34]**.** These should be designed to accelerate the delivery of industrial and commercial floorspace on specified parcels of land – as identified in Local Growth Plans - and supported by wrap-around employment and skills support and additional incentives for participation from residents in wider target areas around the land parcels (akin to the trailblazers in the recently published Get Britain Working White Paper). The following fiscal and other incentives are proposed for these areas:

- Fiscal incentives for a 10-year period:
  - capital gains tax relief - in return for sustained investment in specified assets in IGAs, individuals and organisations would have the ability to write-off their capital gains tax liability from these investments partially after seven years and fully after 10 years;
  - 100% first year capital allowances for investment in buildings, land and structures (full expensing);
- employer National Insurance relief;
- business rate relief;
- planning passports – easier and more permissive planning regulations;
- the above would apply only to eligible use classes, particularly manufacturing.

Means could also be found to minimise displacement (often a drawback of such incentives in the past) by ensuring that such designated areas:

- are targeted at growth sectors, where scope for displacement is limited;
- are required to have site delivery agreements to focus landowners and developers on target sectors within Local Growth Plans;

[34] https://www.bennettinstitute.cam.ac.uk/blog/private-sector-investment/

- have well-co-ordinated inward investment targeting and support from DBAT and devolved nations and regions;
- control property type through specified use classes and by requiring high levels of property environmental performance;
- adopt best practice from IZs, Freeports and EZs where displacement has been effectively controlled.

Monitoring and evaluation

It is always essential to set up a monitoring and evaluation framework and methods prior to the launch of a strategy or programme (e.g. to set up comparison or control groups) especially where there is a highly uncertain context and competing theories of change. No more so than in the case of the Industrial Strategy where critical metrics may be difficult to define and measurement methods will need to be set up at its outset. These will need to be reviewed and refined – as will the Strategy itself – in a continuous way as the Strategy unfolds to enable all stakeholders to learn what is working well and what is not.

The learning role of the evaluation would be more effective if it was more rapid and continuous rather than a 'blockbuster' production that evaluations have often become. They have tended to be commissioned as major, stand-alone events requiring big budgets, long schedules and many stakeholders. What is needed for learning is something much leaner and cheaper, smarter and continuous.

Rather than the evaluation deliverables being separated into process and impact exercises (as they often are), they should provide continuous reflections on the underlying intervention assumptions, hypotheses and probabilities and should offer multiple opportunities for learning, sharing and evolving throughout delivery of the Strategy.

There needs to be a strong place-based focus to evaluation and this will require local monitoring/evaluation to be conducted in parallel with the national effort.

The shape of the strategy moving forward

This policy brief sets out the issues that will need to be considered in the transition from the Invest 2035 to the final White Paper in Spring next year. Addressing these issues would result in a structure and form for the Strategy as follows:

- **Mission driven objectives:** Identifying and addressing the uncertainties that need to be translated into manageable risks in order to promote growth through increased private investment, innovation and trade to achieve Net Zero, regional growth and security/resilience
- **Key mission priorities:** Selecting the key mission driving sectors, technologies and places where investment/innovation are most required to achieve the desired shape of growth and where government intervention through a variety of means - information sharing, collaboration, funding and regulation – could bring about additional and sustainable outcomes

- **Diffusion and transformation objectives:** Encouraging the adoption of innovative products and processes across a wider set of sectors and places to embed Net Zero, regional growth and security/resilience across the economy as a whole and sustained over the long term. Requiring:
    - **A wider sectoral framework** which recognises that diffusion and absorption of innovation and good practice are an important part of the growth process and that there will be distinct mechanisms in different sectoral categories by which innovation and skills work through into improved growth
    - **A place-based growth framework** that depicts the relative capacity, needs and opportunities of different places and sets out the appropriate strategic policy direction for each combination of need and opportunity – including those places most likely to be left behind because of high needs and low opportunities
- **Strategic policy instruments**: Mapping and devolving a wide range of policy instruments (including funding, regulation, procurement and fiscal instruments) tailored to the specific requirements of the missions, priority sectors, technologies and places, and transforming the wider economy onto a stronger and sustained growth path
- **Monitoring and evaluation**: Testing and learning as the Strategy unfolds in a leaner, smarter and continuous way so that feedback loops operate in real time.

There are many issues that have to be addressed if a robust Industrial Strategy is to be fashioned out of the Green Paper into a White Paper to sit alongside the Spending Review in the Spring of 2025. Given the current state of the British economy it is clear that the stakes are high and it is essential that a Strategy emerges that is capable of producing the additional growth and the shape of growth that the United Kingdom so urgently needs.

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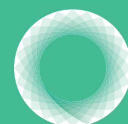

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