The role of Sector Deals and their impact on productivity

EXECUTIVE SUMMARY

Our response addresses three of the four points raised under the heading ‘for all sectors’.

The IET suggests the following main recommendations for action by government:

- The criteria for sector deals are NOT clear. The publication and distribution of a simple document detailing Sector Deal criteria is vital.
- Greater emphasis should be placed on digital transformation, action on sustainability and cross-sectoral collaboration as important criteria for developing and determining Sector Deals.
- A review of what is meant by productivity (and the metrics deployed within it) could provide useful insights and allow public funds to be directed more effectively.
- The most important criterion for Sector Deals is people. Do applicant sectors have a clear vision and detailed delivery plan for employment and skills development?

The IET, through its volunteer industry experts, has considered these matters in some detail in recent months and would be delighted to provide further independent, impartial input to BEIS in the scoping, application and delivery of these recommendations.

POINTS OF INQUIRY

1. Are the criteria for sector deals sufficiently clear and fair to enable any sector to secure them? Which of the Government’s criteria are the most important?

1.1 The Industrial Strategy provides summary details of the four successful Sector Deals together with a section headed ‘questions sectors should ask themselves as they develop their deal proposals’. This guidance is helpful and establishes some basic principles. However, there is no formal exposition of specific criteria for Sector Deals. Accordingly, it is not clear what the criteria are.

1.2 The production, publication and distribution of a simple document setting out specific criteria for Sector Deals is vital and would greatly assist businesses and all those investing time and money in preparing bids. Such a document could also usefully set out how some of the successful applications met the criteria. The inclusion of general information summarising why other bids failed would also be invaluable.

1.3 Two of the four successful Sector Deals announced in the Industrial Strategy were supported and informed by in-depth, pre-application studies, notably Professor John Bell’s ‘Life Sciences Industrial Strategy’ and Professor Dame Wendy Hall and Jérôme Pesenti’s in-depth...
Across industry, many large corporations have already taken significant steps to embed digital technologies within their processes, enabling them to deliver products and services from across their supply chains and to their customers. However, take-up of digital technologies by SMEs is widely acknowledged to be at much lower levels. Specific criteria targeting the needs of SMEs would give them greater encouragement to consider embracing such digital transformation. It is not simply a matter of investment which SMEs find daunting; it is the lack or paucity of skills and expertise within the businesses.

Greater emphasis should be placed on sustainability within Sector Deals, not least because it presents many opportunities for businesses to improve productivity, processes and profits and to reduce costs, carbon footprint and waste. There is considerable scope for sustainability measures as criteria for Sector Deals. For example, securing an increase in a company’s resource efficiency performance (raw materials, energy, water etc.) by just a few percentage points makes a huge difference. Sustainability should be an important criterion for determining Sector Deal bids. This would link directly with the commitment to clean growth, one of the four ‘Grand Challenges’ set out in the Industrial Strategy.

Sector Deals are deals for sectors and those awarded, to date, have largely addressed vertical sectors. However, some sectors would benefit hugely from cross-sector collaboration, essentially horizontal sector working. Important cross-sectoral issues can be hard to integrate partly due to the number and scale of connections but the benefit, in providing expertise from one sector to assist another, can make a significant contribution. Solutions to some of a sector’s challenges may already exist in a different sector. Including a criterion within Sector Deals which encourages a sector to consider cross-sectoral collaboration could help to create further industrial value.

Strategic criteria for Sector Deals should provide encouragement to all sectors and not be seen to favour long-standing, established sectors which have enjoyed considerable state funding over many years. Failure to do this could limit future trade and investment, potentially restricting business. There is a role for Sector Deals to encourage new opportunities and new industries.

Could the quality and timeliness of bids be improved through the introduction of a two-stage process? Such an approach could see an initial outline bid received and reviewed, at an early stage. Subject to feedback on the measures identified therein, this could lead to a second, more in-depth submission capable of co-investment by the sector and the Government.

It is our view that industry would welcome the opportunity to explain the public and private good that could emerge from a sector-focussed set of actions. Accordingly, we would have no hesitation in encouraging the addition of a criterion for prospective Sector Deal bids to specify how they intend to promote their ambitions and activities to the public.
2. What will sector deals contribute to increasing productivity across the entire UK?

2.1 Productivity is used as a comparative measure in different situations, for different reasons and by different commentators. There are different types of productivity too. All are valid but contradictory. When it comes to Sector Deals, productivity can be used as a precursor to establishing what a good Sector Deal looks like. However, we can’t meaningfully propose which Sector Deals will contribute the most to increasing productivity without having an agreed common basis of understanding as to **what exactly we mean by productivity**. A review of what is meant by productivity could provide some interesting and helpful conclusions. A better understanding of productivity will provide better inputs to policy making, which in turn will lead to better policy.

2.2 The background rate of productivity improvement in the service sector has been in the order of 1-2% per annum in recent years yet that figure is nearer 3-4% in the industrial sector. Sector Deals can play an important role in helping to **increase the size of the industrial sector**, and in turn, significantly enhancing the prospects for increased UK GDP.

2.3 **The most important criterion for Sector Deals is people.** To make a real difference to productivity, Sector Deals need to incorporate an impact assessment for employment and skills development. This is particularly important given the exciting opportunities opening up through rapid digital transformation of many traditional industries e.g. the increasing impact of Industry 4.0 within manufacturing industries.

3. What is the best role for local decision-making in supporting sector deals and grand challenges?

3.1 Each locality, region and sector is different and there is little to be gained through comparative analysis, not least if the metrics deployed are flawed.

3.2 The **role of local agents** should be part of the design of each Sector Deal, as this will change significantly. Responsibility should be moved closer to the point of application, where possible, but remain at a level that can co-ordinate multiple organisations. Local Enterprise Partnerships could perform that role. They are well placed to coordinate a diverse range of participants and stakeholders in their area. They also have a major role to play in promoting the cross-pollination of good practices and collaborative Horizontal Innovation™.

3.3 **Instilling a culture of continuous improvement** can be inspirational and game-changing, especially where it is collaborative within a locality and companies share a passion to learn from their neighbours. We applaud and support such initiatives as the North East Maintenance Forum which convenes local companies to meet and exchange best practice (‘how can we do this better?) in order to learn from one another’s experience.

3.4 **Access to advisory services** within a locality could transform the delivery of Sector Deals and Grand Challenges. For example, SME manufacturers tell us the reintroduction of a properly designed and managed Manufacturing Advisory Service could be pivotal to the success of their businesses. As an underpinning cross-sector service, this would have a profound impact on productivity. Would the cost of such a service be higher than the benefits flowing from it? The benefit of a single point of contact providing the business, professional and technical support an SME needs could prove to be priceless.
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