

Developing detailed Theories of Change for the UK Modern Industrial Strategy programme

Summary report



LE
London
Economics

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1 Introduction

London Economics (LE) were commissioned by Department for Business, Innovation, Science, and Trade and the Industrial Strategy Advisory Council (ISAC) to provide a programme-level Theory of Change (ToC) for the UK's [Modern Industrial Strategy](#). As part of this, LE produced a practitioner guide for ISAC and the range of government departments and bodies engaged in delivering the Industrial Strategy which covers the full ToC as well as providing advice and resources that can guide the full evaluation of the Industrial Strategy. This summary report sets out some of the key insights from that practitioner guide.

This summary report covers:

- Role of the Industrial Strategy
- Methodology for LE's study
- Key findings from the Rapid Evidence Assessment
- Theory of Change
- Further Evaluation Guidance

2 The role of the Industrial Strategy

Since the Great Financial Crisis, and in common with many other Western economies, the UK has experienced slower productivity and, consequently, economic growth. Slower economic growth feeds through into living standards and fiscal pressures for governments, as tax receipts grow more slowly and pressures arise in public spending.

The Modern Industrial Strategy aims to tackle the challenge of low growth. It argues that the key mechanism to boost long-term growth is through increased business investment that feeds through into productivity improvement. Further, the Industrial Strategy sets the ambition that this growth should be sustainable, allowing the UK to capitalise on the opportunities of net zero transition; regional, raising productivity in across UK; and secure, holding strategic advantage in select capabilities and leaving the UK less exposed to economic disruption.

The mechanism for achieving this ambition are set out in the Industrial Strategy through a combination of enablers of growth, such as economic and fiscal stability; discrete policy interventions, such as through skills interventions and the regulatory environment; and a focus on eight key sectors – the IS-8 – and geographic clusters associated with them.

The IS-8 were identified through a process of consultation and engagement, combined with analysis of sectors where the UK held or could develop a comparative advantage; had strong economic potential or particular policy opportunity; and contributed to wider policy goals such as on the net zero transition. The IS-8 sectors are:

- Advanced Manufacturing
- Clean Energy Industries
- Creative Industries
- Defence
- Digital and Technologies
- Financial Services

- Life Sciences
- Professional and Business Services

Through the Industrial Strategy and many of the policy interventions act across the economy, a key approach is that finite public resources and policy attention should be ‘tilted’ towards sectors and places where the UK has, or can build, comparative advantage, and where government intervention can plausibly increase growth relative to the counterfactual.

Tilting means introducing a directional bias in how horizontal policy instruments, such as public R&D funding, skills provision, trade tools and public finance, are prioritised, without withdrawing support for activity outside the IS-8. For example, the British Business Bank continues to lend across the economy but is expected to weight its regional and scale-up firepower towards IS-8 sectors and clusters; UKRI continues to fund fundamental research across all disciplines but is expected to tilt strategic funding envelopes towards IS-8 priorities. The intended effect is that the marginal pound of public support leans towards the Strategy's priority sectors and places, without shutting off support to the rest of the economy.

3 Methodology

LE's methodology for developing the Industrial Strategy's Theory of Change had three main prongs:

- **A Rapid Evidence Assessment**, which examined how comparator countries approach industrial strategy monitoring and evaluation, providing an external reference point for the Theory of Change and evaluation framework's design.
- **Review of multiple sources from BIST and others** that provided evidence on the approach to the Industrial Strategy. This included the published Industrial Strategy materials, such as the high-level impact pathway and the evidence base underpinning each sector plan, and supplementary material from government departments including sector metrics and monitoring and evaluation materials that were collated by the Industrial Strategy Unit (ISU) within BIST.
- **Stakeholder interviews and workshops** with BIST, sector teams, cross-cutting policy teams and external experts to first develop, then test and refine the emerging logic through an iterative development process.

The work culminated in a draft Theory of Change for BIST and ISAC as part of a wider practitioner guide on evaluation of the Industrial Strategy. A key mechanism for guiding the work was the Steering Group that was established by BIST / ISAC which brought together experts engaged in the development and evaluation of the Industrial Strategy from across BIST, ISAC and HM Treasury.

4 Rapid Evidence Assessment

LE's Rapid Evidence Assessment (REA) reviewed official documents, published evidence, academic studies and OECD work on industrial policy and its evaluation across six comparator countries – United States, France, Ireland, Sweden, Italy and the Netherlands. These countries were chosen for a combination of reasons including the spread of institutional and governance models, similarities to UK economic structure, and appropriate level of difference according to size of economy and policy approaches.

Drawing on this experience, LE found that effective programme level monitoring and evaluation depended on clear governance, shared indicator frameworks and strong underpinning data infrastructure. Further, good evaluation required an adaptive approach that combined rigorous causal models at the sector or intervention level and contribution-based assessments at the programme level. LE sought to build these lessons into the Theory of Change.

5 Theory of Change

Developing a programme level ToC supports the evaluation framework for the Industrial Strategy. As defined in the [Magenta Book](#), ‘A Theory of Change sets out the proposed inputs and the causal chain leading from those inputs through to the expected outputs, outcomes, and impact of an intervention. It articulates the causal mechanisms by which the intervention is expected to achieve its outcomes, grounded in the gathering and synthesis of evidence, and makes explicit the assumptions and contextual factors on which that causal logic depends.’

There are, however, a range of challenges relating to the large scope of the Industrial Strategy and its evaluation and ToC. It covers a large range of different policy interventions and the high-level outcomes relating to growth make attribution challenging. Further, the Strategy is targeted on a ten-year timeframe. This also links to one of the identified needs from evaluation which is that it should allow ISAC to advise the government during the ten-year period on progress which can allow policymakers to ‘course correct’ policy and the Strategy as a whole.

As is common for strategies of this scale, much of the Industrial Strategy’s policy package was designed and announced before a detailed Theory of Change (ToC) could be developed. As such, the ToC developed by LE serves two related purposes:

- 1) A **forward-looking M&E architecture**: Organising the metrics, evidence sources and evaluation activity that will allow government to test whether the Strategy is working and to course-correct over time; and
- 2) A **retrospective alignment lens**: A structured way of checking whether the existing policy mix is well matched to the Strategy’s objectives, helping to identify where effort is concentrated, where there are gaps, and which causal links are most material and least well evidenced.

As set out in our methodology above, LE constructed the ToC from a combination of document review and stakeholder engagement, including workshops to test the thinking and logic. A key starting point for LE’s work was the Industrial Strategy’s Technical Annex¹, which set out a high-level impact pathway. Through the course of this work, LE identified a ToC with a structure as follows:

- At the activity level:
 - LE constructed ToCs for each of the IS-8 sector plans. These now act as supporting resources for responsible government departments. These ToCs address the market failures and other blockers to growth in each sector, with a range of inputs, activities, outputs, intermediate outcomes, and outcomes.
 - Further, each cross-cutting policy intervention / lever should have its own supporting evaluation and, where appropriate, ToC. These act at an economy-wide level (e.g.

¹ Department for Business, Innovation, Science and Trade (2025), The UK’s Modern Industrial Strategy - Technical Annex, GOV.UK, <https://www.gov.uk/government/publications/industrial-strategy>

regulatory reform) as well as addressing the structural barriers that are common across the IS-8 growth-driving sectors (e.g. access to long-term finance).

- City regions and clusters are an important element in ensuring the IS-8 sectors can reach their full productive potential with appropriate geographic concentration. This is important for amplifying returns to sector investment, deepening supply chains and developing talent pools.
- Governance and confidence underpins the programme as a whole. The Strategy aims to ensure the state is a credible and long-term partner for business, providing policy coherence, certainty, and longevity.
- At an output level, the Strategy aims to deliver:
 - IS-8 sectors that are equipped to compete and scale, with sector-specific interventions, R&D programmes live, talent pipelines established, and supply chains strengthened.
 - A better environment for businesses to invest and grow through reduced energy costs, shortened planning timelines, expanded finance and data infrastructure.
 - Places that are ready to attract and retain investment with investible sites, regional innovation capacity and connected growth corridors.
 - The state as a credible partner.
- Ultimately, we see this coming together at the intermediate outcomes at a programme level in three groups:
 - Outcomes from direct action from both the IS-8 sector plans and from the cross-cutting / horizontal policy levers.
 - Outcomes from the strategic 'tilt' to IS-8 sectors and particular clusters. It will be important to test whether the 'right' sectors and clusters were chosen for prioritisation. For example, one might expect these sectors and clusters to grow more quickly than others, though the strict test would need to be how much more they have grown from Industrial Strategy prioritisation and what a counterfactual prioritisation would have delivered.
 - Outcomes from the improved policy coherence, longevity and certainty. A test of the Strategy will be how far business confidence and investment is enhanced as businesses recognise that the long-term environment is more stable, with greater certainty on policy intent and duration, as well as a coherence so policies do not act against one another.

These outcomes should contribute to higher and more stable business investment, higher productivity, more balanced regional growth, Net Zero-aligned growth and greater resilience.

The overarching ToC is presented in Figure 1 on page 6. As part of this work, LE have developed a range of ToCs that support the overarching ToC as well as materials on the metrics and indicators to be tracked in evaluation.

In addition to evaluation at the IS-8 and individual policy lever level, the programme level ToC:

- Makes the Strategy's overarching causal logic explicit and testable, linking inputs and activities through to intermediate outcomes and long-term impacts.
- Draws out the cross-cutting themes (investment, innovation and adoption, skills, place, infrastructure, markets and trade, and institutions) that operate across multiple sectors.
- Surfaces the dependencies, sequencing requirements, complementarities and tensions between sectors, places and levers that are invisible from any one sector plan. For

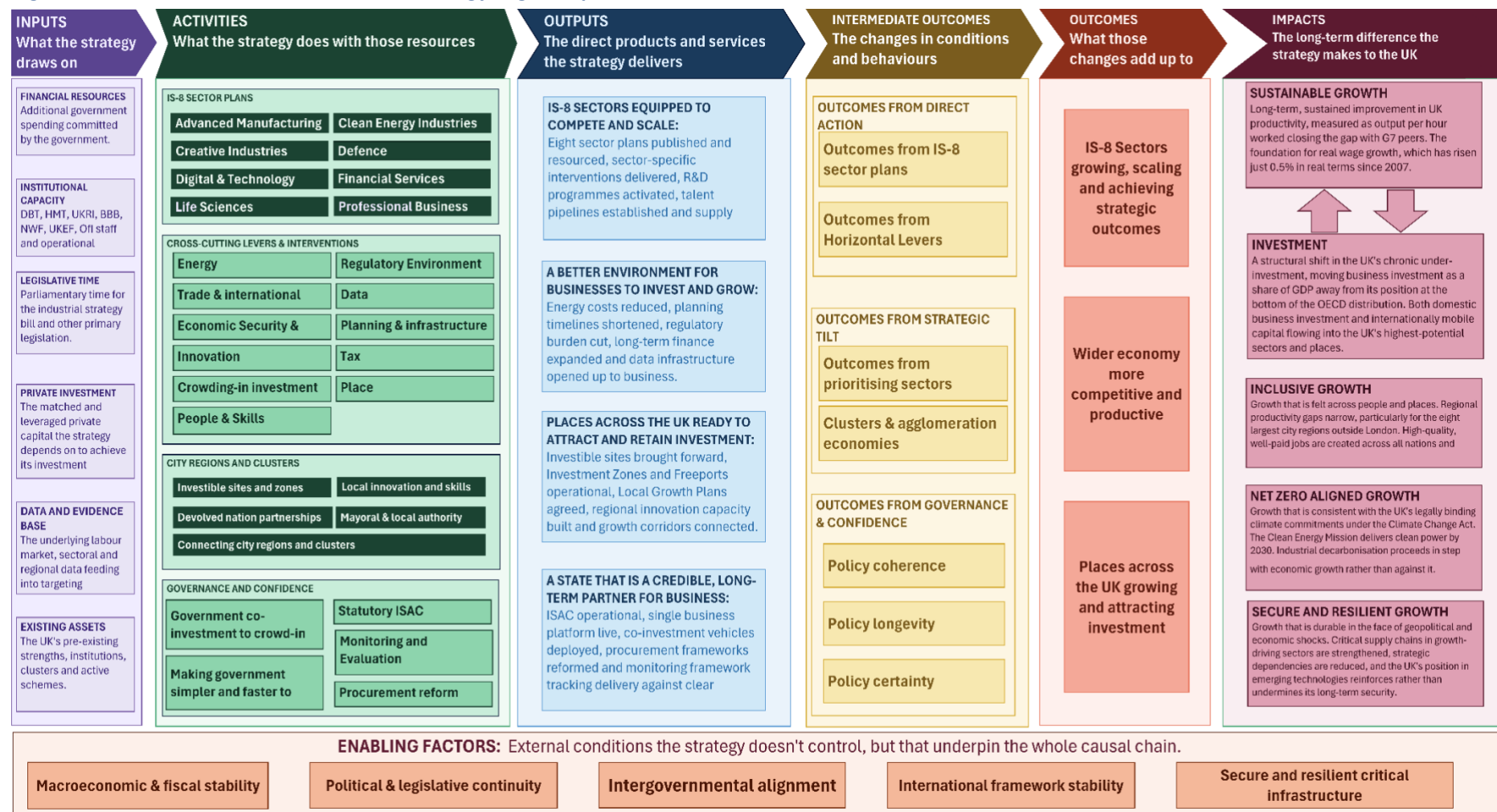
example, though the IS-8 outcomes may be aggregated up, the LE's practitioners' guide also highlights the need to draw out spillovers from one sector to another (e.g., how advanced manufacturing can support clean energy) while also recognising potential competition across the IS08 for scarce inputs.

Provides ISAC with the integrated, whole-of-programme evidence base it needs to fulfil its monitoring and annual reporting duties, without duplicating departmental work.

6 Further Evaluation Guidance

In addition to the Theory of Change set out above, LE advise that the evaluation framework needs to be cognisant of the following key issues:

- **The impact of the Industrial Strategy is more than the sum of its parts.** As set out above, our ToC notes the links across the IS-8 sectors as well as the added value of prioritising sectors and places, and enhanced governance and confidence.
- **Independent oversight of IS-8 evaluation can be a key driver of delivery.** As set out by the Modern Industrial Strategy and the ToC developed as part of this project, boosting confidence is clearly an important mechanism for triggering increased business investment. There are a range of multi-faceted issues that drive investment decisions but part of this relates to the policy environment and its coherence, certainty and longevity. The existence of an independent approach to evaluation through the ISAC can enhance that policy environment, as well as helping policymakers course correct and learn lessons.
- **The Industrial Strategy is a long-run strategy, so timing of evaluation is critical.** Major productivity effects will not appear quickly meaning the evidence framework must distinguish early signals from long-run outcomes. In the near term, the important signals are in areas such as policy delivery, skills pipelines, and infrastructure progress, and whether local bottlenecks are being addressed. In the medium term, more behavioural evidence can be used, for example through information on additional private investment, technology adoption, and export readiness. Over the long term, the relevant outcomes are productivity, GVA, wages, exports, business investment, resilience, regional performance, net zero-aligned growth and the emergence of larger home-grown firms.
- **The monitoring and evaluation framework accompanying the ToC should track commitments, funding, milestones and operational outputs.** Related to the previous point on timing, contribution analysis should test whether the expected causal pathways are holding, with deeper causal evaluation used where specific interventions, phased rollouts, eligibility rules or linked administrative data allow stronger inference.
- **LE suggest a 'living' framework** with clearly identified points to revise the ToC and evaluation framework. This reflects both the risks inherent in the Industrial Strategy – for example, some policy levers may be ineffective or delayed, or geopolitical events may mean the prioritisation of sectors and places needs to change – as well as the likely policy change and innovation that will come over the coming years. The framework should adjust to take these on board.

Figure 1 The UK's Modern Industrial Strategy Logic Map

Source: London Economics

Text description for figure 1

Graphic showing the how the inputs and activities of the Industrial Strategy feed through to outputs, intermediate outcomes, outcomes, and impacts.

Inputs include government spending, institutional capacity, legislative time, private investment, Data and Evidence base, and existing assets.

The activities are what is done with these resources. This includes the eight Industrial Strategy sector plans, the cross-cutting interventions, local government strategies, and improved governance.

The outputs are what the strategy delivers. This includes IS-8 sectors equipped to compete and scale, a better business environment, places across the UK attracting investment, and a credible state that is a long-term partner for business.

The intermediate outcomes are the changes in conditions and behaviours. The graphic does not reference specific outcomes but refers to the outcomes that arise from the previous outputs.

The outcomes are what these changes add up to: IS-8 sectors growing and scaling, the wider economy becoming more productive, and places across the economy growing and attracting investment.

The ultimate impact is sustainable growth and investment that is inclusive and felt across all people and places. This growth should also be aligned to Net Zero and resilient to global shocks.

Underlying this framework are the enabling factors, the conditions the strategy does not control but that underpin the whole causal chain. These include macroeconomic and fiscal stability, political and legislative continuity, intergovernmental alignment, international framework stability, and secure and resilient infrastructure.

7 Conclusion

Bringing together the ToC and evaluation insights from this work with the Industrial Strategy provides a sound basis for individual government departments and other bodies to evaluate their interventions as well as for ISAC / BIST to judge the impact of the Industrial Strategy as a whole. This will support policy improvement, course correction and ultimately help deliver the overarching objective of long-term, sustainable, regional and secure economic growth.

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