



Report to the Partnership for Urban South Hampshire Overview and Scrutiny Committee

Date: 11 July 2017

Report of: David Williams, PUSH Lead Chief Executive

Subject: The Industrial Strategy Green Paper

SUMMARY

The Government published the Industrial Strategy green paper - *Building our Industrial Strategy* in January 2017. Consultation on this green paper closed on 17th April 2017. This paper summarises the content of the draft Industrial Strategy, as it relates to the activities of PUSH, and sought the Joint Committee's view on how we might respond to the consultation questions.

RECOMMENDATIONS

It is recommended that the PUSH Overview and Scrutiny Committee:

- (1) NOTES the contents of the draft Industrial Strategy as it relates to the activities of PUSH (see section 1);
- (2) NOTES whether it wishes to respond to the consultation (see section 2);
and
- (3) NOTES that if a decision is made to repond the consultation, then the approach and content outlined in section 2 should be followed.

1. Background

1.1 During her leadership campaign and early into her premiership, Theresa May signalled a return to a more active and explicit industrial strategy compared with the previous Government. The publication of the green paper [Building our Industrial Strategy](#) on 23rd January 2017 is the latest development in this policy area. Whilst the current Government's strategy marks a shift towards more prominence and emphasis placed on industrial strategy, there is also a significant degree of continuity with previous policies. Consultation on the green paper closes on 17th April 2017.

1.2 In addition to the broad awareness of the policy position, it is considered that there are a number of facets of particular relevance to the work of PUSH and upon which PUSH may wish to respond:

- Prevalence of reference to differential performance and the **north-south** divide
- Emphasis on the importance of **'place' and the role of institutions** in supporting local growth, including local authorities, Local Enterprise Partnerships and Mayoral Combined Authorities

1.3 Objective and key goals of the Government's industrial strategy

1.3.1 The Government's stated objective is "to improve living standards and economic growth by increasing productivity and driving growth across the whole country." Its goals are to:

- Build on UK strengths and extend excellence into the future;
- Close the gap between the UK's most productive companies, industries, places and people and the rest; and
- Make the UK one of the most competitive places in the world to start or grow a business.

1.3.2 The green paper identifies ten 'pillars' for the industrial strategy that are said to drive growth. These provide the structure to the green paper including its analysis, proposals and the questions raised for consultation, as set out in appendices 1 & 2.

1.3.3 The actions described under each pillar are a mixture of existing policies and 'new commitments'. The majority of the pillars relate to 'horizontal' policy interventions such as investments in skills, research and infrastructure, facilitating access to finance and keeping costs down for businesses, rather than 'sectoral policies'.

1.4 Improving productivity

- 1.4.1 Considerable emphasis is placed on closing the 'productivity gap' between the UK and, notably, US, France and Germany - *"If we want to see faster growth in wages, sustained over the long term and experienced across the country, the UK needs to address the productivity gap with other leading countries. While the proportion of people in work is at a record high, we still produce less for every hour we work than our competitors"*.
- 1.4.2 The green paper is at pains to stress that improving productivity does not mean making people work harder but rather helping them to work smarter – producing more value for each hour of their time and thereby increasing their earning power. This is how economies grow and how living standards improve. The differences hidden beneath the UK's headline rate of productivity are of great significance - the productivity gap within each region is greater than between regions and the productivity gap between different parts of the country has been widening for decades - it is these differences that ultimately impact on how much people earn.
- 1.4.3 The productivity and consequent earning power of most places outside London and its surrounding area lags behind the national average, which is itself about 20% below countries like France and Germany. But other countries show that regional cities, towns and areas can be as prosperous as the capital.
- 1.4.4 Since 1997, London has moved from being 59% higher than the UK average 'gross value added' per person (GVA is a measure of economic performance), to 72% above, while most other regions have fallen further behind the national average. Regional disparities are now wider in the UK than in other western European nations. In the UK, 61% of people live in areas with incomes 10% below the national average. This compares to 53% in France, 50% in Germany, and just 40% in Italy.

1.5 Emphasis on Place

- 1.5.1 A significant departure from the previous Government's approach is a greater focus on place. It states a determination to confront the fact that our economy is one of the most centralised in the world, *"with institutions that are often too fragmented to provide the most effective leadership in shaping successful places. Evidence and experience suggests that strong, streamlined, decentralised governance – such as through our city deals, growth deals and mayoral devolution deals – can improve economic decision-making and spur innovation and productivity gains"*. The new strategy aspires to do more regionally across the UK, seemingly building on the Northern Powerhouse approach.

1.5.2 The industrial strategy proposes a framework to build on the particular strengths of different places and grasp the opportunities that could enable faster growth in each of them.

1. Backing local connectivity with strategic infrastructure investment
2. Raising skill levels nationwide, but particularly in areas where they are lower
3. Getting the institutional framework right to support local industries - Appendix 3 sets out what the green paper sees as the key institutional features associated with successful economic growth based clusters. This includes local authorities, LEPs and Mayoral Combined Authorities.

1.5.3 With regard to creating the right institutions to bring together sectors and places, the Green paper states that *"We will work with local government to review how to bring more business expertise into local government, for example through the creation of a modern "Alderman" type of role within local government; and we will work with Local Enterprise Partnership (LEPs) to review their role in delivering local growth, examining how we can spread best practice and strengthen LEPs, including extending the support they receive from the What Works centre for Local Economic Growth."*

1.6 Transport infrastructure

1.6.1 The green paper acknowledges that UK transport infrastructure has been rated as second lowest among G7 countries. According to World Economic Forum surveys our overall infrastructure is perceived by international businesses as worse than our competitors. This has been driven by factors such as a lack of clear long-term plans and budgets, a complex planning system, and failure to align planning for infrastructure with planning for housing and industry. The green paper states the need to upgrade energy, transport, water, flood defence and digital infrastructure.

1.7 Risks and opportunities of Brexit

1.7.1 Aspects of industrial strategy that could see significant risks and opportunities from Brexit include state aid rules, trade, investment, and research. The Government's green paper contains little analysis of what Brexit might mean for industrial strategy. The paper states that the Government will welcome an agreement to continue to collaborate with European partners on major science, research and technology initiatives, and that procurement policy will no longer be constrained by EU law. There are no other explicit attempts to link up the Government's industrial and Brexit strategies.

1.7.2 Other commitments in the green paper express or restate the Government's intention to carry out reviews. Examples include a review of the opportunities to reduce the cost of decarbonisation, a review of the Government's

procurement policies, and reviews of the roles and priorities of the Department for International Trade and Local Enterprise Partnerships (LEPs). The Government also commits to new sector deals, and explicitly lists the following five industries: life sciences, ultra-low emission vehicles, industrial digitalisation, nuclear and the creative industries.

1.7.3 Finally, the green paper also describes specific projects, such as £170m of capital funding for the creation of Institutes of Technology to deliver higher technical education in STEM subjects (science, technology, engineering and mathematics). Other specific projects committed to include road investments, such as the M60 North West Quadrant, the A66 and the A303 Stonehenge route.

2. **How should PUSH respond to the Green Paper on the Industrial Strategy?**

2.1 The green paper invites consultation responses against the 38 questions set out in Appendix 2. This seems rather excessive, and unless the Joint Committee feels otherwise, a more limited response incorporating the following issues would seem appropriate.

2.1.1 Whilst it could be argued that the green paper is not fully developed, this does mean that there is scope for well argued consultation responses to influence the development of government policy. Generally, the green paper should be welcomed as an important step towards establishing an active and explicit national industrial strategy.

2.1.2 It has a broad sweep encompassing skills, innovation and infrastructure, but it fails to address the relationship to some other key issues such as land-use (housing availability in particular) or acknowledge the importance of certain key national infrastructure such as ports. Nor does it address the influence that government grant evaluation regimes can have on how and where funding is directed such as the way in which spend on rail and motorways are assessed independently whilst the impacts are interdependent.

2.1.3 The paper continues the rhetoric of north-south divide and gives significant emphasis to the Northern Powerhouse and the Midland Engine; this is a dangerous trend for PUSH and for other parts of the south-east. Whilst the paper acknowledges that the productivity gap within each region is greater than between regions it does not take the analysis far enough. Rather than a north-south divide, the reality so often is a north-London divide and this equally applies to significant parts of the south east, including PUSH. A conscious and concerted effort needs to be given to making this case, including with our MPs.

2.1.4 However, the emphasis on 'place' and the institutional structures needed to support tailored growth should give PUSH and the Solent LEP heart, provided we can muster the case and commitment to support the needs of the area.

Any response should draw attention to the dire infrastructure deficit that this place suffers, and as illustrated below:

Cities	Distance	Road time	Rail time
Portsmouth /Southampton	24 miles	39 mins	41-67mins
Nottingham/Derby	17 miles	29 mins	23 mins
Newcastle/Sunderland	17 miles	32 mins	26 mins
Portsmouth/London	75 miles	106 mins	93 - 111 mins
Bristol/London	119 miles (Bristol Parkway = 116 miles)	133 mins (Bristol Parkway = 127 mins)	101-112 mins (Bristol Parkway = 89 mins)
Nottingham/London	126 miles	154 mins	102 mins
Portsmouth/Southampton Airport	21 miles	27 mins	65-75 mins (requires a change)

- 2.1.5 Emphasis should also be given to the importance of 'gateways' to the UK, of which the Solent offers three of international importance and which need support as key elements of national strategic infrastructure if they and the rest of UK plc are to prosper.
- 2.1.6 The response should also make the point that the universities should play a key role in developing skills. The distinction between technical education and academic education can be a false one and what will often be required is a blended education to meet the future needs of employers. The Universities in the PUSH area could have a significant role in helping to deliver this (as well as supporting other pillars such as the commercialisation of research and innovation).
- 2.1.7 PUSH and partner agencies are also well placed to support pillar 10 - creating the right institutions to bring together sectors and places.
- 2.1.8 Finally, the PUSH response might wish to encourage the synthesis of three important national policy statements which, whilst written concurrently, show limited interface. They are the Housing White Paper, the Industrial Strategy green paper and the work of the National Infrastructure Commission - if we are going to address the productivity gap, this might be a good place to start.

3. Conclusion

It is recommended that the PUSH Overview and Scrutiny Committee:

- (1) NOTES the contents of the draft Industrial Strategy as it relates to the activities of PUSH (see section 1);
- (2) NOTES whether it wishes to respond to the consultation (see section 2);
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APPENDICES:

- Appendix 1 - Building our Industrial Strategy - Ten strategic pillars
- Appendix 2 - Questions for consultation
- Appendix 3 - Institutions for local growth

ENQUIRES: For further information on this report please contact:

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