

# **HOUSE OF COMMONS – BUSINESS INNOVATION & SKILLS SELECT COMMITTEE**

## **INQUIRY INTO GOVERNMENT’S INDUSTRIAL STRATEGY**

### **MEMORANDUM OF EVIDENCE FROM THE CHIEF ECONOMIC DEVELOPMENT OFFICERS SOCIETY (CEDOS)**

#### **Introduction**

1. This Memorandum of evidence is submitted by the Chief Economic Development Officers Society (CEDOS). The Society represents Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary Councils. The Society carries out research, develops and disseminates best practice, and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

2. CEDOS welcomes the Committee’s decision to hold this important Inquiry into Government’s Industrial Strategy. We are pleased to put forward our views for which we have consulted with our members from across the country. In our evidence we focus on the key questions set out in the launch of the Inquiry, and offer the ongoing assistance of CEDOS to the Committee’s investigation.

#### **The Key Inquiry Questions**

##### **1. What does the Government mean by industrial strategy, and what does the private sector want from one?**

3. When Prime Minister Teresa May announced her new cabinet in July this year, she announced the creation of a new Department for Business, Energy and Industrial Strategy (BEIS) by combining most of the functions of the former Departments for Business, Innovation and Skills, and Energy and Climate Change. On his appointment as the new Business Secretary Greg Clark said he had been “charged with delivering a comprehensive industrial strategy”.

4. At this stage there is only limited information as to what a new industrial strategy will comprise. However, a recent House of Commons Library briefing note<sup>1</sup> suggests that broadly it appears to feature the following elements:

- stricter merger and acquisition rules, with more emphasis on a ‘public-interest test’ for foreign take-overs;
- new corporate governance structures, including consumer and employee representation on boards, and greater transparency around executive pay;
- continued work towards higher productivity, including through the development of the science and research base in the UK;
- delivery of infrastructure projects;
- increased house-building;

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<sup>1</sup> *Industrial strategy* House of Commons Library Briefing Paper 11 August 2016

- continued support for regional development of cities and other economic areas outside London.

5. In our view the new strategy should:

- consider and reflect the significant work already undertaken both nationally and locally on identifying sectoral strengths and new areas of economic opportunity;
- be broad based and be relevant to all sectors of the UK economy and reflect the relationships within and between sectors and sub sectors;
- be comprehensive, long-term and sustained, whilst keeping under review the need for adjustment in the light of technological change and changing global and national economic circumstances, including the implications of the decision to leave the EU as they emerge during the Brexit negotiations;
- support the development of all sizes of business, including small and medium sized enterprises (SMEs), throughout the country;
- focus on improving productivity and supporting and encouraging innovation;
- tackle barriers to economic development including infrastructure requirements, including transport and power and water supplies; and skills shortages;
- be responsive to the importance of all places in economic growth (both urban and rural) and responsive to local economic circumstances and actions to support growth; and support the devolution of powers and responsibilities to local areas.

## **2. How interventionist in the free market should Government be in implementing an industrial strategy, for example in preventing foreign takeovers of UK companies?**

6. The essential role of government is to remove barriers to growth, to facilitate opportunities for growth and to provide a framework, which gives businesses the confidence to invest. Interventions can include influencing at the macro-economic level e.g. in terms of interest rate levels to encourage business investment; and through: procurement policy; tax and regulatory regimes that encourage business investment in plant, machinery, research and development and skills; incentives focused on particular areas e.g. enterprise zones; and in the post-Brexit world, negotiating trade deals.

7. An essential area of action for Government and local government is investment in the infrastructure needed to remove barriers and promote and underpin economic growth, and critically to address market failures, including investment in education and skills training, transport networks, energy infrastructure, superfast broadband and in improving town and city centres and industrial areas. Here there may also be an argument for supporting innovation,

technology transfer and fundamental research, where the market may not yet provide a timely solution for greater public benefits i.e. merit and de merit goods.

8. As regards overseas takeovers of UK companies, these can be an important part of attracting foreign direct investment into this country and lead to positive outcomes, including capital flows and technical skills. However, as part of the industrial strategy, the Government needs to have the power to intervene on an individual basis to prevent a takeover that is against the economic interests of the UK - where it would adversely affect the competitiveness and viability of an industry that is critical to the UK economy or where, for example, it is aimed at removing a competitor and which could lead to the closure of a UK company. An example of the need for such a power was in 2014, when Pfizer of the United States attempted a takeover of AstraZeneca, one of the UK's two leading pharmaceuticals companies. Although Pfizer decided not to proceed, the Government would not have been able to prevent the takeover, which could have harmed the UK pharmaceutical industry.

### **3. What lessons can be learnt from:**

- **Previous governments' industrial strategies?**
- **Other countries' attempts to develop industrial strategies?**

9. In developing its new industrial strategy, it will be essential for the Government to carry out an objective assessment of previous industrial strategies, including learning lessons from evaluating and comparing the results of 'horizontal' approaches, which address market-wide issues and sectoral approaches, which focus on specific sectors of the economy. One thing is certain, quick wins cannot be expected. To succeed, an industrial strategy needs to be consistent and sustained over a long period of time.

10. In looking at other countries attempts at industrial strategies, it is important to recognise that they may not be transferable to the UK or any other country due to factors such as different governance structures, policy traditions, and economic conditions<sup>2</sup>. Nevertheless, continuing assessment of approaches in other advanced economies is important, for example in relation to joined-up working and communication between government departments and between national, regional and local levels; supporting innovation and technological developments; and supporting the development of SMEs<sup>3</sup>.

### **4. What tensions exist between the objectives of an industrial strategy and the objectives of other policies, and how should the Government address these tensions?**

11. There will be, almost inevitably, tensions between economic and industrial policies and those focused on the environment and social matters. Equally, in the context of the devolution agenda, there are tensions between a national

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<sup>2</sup> See, for example, Richard Rose on the limits of policy transferability in. *What is Lesson-Drawing?* Journal of Public Policy January 1991

<sup>3</sup> In the context of manufacturing, see for example *International industrial policy experiences and the Lessons for the UK* Chang, Andreoni & Kuan, University of Cambridge October 2013 – a review commissioned as part of the UK Government's Foresight Future of Manufacturing Project.

strategy and differing priorities and approaches at local/sub-regional level. The need to address these tensions underlines the importance of joined-up working between government departments and between the different levels of governance in this country.

12. At Government level, the decision to combine most of the functions of the former Departments for Business, Innovation and Skills, and Energy and Climate Change into the new Department for Business, Energy and Industrial Strategy (BEIS) is a welcome move. However, the creation of a new separate Department for International Trade will require close working with BEIS to achieve the development and delivery of a cohesive industrial strategy. This is one example of the importance of the establishment in July of the new Cabinet Committee on Industrial Strategy bringing together Secretaries of State for 11 Departments to enable input from all policy areas and with a directive to ensure that any tensions are addressed through cross-governmental prioritisation. The success of this will be critical to the effectiveness of the industrial strategy and the importance of priority being given to it is underlined by the economic uncertainties ahead as the reality of Brexit approaches.

13. The process of Brexit both in terms of the outcomes of negotiations with the EU and those for subsequent trade deals and its fundamental significance to the UK economy underlines the need for the industrial strategy to be kept under continuous review and be responsive to the implications of the negotiations as they emerge.

##### **5. What are the pros and cons of an industrial strategy adopting a sectoral approach?**

- **Should the Government proactively seek to 'pick winners'?**
- **What criteria should be used to identify which sectors are supported?**
- **Should the Government prop up traditional industries that it considers to be in the national interest?**
- **If not a sectoral approach, should the industrial strategy have a broader objective, such as improving productivity?**

14. This will depend on what the desired outcome of the industrial strategy is - driving productivity, innovation, exports, jobs growth or protecting industries and places. A sectoral approach can have the advantage of being an effective way of targeting limited resources but at a national level it can result in a complex operational bureaucracy with a 'silo' approach that fails to recognise and deal effectively with the inter-relationships between sectors. Moreover, unless it is operated in a flexible and dynamic way that is able to respond to the ever increasing pace of technological change, it could lead to an over-reliance on sectors that subsequently, and perhaps more rapidly than in the past, become subject to decline.

15. This emphasises the importance in pursuing a sectoral approach of adopting criteria that focus on future productivity and growth prospects/forecasts as well as current rates; and the need to take into account the likely impact of future technological change; and differing regional conditions, as well as changing social factors influencing the demand for goods and services. The

challenge of predicting disruptive change, which is often a feature of high growth productive sectors/business, is notoriously challenging.

16. *Picking winners?* - If a sectoral approach is adopted, whilst there is the immediate attraction of using this as way of accelerating growth, some of our members have pointed out the difficulties of being able to pick winners due to the speed of technological change and problems of sectoral definition. Others have referred to the adverse impact a national approach to picking winners could have on addressing the economic imbalances within the UK and also that it could lead to neglect of SMEs and areas, whose economies are particularly dependent on them. Having regard to these concerns, a preferred approach would be to focus on ensuring that all businesses in target sectors can access the necessary support to enable their growth and sustain their competitive position. An element of self-selection would support in the process of allocating scarce resources.

17. *Propping up traditional industries* – We would suggest it is not a matter of propping up traditional industries, the definition of which is not necessarily clear-cut, but of supporting industries that are considered to be essential to the national interest. Government should be able to take action to support industries that are of strategic importance e.g. defence industries, agriculture and industries that are critical to the wider national economy e.g. those related to key sources of energy, finance and the production of essential raw materials. The impact of place should also be considered here, including what powers could be devolved to support areas where a single industry closure would have a devastating impact on the local economy. Here measures of resilience could be monitored i.e. sectoral split.

18. *A balanced approach* – In our view, the industrial strategy needs to have a balance that has both horizontal and sectoral components. It must embrace broad objectives that address the need to improve productivity, support innovation, improve skills and maximise export potential. As we have stressed above, it should tackle barriers to growth and ensure the necessary investment in essential infrastructure including transport and power and water supplies and addressing skills gaps. The strategy should be relevant to businesses of all sizes including supporting business start-ups and those in the early years of their development.

## **6. Should the industrial strategy have a geographical emphasis?**

- **How should an industrial strategy link with devolution initiatives aimed at devolving taxation and decision making away from Westminster?**
- **What examples are there of interventions from central Government that have successfully supported economic growth away from London and the South East of England?**
- **How should the industrial strategy work with local authorities and Local Economic Partnerships, reconciling a U.K.-wide strategy and local, regional and devolved nations' priorities?**

19. The new industrial strategy should be UK wide, reflecting the key role urban and rural centres play in driving economic growth, but there is bound to be a geographical element not least because of regional imbalances and the fact that

industrial sectors are not always evenly spread with some specialisms clustered in particular regions/areas. There will need to be continued support for local, sub-regional and regional economic areas outside London and the South East but this should be within the context of making the most of the growth potential of all areas of the country and recognising the key role business investment decision factors will have on future growth. It should strike a balance of making the most of business growth opportunities within prospering areas whilst also supporting those that are less prosperous in the development of their economies. However, the geographical component of the strategy should not result in a plethora of area focused initiatives but rather it should provide a framework for action at the local and sub-regional level to be delivered through an ongoing process of devolution and even opt in processes.

20. This emphasises the importance of the industrial strategy being linked to devolution. A national strategy will be more effective and efficient if local and sub-regional areas throughout the country have the ability to adapt and adjust the national strategic focus to meet their distinctive needs and opportunities. This will require the necessary devolution of powers, including taxation, to enable business support, skills, infrastructure and other initiatives to be tailored to meet local circumstances.

21. *Successful interventions outside London and the South East* – The Regional Growth Fund and the Local Growth Fund have both been effective in building on the growth potential and sustaining existing capacity in UK industry outside the London and the South East. Just two Local Growth Fund examples from the D2N2 LEP area illustrate the point:

- *Bio City Nottingham* – where D2N2 LEP is investing £6.5 million in a £30 million extension to the BioCity, which is a key investment within the life sciences target sector, with construction work due for completion by Spring 2017, delivering an additional 700 jobs over the next 30 years and safeguarding a further 250 jobs;
- *Vision University Centre Mansfield* – where D2N2 LEP is investing £2.6 million in the new £6.5 million Vision University Centre at West Nottingham College in Mansfield. The facility is due to open in 2016 and will enable the intake of 600 students within three years and help to address local sectoral skills gaps through the provision of advanced vocation skills.

22. *Working with local authorities and Local Economic Partnerships* – It will be vital to ensure that a UK wide strategy enables the priorities of local and regional areas and of the devolved nations to be met. It needs to be developed in partnership with local authorities, combined authorities and LEPs to ensure that national strategy and local industrial strategies are consistent and complementary. It should have the flexibility to enable local areas to adapt the national strategy to meet local economic conditions and for selected elements, in particular those that are more sector based, to be delivered through devolution arrangements made available to local areas throughout the country.