

**Building our Industrial
Strategy - Consultation**

**Views of the Chief Economic
Development Officers
Society (CEDOS)**

April 2017

Chief Economic Development Officers Society

The Chief Economic Development Officers Society (CEDOS) 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.

Building our Industrial Strategy – Green Paper

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Introduction

1. We welcome the Government's consultation on the Green Paper *Building our Industrial Strategy*. We are pleased to submit our response, for which we have taken soundings with our members across the country. In our response, we put forward our views, both overall and on the individual consultation questions. As the Government says, the Green Paper sets out how it proposes to build a modern industrial strategy and that it is not intended to be the last word, but the start of a process. We welcome this and look forward to continuing our engagement with the Government as the strategy develops.

Overall views

2. We welcome the Government's commitment to an active industrial strategy and we recognise that because this consultation is at the start of a process, much of the detail remains to be developed. In this context, in our response we set out our views on the main themes of the consultation and on individual questions but it would be helpful to highlight briefly, some overall points.

- We support the Prime Minister's ambition "to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom. This emphasises the over-riding importance of driving growth across the UK, enabling all people and places to fulfil their economic potential.
- Economic growth must be inclusive. It is not just about focusing on the major city-regions, important though they are; it is about enabling all areas, city and county, urban and rural to maximise their contribution to economic growth.
- Much more detail is required on how the industrial strategy will fit with the "Global Britain" Brexit vision set out by the Prime Minister, together with an analysis of scenarios of what Brexit might mean for the strategy and its individual elements and how it might need to be adjusted to react to them.
- We support much of the focus of the industrial strategy and the ten pillars on which it is based. However, the inter-relationships between the industrial strategy and other key Government strategies, policies and agencies need to be clarified. Equally, within the industrial strategy, the links between the ten pillars need to be developed further.
- At national level, the delivery of a successful industrial strategy will require effective joint working across the key Government Departments, taking a genuine 'whole-government' perspective that provides for an integrated approach to policies and initiatives.

- There must be genuine engagement between the government and local areas, which recognises the different challenges and opportunities in each area.
- There must be a renewed government commitment to devolution and working with *all* local areas. Local knowledge and understanding of business needs and investment opportunities will be essential to delivering sustained economic growth across the country.
- Local authorities and Local Enterprise Partnerships must be key stakeholders, with the crucial leadership role of democratically elected local authorities being recognised.
- Government must recognise that different parts of the country have different economic circumstances and a one-size-fits-all approach will not produce results. The industrial strategy must provide for the necessary freedoms and flexibilities to deliver effective local area action, including the ability to design the most locally appropriate institutional arrangements and governance mechanisms.
- A major gap in the Green Paper is the lack of reference to the future of local growth funding as whole. All areas will need to be *allocated* sufficient levels of dedicated long-term funding to back the drive for local economic growth across the country. This must be in a manner, which enables strategic longer term planning and provides for greater certainty than the recent trend for competitive challenge funds and which improves both the efficient management of funding streams and provides for greater business certainty.
- There must be early assurance that the Government will replace the loss of funding following the UK's exit from the European Union. The need to replace the EU structural funds offers the opportunity for a thorough review of funding mechanisms alongside the development of the industrial strategy.

Consultation questions

Does this document identify the right areas of focus: extending our strengths; closing the gaps; and making the UK one of the most competitive places to start or grow a business? (Q1)

3. Although in broad terms, the three areas of focus are appropriate, we feel as a strategic aim - 'closing the gaps' is not sufficiently aspirational. We suggest 'driving growth across the UK, enabling all people and places to fulfil their economic potential and closing productivity gaps'. Whilst we appreciate that the Green Paper is a starting point in the process of developing the industrial strategy, as well as these broad aims, there must be clarity on the operational objectives that are needed to underpin them.

4. The inter-relationships between the aims and objectives must be articulated and explained. So too must the relationship between the industrial strategy and other key Government strategies, policies and agencies. For example, how the strategy will relate to the 25-year environmental plan being prepared by the Department for Environment, Food and Rural Affairs (Defra). There will need to

be a much stronger connection with the work of the National Infrastructure Commission and the Housing White Paper. For the Strategy to be successful, there will need to be commitment from across Government and alignment of strategies to ensure that the necessary resources and focuses are brought together to achieve our growth potential.

Are the ten pillars suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing? (Q2)

5. In the soundings we have taken with our members across the country, there is broad agreement that the ten pillars are the right areas of focus, covering the overall enablers of growth such as skills and infrastructure, alongside a sectoral and a place-based approach. This recognises that previous approaches of 'picking winners' or of 'supporting flagging industries' alone, have not worked.

6. The ten pillars must not be seen in isolation. Although the Green Paper refers to the pillars all reinforcing each other, this needs to be developed further and the links between them explored fully. For example, the Strategy will need to be clear on the relationships between sector deals, upgrading infrastructure and a place-based approach. In building on the green paper and developing the industrial strategy, a major challenge will be securing connectivity and collaboration across the pillars and avoiding the risks of silo-working.

7. There is also the question of the relative weight given to pillars. They appear to be all accorded equal status, when in practice some may need more emphasis and intervention than others to ensure the Government achieves its objectives. Similarly, there will be variation across the country, with some pillars being more important than others in different areas according to local circumstances. For us, this emphasises the particular importance that must be attached to the pillar of driving growth across the country. As the Prime Minister states, the ambition is "to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom".

8. Economic growth must be inclusive. It is not just about focusing on the major city-regions, important though they are, it is about enabling all areas, city and county, urban and rural to make the most of their economic potential and maximise their contribution to economic growth. To achieve this there must be a strong local focus with delivery models being flexible enough to adapt to local area needs and opportunities within a national framework provided by the strategy.

Are the right central government and local institutions in place to deliver an effective industrial strategy? If not, how should they be reformed? Are the types of measures to strengthen local institutions set out here and below the right ones? (Q3)

9. For central government, the most important thing is to recognise that the delivery of a successful industrial strategy will require effective joint working across the key Government Departments, taking a genuine 'whole-government' perspective that provides for an integrated approach to policies and initiatives. The review of local institutions and their capacity to deliver must be based on a real understanding of the different issues and needs in local areas across the

country. A key need is to avoid imposing additions to an already complex institutional landscape. As one of our members has told us - "there are too many institutions now leading to uncoordinated and unfocused efforts – the myriad of institutions, funding streams and Government initiatives in the skills area being a prime example".

10. There must be genuine engagement between the Government and local areas, which recognises the different challenges and opportunities in each area. The Green Paper refers to working with the new Mayoral Combined Authorities to build up their capacity. In our view, to achieve the aim of driving growth across the country, there must be a renewed Government commitment to devolution and working with *all* local areas, whether or not Combined Authorities have been set up. Local leaders should be given the freedoms and flexibilities to identify and put in place the right institutions to meet the needs of their local areas. A one-size-fits-all approach will not be effective and must be avoided. As regards Combined Authorities, the Government should drop the insistence on having an elected mayor, which has been a key factor in undermining attempts to set up them up in several areas of the country. Groups of local authorities must have the flexibility to judge the most appropriate governance mechanisms for their areas.

11. In reviewing local institutions, we must emphasise the crucial leadership role of democratically elected local authorities and the sector's track record in delivering local economic growth. They already have good links to businesses and business organisations and have a leading role in Local Enterprise Partnerships. The proposal in the Green Paper for the creation of a 'modern Alderman type of role' is unclear and both unnecessary and anachronistic.

12. The review of the role of LEPs proposed in the Green Paper must be undertaken in the context of their original terms of reference and changes in the local government landscape in a number of areas. It must address the crucial issues of democratic accountability and transparency and of function and resources. It must assess realistically the impact on LEPs' capacity to deliver of: reductions in government funding of local authorities; the impending loss of access to European Structural and Investment Funds (ESIF) as a result of Brexit; and the fact that Round 3 of Local Growth Funding marks the total allocation of the funding committed within the current term of the Government.

Are there important lessons we can learn from the industrial policies of other countries which are not reflected in these ten pillars? (Q4)

13. A detailed and ongoing assessment of industrial policy 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 small and medium-sized enterprises (SMEs)¹. In looking at examples from other countries, however, it is important to recognise that they may not be transferable to the UK or any other country due

¹ 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.

to factors such as different governance structures, policy traditions, and economic conditions².

Investing in science, research and innovation

14. We welcome the Government's allocation of £2 billion to support science, innovation and research in the context of Green Paper's recognition that investment in this area is vital to achieving improved productivity and increased economic growth. Equally, we must emphasise the need for additional funding to replace EU funding that will be lost through Brexit. The UK is one of the largest recipients of EU research funding. Over the period 2007 – 2013 the UK received €8.8 billion in EU funding for research, development and innovation³.

What should be the priority areas for science, research and innovation investment? (Q5)

15. We agree with the priority areas for science, research and innovation referred to in the Green Paper. However, we would also underline the importance of a number of other critically important sectors that are not referred to including:

- agri-tech/food – especially in the context of the creation of Food Enterprise Zones through Defra and also the impact of Brexit;
- health and social care – as a focus for innovation in the context an ageing population and the pressure on budgets;
- tourism and the visitor economy;
- green energy technologies.

16. In the strategic planning for investment in science, research and innovation, we would like to emphasise the importance of:

- the industrial strategy providing a national framework, within which there should be a strong local perspective that enables a focus on sectors that are critically important to different regional and local areas;
- linkage with the other pillars of the industrial strategy e.g. encouraging exporting, which is both a catalyst for and an important means of increasing the value of innovation;
- the rounds of science and innovation audits to provide an intelligence base for investment;
- forward thinking on future technology needs and opportunities, for example in relation to driverless vehicles, energy technology, low carbon technology and robotics.

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

³ See, for example, *UK research and the European Union - The role of the EU in funding UK research* The Royal Society December 2015

Which challenge areas should the Industrial Challenge Strategy Fund focus on to drive maximum economic impact? (Q6)

17. We welcome the creation the new Industrial Strategy Challenge Fund to help the UK capitalise on its strengths in science and innovation such as robotics, clean energy and biotechnology. Clearly, further details on the Fund and its operation are needed but at this stage we would like to emphasise the importance of:

- taking into account the sectoral characteristics and strengths of local areas in the allocation of funding; and of focusing on longer-term impacts and not just on short-term outputs;
- ensuring the Challenge Fund is accessible to SMEs as well as larger businesses, to enable them to engage and work with research institutions and to provide grants to stimulate innovation;
- looking at converging technologies and cross-cutting themes and supply chain opportunities.

What else can the UK do to create an environment that supports the commercialization of ideas? (Q7)

Funding

18. The Challenge Fund and the additional £4.7 billion of research and development funding by 2020-21 are clearly important but if the Government is to achieve a major upgrade in the role of science and innovation in our economy for the years ahead, more public funding will be needed to meet the challenges of Brexit and to secure the UK's position in the global economy. The Government must commit to at least maintaining support and funding for the higher education sector to collaborate in supporting innovation and technology growth and transferring knowledge to business.

19. The EU's *Horizon 2020* has provided significant funding to UK research and development⁴ and this must be replaced if the Brexit negotiations result in loss of this funding. During the negotiations, the Government must ensure that UK businesses and universities continue to have access to partnership opportunities in the EU for the development of new technologies and products. The Government must also ensure that there are successors to programmes funded by the European Regional Development Fund (ERDF), which has been a key resource for innovation support.

Infrastructure for innovation

20. Universities have a big part to play in the creation of ideas and enabling them to be taken up commercially. It is essential that Government continues to invest in physical infrastructure to ensure that universities and businesses can

⁴ As the Green Paper notes the UK has, to date, secured €2.63 billion, the second highest level of funding amongst EU countries.

access the world class buildings and equipment that will enable the necessary testing of ideas. At the same time, there must be investment in the country's business support infrastructure to provide intensive support to enable the development and commercialisation of new innovations.

Incentivising the development and commercialisation of ideas

21. The Government has an important part to play in incentivising and stimulating innovation through grant funding and the business taxation system, including research and development tax credits and the patent box, which enables companies to apply a lower rate of Corporation Tax to profits from their patented inventions. We also welcome the review of the intellectual property system to maximise the incentives to stimulate more collaborative innovation and licensing opportunities.

How can we best support the next generation of research leaders and entrepreneurs? (Q8)

22. The starting point needs to be a focus on the education system, with schools encouraging entrepreneurship; and commercial skills being part of the curriculum. There needs to be a cultural shift, with technical skills being raised in importance alongside academic abilities. Integrating enterprise skills into both the school and higher education systems will be an important way of supporting the development of the next generation of entrepreneurs. Again, the business support infrastructure has an important role in helping the development of business start-ups amongst new and recent graduates. This again underlines the need for connectivity across the pillars of the industrial strategy. There is an important place component, with the Government needing to ensure a proper distribution of higher education institutions across the country.

23. Other important areas are:

- supporting entrepreneurs and researchers with international collaboration, with a Government programme to assist in this;
- attracting new entrepreneurs and investors into the UK - the Government could, for example, look to expand its *Global Entrepreneur Programme*, which helps overseas entrepreneurs and early stage technology businesses or start-ups that want to relocate their business to the UK.

How can we best support research and innovation strengths in local areas? (Q9)

24. The Green Paper states the Government's intention to capitalise on local strengths across the UK. It goes on to say it could "create new funding streams to support world-class clusters of research and innovation in all parts of the UK, whether they are led by business or universities and for large or small projects where they meet quality thresholds".

25. We welcome the Government's intention. However, it will be important that new funding streams and investment take into account fully the varied local economic characteristics across the UK, including rural areas, where the

dispersed nature of population and business distribution pose an inherent challenge to the conventional approach of focusing on physical clusters. For some areas, digital and other solutions may be required to enable them to fully contribute to and participate in economic success.

26. We would also emphasise the importance of the Government:

- supporting universities across the country to undertake research that benefits businesses in locally important economic sectors;
- continuing a commitment to innovation catapult centres to promote research and development by connecting businesses with the UK's research and academic communities;
- ensuring local authorities have the resources and capacity to support local research and innovation, including provision of science parks and incubator centres;
- investing in business support services to enable firms in all areas to access specialist support and advice;
- ensuring all areas have access to the necessary provision of finance to foster business innovation and growth.

Developing skills

27. We welcome the emphasis on developing skills as a crucial pillar of a successful industrial strategy. We support the aim of improving skills at all levels including basic skills and the focus on technical skills alongside academic achievement. It is encouraging to see that employer informed provision forms a key element in the strategy. This underlines the need for skills development to be sensitive to the individual circumstances of local areas, which will require more devolved approaches to skills provision. Finally, we are in a world of continuous and often rapid technological change, which highlights the importance of ongoing skills development for all age groups as the economy changes.

What more can we do to improve basic skills? How can we make a success of the new transition year? Should we change the way that those re-sitting basic qualifications study, to focus more on basic skills excellence? (Q10)

Improving basic skills

28. We welcome the Green Paper's emphasis on improving basic skills. The need for this is highlighted by the low ranking of the UK - 16th of 20 OECD countries for the proportion of people with technical qualifications; comparatively low levels of numeracy and literacy; and large differences in skill levels around the country, including among school leavers, which are compounding regional imbalances. Action to improve basic skills must recognise the key role of employability skills, which should include English for speakers of other

languages, provision for which is reported to be patchy, with progression routes unclear.

The new transition year

29. In the soundings we have taken amongst CEDOS member authorities, there are differences of view as to the desirability or otherwise of a transitional year, including: expressions of concern at the risk of adding additional and unnecessary complexity to local education and skills systems; and that more assistance is needed for young people at 18 rather than at 16.

30. We need to see what the proposed 'transitional year' will consist of and how Government will encourage businesses to get involved. At this stage, we would like to offer the following views resulting from the soundings we have taken:

- there should not be a standardised one-size-fits-all nationally applied approach to enhancing basic skills levels;
- a transitional year should offer a personalised approach, which includes some work based learning and careers exploration, and should recognise that some young people can have substantial basic skills gaps and other complex barriers that require intensive support;
- it needs to be combined with high quality and impartial careers information, advice and guidance and parental involvement to avoid it being viewed negatively by young people. It must be seen as a progression year and not perceived as a repeat year.

31. Whether a transition year is capable of being successful for all young people must be open to question. As one of our members has pointed out, their experience of delivering programmes such as the Youth Employment Initiative has highlighted the importance of providing individual guidance and support over a sustained period to enable barriers to education, employment and training to be overcome and that for some young people the notion that complex barriers can be resolved within a transition year is over-optimistic. Certainly, the introduction of a transition year will need to be carefully monitored, assessed and evaluated. Indeed, given some of the concerns we have heard, undertaking some pilots prior to a full-scale introduction would be advisable.

The Re-sit issue

32. The approach to re-sitting basic qualifications should be tailored to the circumstance of the individual, with students who have not been able to achieve the required GCSE grades in mathematics and English be given the alternative of pursuing 'functional skills'. Insistence on continual study and re-sit can hold back post-16 learning and risk disengagement. Apprenticeships should continue to have an important role in supporting people who wish to pursue vocational routes and offer a range of accreditation levels as well as retaining an emphasis on achievement of STEM skills and lifelong learning.

Basic skills amongst adults

33. The Green Paper focuses primarily on improving basic skills amongst young people. There is a need for a parallel focus on the adult population – both those that are unemployed and those that are in employment – with a comprehensive investment strategy for adult education, skills and employment.

Do you agree with the different elements of the vision for the new technical education system set out here? Are there further lessons from other countries' systems? (Q11)

34. The Green Paper proposes a system of technical education to sit alongside the 'academic track', involving reforming traditional further education (FE) into a new system of technical education to benefit the half of young people who do not go to university and to provide new, better options for those already in the workforce. It involves creating: clear, high quality routes for technical education; high quality technical education providers with excellent teaching; higher level technical education and new Institutes of Technology in all regions; and a course-finding process for technical education similar to the UCAS process.

35. Having taken sounding with our member authorities, we would like to emphasise the importance of the following:

- in creating new colleges of technology, the Government must ensure that: there is good geographical coverage; the additional funding is not at the expense of building on and improving the technical education that exists already within the FE sector, nor of enhancing the school education system;
- the new technical education system must be backed by raising the profile of technical education as a credible route to a successful career amongst parents, schools and advisers, including the recognition of technical education in school league tables and generally changing perceptions;
- businesses, including SMEs, must be engaged closely in the process so that courses and qualifications align with employer skills needs;
- as well as the important technical elements, recognising the key role that employability skills should play including basics such as attitude, time keeping and personal presentation;
- apprenticeship provision should be an important part of an improved technical education offer;
- there needs to be sufficient funding for young people with special educational needs to have the support to take advantage of the new technical education system.

How can we make the application process for further education colleges and apprenticeships clearer and simpler, drawing lessons from the higher education sector? (Q12)

36. Clear progression routes must be highlighted at an early stage to help students, parents, schools plan effectively for their future. Creating a UCAS style course finding process for all post-16 learning, including apprenticeships, FE and HE would be advantageous. However, there have been difficulties with previous attempts at a similar system and it is important that discussions take place with local stakeholders to consider how the proposed system will add value to existing processes within sectors and localities. Whatever approach is decided upon, it must be underpinned by effective, high quality, independent and employer informed careers advice, which should be included as an important element in Ofsted ratings. Consideration needs to be given to how schools can be incentivised to promote different careers routes rather than being driven by their own targets to retain students.

What skills shortages do we have or expect to have, in particular sectors or local areas, and how can we link the skills needs of industry to skills provision by educational institutions in local areas? (Q13)

37. We welcome the Government's commitment to developing a joined-up, authoritative view of the skills gaps that the UK faces now and in the future. Local authorities and LEPs must be key stakeholders in shaping this. They have a strong understanding of their businesses, sectors and local demographics and are well placed to inform the planning of provision. Linking skills provision in local areas to the needs of industry requires much greater involvement in and ownership of skills provision by employers. As part of this, attention must be given to the skills needs of small and micro-businesses. Often there is a focus on larger employers, who have the resources to be involved. The need to link employer skills requirements with skills provision in local areas more effectively underlines the importance of skills funding being devolved to local areas, including areas where overall devolution deals have not been agreed.

How can we enable and encourage people to retrain and upskill throughout their working lives, particularly in places where industries are changing or declining? Are there particular sectors where this could be appropriate? (Q14)

38. In an era of rapid technological change, a focus on re-training and lifelong learning is crucial. For the industrial strategy to be successful, Government should:

- make a commitment with adequate funding to enable education and skills providers to address the need for retraining and upskilling to meet sector specific requirements;
- learn lessons from programmes funded by the European Social Fund (ESF) and ensure replacement national funding is made available;

- ensure an older workforce has the necessary skills to remain economically active, with the necessary flexibility to re-train and re-skill including promoting distance learning and making it more accessible;
- ensure there is a commitment in the long-awaited careers strategy to establish genuine and meaningful all-age impartial careers guidance for individuals.

39. Particularly where industries are undergoing change, employers need to take responsibility to develop and upskill their current workforce. The Government needs to look at whether action is needed to ensure this happens and if so to look at possible measures, which could include a 'non-apprenticeship' levy to encourage employers to provide other types of training for their workforce.

Upgrading infrastructure

40. Investing in infrastructure is fundamentally important to the industrial strategy. Quite rightly, the Green Paper focuses on upgrading transport systems – both road and rail; digital communications; and refers to improving flood defences and their resilience. We consider that in addition, the strategy must cover all the essential components of industrial infrastructure – something we emphasised in our evidence to the National Infrastructure Commission⁵. This must cover, for example energy supplies, overcoming water supply constraints on industries such as food production in some areas, and ensuring a good supply of serviced industrial land and premises.

41. We must underline the fundamental importance of modern digital communications to economic success, not only superfast broadband and 5G telecommunications but also, for example, secure GPS technology than can be as effective inside factories (in order to steer robots) as it is outdoors. As we said in our evidence to the Inquiry into the digital economy by the House of Commons Business Innovation and Skills Select Committee in 2015, digital connectivity is essential for our economy to adapt, innovate, compete and grow – globally and locally – but as the Government's Productivity Plan acknowledged, although our digital infrastructure is improving, "there are still too many businesses hampered by slow connections".

42. Investment in digital infrastructure, including addressing the sometimes prohibitively high connection costs for businesses, is vital to achieve balanced growth across the country including in our rural areas. Here, as in other areas, the role of the Government as a regulator will be key and must align with the wider aims of the Industrial Strategy. For example, through Ofcom, the New Universal Service Obligation and 5G spectrum auctions, it will have a key role in driving commercial investment, which will be necessary to maximise new innovation and minimise the need for public investment.

43. Equally important to achieving balanced growth is public sector investment in key regeneration and development sites in parts of the country and/or in relation to particular site circumstances, where a lack of buoyancy in the land

⁵ *National Infrastructure Commission call for evidence* - Response from the Chief Economic Development Officers Society January 2016

and property market leads to lower and longer-term returns for investors compared to other parts of the UK.

44. There is also the need to address past under-investment in infrastructure. The Green Paper rightly acknowledges a legacy of underinvestment. The consequences of this for local areas and indeed nationally need to be recognized in funding programmes, which understandably tend to focus on new growth and new job creation. We need to address both if we are to secure world class infrastructure.

Are there further actions we could take to support private investment in infrastructure? (Q15)

45. Under the heading – ‘Supporting private sector infrastructure investment’ – the Green Paper refers to three specific high profile projects and states “in addition to taking the decisions on major projects, the Government is creating a framework to enable higher levels of private investment in infrastructure”, to include infrastructure bonds and loans. In our view, to be effective in supporting private sector investment, there needs to be a broader strategic approach underpinned by a proper understanding of the issues and opportunities affecting all local areas across the country, as for example provided in Essex by their Growth Infrastructure Framework, which by assessing the requirements and when and where shortfalls occur, enables a better understanding of where the funding should come from to resolve them.

46. Often, new or improved infrastructure is required in advance of development to secure developer contributions. The Government needs to look at opportunities to front-fund infrastructure with costs subsequently clawed back through developer contributions and reinvested. Local authorities can do this but as one of our members has pointed out, they potentially need more freedoms and flexibilities around borrowing, provision of additional resources, and the need for it to be ‘de-risked’ for councils that are facing significant budgetary challenges.

47. Other suggestions from individual CEDOS members include:

- making developer investment in digital connectivity and infrastructure for electric vehicles a requirement through planning policy/building regulations to ensure new developments are fully connected;
- small-scale, local incentives should be considered, for example designation of local Enterprise Zones with associated capital allowances and business rate reductions, jointly funded from central and local government, could be used to target specific schemes where high up-front infrastructure costs may be a barrier to private sector delivery;
- giving local authorities more control over planning regulations to ensure development sites are made available and can be protected from unsuitable developments; as part of this there is a need to ensure that the drive to increase supply of land for housing, whilst very important, does not crowd out the supply of land for the development and retention of employment sites and premises;

- private investment in fibre broadband needs to be encouraged by the Government, with sufficient revenue from the improved services being re-invested into maintaining and improving core infrastructure; the development of a national subsidy model allowing SMEs to obtain affordable full-fibre services could provide a vital jumpstart.

How can local infrastructure needs be incorporated within national UK infrastructure policy most effectively? (Q16)

48. Government must recognise that different parts of the country have different economic needs and a one-size-fits-all approach will not deliver results. Effective devolution across the UK will make an essential contribution to aligning local and national infrastructure needs and priorities.

49. Local authorities play a key role in providing local infrastructure to encourage and enable businesses to invest and grow. There is financial risk in doing this to council's core budgets and borrowing requirements. Long-term funding certainty for local government is needed to future-proof planning for infrastructure investment. The Government must recognise that different areas have different capacities for the level of risks that can be taken, an issue that will require exploration as the industrial strategy is further developed.

50. There is a need to review and improve the way that local authorities can raise funding for infrastructure investment through developer contributions. There is currently uncertainty around Community Infrastructure Levy (CIL) tariffs and Section 106 arrangements, which may hamper the delivery of infrastructure at the local level. More clarity over national policy positions will provide greater certainty and confidence to the market which will encourage future investment and delivery.

What further actions can we take to improve the performance of infrastructure towards international benchmarks? How can government work with industry to ensure we have the skills and supply chain needed to deliver strategic infrastructure in the UK? (Q17)

51. There is a need:

- for the UK to learn from good practice in other countries, perhaps particularly on the process of delivering key infrastructure projects and on minimising the escalation of costs;
- to ensure that utilities companies (gas, electricity, water, energy, broadband) have a statutory commitment to work with local authorities to collectively plan and agree investment projects and priorities in local areas.

52. Ensuring we have the skills and supply chain needed to deliver strategic infrastructure in the UK is related fundamentally to the wider education and skills issues raised earlier, particularly in relation to technical skills. Government needs to communicate with industry on an ongoing basis to understand the

exact nature of skill requirements and work with local education providers to ensure the right training is being offered.

Supporting businesses to start and grow

53. Providing effective support to foster business start-up and growth is a vital pillar of the industrial strategy. We look in some detail, particularly at the issue of business finance in answer to the individual consultations questions that follow. We would like to emphasise at the outset the fundamental importance of ensuring the provision of the necessary resources to invest in a world-class business support infrastructure for new start businesses and to provide the intensive longer-term assistance required to enable SMEs to scale-up and grow.

What are the most important causes of lower rates of fixed capital investment in the UK compared to other countries, and how can they be addressed? (Q18)

54. Important causes of lower rates of fixed capital investment in the UK are:

- the impact of exchange rate fluctuations and economic uncertainty and the associated risks to investment, particularly in the context of the Brexit process, which underlines the importance of the Government working to ensure businesses and investors have the confidence to invest in the UK during this process;
- shortage of finance available to businesses, particularly to SMEs to enable them to make investments, which although they might be relatively small individually in a UK context, are very important to local areas and collectively to the country as a whole;
- the impact of variable connectivity in the different regions of the UK and the limits this imposes on the geographical spread of investment opportunities.

What are the most important factors which constrain quoted companies and fund managers from making longer term investment decisions, and how can we best address these factors? (Q19)

55. Key factors include:

- the short-term nature of many funds, and the short deadlines for reporting on key performance indicators;
- leadership and management deficiencies being a barrier to making longer-term investment decisions;
- lack of confidence and perceived opportunity in many parts of the country.

Given public sector investment already accounts for a large share of equity deals in some regions, how can we best catalyse uptake of equity capital outside the South East? (Q20)

56. Although the tax benefits of the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS) have provided good incentives to increase individual private investor involvement in small businesses looking to raise equity finance, from the soundings we have taken, there continues to be a funding gap for early stage and scale-up enterprises.

57. We welcome the steps the Government has taken, such as the creation of and investment in the British Business Bank, supporting the Business Growth Fund and setting up the Northern Powerhouse Investment Fund and the Midlands Engine Investment Fund. However more needs to be done to increase the availability and uptake of equity capital in all regions, especially outside London and the South East. The Government needs to raise awareness of equity finance more widely and increase the availability of more regional private enterprise venture capital. This may well require pump priming by Government to lever in more private sector finance.

58. Some local authorities are active in providing equity finance. An example is Durham County Council, which:

- took an equity stake in Atom Bank, a newly established financial institution, with the initial creation of 100 high value jobs, increasing to 300 over five years, to allow it to raise venture capital to enable the bank to get established on a prime site in Durham City;
- has funded *Finance Durham*, tailored around the EU Jeremie 2 programme as a sidecar investment fund⁶; it is a newly established £20 million venture capital fund to help deliver business growth and return a profit in the county by taking direct equity stakes in businesses ranging from £200,000 to £700,000 rather than distribute grants. Launched in April 2017, it is expected that over 70 businesses will receive investment enabling them to grow and create/safeguard approximately 2,000 jobs⁷.

59. Continued cuts to local authority funding make these kinds of activities increasingly difficult to maintain. Government needs to support local authorities to ensure they have resources to invest in local businesses not only to create jobs but also make financial returns from successful businesses to enable further investment.

What are the barriers faced by those businesses that have the potential to scale-up and achieve greater growth, and how can we address these barriers? Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread? (Q22)

60. The feedback from CEDOS member authorities across the country identifies the main barriers being faced by businesses with the potential to scale-up and

⁶ JEREMIE - the Joint European Resources for Micro to Medium Enterprises - is a joint initiative of the European Commission (Directorate General for Regional Policy) and the European Investment Bank Group, mainly through the European Investment Fund, to enhance cohesion across the EU.

achieve greater growth as: access to finance, skills gaps, transport and digital infrastructure, shortage of appropriate business premises, availability of affordable housing for their existing and potential workforce, and deficiencies in leadership, management and marketing skills.

61. We refer to many of these in some detail in other parts of our response, in particular - access to finance, skills, business support and infrastructure. However, would like to underline again the overall importance of providing effective business support. For scale-up businesses there is a need for: longer-term, multi-disciplinary support to be available; ongoing investment in Growth Hubs; further investment in supporting SMEs to adopt new technologies; and provision for training and mentoring in leadership, management and marketing skills. It will also be important for national initiatives, such as the review into entrepreneurship, to be linked to the local level and have input from and feedback to local areas.

Improving procurement

Are there further steps that the Government can take to support innovation through public procurement? (Q23)

What further steps can be taken to use public procurement to drive the industrial strategy in areas where government is the main client, such as healthcare and defence? Do we have the right institutions and policies in place in these sectors to exploit government's purchasing power to drive economic growth? (Q24)

62. We welcome the emphasis in the Green Paper on creating more opportunities for SMEs to access major Government and public funded contracts - both directly and indirectly through supply chains. Local authorities are working hard to use their purchasing power to drive local economic growth. Just two examples are East Sussex, where the proportion of spend by the County Council in its local area (where SMEs and micro-businesses make up by far the largest business type) already well exceeds the Government's own target of one third of its spending being with small businesses by 2020; and Durham, where the County Council has also exceeded the Government's target and now uses SMEs for almost 60% of its supplies.

63. The Government should do more to publicise widely the Small Business Research Initiative, which generates new business opportunities and creates a demand for innovative products. The review of how to improve the Initiative is welcomed.

Encouraging trade and investment

What can the Government do to improve our support for firms wanting to start exporting? What can the Government do to improve support for firms in increasing their exports? (Q25)

64. There is clear evidence that that the Government's targets of doubling the UK's exports to £1 trillion pounds by 2020 and increasing the number of SMEs that export by 100,000 will not be met. In February, giving evidence to the

International Trade Committee, the Secretary of State, Dr Liam Fox said of the £1 trillion export target "I think it's unlikely to be achievable by 2020". On the target for increasing the number of SMEs that export, research by ICAEW (the Institute of Chartered Accountants in England and Wales), with survey work undertaken in late 2016, has indicated a lack of progress since 2014, with figures that show: 53% of businesses are exporting – no change from 2014; and 5% of SMEs starting exporting in the last 2 years – down from 11% in 2014⁸.

65. We are concerned that International Trade & Investment (ITI), now part of the Department for International Trade is neither fit for purpose nor sufficiently resourced. We are aware of reports in the media that the Department for International Trade is struggling to perform key duties. In our consultations with CEDOS members, we have heard of concerns that the policy focus due to Brexit is pulling resources away from front-line export and investment activity and generally that re-structuring has resulted in uncertainty on the ground with a lack of cohesion, direction and communication, and of effective business planning and resource allocation.

66. It is evident that, nationally, Government needs to significantly increase resources to achieve a step-change in its support to improve the UK's export performance⁹. The Chancellor announced in the Autumn Statement that additional resources will be provided to strengthen trade policy capability in the Department for International Trade and the Foreign and Commonwealth Office, totalling £26 million a year by 2019-20. This is clearly an important provision but it is not just a matter of increasing trade policy capability. It is also a matter of providing sufficient resources for front line activity. Moreover, the effectiveness of the promotion of exports and investment is not just a matter of internal arrangements within the Department of International Trade. It requires improved cross-governmental alignment on policy and services that affect export and inward investment.

67. Improving support to firms exporting is not just a matter of Government action at national level. We believe that for ITI to be successful, there will need to be greater devolution to local areas, including devolved funding to enable a more pro-active approach to promoting trade and investment opportunities through local understanding of business strengths, key sectors and growth markets and allowing export and investment services to be tailored to meet local needs and opportunities. In our view, success in supporting and promoting exports will depend fundamentally on tapping local knowledge and understanding of business needs and investment opportunities.

⁸ *Business Opinion – Export research* ICAEW 2016 Strategic Insight

⁹ For more on this – see CEDOS evidence (a) to the House of Commons Business, Innovation & Skills Committee Inquiry into exports and the role of UKTI December 2015 and (b) to the House of Commons International Trade Committee Inquiry into support for exports and investment March 2017

What can we learn from other countries to improve our support for inward investment and how we measure its success? Should we put more emphasis on measuring the impact of Foreign Direct Investment (FDI) on growth? (Q26)

68. We have real concerns about the decision to bring UK Trade & Investment (UKTI) into the Department for International Trade or indeed any Government Department. The lack of a separate or arms-length specialist investment organisation reduces the ability of Government to have independent advice and guidance. As part of a Government Department, International Trade & Investment will be less flexible and fleet of foot, more susceptible to political interference, change and re-structuring and less able to represent the views of investors to Government.

69. The Government's approach contrasts with that of many western developed nations and we have much to learn from the examples of those that benefit from having trade and investment agencies that are either at arms-length or wholly separate from Government as, for example, in the Republic of Ireland (IDA), France (Business France) and Germany (GTAI – Germany Trade & Invest).

70. As with international trade, promoting and supporting inward investment requires local as well as national action. There clearly are benefits from a national approach, which benefits from economies of scale, specialisation and overseas reach but it is important to empower and enable local areas and for the industrial strategy to provide a framework, which allows the necessary freedoms and flexibilities for effective local area action.

Delivering affordable energy and clean growth

What are the most important steps the Government should take to limit energy costs over the long-term? (Q27)

How can we move towards a position in which energy is supplied by competitive markets without the requirement for on-going subsidy? (Q28)

How can the Government, business and researchers work together to develop the competitive opportunities from innovation in energy and our existing industrial strengths? (Q29)

How can the Government support businesses in realising cost savings through greater resource and energy efficiency? (Q30)

71. Energy and clean growth is a key pillar of the industrial strategy, with important areas of focus needing to be: the transition to a low carbon economy and supporting businesses in that transition; diversifying supply across a range of energy types; energy efficiency; the affordability of energy; and making the most of energy innovation and opportunities for driving economic growth across the country. First and foremost, this will require a long-term National Energy Strategy to provide the framework for action. A key part of this will need to be Government support, investment and regulation – the Green Paper underlines the role of Government in energy markets and in supporting research.

72. Key areas of action are securing investment in a wide range of energy sources and opportunities including wind and tidal power, harnessing solar energy, bio-fuels, and making better use of waste heat, as well as in technologies such as smart grids, battery and other storage solutions. Investing in research and development and ensuring research is translated into innovative commercial products and services is vital. Hubs that bring together researchers, industry and investors are important in this, for example: the University of Brighton's *Green Growth Platform*, which is driving green sector growth across Sussex through business support, product and service development, skills and training and networking and events; and *BritGeothermal*, a new UK-based consortium, including the British Geological Survey and the Universities of Durham, Glasgow and Newcastle, established as a focus for deep geothermal energy research both in the UK and globally.

73. There is scope for locally based centres of excellence focused around clusters of energy production. Government, along with local authorities, Local Enterprise Partnerships and other key stakeholders, has an important role to play in supporting businesses in developing emerging technologies that will help reduce energy use and costs.

74. A drive to encourage businesses to achieve cost savings through greater resource and energy efficiency is an important area of action. There is a need for ongoing support, particularly to SMEs, to help cut energy usage and costs and thereby improve competitiveness and profitability, including for example training, energy audits and, where appropriate, grants and tax incentives. Local area action is important and there are, for example, Business Energy Efficiency Programmes in several areas of the country supported by funding from the European Regional Development Fund.

Cultivating world-leading sectors

How can the Government and industry help sectors come together to identify the opportunities for a 'sector deal' to address – especially where industries are fragmented or not well defined? (Q31)

How can the Government ensure that 'sector deals' promote competition and incorporate the interests of new entrants? (Q32)

How can the Government and industry collaborate to enable growth in new sectors of the future that emerge around new technologies and new business models? (Q33)

75. Although the Green Paper emphasises that much of its proposed approach is intended to apply economy-wide and benefit all businesses, it also states that "there is advantage in addressing the opportunities in particular industries and sectors". It is in this context that the Government is challenging industry to come to the Government with proposals to transform and upgrade their sectors through 'sector deals', in an approach which is intended to be UK-wide.

76. At this stage, there is little real detail on what the sector deal approach will involve. There is reference to addressing challenges such as productivity,

innovation and investment but there is little on what outcomes will be aimed for or how they will be measured. It refers to areas of action like regulation, promoting new technologies or reducing barriers to export but there is a lack of detail on what kinds of intervention the Government is aiming to make or achieve. Nor is there any indication of how the sector deal approach will relate to a place-based approach. Crucially there is no indication of resources that might be involved beyond stating that “this is not about the Government providing additional funding” and that sector deals should be aligned with resources in local and central government.

77. In our view, it will be essential that a sector deal approach is genuinely open to all sectors. We have referred earlier in our response to lack of reference in the Green Paper to critically important sectors such as agri-tech/food, health and social care, and tourism. There is a need to identify and recognise that coming together to develop sector deals will more challenging for some sectors and to examine ways of addressing this.

78. Particularly in the case of already established sectors, the focus of sector deals should not be exclusively on large companies. There must be recognition that SMEs, with their ability to bring innovation and fresh ideas to the table and their scope for growth, need to be involved. There needs to be support for all sizes of business that are developing innovative high-value products and services which have the potential to underpin wider growth and supply chains

79. In pursuing sector deals, the industrial strategy must not deal with sectors as silos. It must also focus on supporting innovation and the commercialisation of cross-cutting technologies and encourage the cross-fertilisation of ideas and transfer of technology between sectors. As in other areas of the industrial strategy, the Government needs to ensure there is effective joint working and policy alignment between Departments, as for example in relation to the Department for Culture, Media & Sport (DCMS) Tourism Action Plan and the anticipated Defra Food and Farming White Paper.

80. Overall, the links between sector deals and the other pillars of the proposed industrial strategy need to be clarified to avoid silo-working. What, for example, will be the relationship between the proposed sector deals and the approaches to upgrading infrastructure? Infrastructure provision will be an important aspect of enabling new and existing sectors to flourish and grow. This means a place-based perspective needs to be taken and clarity on how sector deals will work on a place-based basis will be a key requirement ahead of the White Paper.

81. This underlines the importance of local area involvement in the sector deal process. The Green Paper rightly says that businesses rather than the Government are best placed to identify what companies need in order to enhance their competitiveness as a sector. However, it will be essential for local authorities and LEPs to be engaged in the sector deal process to ensure a full understanding of key sectors and their opportunities and issues in local areas. The importance of local engagement is further underlined by the need for a link with the place-based approach and in the context of the Green Paper’s reference to the need for sector deals to be aligned with local as well as central government resources.

Driving growth across the whole country

82. The Green Paper states the Government will ensure the right conditions for growth are present across the UK and that the industrial strategy proposes a framework to build on the particular strengths of different places, by: backing local connectivity with strategic infrastructure investment; raising skill levels nationwide, but particularly in areas where they are lower; investing in local science and innovation strengths; and getting the institutional framework right to support local industries.

Do you agree the principles set out above are the right ones? If not what is missing? (Q34)

83. We strongly support the industrial strategy pillar of driving growth across the whole country. The aim should be to enable all people and places to realise their economic potential. Driving economic growth must be inclusive if it is to succeed. As we have said, it is not just about focusing on the major city-regions, important though they are, it is about enabling all areas, city and county, urban and rural to make the most of their economic potential and maximize their contribution to economic growth. To achieve this there must be a strong local focus with delivery models being flexible enough to adapt to local area needs and opportunities within a national framework provided by the strategy. As far as possible, all places must have a level playing field on which to pursue economic action.

84. We welcome the Government's commitments to back local connectivity, raise skill levels and the undertaking to work with local areas on infrastructure, skills and to identify and help develop industrial and economic clusters of businesses, and local specialisms. We would wish to see the Government go further and make a clear commitment to work closely with local authorities, LEPs and other local institutions across all of the proposed pillars of the industrial strategy.

85. We would wish to highlight two further areas where more emphasis is needed – funding for local growth; and devolution, which is dealt with under the consultation questions related to local institutions below.

Funding for local growth

86. We welcome the award of an additional £1.8 billion from the Local Growth Fund for a new set of Growth Deals between Government and Local Enterprise Partnerships. However, this and the earlier rounds of local growth deal funding need to be seen in the context of a very significant reduction in Government funding to support economic development in local and sub-regional areas since 2010¹⁰.

87. Alongside this has been the impact of the continuing cuts to local authority budgets. Government funding to local authorities reduced by up to 40% during 2010/11 – 2015/16. This has impacted particularly on revenue spending. Although councils have tried to protect spending on social care services, other

¹⁰ See for example, *Funding and Structures for Local Economic Growth* National Audit Office December 2013

service areas have seen larger reductions, one of which has been economic development. The National Audit Office reported a reduction in budgeted spend 2010-11 to 2015-16 in the economic development service area of -47%, one of the highest reductions amongst individual service areas¹¹. This has been underlined by the Institute of Fiscal Studies, who reported recently that "the largest cuts have been delivered in service areas related to what might be considered the wider objectives of local government - relating to local culture and economic development"¹².

88. Our report *Local Economic Development 2016*¹³ highlighted the importance of local authority action and funding in driving local economic growth, with examples from across the country of the wide range of key economic development projects being led by local authorities and involving local authority funding. Despite the widespread priority given to economic development by CEDOS member authorities, economic development remains an unprotected area of spend and there is considerable uncertainty for the future not least concerning the potential impact of the move to 100% retention of business rates.

89. The Green Paper announces the proposal to create competitive new funding streams to back the clusters of innovative businesses across the country. Clearly additional funding is welcome, although we will need to see more detail on these funding streams before a considered judgement can be made. The Green Paper, however, makes no reference to the future of local growth funding as whole, which is a major gap, given the impending loss of ESIF funding as a result of Brexit; and the fact that Round 3 of Local Growth Funding marks the total allocation of the funding committed within the current term of the Government.

90. Whilst competitive funding streams have their merits, we consider that to drive local economic growth all regions will need to be *allocated* sufficient levels of dedicated funding to back the drive for local economic growth across the country. There should be a balanced approach to local funding programmes that targets need and invests in opportunity both to enable structural change and development where needed and back areas of growth and relative strength. Funding should be committed on a long-term basis to provide the certainty to enable the effective strategic planning and sustained implementation necessary to drive growth.

What are the most important new approaches to raising skill levels in areas where they are lower? Where could investments in connectivity or innovation do most to help encourage growth across the country? (Q35)

91. The key thing is that the industrial strategy must recognize individual local areas have different combinations of strengths and weaknesses. It must facilitate and enable local areas to develop and implement solutions that are aligned with and relevant to their local economies. For this genuine devolution that is available to all areas is required.

¹¹ *The Impact of Funding Reductions on Local Authorities* National Audit Office November 2014

¹² *A time for revolution: British local government finance in the 2010s*. Institute of Fiscal Studies October 2016

¹³ *Local Economic Development 2016* Chief Economic Development Officers Society September 2016

Recognising the need for local initiative and leadership, how should we best work with local areas to create and strengthen key local institutions? (Q36)

What are the most important institutions which we need to upgrade or support to back growth in particular areas? (Q37)

Are there institutions missing in certain areas which we could help create or strengthen to support local growth? (Q38)

92. It is clearly essential that Government works closely with local areas – *all* local areas – in all aspects of the industrial strategy. In addressing the issue of ensuring the right institutions are in place to bring together sectors and places, it is necessary to avoid a one-size-fits-all approach. Local leaders should be given the freedoms and flexibilities to identify the right institutions to meet the needs of their local areas.

93. In listing the actions that already underway, the Green Paper refers to Mayoral Combined Authorities having been established as part of devolution deals. As we have said, in our view, the Government should cease to insist on Combined Authorities having to have an elected mayor, which has been a key factor in undermining attempts to set up Combined Authorities in several areas of the country. Groups of local authorities must have the flexibility to put in place the most appropriate governance mechanisms for their areas.

94. In our view, to achieve the aim of driving growth across the country, there must be a renewed Government commitment to devolution and working with *all* local areas, whether or not Combined Authorities have been set up. Local leaders should be given the freedoms and flexibilities to identify and put in place the right institutions to meet the needs of their local areas. Local authorities and Local Enterprise Partnerships must be key stakeholders in this, with the crucial leadership role of democratically elected local authorities being recognised.

95. One of the actions taken that is listed in the Green Paper refers to fully devolving business rate revenues to local authorities in England. We are, however, concerned about the continuing funding uncertainty as a result of the move being required to be cost neutral and the accompanying phasing out of Revenue Support Grant and the transfer of additional responsibilities to local authorities. The uncertainties have been further underlined by the recent National Audit Office (NAO) report¹⁴, which raises concerns that the introduction of 100% business rate retention in 2019-20 could be at risk due to the challenges of a tight timescale and reduced staff resources. In the context of the fall in local authorities' spending power of 25.2% from 2010-11 to 2015-16 and a projected fall by a further 5.4% by 2019-20, the NAO report also highlights a risk of a 100% local rates retention scheme being implemented that lacks sufficient funding for the local government sector to deliver its statutory functions, which clearly could have consequences for local authority support and funding for economic development as a non-statutory function.

¹⁴ Planning for 100% local retention of business rates National Audit Office 29 March 2017