

# Insight focus

NOVEMBER 2017

## Industrial Strategy - Building a Britain fit for the future

The long-awaited White Paper sets out Government's plan to boost the productivity and earning power of people throughout the UK.

On 27th November the Government unveiled its long term plan to build a Britain "fit for the future"; a modern industrial strategy to capitalise on the country's economic strengths, address its weaknesses and help businesses create better, higher-paying jobs through investment in the skills, industries and infrastructure of the future. Its policies are resolutely intended to make the UK economy more productive; giving a competitive edge to 'raise our game' on the world stage as Brexit looms, at the same time embracing the opportunity of technological change and innovation.

Hot on the heels of the Autumn Budget, the White Paper adds detail to some of the announcements trailed by the Chancellor last week (see [Lichfields' summary](#)) and confirms how important it is intended to be in the policy hierarchy and as an agenda which binds together all of the Government's various initiatives to support economic growth across the UK - from funding to devolution to skills.

The OBR concluded that a slowdown in the growth of productivity - or the value that each worker produces - since the financial crisis will persist for several more years.

Herein lies the challenge that the Industrial Strategy must respond to, alongside the pressing need to tackle uneven spatial performance and deep seated disparity (Figure 1). Policies coalesce around the 5 foundations of productivity (Page 2), with a key focus on Local

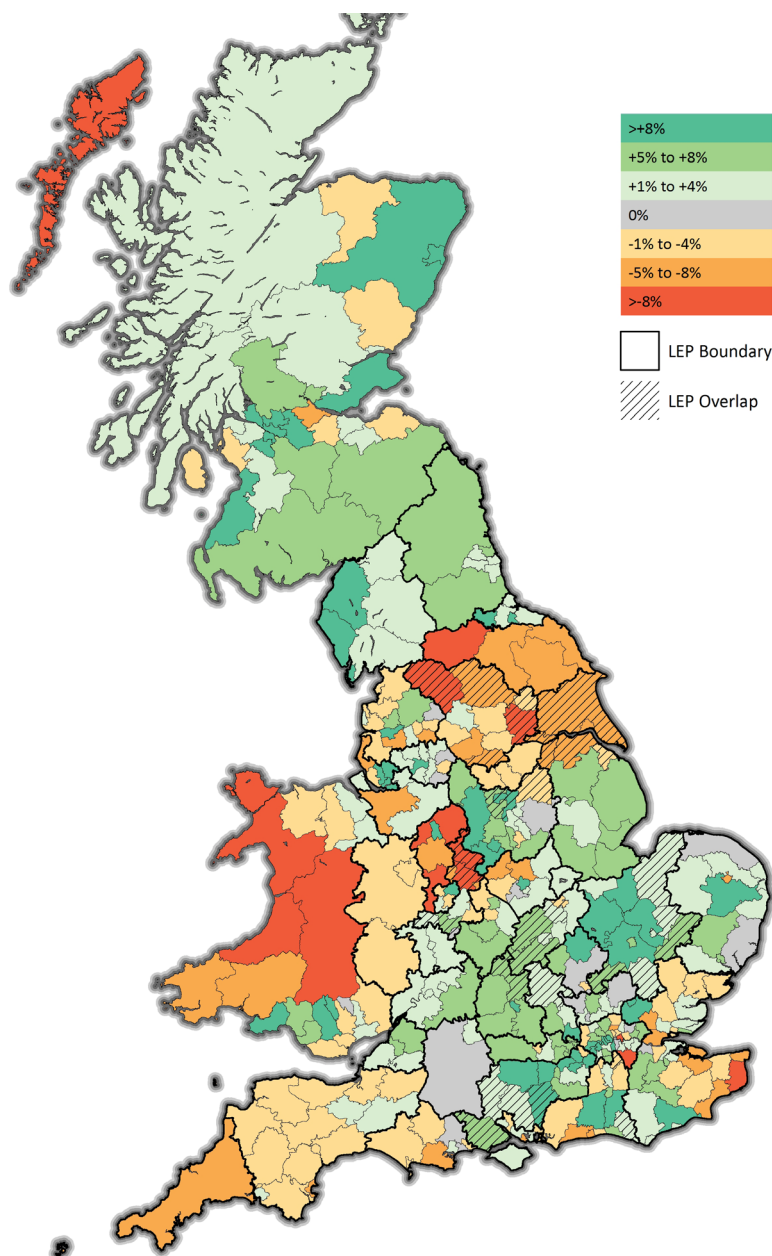
Industrial Strategies (Page 3) and Sector Deals (Page 4).

LICHFIELDS



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Figure 1 : Change in GVA per workforce job, 2007-2017, by local authority (%)



Source : Experian, Lichfields analysis



**This Industrial Strategy deliberately strengthens the five foundations of productivity: innovation, people, infrastructure, places and the business environment - the essential attributes of every successful economy.**

Greg Clark,  
Secretary of State  
for Business,  
Energy and  
Industrial Strategy

## 5 foundations of productivity

### Places

Every region in the UK has a role to play in boosting the national economy and local leaders are called upon to develop Local Industrial Strategies (driven by Mayoral Combined Authorities or LEPs) which identify priorities to improve skills, increase innovation and enhance infrastructure and business growth. Areas with potential to drive wider regional growth – i.e. centres of economic activity – will be prioritised.

The White Paper sets out widespread reforms to the way LEPs operate as devolved vehicles for driving sub-regional growth, focusing on their leadership, governance, accountability, financial reporting and geographical boundaries. Further details due in early 2018, accompanied by additional funding.

Greater policy flexibility will be introduced to define the right economic geography to encourage growth and productivity, expanding approaches such as the Northern Powerhouse and growth 'corridors' to ensure that inner city boroughs, small towns and their rural hinterlands continue to drive wider economic growth.

### Business environment

The White Paper avoids "picking winners" and instead challenges all sectors of the economy to thrive through greater productivity. It sets out a clear agenda around Sector Deals, which act as partnerships between the Government and industry on sector-specific issues and funding settlements. Four have so far been agreed (artificial intelligence, automotive, life sciences and construction), some are due soon (creative, manufacturing and nuclear), and other sectors are openly invited to follow.

To support high-growth innovative businesses achieve their potential, an action plan has been launched to drive over £20bn of investment into these businesses over the next 10 years.

### Infrastructure

The National Productivity Investment Fund (NPIF) will be extended up to 2022/23, with funding increased to £31bn for transport, housing and digital infrastructure that will boost productivity. The Transforming Cities Fund (announced in the Budget) provides £1.7bn for projects that improve connectivity and reduce congestion, transforming local productivity by linking the towns and hinterland around our cities.

A more strategic approach will be taken to infrastructure investment, taking greater account of economic disparities between places. A 'Rebalancing Toolkit' will help to improve the focus, quality and transparency of 'rebalancing' evidence in strategic business cases, particularly to support high value transport investments in less productive parts of the UK.

### Ideas

To kick-start a new industrial revolution, public investment in R&D will be increased from its current rate of 1.7% to 2.4% of GDP by 2027. An Industrial Strategy Challenge Fund will invest in strategic, global innovation challenges – from climate change to automation – bringing together world class UK research with business.

'Catapult centres' will receive £178m to continue their success in commercialising new and emerging technologies, while the £115m Strength in Places Fund will support areas build on science and innovation strengths and develop stronger local networks.

### People

The quality and reputation of technical education will be improved, with apprenticeships and qualifications such as T levels and £406m invested in maths, digital and technical education to boost STEM skills.

A National Retraining Scheme will be introduced in England to give individuals – particularly those hardest to reach – the skills they need to thrive. £34m will be invested in innovative construction training programmes across the country.

A common thread running through the Industrial Strategy is recognition that the people best placed to drive forward local economies are those who live, work and do business in them. Harnessing this local insight will be critical to developing Local Industrial Strategies that are grounded in local reality and reflect a collective ambition for economic growth and prosperity. Whilst no two strategies will look the same, they should be long-term, based on clear evidence,

and aligned to national strategic objectives. As well as identifying local strengths, challenges and future opportunities, they should consider what action will be needed to boost productivity, earning power and competitiveness.

Whatever the focus, this 'call to arms' poses some key considerations for the development sector with regards to shaping and implementing Local Industrial Strategies, summarised below by theme.



**Local Industrial Strategies will establish new ways of working between national and local leaders in both the public and private sectors. Universities, colleges and other local institutions will be key, as will an approach that is responsive to both local and global market conditions to provide greater long-term certainty.**

HM Government  
Industrial Strategy,  
November 2017

<p><b>LEADERSHIP AND GOVERNANCE</b></p> 	<p>The White Paper calls for strong local leadership, whether through the development of Sector Deals or Local Industrial Strategies. An identifiable leader or figurehead will need to demonstrate to Government that local areas are responding in a proactive way, with clear accountability and focus.</p> <p>Equally strong is the focus on collaboration and partnership working at all levels, which may mean working with a broader range or different set of stakeholders going forward. For instance, Sector Deals will rely on strong partnership working with other sector clusters across the country to negotiate with Government.</p> <p>There are clear financial incentives for Combined Authorities through ring-fenced funding, sending a strong message to LPAs and LEPs to (re)consider the role they could play in these new devolved administrations.</p>
<p><b>GEOGRAPHY</b></p> 	<p>Government is keen for the growth agenda to be formulated and delivered across 'new' and increasingly diverse economic geographies, building on recent momentum of the Northern Powerhouse, Midlands Engine etc. This could include 'corridors', knowledge-intensive 'clusters' and even 'Town Deals' where justified by local challenges. This could pose some interesting challenges for the planning and delivery of development, for instance around accountability and responsibility.</p> <p>With the initial focus for Local Industrial Strategies on key centres of economic activity (typically cities and urban cores), locations on the fringes of major urban centres will be under pressure to swiftly define their respective role within the local growth agenda, or risk a delay to their strategy or potential lost investment.</p>
<p><b>SECTORS AND CLUSTERS</b></p> 	<p>Further clarity is required on how Sector Deals will dovetail with Local Industrial Strategies from a spatial planning perspective, given the contrasting geographies involved. Sector Deals will be negotiated nationally and benefits will vary considerably across the country, so local areas will need to position themselves to engage as well as identify 'gaps' where they have comparative strengths and respond through a proactive and complementary Local Strategy.</p> <p>By inviting all sectors of the economy to respond to the productivity challenge, local areas could be tempted to focus on a broad range of sector opportunities. However in a competitive investment environment, clearly articulating particular USPs through Sector Deals - which could span the whole country - will be key to success.</p>
<p><b>INVESTMENT PRIORITIES</b></p> 	<p>The Government hints at taking a more 'strategic' approach to infrastructure investment, including by introducing a 'Re-balancing Toolkit' for economic appraisal to encourage investment in less economically productive parts of the UK. The Government has recognised the limitations of some traditional appraisal techniques which can favour locations where investment and development has already happened.</p> <p>This is likely to require a more nuanced approach to making the economic case for investment, placing impacts within a local context and looking beyond conventional measures to value the effects of regeneration on economic wellbeing and long term productive capacity.</p>
<p><b>PLANNING AND DELIVERY</b></p> 	<p>The new Industrial Strategy makes little reference specifically to planning; ahead of the revised NPPF early next year, questions remain over exactly how Local Industrial Strategies will interface with the Local Plan process.</p> <p>The focus on new and emerging technology will have significant implications for the way in which growth opportunities in innovative sectors such as artificial intelligence and robotics are proactively supported and planned for. Specific consideration will need to be given to locational and land use requirements for example.</p>

Whilst local areas are encouraged to build on their strengths and exploit what they do best, for instance through developing Local Industrial Strategies, there will inevitably be common or recurring sectors being pursued across multiple areas, while some sector growth opportunities will be very niche and specific to a small number of key clusters across the country.

Through a combination of LEPs, City Deals, Enterprise Zones and now Sector Deals, priority sectors and targeted 'offers' are being developed as a key means through which to support productivity growth and investment at a sub-national level.

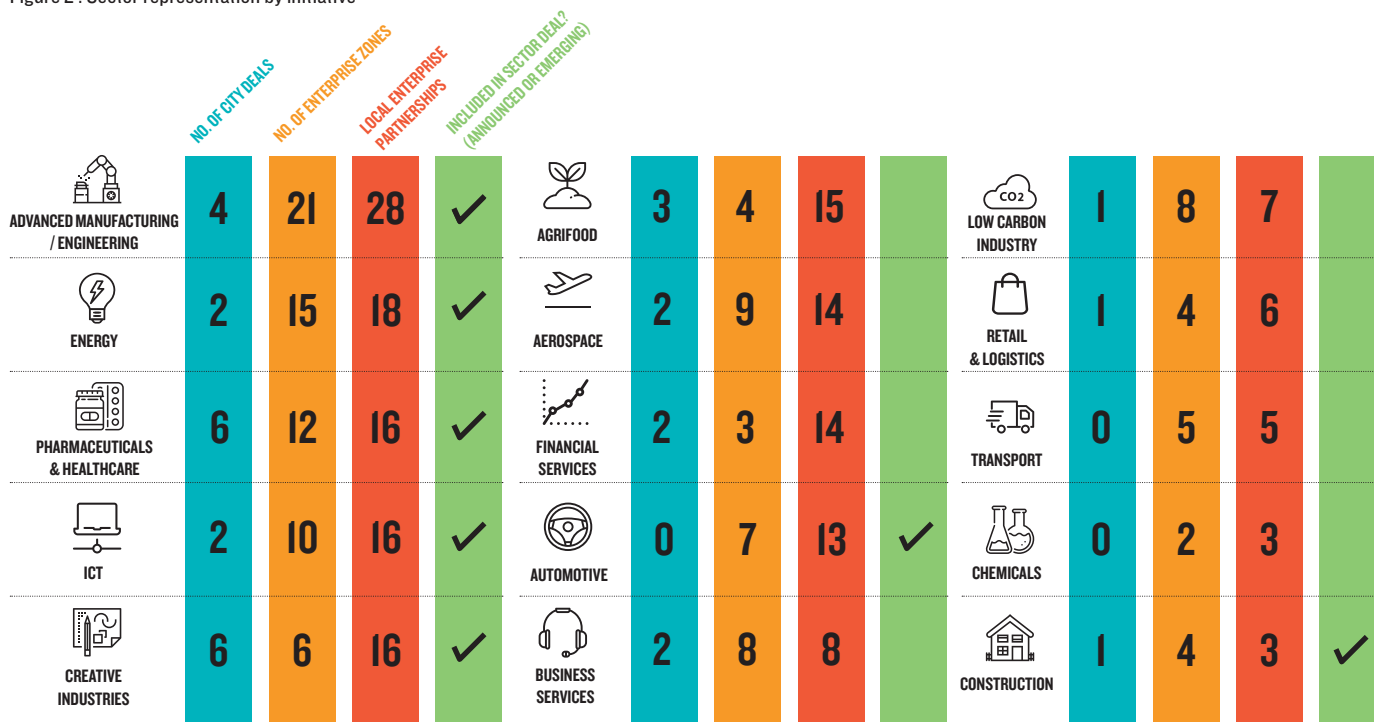
As shown in Figure 2 below, sectors featuring particularly strongly in local economic strategies include advanced manufacturing/engineering, energy,

pharmaceuticals and ICT. Across a number of LEP areas in England, this sector approach has been supported by the presence of Enterprise Zones and City Deal funding specifically targeted at these clusters of activity, some of which are already well established within the local area, while others are more embryonic.

As different industry bodies, businesses and locations come together to respond to Government's open invitation to develop Sector Deals, this spatial distribution will have an important bearing on the relative complexity and speed at which these partnerships can be forged.

Sector proposals should articulate how they align with the national Industrial Strategy and meet a number of criteria around leadership, deliverability and demonstrable impact on productivity, earnings and skills.

Figure 2 : Sector representation by initiative



Source : Department for International Trade 2017 / Lichfields analysis. Data relates to England only

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