

Local Government Association Britain's Industrial Strategy Briefing

27 January 2017



Introduction

On 23 January 2017 the Government published 'Britain's industrial strategy'. This Green Paper sets out the Government's plans and strategy for supporting Britain's industrial sectors, improving productivity, driving growth across the country and making British business more competitive. The strategy is made up of 10 pillars which draw together in one place a range of new and existing policy and related funding.

This briefing summarises the main announcements in the industrial strategy of relevance to local government and sets out the Local Government Association's response. The full Green Paper and associated announcements can be found on the Department for Business, Energy and Industrial Strategy website:

www.gov.uk/government/policies/industrial-strategy

Summary

- The Government's industrial strategy provides a critical opportunity to drive the creation of a successful, world-leading economy. This is not a simple project. It can neither remain a static document nor be driven top-down from Whitehall, but should reflect the geographic and economic diversity of Britain. The LGA welcomes the focus that the Government places on tackling the economic imbalances and driving growth in different parts of the country.

Developing skills

- The Government has put skills at the heart of the industrial strategy. This is welcome. For it to be a success, all councils need greater freedom and funding from central government to equip people with the skills they need to compete for jobs. Councils know their areas and residents best and understand the current and future skills needs of their local businesses. In responding to the Green Paper, councils will demonstrate how their local plans in this area will lead to better outcomes.
- The Green Paper is consulting on plans to invest £170 million capital funding to establish Institutes of Technology (IoTs). The development of technical education pathways is welcome; however, IoTs must serve to improve an already complex skills system rather than simply adding another institution.
- The Government has said they will publish a comprehensive careers strategy later this year. Careers provision is currently complex and fragmented. The LGA will be calling for a coherent, all-age, locally commissioned careers service funded by central government.

Upgrading infrastructure

- The industrial strategy identifies that long-term funding certainty is the best way to plan infrastructure investment. Currently, too much funding for local infrastructure

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remains reliant on short-term and competitive bidding processes in order to fund upgrades.

- We welcome the recognition of the importance of investment in flood defences and the need for infrastructure investment to be better aligned with local growth priorities. The LGA has called for funding to be devolved into a single, place-based pot to tackle local flood-risk priorities.
- Poor maintenance of existing infrastructure can impede business productivity as much as new capacity can boost it. The debate on the Green Paper will highlight the importance of local infrastructure and provide the opportunity to prioritise the maintenance of local roads which face a £12 billion backlog of repairs.
- Access to fast and reliable digital connectivity is a necessity for households and businesses across the UK. While new investment for digital infrastructure is good news, the Government must not lose sight of the needs of rural communities already struggling to receive a basic broadband service. The Government must also strengthen its Universal Service Obligation with a minimum download speed which rises in tandem with national averages, and obligations on suppliers to provide a minimum level of upload speed.
- Housing is an integral part of the growth and productivity dynamic and the industrial strategy will need to reflect this in its final form.

Encouraging trade and inward investment

- Encouraging trade and inward investment policy is a key pillar of the strategy. Securing post-Brexit trade deals with both European and international countries will clearly be a significant task for the Government. Councils have a long track record of building successful European and international trade relationships. The experience, expertise and networks of local government must be used when it comes to the complex task of agreeing trade deals to ensure we secure the best deals for communities and local economies across the country.
- The industrial strategy recognises how important cultural and sporting institutions are to attracting businesses to invest in areas, and in establishing a high quality of life for employees. Local government remains this country's biggest public funder of culture and invested £2.6 billion in 2014/15. It is important that local government is a key part of the proposed discussions about how national cultural institutions and cultural collections can best be deployed, so that this complements and enhances existing local investment and assets. Councils are being highly creative and innovative in the way they use cultural activity to improve residents' lives.

Driving growth across the whole country

- We share the Government's desire to confront the fact that our economy is one of the most centralised in the world. Institutional and funding fragmentation at a national level holds back the efforts of local leaders to do more to drive growth and help improve productivity. Councils across the country have been at the forefront of bringing together local and national institutions, recognising the importance of sub-regional economic geographies and the need to work with business leaders and other parts of the public sector.

- Responses to the industrial strategy provide the opportunity for councils to demonstrate the benefits of bringing together taxpayer resources which could be better targeted by local partners who understand the needs of the businesses and places they serve.

Creating the right institutions to bring together sectors and places

- The Government has said it will work with local government to review how to bring more business expertise into local government. Local areas already provide economic and business leadership, whether this is through Local Enterprise Partnership chairs, council leadership, or portfolio holders. We hope that responses to the Green Paper will demonstrate the advantage of strengthening existing local arrangements rather than inventing new roles, such as a modern Alderman, which risk causing confusion and diverting resources away from local growth.
- We welcome that the Green Paper recognises the need to consider successor arrangements for European Union funding. There is an urgency to this work and we offer the support of the sector to fast-track central government work in this area.

Background

1. Developing skills

The Green Paper sets out the Government's intention on:

- Action to improve basic skills.
- The creation of a new system of technical education.
- Identifying and addressing sector-specific skills gaps.
- Higher quality careers information and advice.
- Testing new approaches to lifelong learning.

Key new commitments:

- Create a proper system of technical education, to benefit the half of young people who do not go to university and provide new, better options for those already in the workforce.
- Commit £170 million of capital funding to the creation of new Institutes of Technology to deliver higher technical education in STEM subjects and meet the skills needs of employers in local areas.
- Work towards a joined-up, authoritative view of the sector-specific skills gaps that the UK faces now and in the future.
- Publish a comprehensive careers strategy later this year.
- Take further actions to address differences in skill levels between different areas to help drive economic growth and opportunity throughout the country.

LGA view:

The Government has put skills at the heart of the industrial strategy. For this to be a success, all councils need greater freedom and funding from central government to equip people with the skills they need to compete for current and pipeline jobs. Analysis commissioned by the LGA shows that a failure to invest in skills will impede local growth and England's productivity by up to 25 per cent, with £174 billion in lost tax revenue.¹

Local skills gaps

Councils working with local businesses and partners know their areas and residents best and understand the current and future skills needs of their local economies. Councils in cities and non-metropolitan areas want to stimulate their economies, so all residents contribute and benefit from growth. Working across functional economic areas with businesses and local partners, they are building on their unique ability to integrate services for vulnerable people and respond to local employer need.

Yet their ability to address unemployment and skills demands is constrained by the fact that current mainstream and re-engagement employment and skills funding, worth £10.5 billion (2016/2017), commissioned nationally by Whitehall or their agencies, is scattered across twenty different national schemes.² Often, because of the national approach to commissioning, this fails to meet the needs of the local economy and their residents, prevents effective service integration, and results in a mismatch between skills supply and demand. Devolving this national employment and skills funding to local government would allow councils in cities and non-metropolitan areas to build on their track record of targeting support, helping more people into work, and plugging growing skills gaps.

Basic skills

The LGA will work with the Government on transition year plans to help 16 year olds achieve basic skills, especially given councils' role for Raising the Participation Age and in identifying those at risk of not being in education, employment or training. Improving basic skills for adults is also critical. Combined Authorities will be responsible for their share of the £1.5 billion Adult Education Budget (AEB).³ It is essential that they have full flexibility to target this resource who stand most to benefit. Those areas without devolved AEB will work closely with LEPs and the Skills Funding Agency and AEB must be commissioned and delivered with the needs of local residents in mind.

Technical education

The development of technical education pathways is welcome; IoTs must, however, serve to improve an already complex skills system which is hard to navigate, and has done little to gear skills supply with employer demand. The LGA will work with the Government to understand where these will be established and on what basis, and how they will address the skills gaps of local areas. Councils working collaboratively with local

¹ Realising Talent, LGA, 2014 <http://www.local.gov.uk/documents/10180/11431/Realising+talent+-+employment+and+skills+for+the+future/be9a4027-7cc6-47bc-a3d7-7b89eaf3ae69>

² Fragmented Funding, LGA, 2016
<http://www.local.gov.uk/documents/10180/11309/Final+report+for+LGA.pdf/3a2a44c9-7551-4de1-bafc-624a33127ffc>

³ Skills Funding Agency, July 2016
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/545722/Adult_education_budget_funding_and_performance_management_rules_2016_to_2017_V3.pdf

businesses and training providers want powers to lead this agenda to join up the whole system, so it is critical that the commissioning is locally, rather than nationally driven. The locally led Area Based Reviews which have already undertaken skills analysis should feed directly into the design, commissioning and delivery of IoTs.

Careers advice

With increasing education and training options, including through the establishment of IoTs and apprenticeship reforms, the publication of the comprehensive careers strategy should be as soon as possible. Careers provision is complex and fragmented. In any one area, there are numerous providers – schools, colleges and several national agencies, including the National Careers Service, Careers and Enterprise Agency, Jobcentre Plus and Skills Funding Agency – delivering initiatives for different age ranges and groups. Coherence needs to be brought to a system which is meant to guide residents so they understand the learning pathways to current and future jobs. The LGA is calling for an all-age, locally commissioned careers service funded by central government. This would join up different parts of the careers guidance system and be based on local labour market intelligence so it is relevant to the skills needs of local employers and help support inclusive economic growth across the country.

Good quality careers advice must be available at key stages in a person's learning and working life, recognising that people will need to reskill and upskill throughout their working lives to ensure their skills are still relevant to a fast-paced employment market. We firmly support the reference to lifelong learning and we will explore this with the Department for Education.

2. Upgrading infrastructure

The industrial strategy sets out the Government's intention to:

- Provide higher rates of public investment.
- Support private sector infrastructure investment.
- Make infrastructure costs more competitive.
- Align the planning of infrastructure more effectively with local growth priorities.

Key new commitments:

- Using infrastructure to support rebalancing, taking into account the balance of spending per head between different regions.
- Support other major infrastructure investments, including £1.1 billion of funding for local roads and transport.

LGA view:

Local infrastructure

The industrial strategy identifies that long-term funding certainty is the best way to plan infrastructure investment. It highlights the certainty that has been given to the strategic road network and network rail. We support this approach. Too much funding for local infrastructure remains reliant on short-term and competitive bidding processes in order to fund upgrades. For example, local roads account for 97 per cent of roads in England but they do not have funding certainty.

Significant financial investment into the strategic roads network will prove counterproductive if the local roads that connect the strategic network are not working efficiently. Currently £1.1 million per mile will be spent over this Parliament maintaining national roads compared to £27,000 on local roads despite the fact that all car journeys start and end on local roads.⁴ It is estimated that there is currently a £12 billion maintenance backlog on the local road network.⁵ Ensuring that the current network is well-maintained and kept in a good condition should be just as much a priority as building new roads.

The LGA has called for the discretion to introduce a work place parking levy, full implementation of the powers in Part 6 of the Traffic Management Act, and lane rental powers for street works. These relatively simple steps could achieve reductions in congestion without the need for large infrastructure investments.

It is important to invest in infrastructure that can reduce air pollution. By investing in public transport infrastructure air pollution can be reduced. The LGA is engaging with the Government's work on clean air zones but we are currently concerned about the levels of resources that have been made available to local authorities in order to implement them.

The strategy highlights the success of strong local infrastructure institutions in London and the need to see this approach replicated across England. Local authorities are well-placed to understand their local areas and have long standing transport and spatial plans that reflect local circumstances. The Government should avoid a lengthy process of creating institutions when current institutional arrangements are well-placed to deliver, with the right long-term funding commitments and powers.

Digital

The industrial strategy sets out the Government's investment of £400 million in a new Digital Infrastructure Investment Fund to boost commercial finance for emerging fibre broadband providers, with £740 million earmarked for:

- Local full fibre broadband rollout – developing the infrastructure to deploy full fibre networks into businesses and the public sector.
- 5G mobile technology and optical fibre – coordinated programme of integrated 5G and fibre projects to accelerate and de-risk deployment of future digital technologies

Access to fast and reliable digital connectivity is a necessity for households and businesses across the UK. While new investment for digital infrastructure is good news, the Government must not lose sight of the needs of rural communities already struggling to receive a basic broadband service. To benefit non-metropolitan communities, businesses, and increase on local growth, this fund will need to encourage and help scale up smaller suppliers with the ambition to work outside better connected areas. The Government must also strengthen its Universal Service Obligation with a minimum

⁴ Highway England Delivery Plan 2015-2020, Funding Table
<https://www.gov.uk/government/publications/highways-england-delivery-plan-2015-2020>
Autumn Statement 2015
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf

⁵ ALARM survey 2016 http://www.asphaltuk.org/wp-content/uploads/ALARM_survey_2016.pdf

download speed which rises with national averages, and obligations on suppliers to provide a minimum level of upload speed.

While the announcement of significant new investment in 5G technology has the potential to make Britain a global leader in mobile digital connectivity, many outside our larger cities currently struggle to access 4G or even 3G technology. Local government is committed to exploring with the mobile industry, regulators and central government how best to ensure residents across the country can benefit from public investment in new technology, wherever they live.

The Government must trial 5G technology in non-metropolitan as well as urban locations to better understand its rural replicability including its potential to improve broadband and mobile coverage and benefit crucial services, like remote healthcare. Local government has already committed over £700 million through the Superfast Broadband Programme to help suppliers connect hard to reach residents.⁶

Flood defences

The strategy proposes that standards of performance on flood defence infrastructure must be upgraded, including better alignment of central government infrastructure investment with local growth priorities. We welcome the recognition of the importance of investment in flood defences and the need for infrastructure investment to be better aligned with local growth priorities. It is vital that investment in capital and maintenance is joined-up as part of a long-term approach to improving local flood defence and resilience infrastructure. Devolving capital and revenue funding for flood risk management projects into a single, place-based pot would allow local areas to support a more diverse set of outcomes and local priorities, including those to support growth.

3. Encouraging trade and inward investment

The industrial strategy lists how the Government will:

- Build future trading relationships.
- Build global prosperity.
- Improve market access for exporters.
- Create a new, more active approach to winning overseas contracts.
- Join up trade and inward investment promotion with local areas.
- Develop a new, more strategic approach to inward investment.

Key new commitments:

- Creating a new more active “Team UK” approach to winning overseas contracts, with the Government helping convene consortia of companies to back a single UK bid for major overseas projects.
- Developing a new, more strategic approach to inward investment. The Department for International Trade will review what can be learnt from successful inward investment promotion agencies across the globe and it will report in 2017.

⁶ Broadband: written question – 36984, House of Commons

<http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2016-05-10/36984/>

- Exploring how we can maximise the opportunities that a UK presence at existing international trade fairs offers for businesses; and explore where there are sectors which could benefit from support to create trade fairs.

LGA view:

Securing post-Brexit trade deals with both European and non-European countries once the UK leaves the EU will clearly be a significant task for the Government. Domestically, strengthened sub-national economic identities underpinned by new and devolved approaches to integrated public service delivery provide an opportunity to embed a stronger place-based approach to trade and investment policy. Councils have a long track record of building successful European and international relationships. In recent years, these have secured trade and investment, boosted jobs and infrastructure and helped attract visitors up and down the country.

There is a strong local advantage, which the UK can harness to promote greater bilateral trade and investment flows. We welcome commitments in the Green Paper to improve the relationship between Department for International Trade and local areas to better respond to local priorities and opportunities, alongside a willingness to look again at how inward investment success is measured. The experience and networks of local government must be used when it comes to the complex task of agreeing trade deals. This will ensure we secure the best deals for communities and local economies across the country.

Contribution of sport and culture

The industrial strategy recognises how important cultural and sporting institutions are to attracting businesses to invest in areas, and in establishing a high quality of life for employees. This builds on the narrative of the Culture White Paper, which called for “more local leaders to grasp the potential of culture to achieve their vision for their community, and to put culture at the forefront of their strategies.”⁷ Local government remains this country’s biggest public funder of culture and invested £2.6 billion in 2014/15,⁸ despite funding pressures caused by the impact of rising demand for services like adult social care. Therefore, it is important that local government is involved in the proposed discussions about how national cultural institutions and cultural collections can best be deployed, so that this complements and enhances existing local investment and assets such as museums and libraries. Councils are already rising to this challenge by finding innovative ways that use cultural activity to deliver key outcomes. The LGA is keen to contribute research to the wider debate on how councils have already used arts and cultural activities to, among other things, create a sense of place, boosting economic activity and civic engagement.

4. Driving growth across the whole country

The Green Paper sets out the Government’s intention to:

- Back local connectivity with strategic infrastructure investment.
- Raise skill levels nationwide, but particularly in areas where they are lower.

⁷ Culture White Paper 2016

<https://www.gov.uk/government/publications/culture-white-paper>

⁸ Local authority revenue expenditure and financing in England: 2014 to 2015 final outturn

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-in-england-2014-to-2015-final-outturn>

- Invest in local science and innovation strengths.
- Get the institutional framework right to support local industries.

Key new commitments:

- Use additional infrastructure funding to unlock growth in areas where connectivity is holding it back by creating new funding which allow better co-ordination of local economic plans with infrastructure investment.
- Work with local areas to test approaches to closing the skills gap; from early years education and the retention and attraction of graduates, to measures to drive the take up of apprenticeships.
- Propose creating competitive new funding streams to back the clusters of innovative businesses across the country.
- Work with local areas to identify and help develop industrial and economic clusters of businesses, and local specialisms, putting in place the right institutions with the right powers to help support local areas of economic strength.
- Propose establishing Ministerial Forums on Industrial Strategy with each of the Devolved Administrations.
- Consider the future of the European Structural and Investment Funds alongside the wider future funding environment following the UK's exit from the European Union.

LGA view:

Additional investment in infrastructure such as transport and digital connectivity is a step in the right direction. In light of the challenges ahead the Government should open the door to more ambitious forms of fiscal devolution, allowing local leaders to work with communities and businesses and make targeted infrastructure investments in support of future and existing growth.

The Government is right to note the economic potential of rural and non-metropolitan areas, but too often infrastructure investment follows the path of least resistance. In order to address this challenge the Government should work with councils to develop a tailored approach to supporting growth that meets the specific needs of more rural areas.

It is clear that the UK's exit from the EU is going to have a significant impact on English local government, creating challenges that will need to be addressed, but also opportunities to do things differently. The Government's approach to delivering its industrial strategy should also recognise that many in England feel disconnected from both the benefits of growth and programmes designed to support increased productivity. In line with the offer to each of the Devolved Administrations, English local government must have a role in helping shape the strategy at a national level.

It is encouraging that the Green Paper recognises the need to consider successor arrangements for EU Funding, but more detail and timescales are required. Local areas in England have been allocated £5.3 billion in EU regeneration funding by 2020 to create

jobs, build infrastructure and boost local growth across the country.⁹ Central government needs to work with local government to develop a UK regional aid scheme which replaces all of this EU regeneration funding and gives local areas more say over how it is spent after Brexit. The LGA is working on proposals for how this could be done.

5. *Creating the right institutions to bring together sectors and places*

The industrial strategy lists how the Government will:

- Work with local areas to identify and help develop local specialisms, putting in place the right institutions with the right powers to help support local areas of economic strength.
- Create new institutions or strengthen existing ones: be they educational institutions, trade associations or financial networks.
- Encourage in particular sector deals with a strong focus on local institutions.

Key new commitments:

- The Department for International Trade will review how it identifies priority investments, including with reference to the impact they can make in local areas where productivity needs to catch up.
- Review the location of government agencies and arms-length bodies, and will consider relocating them where they could potentially help reinforce a local cluster and support private sector growth. This will include cultural institutions.
- Support networks of universities where they want to come together to improve commercialisation.
- Work with local government to review how to bring more business expertise into local governance, and improve links between councils and the private sector. An example might be the creation of a modern “Alderman” type of role within local government.
- Explore further devolution deals for our largest cities.
- Following the elections for the first combined authority mayors in May 2017, the Local Government Association will work with new Mayoral Combined Authorities to build up administrative capacity.
- Work with Local Enterprise Partnerships to review their role in delivering local growth and examine how we can spread best practice and strengthen them, including extending the support they can receive from the What Works centre for Local Economic Growth.

⁹ European Regional Development Fund and European Social Fund: UK allocations 2014 to 2020
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307492/bis-14-772-uk-allocations-eu-structural-funds-2014-2020-letter.pdf

LGA view:

Britain's departure from the European Union presents an opportunity to examine a wide range of European law, this should include a systematic review of the role public sector expenditure can play in supporting local and national supply chains. There cannot be a presumption that repatriated powers will stop at Whitehall, but instead should be devolved to local areas. Local government has a key role to play in attracting inward investment that takes account of the assets and opportunities of local areas. As Britain enters a new chapter in its trading relationship with the rest of the world this cannot be left to Whitehall trade negotiators, but must harness the expertise and leadership found at the local level.

Devolution cannot simply be restricted to deals for our largest cities. The Government needs to work with local leaders across the country, including in rural and non-metropolitan areas, to ensure the ability to determine local approaches to investment and public services that support of inclusive growth is available to all who call for it.

We are working with the Higher Education Funding Council for England and Universities UK to strengthen collaborative leadership between the higher education and local government sector and would call on the Government to recognise and support innovative cross-sector approaches to place based leadership such as this.

We will continue to work with the Government to strengthen the capacity of Mayoral Combined Authorities and to supporting the further devolution of powers and responsibilities across the country.

The Government has said it will work with local government to review how to bring more business expertise into local government. Local areas already provide economic and business leadership, whether this is through Local Enterprise Partnership chairs, council leadership, or portfolio holders. Councils throughout the country already lead on creating innovative and long-term public/ private partnerships with leaders in the developer and investor industries to unlock local growth.¹⁰ We hope that responses to the Green Paper will demonstrate the advantage of strengthening existing local arrangements rather than inventing new roles, such as a modern Alderman, which risk causing confusion.

We have previously called for a review of the role Local Enterprise Partnerships can play in supporting local growth, particularly in light of research demonstrating the high level of fragmentation of growth funding. As key partners, councils must have a stake in this process. Responsibility for any future government funding for local growth, such as the Local Growth Fund, should sit with combined authorities and councils. This will enable business leaders of Local Enterprise Partnerships to focus on providing hard-edged strategic business advice and influencing national economic strategy.

¹⁰ Unlocking growth through partnership – Jan 2017, BPF/ LGA
<http://www.bpf.org.uk/sites/default/files/resources/BPF-LGA-unlocking-growth-through-partnership.PDF>