Support for Less Prosperous Places

Proposals for consideration by the Department for Business

Industrial Communities **Alliance**

Britain's inequalities

There are big differences in prosperity across the UK.

At the sub-regional scale at which most local economies and labour markets operate, there are huge disparities on a wide range of indicators – GVA per head, employment rates, benefit claimant rates, NEETs, etc.

Yet over the last decade or so, **support for less prosperous parts of the country has largely been dismantled**. Assisted Area status has been abolished, EU funding to the regions has been only partially replaced, and 'levelling up' has been wound down. The UK is now an international outlier in this regard.

At present, **the government's *Industrial Strategy* lacks a focus on less prosperous places**. It is about raising the growth rate of the UK economy as a whole – a worthy objective – but makes no effort to target the places where jobs and growth are needed most.

The proposals in this booklet reflect discussions at regional and national meetings of the Industrial Communities Alliance, which represents local authorities in the older industrial areas of England, Scotland and Wales. It's in these places that the development needs are often greatest and where shortcomings in the UK government's present approach are felt most acutely.

Key proposals in the booklet also reflect views expressed by the Labour MPs Group on Industrial Strategy.

The role of the Department for Business

It's the newly formed Department for Business, Innovation, Science and Trade (DBIST) that has **primary responsibility for economic development** in Britain's less prosperous areas.

In the wake of all the 'levelling up' initiatives introduced by Boris Johnson and run by what is now MHCLG, this crucial responsibility of the Department for Business has tended to be overlooked. Yet it has always remained the case that **financial support to businesses, inward investment and industrial development** are firmly the responsibility of the Business Department.

By contrast, the responsibilities of No.10 North, which has inherited MHCLG's role in disbursing and overseeing local growth funding, are mainly limited to local infrastructure and community development, for example through the neighbourhood-focussed Pride in Place initiative.

Despite devolution, DBIST's responsibility for economic development also still extends across the UK. The UK's Subsidy Control regime for example, overseen by the Department for Business, plays the key role in determining the support available to firms and applies across the whole of England, Scotland and Wales.

1. Target less prosperous places

Alongside the commitment to national economic growth there needs to be a focus on promoting jobs and growth in the parts of the country that need them most.

Until 2021, a long-established system of Assisted Areas offered extra support to businesses investing in less prosperous areas. As numerous evaluations have confirmed, this helped deliver many thousands of additional jobs and helped protect many others.

There has so far been a reluctance to reintroduce Assisted Area status, which was abolished by the Conservative government following the UK's departure from the EU. However, local authorities and many MPs from the less prosperous parts of the country regard this reluctance as a mistake.

In the Welsh Parliament, for example, the Economy, Trade and Rural Affairs Committee recently recommended that "*The next Welsh Government must engage with the UK Government to secure the restoration of Assisted Areas in order to support less economically developed parts of Wales".*

The strong preference would therefore be for:

- **The restoration of Assisted Area status**. For decades, this tried and tested approach, administered by the Department for Business and its predecessors, gave the less prosperous parts of the country a competitive edge in attracting investment from elsewhere in the UK and abroad.

As a tool for delivering jobs and growth where they are needed most, the restoration of Assisted Area status and the investment support that would help deliver is arguably the single most important 'ask' of government.

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If the restoration of Assisted Area status proves impossible, mechanisms that would deliver comparable benefits to less prosperous parts of the UK need to be put in place. This could involve:

- **The application of a 'location filter'** when allocating public sector support to business. This isn't about extra spending. There are numerous existing funding streams, including many overseen by DBIST, within which the question could be asked '*Is this investment taking place in a less prosperous part of the country?*' If so, it should be looked on more favourably.

- There's no need to establish a hard-edged map so long as guidance points to **appropriate statistical indicators** (GVA, worklessness etc.) to assess an area's needs.

- **Guidance within the Subsidy Control regime** could be issued by DBIST to the effect that investment aid and other financial support for business should normally be favoured if it takes place in a less prosperous part of the country.

- Within the £600m **Strategic Sites Accelerator,** priority should be given to sites in less prosperous parts of the country, where the private sector working on its own is generally less likely to bring forward developments.

- As part of the Accelerator, there should also be **a willingness to offer grants** rather than just repayable loans, because in the most difficult areas reclamation costs and negative land values can present obstacles that only gap funding of this kind can overcome.

2. Extend support within manufacturing

Britain's older industrial areas are among the most economically disadvantaged parts of the country. It is a myth, however, that they are 'post-industrial'.

Britain's older industrial areas remain among the heartlands of manufacturing, mostly with a well-above average share of jobs in this sector. This is especially true of towns and communities away from the big cities.

Support for manufacturing therefore provides support for many less prosperous places.

The problem is that the government's *Industrial Strategy* presently by-passes too much manufacturing. 'Advanced manufacturing' is just one of eight priority sectors (the IS-8) – the others are clean energy, creative industries, digital, financial services, defence, life sciences and professional services. Some of these priority sectors are a long way from 'industry' and are thin-on-the-ground beyond the big cities.

The problem is worse still because within 'advanced manufacturing' it's just six 'frontier industries' (aerospace, advanced materials, agri-tech, automative, batteries, space) that are prioritised. These frontier industries employ just 240,000, or only 10% of all manufacturing employees.

In fairness, the government is also extending support to 'foundational industries' that support the IS-8, for example via lower electricity prices, but this still by-passes large swathes of manufacturing.

If the Department for Business is at all serious about supporting less prosperous parts of the country, it needs to look again at the scope of its support for industry.

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There are practical steps DBIST could take to strengthen its support for industry, and in doing so help less prosperous parts of the country:

- **The whole of the manufacturing sector should be eligible for support**. Just about all of what is left of UK manufacturing really ought to be regarded as 'advanced' even if the products themselves are not necessarily high-tech. Simply to stay in business, just about all manufacturing businesses have had to invest in up-to-date technology, design, skills and working practices. There are many manufacturers, old and new, that are in truth deserving of support.

- **There should be less emphasis on clusters**. Because of their greater size, cities are always more likely than towns and smaller communities to have clusters of businesses in any given sector. Promoting clusters therefore promotes cities at the expense of other places, and the trickle-down of economic benefits via commuting and overspill simply doesn't work on a sufficiently large scale. There are plenty of good businesses, deserving of support, that operate beyond the big cities.

- **There should be less emphasis on 'picking winners' too**. Government has never been very good at this. The way forward is broad-based growth.

- **The £27.8bn National Wealth Fund needs to be refocussed** to support a wider range of manufacturing and to target more of its investment in less prosperous parts of the UK. The Fund's investments are presently scattered across the country but have still entirely missed important places in need of support – Merseyside and the Welsh Valleys for example.

3. Promote sovereign capability

Although the *Industrial Strategy* was published only a year ago it has already been overtaken by events and shifting sentiments. In an uncertain world, with military conflict and the rise of China, the UK needs greater sovereign capability.

That means producing more goods here in the UK and relying less heavily on imports. The potential national economic benefits are substantial:

- Higher productivity
- Better-paid employment
- A reduction in the trade deficit
- Less reliance on footloose international capital
- Higher tax revenue for the Treasury

In turn, producing more here in the UK would be of direct benefit to the less prosperous parts of the country because these cities, towns and communities remain where so much of UK manufacturing is located.

Sovereign capability isn't just about defence or economic resilience – it's about jobs and growth where they are needed most.

The government's recent commitment to sovereign capability in steel production is hugely welcome. In adopting this position, the government has established a principle that could – and should – now be applied to other important branches of manufacturing. The UK chemicals industry, for one, is presently in dire straits. And China could wipe out much of the UK motor industry too.

The delivery of sovereign capability in industrial production should be absolutely core to DBIST's thinking.

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Sovereign capability in industrial production can be delivered in a number of ways:

- **Tariffs and quotas** on imports should be deployed where necessary to keep in place UK manufacturing capability. Beyond trade deals with partners such as EU, the old world of free trade has come to an end. There is also a growing realisation that unrestrained free trade can lead to 'winner takes all' (China again?). The government should seize the opportunity to protect and reshore.

- There needs to be a particularly strong focus on keeping out **subsided goods** and those produced without respect for labour or environmental rules.

- Wherever possible, **public procurement** should be used to support production here in the UK. Price shouldn't be the sole criteria in allocating contracts. If the public sector buys British it will keep British workers in jobs, increase tax revenue, lower the benefits bill and end up saving money for the taxpayer and Exchequer.

- The **avoidance of disasters** should be a priority. It's all very well 'picking winners' and fostering their growth – the thrust of the present *Industrial Strategy* – but this will mean little if other sectors or major factories go under. Retaining a UK steel industry should be seen as just the first step.

To underpin long-term prosperity and security, key UK capability ought to be maintained across the full spectrum of industry from motor vehicles to microchips, from ceramics to chemicals, from paper to pharmaceuticals, and a lot more besides.

Industrial Communities **Alliance**

The Industrial Communities Alliance is the all-party association representing local authorities in the industrial areas of England, Scotland and Wales.

The aim of the Alliance is to promote the economic, social and environmental renewal of the areas covered by its member authorities.

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