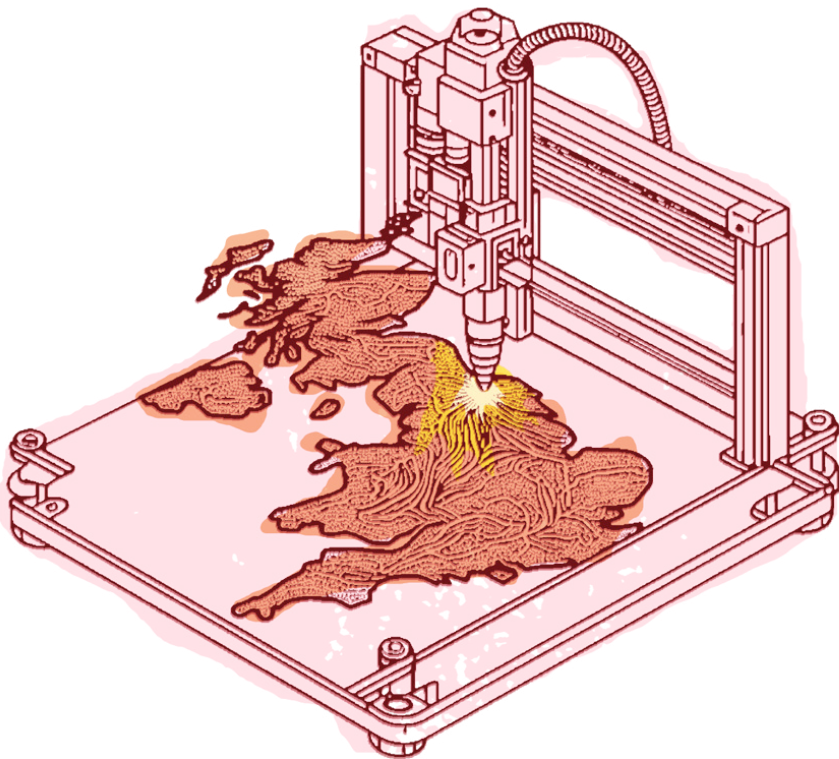


Ten steps to revive British industry

Proposals for a Labour government



Industrial Communities **Alliance**

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2. Protect sovereign capability
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4. Support business investment
5. Restore aid to the regions
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Manufacturing matters

The British economy is fundamentally imbalanced. We sell too little to the rest of the world and too much of what we consume comes from abroad. We have a robust service sector but for decades we've neglected manufacturing. The country's prosperity and growth are lower as a result.

Yet manufacturing is of vital importance:

- Almost half the value of all UK exports still comes from manufacturing
- Manufacturing, with just under 10 per cent of the UK workforce sells almost as much to the rest of the world as the other 90 per cent put together
- And at a time when UK productivity is flagging, it's manufacturing that's still delivering improvements

It's also wrong to assume that manufacturing doesn't matter any more in its former heartlands in the Midlands, the North, Scotland and Wales. Far from being 'post-industrial', many of these places remain the 'most-industrial' in the country:

- Manufacturing accounts for 15 per cent of jobs in Britain's older industrial towns, and many more through local supply chains and consumer spending

A revival in British industry would be especially beneficial to the economies beyond London and within the UK's regions and nations it is the places beyond the big cities that would often gain most. These include many of the UK's most economically disadvantaged communities.

Labour's industrial strategy

The new Labour government is committed to introducing an industrial strategy. This is welcome. According to Labour's manifesto, the strategy will include:

- A partnership with industry
- An Industrial Strategy Council, with participation from all nations and regions, business and trade unions
- A sectoral approach
- Procurement and trade policy aligned with industrial strategy priorities
- Public investment where it supports and de-risks additional private investment
- A National Wealth Fund, capitalised with £7.3bn over the course of the Parliament, to support Labour's growth and clean energy missions

The National Wealth Fund will have a target of attracting three pounds of private investment for every one pound of public investment, creating jobs across the country. Allocations identified in the manifesto are £1.8bn to upgrade ports and supply chains, £1.5bn for new gigafactories for the automotive sector, £2.5bn for steel, £1bn for carbon capture and £500m for green hydrogen.

These commitments provide a good starting point, but to deliver a lasting revival of British industry there is much detail to work out and there needs to be a range of supportive policies across multiple government departments.

The proposals here

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

Alliance member authorities cover many of the places that have suffered most from the failure to nurture Britain's industrial base. Whole sectors – coal, steel, textiles, shipbuilding, heavy engineering – have disappeared entirely or been reduced to a shadow of their former selves. Significant industry nevertheless remains in many of these cities, towns and smaller communities.

More than perhaps anywhere in the country, Alliance member authorities have long experience in working to rebuild local economies.

The proposals set out here therefore aren't the product of a one-off study by a consultant or think tank. Rather, they distil the accumulated knowledge, experience and views of local authority members and officers across the country. On industrial matters, that body of expertise is often formidable.

We see rebalancing the economy towards industry as a win-win strategy:

- What the UK economy needs to foster prosperity is a shift towards production, industry and exports
- What a shift towards industry would also deliver is a fairer Britain, with less reliance on London (with all its attendant problems of congestion and high costs) and the potential for a sustainable revival in many of the hardest-pressed cities, towns and communities up and down the country



1. Set the right context

Industry needs the right economic context in which to flourish. Too often, British industry has been damaged by instability, U-turns and short-sighted responses to immediate crises. It is easier to promote investment, growth and jobs when the management of the economy reflects companies' needs. At a minimum that means:

- An exchange rate that enables British businesses to compete effectively on domestic and international markets
- Interest rates that make borrowing affordable and foster investment in plant and machinery
- Fiscal policies that recognise the need to sustain the overall level of spending in the economy

On the supply side of the economy there also need to be:

- Regulatory regimes that ensure the protection of workers, consumers and the environment but do not hinder investment and growth
- Business taxation that makes investing in Britain worthwhile but still ensures that companies pay their fair share

These are all prerequisites for an industrial revival, though they have rarely all been in place. To a greater or lesser extent, they are all variables under the control of the Treasury and the Bank of England, or susceptible to their influence.

But these prerequisites need to be matched by other practical actions.

2. Protect sovereign capability

The global economy has become more fragmented and uncertain.

Putin's Russia is a pariah and China's politics sit uneasily with the West.

Security of supply – of energy and many other commodities – is now a much more important consideration.

Unfortunately, over the last fifty years under successive governments the list of industrial sectors from which Britain has withdrawn has become far too long. This is rarely because there is no demand any more for these goods. Britain is still a major trading nation but no longer builds merchant ships, for example. And the ships that dock in UK ports come laden with goods that Britain no longer produces.

Steel is the latest example of a major British industry whose very existence is under threat. If current plans at the Port Talbot and Scunthorpe works go ahead, Britain will lose its ability to produce primary steel. Instead, we'd have to rely on recycling scrap metal, an approach incapable of producing all the grades of steel that a modern economy needs. This loss of sovereign capability – and thousands of jobs – is unacceptable.

There has been much talk of 'backing winners' at the higher-technology end of production. Support for these high-tech sectors is welcome but they are too small to offer the only way forward.

- It's time for government to say enough is enough: the UK economy needs a large and varied manufacturing sector to deliver sustainable prosperity so it's vital to hold on to what we've still got. That doesn't mean saving every factory, but it does mean retaining capability here in the UK.
- 'Reshoring' production from abroad is also a desirable and feasible objective. Supply chains are more robust when they are shorter, and as wages rise in China and elsewhere imports are no longer so cheap.

3. Ensure free but fair trade

The government should back free trade – but not at any price. Free trade has brought the benefit of cheaper goods and services, to Britain and to the rest of the world economy. The effects of competition are broadly positive, even if at times painful.

However, there need to be firm limits to free trade. Competition may be welcome, but it must also be fair.

The danger of unregulated free trade is that British manufacturers are exposed to unfair competition from countries that fail to respect workers' rights, health and safety standards or environmental obligations. At worst, UK firms face competition from surplus production dumped on the world market at subsidised prices by state-owned corporations.

As UK industry moves towards lower-carbon production methods it is important that there is protection from competition from imports produced by cheaper carbon-intensive methods. Otherwise, the effect will be to transfer production abroad with no net reduction in global carbon emissions – and probably an increase when the CO₂ emissions of shipping are factored in. The introduction of a UK 'carbon border' – tariffs on goods produced by carbon-intensive methods – to counter this form of competition has been under consideration here and across the EU. A carbon border needs to be put in place.

Access to the European market is important for many companies. There is no need for the UK to rejoin the EU's Single Market or follow all its rules but it would be pragmatic to facilitate access where this can be achieved by the harmonisation of product standards.

4. Support business investment

Business investment underpins productivity growth, especially in the manufacturing sector. The UK has a dismal recent record in investing in plant, machinery and skills, and this has contributed to stagnating wage levels and living standards.

Manufacturing firms need long-term financial support at reasonable rates of interest. The banks, however, prefer to invest for short-term financial gain. Money that should be used to support business investment is instead used to finance ever more household borrowing and speculation on world markets.

The big banks need to be challenged over their behaviour. But a Labour government also needs to encourage businesses to invest.

The 'full expensing' system, whereby firms can offset investment in plant and machinery against tax, needs be retained. The promised investments by Labour's new National Wealth Fund need to go ahead.

The Investment Zones and Freeports announced with much fanfare by the Conservative government are only now getting underway. They provide additional incentives to investment in specific localities for a period of ten years. Having come this far, a Labour government should retain the new Investment Zones and Freeports and aim to make the most of what they have to offer. Widening the range of businesses eligible for the on-site incentives would be a useful start.

An industrial revival cannot be delivered by just a handful sectors and the UK has never had a good record of 'picking winners'. In practice, growth and jobs can emerge from unexpected sources. What's needed is investment support across a wide swathe of industry.

5. Restore aid to the regions

Making a difference in the least prosperous parts of the country requires the restoration of regional aid.

When businesses make major investment decisions, there needs to be a clear signal that they will receive extra support if they invest in the parts of the country most in need of jobs and growth. Investment aid of this kind was a cornerstone of UK regional policy from the 1960s until very recently and it delivered many thousands of new jobs. Funding was also supported by a carefully crafted Assisted Area map that evolved over the years as patterns of disadvantage shifted.

Following Brexit, the Conservative government declined to include an Assisted Area map in its new subsidy control regime. All parts of Britain are therefore now treated equally. The result is that investments that once would have gone to the less prosperous parts of the Midlands, North, Scotland or Wales – the JLR car battery plant in Somerset for example, supported by £500m of public money – now go elsewhere.

- There should be a new Assisted Area map, drawn up to target investment to the places that need it most
- UK government departments should ensure that their multiple budgets for supporting investment, R&D and training take full account of the new map

A key tool in rebuilding Britain's industrial base is the ability to offer companies public sector financial support to deliver investments that otherwise wouldn't have gone ahead, or not gone ahead on the same scale or timetable, in the places where more jobs and better jobs are needed most.

6. Invest in skills

Industry needs a ready supply of skilled workers. Some of these may be trained to degree-level, especially in science and technology, but much of the demand is for apprentice-level skills. In practice, too much of British industry faces a skills shortage.

In the 1980s and 90s, when manufacturing employment plummeted, the old apprenticeship system essentially broke down. It wasn't perfect, but what it has been replaced by is a hotchpotch of short-duration schemes and college courses that hasn't really plugged the gap. Too many of Britain's most skilled workers are now getting too old.

The Apprenticeship Levy, introduced in 2017, hasn't worked. The number of apprenticeship starts is down and the completion rate has plummeted. A fresh approach is needed:

- 'Vocation, vocation, vocation' – at the highest level in government, apprenticeships and vocational training need to be placed on an equal footing with academic qualifications
- A partnership between government, employers and unions – through Labour's commitment to establish Skills England for example – to make sure that training reflects the needs of the labour market
- A flexible Growth and Skills Levy (replacing the Apprenticeship Levy) to better meet the need to up-skill existing employees
- A willingness to deploy the present surpluses from the Levy to support enhanced training opportunities
- Abolition of the pitifully low rate for apprentices in the National Minimum Wage, which tarnishes the brand and adds to drop-out rates

7. Deliver affordable energy

British industry needs affordable energy so that it can remain internationally competitive. The transition to a lower-carbon economy is an upheaval in technology and economics that puts jobs at risk as well as creating new job opportunities. In short, there needs to be a ‘just transition’.

Low-carbon electricity generation is a Labour goal, but it also needs to be low-cost electricity.

Some manufacturing industries are unavoidably energy-intensive – steel, ceramics, aluminium, cement and heavy chemicals for example. The energy input can’t be reduced much if at all, otherwise producers would have done so years ago. It might be possible to shift them to less carbon-intensive production methods but this will take time and money. And the large quantities of electricity they consume need to be green and affordable.

In the steel industry, the high cost of UK electricity relative to supplies elsewhere in Europe has for years been a drag on profitability and production. As new electric arc furnaces come into service, the industry’s electricity bills are set to soar even higher.

Simply closing down the UK’s energy-intensive industries would be a mistake that would do no more than transfer production and emissions to other countries with lower standards. Energy intensive industries need a clear signal that their international competitiveness will not be undermined by green energy charges. The limited financial compensation for energy-intensive industries that is presently in place needs to be maintained, and government should ensure that industry’s electricity costs are no higher than its international competitors.

8. Use public procurement

Public procurement has the potential to play an important role in fostering British industry. Plenty of UK firms have the capacity to supply UK needs. Sometimes potential suppliers are right on the doorstep. But too often the contracts go elsewhere for little obvious reason.

The UK public sector as a whole spends more than £300bn a year on procurement, which represents more than a third of all public expenditure. Health and social care, transport and defence are the big spenders.

Whilst respecting the UK's commitment to open markets and to international rules, such as the WTO's Government Procurement Agreement, to which the UK is a signatory, it is still possible to steer more business to British industry by:

- Embracing the greater post-Brexit flexibility provided by WTO rules
- Pushing the boundaries on 'local content' in public sector procurement contracts – a grey area in the rules that the United States and the EU have both exploited
- Making fuller use of pre-procurement engagement with potential UK suppliers, which is perfectly legal and helps refine requirements as well as place UK firms in a good position to make competitive bids
- Encouraging the inclusion of 'social value' clauses in procurement contracts to help deliver training, environmental benefits and boost the involvement of small firms

Local authorities are only too willing to play their part in supporting local businesses so long as they can be confident their actions are legal and above board. Guidance and reassurance would be helpful.

9. Provide space to grow

Suitable sites and premises are a prerequisite for business growth. No suitable space generally means no new investment.

In much of older industrial Britain, where property values are low, private sector developers generally fail to invest in new industrial and commercial floorspace, except perhaps in prime locations with big-name users signed up from the start. This matters because most firms, especially smaller firms, rent or buy premises that are already on the market – they don't build for themselves.

- Where brownfield sites are contaminated, the extra costs often prohibit development – the sites have 'negative land value'
- Specialist market segments, such as the small business units once supplied by public agencies, have become neglected
- Historic buildings that would be re-purposed in more prosperous parts of the country fall into decay because the economics of refurbishment don't stack up

The key ingredient in these circumstances is gap funding from the public sector. In the past this was in more plentiful supply from government agencies such as English Partnerships and via EU funding to the regions.

The budget lines haven't entirely disappeared but there has been a loss of focus. English Partnerships' successor, Homes England, has neglected industrial and commercial floorspace, and the UK Shared Prosperity Fund, which has replaced EU funding, has not been structured to encourage investment in business space. These shortcomings can be rectified.

10. Improve connectivity

Industry needs access to suppliers and markets, and a workforce that can reach the out-of-town locations where so much activity is now located.

In prioritising a handful of expensive projects linking city centres, recent governments have overlooked the more numerous incremental investments that industry really needs. With the cancellation of the northern legs of HS2 and the reallocation of funding to other transport budgets there is now an opportunity to make progress across a broader front:

- Investment to ease bottlenecks in the road network to speed the flow of goods and provide reliability, including to ports and airports
- Investment in rail freight capacity
- Investment in local bus services to help deliver employees to their place of work, including early in the morning and late at night

Investment in connectivity of this kind also provides a key source of orders for industries such as steel, automotive, and railway rolling stock.

The Treasury needs to move away from appraisal techniques that prioritise saving the travel time of well-paid London commuters towards a wider perspective that includes the economic development benefits of infrastructure investment in the regions. The 2022 revisions to the Treasury's *Green Book* on project evaluation were a step in the right direction but the real benefits have yet to be delivered.



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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