

INDUSTRIAL STRATEGY

Submission to the Business and Trade Committee inquiry from the Industrial Communities Alliance

Industrial Communities Alliance

The Industrial Communities Alliance is the all-party association of local authorities in the older industrial areas of England, Scotland and Wales. The principal role of the Alliance is to secure funding and policies to assist regeneration in areas that have been hard hit by job losses over many years but, as might be expected, the Alliance also has a strong interest in industrial policy. Alliance member authorities have long experience of local and regional economic development and bring to bear substantial expertise on these issues.

The present submission draws on discussions at regional and national meetings, including consideration of the Green Paper on Industrial Strategy published by the government in October last year. The submission has been signed off by the Alliance National Executive, comprising senior elected members from across Britain.

The submission does not attempt to respond to all the points in the call for evidence but focusses instead on three issues: what would constitute a successful Industrial Strategy; the proposals from the Alliance on how to revive British industry; and an assessment of the Green Paper.

Industrial Strategy: what would constitute success?

In its call for evidence, the Select Committee is keen to develop a set of tests or criteria against which the government's Industrial Strategy should be judged. The Industrial Communities Alliance proposes three key yardsticks:

- *Faster national economic growth*
The UK government has made economic growth one of its overriding missions. This is a welcome objective to which, alongside appropriate monetary and fiscal policies, Industrial Strategy should be able to make a major contribution.
- *Re-orientation towards manufacturing*
UK manufacturing has been neglected for decades, to the point at which it accounts for a smaller share of output and jobs than in just about all comparable economies. The strength of the service sector makes up for only part of this shortfall. The consequences of the weak performance in manufacturing include low economic growth, sluggish increases in productivity, a large trade deficit and a growing reliance on borrowing to finance private and public expenditure.

- *Re-balancing in favour of the regions*

It's the older industrial areas of the Midlands, North, Scotland and Wales that have suffered most from the failures of industrial policy in the past. These parts of the country include many of the UK's least prosperous cities, towns and communities. A successful industrial strategy should deliver more jobs and more growth to the places where recovery is needed most.

These three objectives are connected. Despite the years of job loss, the former manufacturing heartlands of the regions remain 'most-industrial' rather than 'post-industrial'. This is especially true away from the cities in the numerous towns and communities that continue to employ significant numbers in industry but also display high levels of worklessness and too many in low-wage employment in other parts of the local economy. A recovery in manufacturing would help these places and at the same time strengthen the national economy.

Ten steps to revive British industry

In July last year the Industrial Communities Alliance published *Ten Steps to Revive British Industry: proposals for a Labour government*.

1. SET THE RIGHT CONTEXT

Industry needs the right economic context in which to flourish. That means an exchange rate that enables British businesses to compete effectively in domestic and international markets, interest rates that make borrowing affordable and foster investment, and fiscal policies that recognise the need to sustain the overall level of demand in the economy. The right context also needs to include regulatory regimes that protect workers, consumers and the environment but do not hinder investment and growth, and business taxation that makes investing in Britain worthwhile but still ensures that companies pay their fair share.

2. PROTECT SOVEREIGN CAPABILITY

As the global economy becomes more fragmented and uncertain, security of supply has become a more important consideration. Unfortunately, over the last fifty years the UK has withdrawn from far too many industrial sectors, increasing the reliance on imports. Primary steel production is the latest sector under threat – an appalling prospect for a supposedly advanced economy. It's time for government to say enough is enough: the UK needs a large and varied manufacturing sector to deliver sustainable prosperity so it's vital to hold on to what we've still got.

3. ENSURE FREE BUT FAIR TRADE

The government should back free trade – but not at any price. 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 the UK moves towards lower-carbon production methods, the introduction of a 'carbon border' – tariffs on goods produced by carbon-intensive methods – is especially important.

4. SUPPORT BUSINESS INVESTMENT

Business investment underpins productivity growth, especially in manufacturing. 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. The ‘full expensing’ system, whereby firms can offset investment against tax, needs to be retained but firms also need long-term financial support at reasonable rates of interest. The banks, however, prefer to invest for short-term financial gain and money that should be used to support 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.

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 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, which delivered many thousands of new jobs, was a cornerstone of UK regional policy from the 1960s until it was abandoned in 2021 by the previous government. Funding was also supported by a carefully crafted Assisted Area map that evolved over the years. Regional investment aid, and an Assisted Area map, should be restored.

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 has been replaced by a hotchpotch of short-duration schemes and college courses that hasn't really plugged the gap. 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.

7. DELIVER AFFORDABLE ENERGY

British industry needs affordable energy so that it can remain internationally competitive. Some industries are unavoidably energy-intensive – steel, ceramics, aluminium, cement and heavy chemicals for example. 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. Energy intensive industries need a clear signal that their international competitiveness will not be undermined.

8. USE PUBLIC PROCUREMENT

Plenty of UK firms have the capacity to supply UK needs. But too often contracts go elsewhere for little obvious reason. Whilst respecting the UK's commitment to open markets and international rules, it is still possible to steer more business to British industry by pushing the boundaries on ‘local content’ in public sector contracts, by making fuller use of pre-procurement engagement with potential UK suppliers and by encouraging the inclusion of ‘social value’ clauses in procurement contracts to help deliver training, environmental benefits and boost the involvement of small firms

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 enough in new industrial and commercial floorspace. This matters because most firms, especially smaller firms, rent or buy premises that are already on the market – they don't build for themselves. 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 and via EU funding to the regions. The budget lines haven't entirely disappeared but there has been a loss of focus.

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.

The Green Paper: an assessment

The Green Paper published in the autumn, *Invest 2035: The UK's Modern Industrial Strategy*, sets out aspirations that are welcome. However, measured against the proposals tabled by the Industrial Communities Alliance the Green Paper is disappointing.

There is no evidence, for example, that the retention of sovereign capability figures much if at all in the government's thinking, and whilst there is a lot of emphasis on free trade there is nothing about how UK production will be protected from unfair competition. This is especially worrying in the context of the steel industry, which faces a glut of surplus steel on the world market that could eliminate the majority of remaining UK production. In an uncertain world, the retention of domestic UK steel production should be a strategic political priority.

Nor does the Green Paper mention of the restoration of regional investment aid, or a proposal to address the specific concerns of energy-intensive industries. Investment in skills, in sites and premises and in transport connectivity is given cursory attention, perhaps because practical action on these fronts falls outside the remit of the Department for Business and Trade.

Overall, there is a strong whiff of 'business as usual'. The Green Paper reads like a statement from civil servants setting out what they're already doing and why it all makes sense. There is the predictable criticism of past failures but in articulating a vision for the future the Green Paper does not actually seem very different from what has gone before. It reflects conventional wisdoms (groupthink?) amongst officials and as ever there is a fair dose of wishful thinking.

Perhaps the most concerning aspect of the Green Paper is the intention to focus on a handful of sectors that the government sees as offering the highest growth opportunity for the economy and business. These are:

- Advanced manufacturing
- Clean energy industries
- Creative industries
- Defence
- Digital and technologies
- Financial services
- Life sciences
- Professional and business services

'Advanced manufacturing' isn't defined. It could mean much of the manufacturing sector or very little at all.

Moreover, within each of these broad sectors the government's intention is to prioritise specific sub-sectors to be identified when a White Paper is published in the spring. There is also an intention to concentrate efforts on places with 'high-potential clusters' within these sub-sectors.

The parallels here with the Industrial Strategy published by Theresa May's Conservative government are striking. Back in 2017 this set out ten 'pillars' not at all unlike the concerns articulated in the Green Paper. It also deployed an Industrial Strategy Challenge Fund to target six specific sectors – healthcare and medicine, robotics and AI, batteries, self-driving vehicles, materials for the future, and satellites and space technology.

The list of priority sectors in the new Green Paper is a lot wider, at least until the target sub-sectors are identified, but the underlying assumption appears to be the same, namely that the way forward for industrial strategy is to pick potential winners. The intention is not to proceed across a broad front, supporting businesses and jobs wherever and whenever they might emerge, including in unfashionable sectors of the economy. Back in 2017 Theresa May's strategy was criticised for its overly narrow focus and for the fact that the high-tech sectors it aimed to support were disproportionately concentrated in a handful of places, especially in southern England. The sectoral focus in the Green Paper involves similar risks: fine if a locality has a pre-existing cluster in one of the chosen sectors, but not much help if your area has little or no specialism in any of these activities.

Advanced manufacturing is important to national economic growth and it provides welcome opportunities for Alliance member authorities. However, in its proposals the Industrial Communities Alliance argued that an industrial revival cannot be delivered by just a handful of sectors and that the UK has never had a good record of picking winners. If a locality does not have a significant presence in one or more of the government's growth sectors – and that's probably true of quite a number of local economies away from the big cities – it's therefore hard to see what the strategy in the Green Paper has to offer.

It's also the case that the proposals in the Green Paper stray a long way from a focus on manufacturing, which might have been expected to be at the heart of an 'industrial' strategy. At least four of the priority sectors identified in the Green Paper (creative industries, digital, financial services and professional and business services) are some distance removed and they are sectors that mostly tend to cluster in the big cities. There is a danger here that in pursuing an industrial strategy the government is actually offering little to the places up and down the country that still depend most on manufacturing industry.

Concluding remarks

The critical remarks set out here have been aired by representatives from around the country. They have also been endorsed in discussions with a number of MPs representing older industrial areas.

The Green Paper on Industrial Strategy is nevertheless seen as a first step, not a final statement of government policy. There is the opportunity in the interval before a White Paper is published to improve on the present proposals. In the context of the steel industry – a particular focus of concern at the present time – a separate Steel Strategy is also promised. As a first step, after just a hundred days in government, the Green Paper offers helpful starting points but it should be possible to go considerably further in developing an industrial strategy that will work for all parts of the country.

It is important that the Business and Trade Committee uses this opportunity to come to a view on the government's proposals in the Green Paper before they become set in stone.

***Industrial Communities Alliance
February 2025***