

Industrial Strategy Green Paper Consultation Response





Introduction

The Smart Specialisation Hub (the Hub) welcomes the Industrial Strategy Green Paper (ISGP) and the breadth of the pillars from which it is formed.

The UK has clear economic strengths as one of the world's largest economies with globally renowned science and research base, and a reputation for innovation. However, despite these strengths and low levels of unemployment the benefits of UK economic performance have not been equally distributed across the geography of the UK nor across our social strata.

The ISGP's focus on science and innovation and on rebalancing the economy reflects the need to protect and enhance the UK's strength and addresses the unequal distribution of prosperity.

Further the referendum on the UK's membership of the European Union marks a significant change to the Kingdom's geopolitical position. The decision to exit the EU poses both threat and opportunity. The Industrial Strategy needs to acknowledge both of these and position the UK to mitigate the former and seize the latter.

The pillars that the burgeoning Industrial Strategy stands on are diverse and comprehensive. The ISGP offers an excellent opportunity to tackle the structural issues and capitalise on the advantages of the UK's economy in a holistic manner. To do this effectively will require a mix of local, regional and national interventions and a more flexible and adaptable funding system than has been in place before.

The Hub in its role supporting the principal of Smart Specialisation and increasingly addressing the place-based concerns of LEPs through our involvement in the Science and Innovation Audits (SIAs) is in conversation with a number of local and national economic and innovation actors that inform our response to the ISGP.

Productivity and Balanced Growth

The UK's productivity problem is well documented, as is the imbalance of economic prosperity. Tackling these issues is desirable but there are several factors that need to be carefully considered:

1. Productivity improvements have a fundamental tension at their core. Innovation and the adoption of new technology and work practices drive better productivity but often at the cost of jobs – manufacturing automation being an obvious example. Progress must be maintained and higher skilled better-paid jobs can be the result, but **greater educational focus on skills and lifetime learning – including acknowledging and adapting to regular career changes is needed.**
2. The strong focus on innovation is welcomed; however, not all businesses need cutting edge technology or ideas. In conversations with LEPs and others it is clear that there is a long tail of non-innovative companies where adoption of existing technology and ideas could have a significant impact on their productivity and performance. **A focus on, and a mechanism for, innovation diffusion is needed.**
3. Greater clarity of the meaning of rebalancing the economy is needed. A more geographically balanced economy may be achievable by targeted funding and supporting growth outside of England's south east; however, this will not necessarily lead to more and better jobs in areas of existing deprivation. If creating a more vibrant economy in the North, for example, simply attracts graduates that would have gone elsewhere little benefit will be felt by local populations who feel bypassed or forgotten. Also, although the broad need to geographically rebalance the economy is understood, a focus on individual prosperity will reveal the

significant pockets of deprivation existing in the South East and East of England: Southampton, Chatham – Kent and Peterborough, being examples. **A focus on inclusive growth explicitly to tackle lack of prosperity at a personal level is needed.**

4. South East and London are significant net contributors to the Treasury and although globally competitive, innovative and prosperous now there are significant barriers to further and sustained growth. The UK will not be served by constraining growth in our most successful region. **Encouraging partnering between the South East and the rest of the UK should be encouraged and supported, and the importance of contribution made by the South East should be highlighted.**
5. Further, funding for economic development is often perceived as a zero-sum game. This leads to a competitive attitude between LEPs and regions – seen explicitly in the SIA process – where strategies and plans are focused on capturing as much funding as possible. Some competition is good; however, it has three primary negative effects. Firstly, it encourages local areas to talk up their capability; secondly it encourages a proliferation of “centres-of-excellence” that can be duplications of effort and investment, and breaks-up UK capability; and thirdly, prevents or limits cross-border collaboration. **To compete on a global scale, we should build all-UK capability in key sectors linking and de-duplicating capabilities wherever possible – and proactively support collaboration and cross-border integration.**

Central Government and Local Institutions:

There are a number of institutions operating in economic development at both the national and local level. The question is less about missing institutions but the scale and remit of existing bodies. The Witty Review identified the complexity of the UK’s support landscape, **adding additional organisations will increase complexity. New bodies should only be created where existing organisations cannot be repurposed to meet a new or expanded remit, or where existing bodies cannot act in a suitably objective manner.** The following points are submitted for consideration:

1. Some LEPs and other local actors accept that LEP geographies are small and this impacts the scale of activity in some areas. Further cross-border collaboration can be difficult because of local politics and lack of flexibility in how funding can be used – this is a particular gripe with ERDF funding. **Cross-boundary collaboration should be encouraged and rewarded (possibly through increase funding or reduced requirements for match funding for broad consortia). Replacement funding for ERDF should be provided with as few restrictions as possible and allow local areas to address local needs and collaborate freely.**
2. There are also significant variations in growth hubs ranging from sophisticated long-standing organisations such as Buckinghamshire Business First, to virtual only presences such as in Greater Cambridgeshire Greater Peterborough. There is also significant variation in the type of organisations running growth hubs. Performance of the growth hubs is therefore variable and again their geographic remits can be small and limiting. **Growth Hubs could be a mechanism for broad innovation diffusion agenda (with additional resources), but would benefit from a reduction in number, broader geographical boundaries and greater standardisation.**
3. The SIA process has been an interesting exercise. It has been used to create or reinforce consortia and drive cross-border planning. Innovation South and the East of England SIAs are of particular note where SIAs have been seen as a mechanism for driving regional integration and profile against the backdrop of Northern Powerhouse and Midlands Engine. However, the audits are also bottom up and because of this are not

objective. SIA consortia seek to prove their hypotheses rather than audit their capability and comparative advantage. **An objective body with a remit across the UK is needed to independently and objectively audit the audits and help identify UK capabilities and assess comparative advantage. The Hub can fulfil this role.**

4. At a national level, it remains necessary to identify and support excellence. There is also a need to identify, encourage and enable cross-boundary collaborations to drive UK capability. Whatever political boundaries exist or may exist there will always be a tension between parochial issues and wider national opportunities. This will be particularly acute where none neighbouring geographies would benefit from working together. **Innovation support needs to retain a strong national dimension – local initiatives should be additional. The Hub, Innovate UK and its wider family are positioned to deliver on national coordination and support.**
5. In our work with LEPs and SIAs we have encountered two main issues with data. Firstly, there is a desire for international data that compares the capabilities of UK regions to international counterparts. Secondly, there is a lack of good, consistent and sufficiently granular data on UK capabilities. **The Hub is already identifying these gaps, and is well positioned to work with other existing organisations to address these deficiencies. However, further resource is necessary. The Hub because of its position in the landscape, funded centrally, is able to provide an objective view of capabilities and to act as critical friend to local areas.**

Skills

In conversations with LEPs skills provision is a consistent and critical issue. The lack of appropriate skills is a nationwide concern, although there are specific local factors that drive or exacerbate the issue:

1. There is simply a lack of graduates, technician grades and school leavers with appropriate skills in STEM subjects.
2. There is a pipeline issue. There are too few pupils are taking and succeeding in STEM subjects in school.
3. Retention of skilled workers is an issue across the UK. Human talent is mobile and there is a global market. London is a significant draw including in the South East who cite the capital as a primary reason their young talent moves away.
4. Housing cost and availability make attracting appropriately skilled workers difficult. This issue is most pronounced in the South East where housing prices are particularly high. Oxford and Cambridge are also of note, where lack of affordable and proximate housing prevents them attracting technician grade (and increasing higher grade) staff to support their activities. This is a threat to their continued excellence.
5. The impact of Brexit on current EU workers and the future supply of skilled workers is a significant issue. EU workers have been used to address shortages in domestic skills and are particularly important to our Universities and leading businesses. The Hub has heard that applications for academic positions have fallen and in some cases, were withdrawn following the June 23rd referendum on UK membership of the European Union.
6. Related to Brexit is the broader question of immigration. As mentioned above for leading industries the talent pool is global. To remain competitive the UK needs to attract the best talent in sufficient numbers to maintain and enhance our global standing. This is not simply a matter of mechanism but also perception – the UK must appear open and welcoming.



Skills development is also key to supporting productivity growth. Ensuring that our citizens are able to move to higher value employment and are enhanced not displaced by technological innovation. Skills are both an enabler and a mitigation of innovation lead productivity improvements. They are also a critical part of addressing individual prosperity.

Sectors

The Hub welcomes the ISGP's emphasis on encouraging sector leadership from within industry and recognising the power of informed advocacy. However, whilst the high-growth sectors referred to in the Green Paper are well-placed to contribute, **the impetus towards securing early sector deals should not disadvantage those potentially transformative emergent sectors whose industrial 'voice' is at a formative stage.** We welcome the Green Paper's commitment to encouraging such sectors and look forward to the Industrial Strategy addressing this challenge.

The Research Base

The ISGP rightly recognises the importance of the UK's research base in building a resilient and agile economy that delivers on the promise of balanced growth. In our engagement with a diverse cross-section of the UK's universities we have consistently found a degree of anxiety about their place in the future economic landscape. At present, there are a number of economic, political and legislative variables acting on our higher education institutions that contribute to the uncertainty over their activities. **As key enablers of innovation and suppliers of skilled workers a commitment to sustained strategic support for the UK's universities addressing holistically the challenges they face is needed.**

Conclusion

The Smart Specialisation Hub is fully supportive of the breadth of the Industrial Strategy Green Paper and the holistic approach to economic development. We also fully endorse a place-based sensitivity to development and investment. **The Hub would be keen to support the development and implantation of the Industrial Strategy and makes an open offer to do so.**

Smart Specialisation Hub Staff

Ross Burton, Stakeholder Engagement Manager for the Hub, is the primary point of contact for this consultation response. Further contact, involvement and the opportunity for contribution are welcomed.

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About the Smart Specialisation Hub

The Smart Specialisation Hub (the Hub) was established on the recommendation of the Witty review to provide guidance and support on Smart Specialisation to LEPs and Government, and ensure that the Smart Specialisation Strategy for England was delivered.

Since the inception of the Hub the political and economic landscape has radically altered. The referendum on UK membership of the European Union has withdrawn one of the primary drivers of Smart Specialisation. It has also triggered a renewed focus on place-based growth, rebalancing the economy and promoting innovation.

Consulting with the Hub's stakeholders it is clear that there is a need for a central body that can provide information, insight and objectivity about local specialisation, comparative capabilities and investment opportunities.

The Hub's role is to act as a two-way lens projecting local issues, needs and capabilities to Government, and national intent and excellence to locales.

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