Date: 26th January 2018

Subject: Industrial Strategy update


PURPOSE OF REPORT

This report updates members on the Government’s recent Industrial Strategy White Paper and the proposed approach to develop the Greater Manchester Local Industrial Strategy.

RECOMMENDATIONS:

Members are asked to:
- Comment on the approach outlined to developing the Greater Manchester Local Industrial Strategy; and
- Note the contents of the industrial strategy white paper of relevance to Greater Manchester.

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1. **INTRODUCTION**

1.1. The Government published the ‘Industrial Strategy: building a Britain fit for the future’ White Paper shortly after the Autumn Budget on 27th November, setting out its long term plan to boost the productivity and earning power of people throughout the UK.


1.3. The White Paper also identifies four Grand Challenges which, as a result of global forces, the White Paper argues will shape the UK’s rapidly changing future, and which the UK must embrace to ensure all the opportunities they present are harnessed. Through the Grand Challenges the Government commits to:

- putting the UK at the forefront of the artificial intelligence and data revolution;
- maximising the advantages for UK industry of the shift to green growth;
- becoming a world leader in shaping the future of mobility; and
- harnessing the power of innovation to help meet the needs of an ageing society.

1.4. The White Paper outlines a significant number of existing and new policies to take forward the opportunities, and respond to the challenges, identified. It notes that these will be added to over time to support the foundations and drive the UK’s transformation. A summary of the policy announcements of most relevance to GM is provided in the Annex of this report.

1.5. Following on from the Autumn Budget announcement, the White Paper confirms that Greater Manchester will work in partnership with Government to develop one of the first local industrial strategies and provides some more details of what this will entail. The suggested approach to developing the GM Local Industrial Strategy (GM LIS), aligned with the development of the 2-year Greater Manchester Strategy Implementation Plan, is set out in section 2 below.

2. **DEVELOPING THE GREATER MANCHESTER LOCAL INDUSTRIAL STRATEGY**

2.1. The 2017 Autumn Budget agreement between the GMCA and Government set out that Greater Manchester’s Local Industrial Strategy (‘the GM LIS’) will reflect the main themes of the national industrial strategy, but also take a place-based approach that builds on the area’s unique strengths and ensures all people in Greater Manchester can contribute to, and benefit from, economic growth.
2.2. The White Paper sets out that local industrial strategies will:

- be developed locally and agreed with the government. Places in England with a Mayoral Combined Authority will have a single strategy led by the mayor and supported by Local Enterprise Partnerships;
- be long-term, based on clear evidence, and aligned to the national Industrial Strategy;
- identify local strengths and challenges, future opportunities and the action needed to boost productivity, earning power and competitiveness. This might include addressing skills issues, improving infrastructure, harnessing the potential of world-class science and innovation, supporting new high-value businesses, or identifying leading sectors to inform the development of deals;
- guide the use of local funding streams and any spending from national schemes;
- establish new ways of working between national and local leaders in both the public and private sectors. Universities, colleges and other local institutions are also identified as key; and
- form the basis for Government to “continue to support locally-driven partnerships, proposals and reforms, with the aim of ensuring that economic powers are exercised at the most appropriate level and that decision-making is effective and clear”.

2.3. The five foundations of productivity – and the four grand challenges – provide a framework to align the recently refreshed Greater Manchester Strategy with the ambitions set out in the national industrial strategy. Working within this framework, the GM LIS will set out an integrated package of policies to deliver against national and local priorities. This will include describing how we will implement and align key actions and identifying where further devolution and strengthened partnership working between GM and Government will deliver improved outcomes.

2.4. To deliver the outcomes that GM and Government want, we need to ensure strong buy-in and co-ownership locally and nationally. This will need to be delivered through political, officer and business engagement and leadership, and by developing a robust evidence-base. Officers are currently in discussions with Government officials on the approach to developing the GM LIS and an update will be provided at the LEP Board meeting. However, it is expected that a key issues paper will be developed for publication and public consultation in late-summer 2018 (to influence Autumn Budget 2018) and a final GM LIS will be developed for agreement with Government in early-2019 ahead of adoption in April 2019.

2.5. The activity described above will be aligned with the process to develop the 2-year Greater Manchester Strategy Implementation Plan, to be in place in April 2018. The new plan will build on the six month interim plan currently in place and will be developed via a process which gives the opportunity for all portfolio areas to identify the transformational actions required under each GMS priority to deliver on the agreed targets and ambitions set out in the GMS. The plan will identify the actions needed by the whole GM system, not just GMCA. The process for the development
of the transformational actions will be led by Portfolio Lead Chief Executives working with Portfolio Leaders, supported by the relevant CA policy lead. A cross-partnership development process is being used, to engage as wide an audience as possible, seeking input and buy-in from across the GM system.

3. **RECOMMENDATIONS**

3.1. Recommendations appear at the front of this report.
ANNEX 1: INDUSTRIAL STRATEGY WHITE PAPER KEY POLICIES

- The Industrial Strategy covers five foundations for Government’s vision for a transformed economy:
  - Ideas – the world’s most productive economy.
  - People – good jobs and greater earning power for all.
  - Infrastructure – a major upgrade to the UK’s infrastructure.
  - Business environment – the best place to start and grow a business.
  - Places – prosperous communities across the UK.

- This Annex summarises the key issues in each of these areas.

**Ideas – the world’s most productive economy**

- This chapter sets out that the UK needs to do more to ensure it remains a global leader in innovation and science research by improving the UK’s ability to turn ideas into commercial products and services and capture value. It notes that a key challenge is that neither the Government nor the private sector is investing enough in Research & Development, which is holding back productivity. It also highlights that more needs to be done to build research and innovation excellence across the UK and acknowledges the role of Science and Innovation Audits in facilitating this.

- Government sets out an ambition to raise total research and development (R&D) investment to 2.4 per cent of GDP by 2017 and to reach 3 per cent of GDP in the longer term, which would place the UK in the top quartile of OECD countries. This would rely on a significant increase in R&D investment by both the public and private sector. A number of policies are identified to achieve this:
  - increasing the rate of the R&D expenditure credit for large businesses from 11 per cent to 12 per cent from 1 January 2018;
  - raising public investment in R&D by £2.4bn in 2021/22, investing strategically in technologies and ideas close to market and continuing to fund curiosity-driven research;
  - investing £725m in the second wave of the Industrial Strategy Challenge Fund over the next 3 years;
  - investing £300m in world-class talent over the next 3 years in priority areas aligned with industrial strategy in order to enhance the UK’s skilled workforce and attract private sector R&D investment;
  - increasing support for Quality-Related research, recognising the importance of providing underpinning funding for universities to invest in the excellence and impact of their research and ensure the sustainability of our research infrastructure. This was something that GM called for in its Green Paper response;
  - piloting new ways of financing innovation, including a £50m Innovation Loans pilot and an Investment Accelerator pilot;
  - creating UK Research and Innovation, with £8bn per annum by 2020 in the highest quality research and innovation;
  - creating a new competitive £115m Strength in Places Fund to support areas to build on their science and innovation strengths and develop stronger local networks. This will build on evidence from the science
and innovation audits, something that GM had pressed for in its response to the Green Paper; and

- launching a new GovTech Fund of up to £20m over 3 years, which will use Small Business Innovation Research to support tech firms to provide the Government with innovative solutions for more efficient public services.

**People – good jobs and greater earning power for all**

- The chapter notes that, despite the UK having a strong labour market and a world class higher education system, the UK still faces challenges in meeting its business needs for talent, skills and labour, and there are still wide disparities between regions and between communities in skills and education. However, the policy response is weak and the interventions are largely re-announcements of policies already set out in previous Department for Education documents.

- The headline announcements are:
  - for higher education, a new regulator, the Office for Students, will be established in January 2018 to address employer and student needs and expectations. The Government is also committed to conducting a major review of funding across the tertiary education sector;
  - a £72m Opportunity Areas programme will support areas of disadvantage in 12 localities (including Oldham in GM), with support from national businesses, the Education Endowment Foundation and the Careers Enterprise Company, co-ordinated by Local Partnership Boards;
  - a new National Retraining Scheme will be created that supports people to re-skill, made up of Government, the CBI and the TUC. It will initially target skills shortages in key sectors and will be backed with a £65m investment over the next two years for digital and construction training;
  - the Government will provide £34m to expand construction training programmes across the country;
  - Government will continue to roll out of T levels, backed by £500m+ annually by the time the programme is rolled out. The first T Levels from 2020 will be in digital, construction, education and childcare. Government will also launch a call for proposals to establish the first of the new Institutes of Technology and invest up to £20m from 2018/19 to 2019/20 to help further education colleges develop staff to deliver the new technical qualifications;
  - To help increase the study of maths, education institutions will be able to provide a £600 premium to existing per pupil funding rates for each additional student who takes maths or further maths at AS/A level or core maths. £27m will be invested in the expansion of Teaching for Mastery maths programme and the ‘specialist maths school model’ will be expanded. £40m for Further Education Centres of Excellence will build capacity and best practice;
  - To increase digital skills, Government will invest £84m over the next five years to improve teaching and drive up participation in computer science. It will also introduce a new entitlement for adults who lack core digital skills to
access specified basic digital skills training free of charge. The Government will also launch a new £20m Cyber Discovery programme and will invest £20m in a new Institute of Coding to deliver higher level digital skills;

- The £280m Strategic School Improvement Fund will provide high quality, evidence-based support to schools across England;
- Government will invest £42m to pilot a Teacher Development Premium, which will test the impact of a £1,000 budget for high quality professional development for teachers in areas of the country that have fallen behind;
- Skills Advisory Panels are to be set up and rolled out, and integrated into Mayoral Combined Authorities and LEPs. They will be used to inform the analysis that feeds into Local Industrial Strategies. Government has committed to working with Greater Manchester to implement one of the first Skills Advisory Panels, building on the Greater Manchester Skills & Employment Partnership;
- a new careers strategy was published alongside the White Paper, setting out plans to improve the quality of careers advice for people of all ages. GM has highlighted the need to ensure that careers advice is also made more accessible;
- Government plans to allow apprenticeship levy-paying employers in England to transfer up to 10 per cent of their funds to another employer, including within their supply chain, from April 2018. It will continue to work with employers on how the apprenticeship levy can be spent; and
- Over £60m will be available to support apprenticeship take up by young people and families from disadvantaged areas and increase the proportion of apprenticeships started by people of black and minority ethnic backgrounds or with a learning difficulty and/or disability by 20 per cent by 2020. Government will also publish plans to see one million more disabled people in employment by 2027.

**Infrastructure – a major upgrade to the UK’s infrastructure**

- The chapter highlights the importance of modern and accessible infrastructure to the UK’s future growth and prosperity and sets out Government’s plans to upgrade the UK’s infrastructure. Key policies include:

  - extending the National Productivity Investment Fund to 2022/23 and increase this from £23bn to £31bn, supporting investments in transport, housing and digital infrastructure. Investment will be delivered through a strengthened framework with longer-term budgets, advice of the NIC, increased focus on delivery of projects and five-year capital investment programmes. Three principles will guide investment: invest in ways that support the objectives of the Industrial Strategy; take greater account of disparities in productivity and economic opportunity between different places - ensuring investments drive growth across all regions of the UK; and invest to increase UK competitiveness in relation to long-term global economic changes. There will be a focus on maximising the contribution that investments can make to growth and productivity by embedding Industrial Strategy objectives in the strategic design stage of major investments;
improving digital infrastructure with over £1bn of public investment, including £176m for 5G and £200m for local areas to encourage rollout of full-fibre networks. Further digital infrastructure investment was an ask in GM’s response to the Industrial Strategy and GM has already undertaken significant work in this area by putting in place a Digital Infrastructure Plan for the city region. In addition, the Industrial Strategy re-announces that £5m will be made available to embed Digital Railway technology between Manchester and York;

it was re-announced that £300m will be invested to ensure High Speed 2 infrastructure can accommodate future Northern Powerhouse and Midlands rail services. The role of HS2 in delivering the wider aims of the Industrial Strategy is also acknowledged. Both GM’s response to the Industrial Strategy and Budget submission highlighted the importance of the delivery of HS2, not only to increase capacity on key rail routes, but also to drive regeneration in GM and beyond;

Government will also consult on commercial options to improve mobile communications for rail passengers and will invest up to £35m to enable trials. Amongst other areas, this will be used to install trackside infrastructure along the Trans-Pennine route between Manchester, Leeds and York and to support the rollout of full-fibre and 5G networks;

Transport for the North will become a statutory body in April 2018. This new status will enable the North to legally inform transport investment priorities that will deliver transformational growth in the North of England. In its response to the Industrial Strategy Green Paper, GM emphasised the need for long term funding agreements to be put in place to enable better transport infrastructure planning across the region;

Government will support electric vehicles through £400m investment in charging infrastructure and an extra £100m to extend the plug-in car grant;

Government will establish a new Geospatial Commission to provide strategic oversight of the various public bodies that hold data. Government will work with Ordnance Survey and the new Commission, by May 2018, to establish how to open up freely OS MasterMap data. £80m will be provided over the next two years to support this work;

a new £220m Clean Air Fund will be established to tackle poor air quality in local authority areas with the most challenging pollution problems. More broadly, there is an expectation that local areas consider clean energy and the shift to clean growth as important elements in the development and implementation of Local Industrial Strategies. Local authorities will need to consider clean air policies in local industrial strategies. While this additional funding is welcome, it falls significantly short of what is required;

An additional £385m was announced for investments in digital infrastructure and a further £160m in new 5G infrastructure. Up to £35m will be used to fund a trial of technical solutions to high-speed connectivity on trains via trackside infrastructure. £200m will be invested in the Local Full-Fibre Networks Challenge Fund to stimulate
commercial telecoms network providers to build more full-fibre connections to homes and businesses;

- Government will work with Ofcom to facilitate the boost in infrastructure investment that 5G deployment will require; and
- Government is working to improve collaboration on data sharing between public agencies.

**Business environment – the best place to start & grow a business**

- The White Paper sets out the Government’s ambition to make the UK the best place to start and grow a business in the world. To enable this the Industrial Strategy announces that the Government will:

  - launch and roll-out Sector Deals, which are partnerships between the government and industry on sector specific issues that create opportunities to boost productivity, employment, innovation and skills. Four sector deals have been agreed thus far;
  - ensure all businesses have access to a local Growth Hub. It also states that the Government will provide continued funding to enable Growth Hubs to bring public and private sector partners together but there was no reference to any specific funding commitment. GM highlighted the need for Growth hubs to be sufficiently funded in order to tackle market failures in its response to the Industrial Strategy Green Paper;
  - Government will work with Growth hubs to ensure joined up and easily accessible export and business growth advice and support LEPs in coordinating regulatory frameworks that focus on local business needs;
  - launch a review to determine what actions will be most effective in improving productivity and growth of SMEs, including how to address the ‘long tail’ of lower productivity firms;
  - establish a new £2.5bn investment fund incubated in the British Business Bank to help businesses get access to the capital they need to scale up and become world leaders;
  - Other measures linked to the British Business Bank include: the launch of a commercial investment programme; research to identify ways to tackle barriers faced by female led businesses; rolling out a network of British Business Bank regional managers by Autumn 2018, extending the Enterprise Finance Guarantee and working with businesses, lenders, insurers, the British Business Bank and the Intellectual Property Office to overcome the barriers facing high growth, intellectual property-rich businesses;
  - invest £21m over four years to extend Tech City’s reach to become Tech Nation. Eleven regional hubs will be established, including one in Manchester; and
  - review the UK export strategy to support businesses in accessing international markets. However, the Industrial Strategy did not respond to GM’s calls for a transparent process for representing the voice of the North in EU negotiations. As part of a GM Agreement published alongside the Budget, the Department for International Trade will work
with Greater Manchester to agree a new Trade and Investment Plan, to increase exports and investment and, following appropriate analysis, agree how Greater Manchester and DIT activities and resources can be better aligned and enhanced.

**Places – prosperous communities across the UK**

- This section highlights the need for all places to reach their full potential and the need to address differences in regional productivity, including through further city, growth and devolution deals and building the Northern Powerhouse and Midlands Engine. Specific policies include:
  
  - Development of local Industrial Strategies, with Greater Manchester the first city region to agree a partnership with Government to develop a Local Industrial Strategy. The proposed approach to developing the GM Local Industrial Strategy is set out in section 2. The Government will develop Local Industrial Strategies with other areas, with priority given to those places that have the potential to drive wider regional growth.
  
  - Creation of a new Transforming Cities fund with £1.7bn for intra-city transport. As announced in the Autumn Budget, this will fund projects that drive productivity by improving connections within city regions. Greater Manchester is set to receive £243m over 4 years.
  
  - Government will lend local authorities in England up to £1bn at a discounted interest rate to support local, high-value infrastructure projects through the Public Works Loan Board. GM’s Budget Submission and response to the Industrial Strategy Green paper highlighted the need to develop new approaches to fund infrastructure. However, it is vital that the Government provide a longer term funding commitment for transport/infrastructure projects beyond the initial 4 years set out.
  
  - The Prime Minister will chair a biannual ‘Council of Local Enterprise Partnership Chairs’ from 2018, providing an opportunity for LEPs to inform national policy decisions;
  
  - Government will work with LEPs to set out a more clearly defined set of activities and objectives in early 2018;
  
  - Government will identify and work with a number of emerging clusters to identify and remove barriers to growth and strengthen supply chains. It will also work with local partners to develop a portfolio of High Potential Opportunities around strategic supply chain gaps;
  
  - Government also committed to launching a ‘Rebalancing Toolkit’ with the intention that this will mean that no decisions on significant investments are taken without due consideration being given to the impact of investments on local growth;
  
  - A commitment to continue to build the Northern Powerhouse (NPH) and Midland Engine to create prosperous communities throughout the UK. Whilst the Government’s continued commitment to the North is welcome, the Industrial Strategy contains only very brief reference to the Northern powerhouse. Further, the Industrial Strategy is not clear about how it fits with the Northern Powerhouse Strategy and how the Northern Powerhouse Strategy will be delivered, which GM had
flagged the need for in its response to the Industrial Strategy Green Paper;

- Government will explore the potential to move public organisations out of London. Government has already consulted on how Channel 4 could increase its regional impact, by moving some and potentially all staff outside of London. Government is currently in discussions with Channel 4 on this issue, and promises to set out next steps shortly. While the Government’s commitment to relocating public bodies outside of London is welcome, it is disappointing that the Industrial Strategy did not provide any further clarification on the Government’s approach;

- £15.3bn of new financial support for housing over the next 3 years will be provided. Government will deliver bespoke housing deals with places where housing demand is high. The Government has announced a housing deal with Oxfordshire and is in discussion with Greater Manchester, Leeds, West Midlands and West of England regarding future housing deals, with the GM deal expected to be finalised in the New Year;

- Government will ensure that local areas continue to receive flexible funding for their local needs, and following the UK’s departure from the European Union, Government will launch the UK Shared Prosperity Fund, to be consulted on next year. Whilst there is much work to do to determine how funding will be allocated in the future GM’s response to the Industrial Challenge Green Paper suggested that it must be at least equivalent in size to current funds, more long term, and that local areas have more flexibility as to how this funding is invested;

- 100% business rates retention pilots will begin in 2018. Greater Manchester has already participated as an initial test-pilot for business rate retention; and

- £42m to pilot a Teacher Development Premium. This will test the impact of a £1000 budget for high-quality professional development for teachers working in areas that have fallen behind.

Grand challenges

- The Industrial Strategy also sets out four Grand Challenges. These are in response to global forces that will shape the UK’s future. For each Grand Challenge, Government will ask leading figures from industry and academia to act as expert advisors, led by a ‘Business Champion’. Working alongside ministers, these figures will be responsible for engaging a diverse range of industry voices and raising the profile of the challenge, and will be appointed in early 2018. Government will use all tools at its disposal, including regulations, funding and Sector Deals. Where appropriate, teams will develop ‘missions’ to tackle the Grand Challenges. These will involve tackling specific problems, for example reducing carbon emissions by a given percentage over a specific year period.

- £725m of the Industrial Strategy Challenge fund is intended to help address these Grand Challenges which commit to:
- **Artificial Intelligence and Data Economy** – putting the UK at the forefront of the artificial intelligence and data revolution. As part of this, the Government will: support sectors to boost their productivity through artificial intelligence and data analytic technologies, lead the world in safe and ethical use of data and artificial intelligence and help people develop the skills needed for the jobs of the future;

- **Future of mobility** – the UK will become a world leader in the way people, goods and services move. To enable this the Government has identified four early priorities: establish a flexible regulatory framework to encourage new modes of transport and new business models, seize the opportunities and address the challenges of moving from hydrocarbon to zero emission vehicles, prepare for a future of new mobility services, increased autonomy, journey sharing and a blurring of the distinctions between private and public transport, and explore ways to use data to accelerate development of new mobility services and enable the more effective operation of the transport system;

- **Clean growth** – maximise the advantages for UK industry from the global shift to clean growth. As part of this the Government will: develop smart systems for cheap and clean energy across power, heating and transport, transform construction techniques to dramatically improve efficiency, make energy-intensive industries competitive in the clean economy, put the UK at the forefront of the global move to high-efficiency agriculture and make the UK the global standard-setter for finance that supports clean growth; and

- **Ageing society** – harness the power of innovation to meet the needs of an ageing society. To enable this the Government will support new products and services for the growing global population of older people, which can significantly boost productivity. A forthcoming Healthy Ageing Programme will invest in innovation to help older people maintain their chosen lifestyle, and stay independent for longer. In addition the Government will support sectors to adapt to a changing and ageing workforce, leverage health data to improve health outcomes and leadership in life sciences and support care providers to adapt their business models to changing demands, encouraging new models of care to develop.