

Driving growth across the whole country



The opportunity

We have a unique opportunity as a nation. The productivity performance – and consequently earning power – of most places outside London and its surrounding area lags behind the national average, which is itself about 20% below countries like France and Germany¹⁰⁴.

But it doesn't have to be this way. Other countries show that regional cities, towns and areas can be as prosperous as the capital.

For Britain to achieve its maximum prosperity, and for the economy to work for everyone, all parts of the country must be firing on all cylinders.

Simply put, there is considerable potential for cities, towns and areas whose performance has been lagging to close the gap – to catch up.

A modern industrial strategy will have recognition of the importance of place at its heart.

By doing so we can raise standards of living and drive growth not just in these areas but in the country as a whole. So driving growth across the whole country is a challenge and an opportunity for Britain.

There are a number of ways in which Government policy can influence the prospects of particular places.

First, spending decisions by the government can support growth in different areas – not just in terms of total spend, but also its composition. For example, strategic infrastructure investments in transport, housing, flood

defences and cultural assets can all have a substantial impact on how particular places grow.

Second, the government plays the leading role in education, funding schools, colleges and universities. Central government decisions on funding, and its efforts to drive improvement through national reform programmes like free schools or targeted initiatives like the London Challenge and the new Opportunity Areas programme, can make a big difference to attainment, skills and prosperity.

Third, the government is one of the most significant investors in research and innovation. This is not solely about helping to create universities and government laboratories, but how the government and industry co-fund research across the country. All of these types of funding can have a substantial impact on growth in particular places.

Finally, central government can help maximise the particular strengths of different areas by working to create or strengthen local institutions that support their particular economic strengths and specialisms – a subject explored more in the final chapter of this paper.

More balanced growth across the country can enable higher growth for the United Kingdom overall. The revival of underperforming areas can spur productivity in areas with lower costs, cheaper land, less congested infrastructure, and other underused assets.



By building on the strongly-performing areas that exist within every region and nation of the UK, we can make it easier for more people to access new job opportunities closer to them, while staying within reach of friends and family.

This is a moment when new opportunities to rebalance the economy are emerging; our great cities have started to revive, sometimes after a long period of decline; and the digital economy is creating new opportunities to bring well paid jobs to rural areas.

The industrial strategy is an opportunity to make the most of the diverse strengths of all of the UK's cities and regions.

The challenge

While progress has been made towards rebalancing the economy since 2010, the disparities in economic performance between different parts of the UK should not be underestimated. The record of recent decades is one of a gap in productivity and, as a consequence, living standards. The South East, and particularly London, have pulled ahead of much of the rest of the country¹⁰⁵.

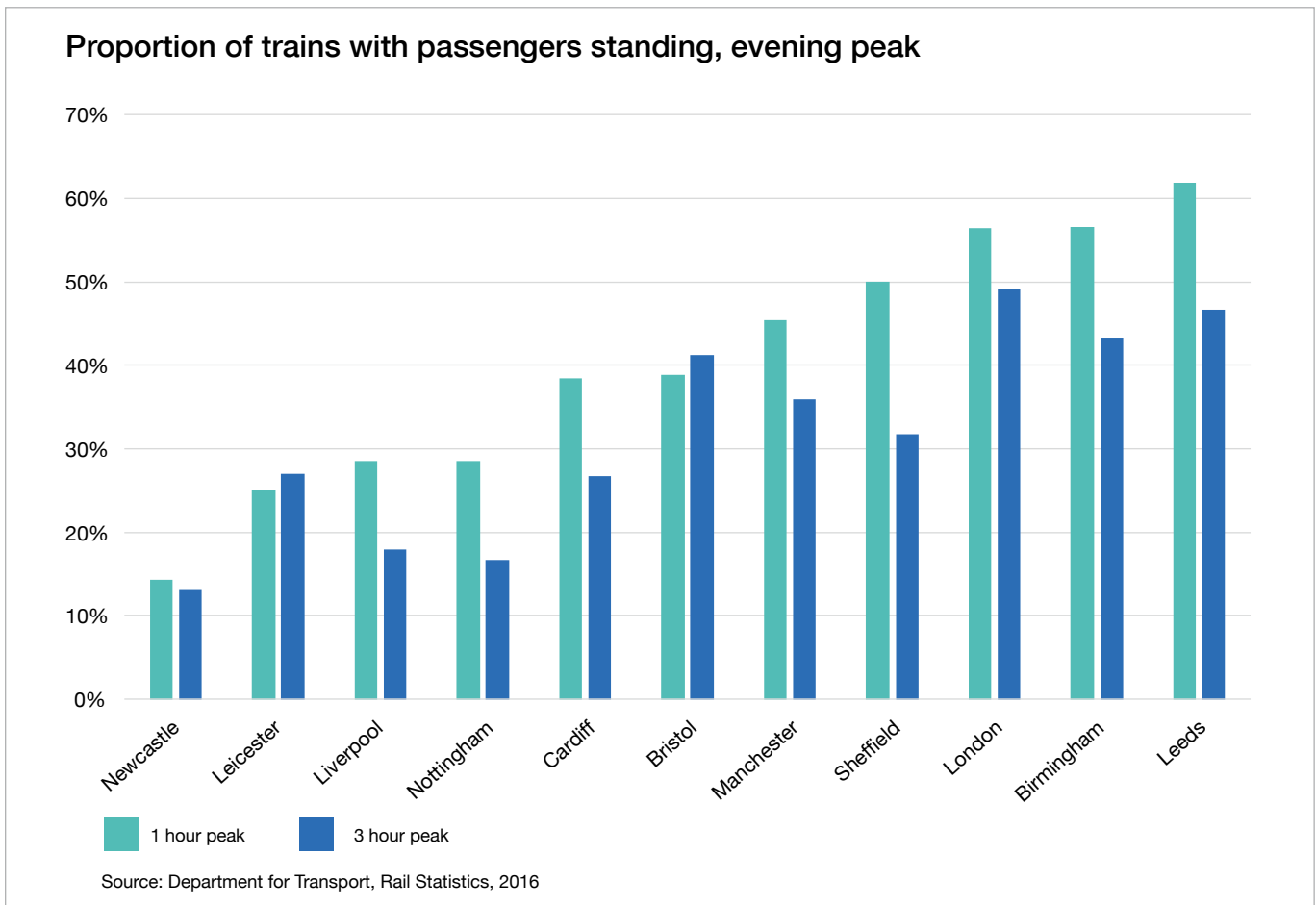
Since 1997, London's Gross Value Added (GVA) per capita has moved from 59 per cent above the UK average to 72 per cent above. This divergence has been driven in part by the underperformance of many of the UK's cities. In England, Bristol has been the only other core

city to consistently enjoy higher productivity than the national average, while city regions in the north of England and the Midlands are between 10 per cent and 17 per cent below average productivity for the UK¹⁰⁶.

This stands in contrast to countries such as France and Germany where most of the biggest cities out-perform the national average in productivity, innovation and other measures of economic performance¹⁰⁷.

Growth has been uneven even within our large cities. The central parts of many of our large city regions have revived remarkably in recent years with the expansion of service industries and higher education. They are now experiencing the challenges common to fast-growing areas, like rising housing costs and transport congestion. But many outlying parts of our large cities have been among the slower growing parts of the country, along with more isolated, coastal cities and towns outside the south east. Every type of place has different challenges and opportunities.

This pattern is not limited to England. While parts of every nation of the UK are thriving – such as the productive economies of Cardiff, Aberdeen and Edinburgh – productivity in Scotland, Wales and Northern Ireland since 1997 has remained below the national average, with a number of city regions within each country falling behind the national average¹⁰⁸.

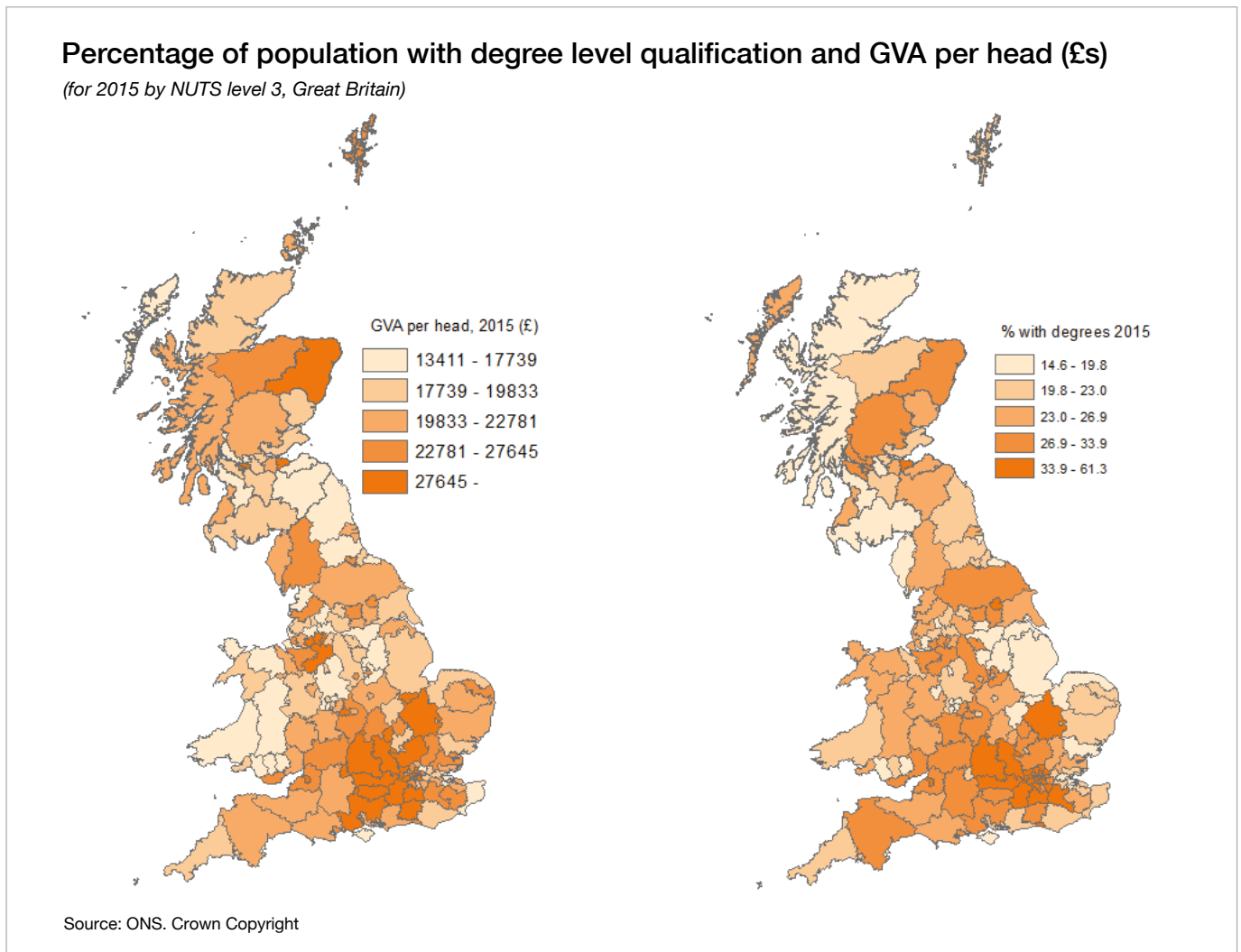


Nor are imbalances just about cities. The residents of towns and rural areas also experience large variations in wages, standards of living and life opportunities. Productivity in rural areas across the country lags behind the UK average¹⁰⁹. If rural businesses in England had the right conditions to grow and the productivity gap lessened, an extra £28 billion per year could be added to the rural economy annually¹¹⁰. Rural businesses face particular challenges and barriers to close this gap, including a shortage of work premises, slow internet connections and a lack of knowledge transfer between business communities spread thinly over wide areas.

The differences in incomes between different parts of the country reflect a number of key factors.

First, weaknesses in infrastructure and connectivity can limit growth in areas with lower productivity. As discussed above (in the Infrastructure chapter), poor transport means a shallower labour market and less choice and competition. It is quicker to travel the 283 miles from London to Paris by train than it is to travel less than half that distance between Liverpool and Hull. Rail congestion in cities such as Leeds and Birmingham is worse than in London on some measures, despite being smaller cities.

Airports outside the South East do not have the connectivity to global markets that some of their competitors have, meaning these areas can miss out on trade-related economic activity and tourism¹¹¹.



Housing is a key factor in driving economic growth. Our forthcoming Housing White Paper will seek to ensure housing supply is more responsive to changing patterns of demand, and flexes as the industrial strategy takes effect.

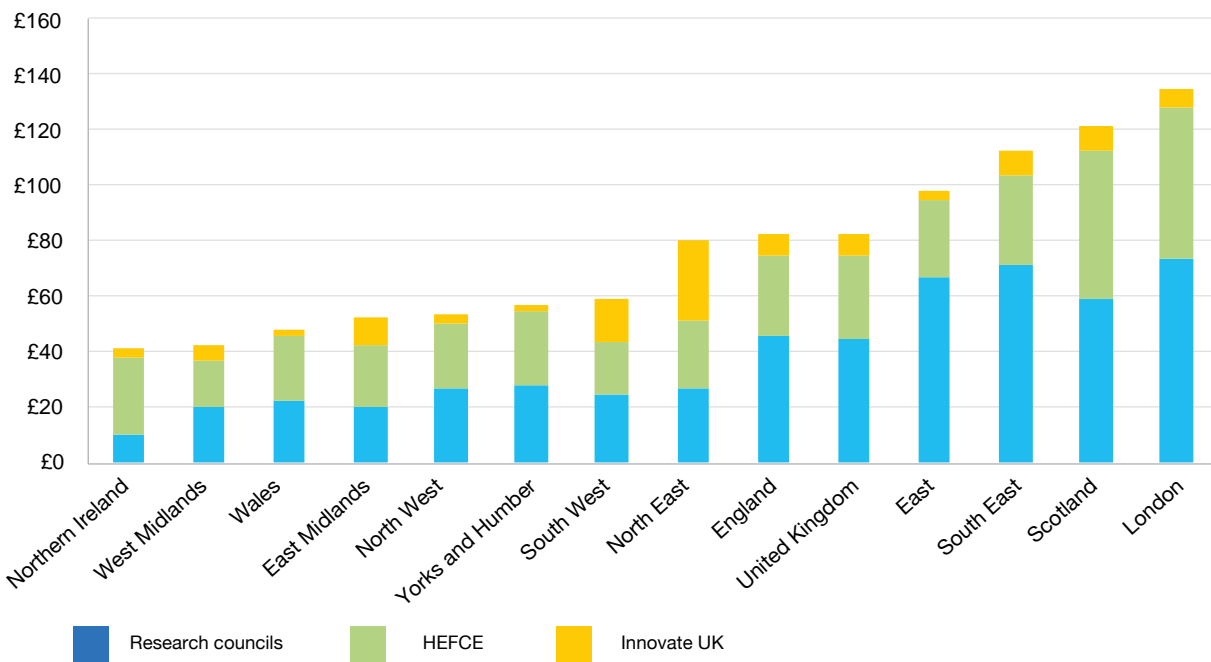
Meanwhile, many rural areas are held back by weak digital infrastructure. The average download speed in urban areas is at least three times faster than in rural communities, limiting people’s ability to seize the opportunities of the digital economy¹¹².

Second, the different qualification and skills levels of people in different places. To boost productivity in the places where it is lower, we

need to increase skill levels there. Places which have experienced industrial change can find they have skills mismatches where people have specific skills which are no longer relevant, so they need to retrain.

How much people in different places earn depends on how highly qualified people they are. And as the maps above show, levels of qualifications vary hugely around the country, with many more people in London and the South East qualified to degree level. Levels of income follow the same pattern¹¹³.

Public research funding per person (2013/14)



Source: BIS (2015): Public research and innovation expenditure: geographic breakdown of public research and innovation expenditure

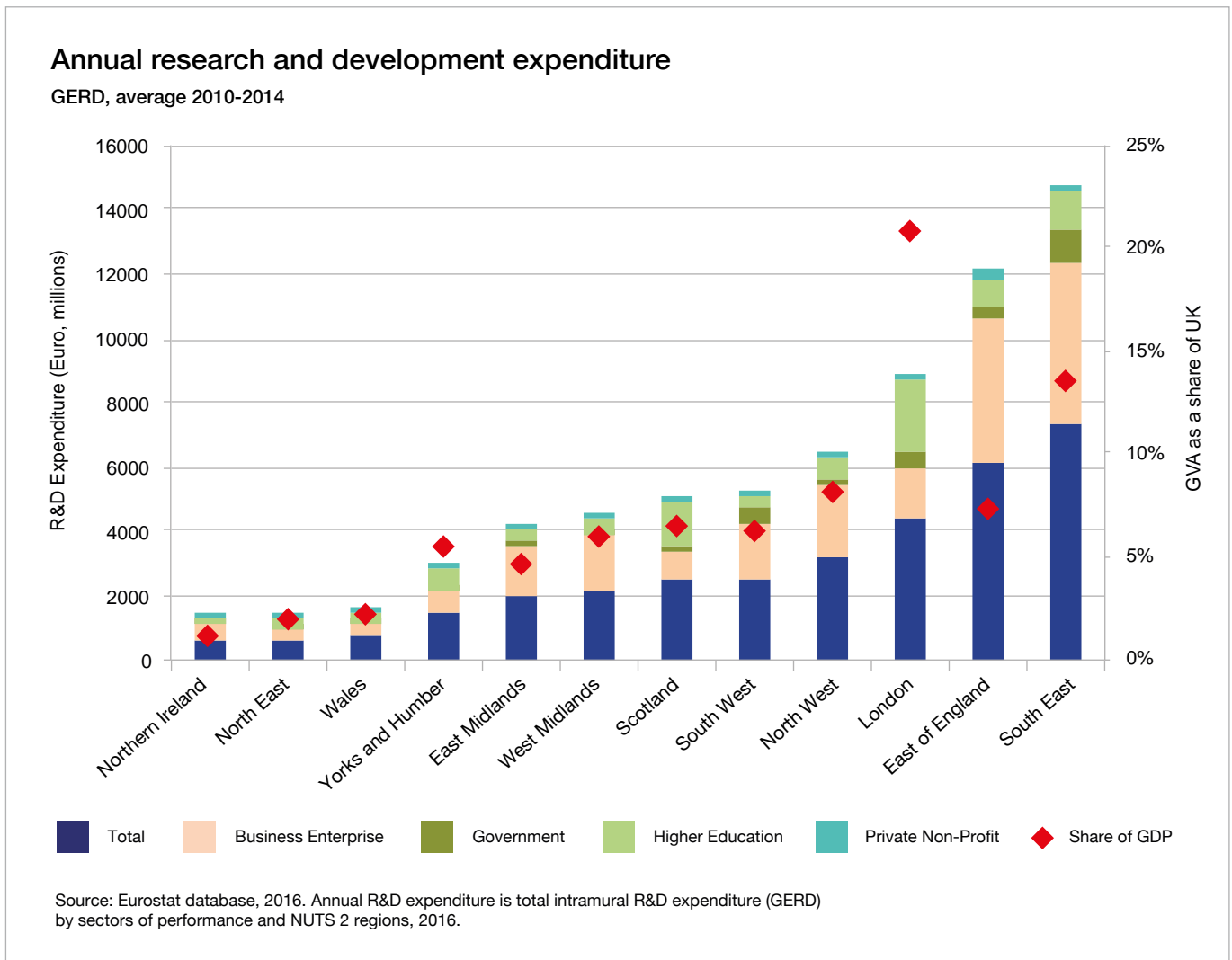
This is partly the result of migration of highly skilled people towards London and the South East. Data shows that large and medium sized cities outside London attract significant flows of skilled young people to their universities, with outflows from both London and more rural areas. Leeds, Nottingham and Sheffield experience the biggest gains. This is an important influx of new skilled people for these cities, but a part of this gain is reversed when they graduate, with London then pulling in a disproportionate share of graduates¹¹⁴.

London is not the only magnet for skilled people, and other strong pulls for graduates exist in every part of the UK. But to raise living standards and drive growth across the country we will need to increase skill levels where they are lower.

Third, overall research and development investment tends to be lower in places with low productivity¹¹⁵.

The “D” in R&D is a particularly important dimension of our productivity opportunity. Only a relatively small number of firms will ever be at the cutting-edge of new technology but many more can invest in ways that reflect what the cutting-edge firms do. Our opportunity lies in encouraging investment that embodies new technologies as well as in funding research that creates new technology.

Spending by Innovate UK is more strongly linked to business investment and less geographically concentrated than research funding through the Higher Education Funding Council for England (HEFCE) and the Research Councils, but is a smaller part of public investment at present.



Increasing our focus on commercialisation and later stage development would be likely to increase the opportunities for catch up in more parts of the country.

Overall, compared to GDP, R&D investment is higher than average in the South East and East, and lower in the North East, Yorkshire, the West Midlands and Wales. Business investment is high in areas where public investment is high, which could reflect the ability of public investment to crowd in business investment. But the patterns vary: the North West has a much higher ratio of business to public

investment, while London has lower business R&D reflecting in part the impact of sectoral mix on R&D intensity.

Finally, we know that local institutional leadership is a crucial element in the success of many areas around the world. The UK is a relatively centralised country and different areas do not always have the strong institutions of different types which could support their growth. Many different types of institutions can play an important local leadership role, which the next chapter addresses in more detail.

Laying the foundations – actions so far

Over the last six years, we have laid the foundations for stronger, sustainable growth in incomes, better shared across the country.

Local Enterprise Partnerships were established in 2011 to make sure that business had a strong voice in directing local economic development.

Through City Deals and Mayoral Devolution Deals, which devolved power from central government, we have enabled places across the United Kingdom to grow, and provided them with the freedom to invest.

In England, the £12 billion Local Growth Fund was established to bring together funds that were previously held centrally to meet the priorities of local places. We have recently announced the award of an additional £1.8 billion of Local Growth Funding.

The Government is providing local authorities in England with new incentives for growth through the full retention of business rates, meaning that local areas see substantial fiscal

benefits when they take action to grow and attract new businesses.

The Northern Powerhouse and Midlands Engine initiatives are driving coordination between local authorities and other institutions over policies like transport, inward investment and skills. We have announced further measures to develop the Northern Powerhouse, including through investment in infrastructure, raising education and skills levels, and ensuring the north is an excellent place to start and grow a business. We will be setting out a Midlands Engine strategy soon.

There are opportunities to develop this regional, more strategic approach further in other parts of the UK. For example, we have established the Thames Estuary Growth Commission to develop a long-term vision for both sides of the Thames. In the South West we are taking steps to improve transport and digital connectivity through our commitments to broadband deployment and upgraded road links.



This approach applies across the whole of the UK. Already, we have committed nearly £1.2 billion to City Deals in Inverness and the Highlands, and in the city regions of Glasgow, Cardiff and Aberdeen to support the strength of these cities.

Negotiations are continuing on deals in the Swansea region, and Edinburgh and south east Scotland. We have also committed to a city deal in Stirling, meaning that every Scottish city will be working towards a deal. The Government will consider proposals for deals with the Tayside cities and North Wales when they are brought forward. The Stormont House and Fresh Start agreements provide £2.5 billion of additional spending power for Northern Ireland. We have ensured the Devolved Administrations have the powers they need. The Scotland Act 2016 transfers further significant powers to Scotland, including on Income Tax and borrowing. This is an important power and means the Scottish Government is more

responsible for raising the money it spends; it is accountable to the Scottish Parliament for those decisions. The Wales Bill also seeks to transfer further powers to Wales.

We propose establishing Ministerial Forums on Industrial Strategy with each of the Devolved Administrations. These will bring together all relevant UK Government Departments and the Devolved Administrations to consider how the Industrial Strategy can best address key productivity barriers in Scotland, Wales and Northern Ireland. This is an open invitation to representatives of each Devolved Administration to jointly develop plans with the UK Government to support all areas of the UK, and to closely align our economic plans and strategies.

We will also carefully consider the future of the European Structural and Investment Funds alongside the wider future funding environment following the UK's exit from the European Union.

Our approach

We will ensure the right conditions for growth are present across the UK. Towns, cities and counties can improve their prospects for prosperity and growth if they are well connected and have better skilled people, and with research and innovation activity and the right institutions to support local clusters and specialisms.

This industrial strategy proposes a framework to build on the particular strengths of different places and grasp the opportunities that could enable faster growth in each of them.

1. Backing local connectivity with strategic infrastructure investment.

As set out in the 'Infrastructure' chapter, we are increasing overall infrastructure investment and have created a stronger set of institutions to help plan infrastructure. We are also creating new funding which will improve coordination of local economic plans and infrastructure spending. For example, the new £2.3 billion Housing Infrastructure Fund will allow joined up planning for housing and infrastructure in areas of severe housing need, while councils will be able to bid for £1.1 billion of additional funding for which councils can bid to upgrade local roads and unblock local congestion.

This will ensure that infrastructure investment supports the rebalancing of the economy and we will take account of the balance of

spending per head between different regions when designing future rounds of infrastructure spending. We will continue to prioritise the highest value-for-money projects, as we seek to address productivity weaknesses across the country, and unlock the benefits of agglomeration economies. And we will deliver major infrastructure improvements which will help to drive growth across the country, including supporting the development of proposals for the Midlands Rail Hub and Northern Powerhouse Rail.

2. Raising skill levels nationwide, but particularly in areas where they are lower

The skills chapter sets out our proposals to ensure everyone has the basic skills they need, to build a new high quality system of technical education, and to test new innovative approaches to lifelong learning, and more outreach to people in declining sectors who may want to retrain. All of these national reforms will particularly help in areas where skill levels are currently lower.

But we will go beyond these national reforms and take further actions where skill levels are too low and holding back opportunity and growth.

We will work with local areas to test other approaches to closing the skills gap, which could include:

- Improving pre-school education to close the gaps in achievement which exist between children in different areas even before they start school.
- New schemes to support the retention and attraction of graduates, potentially spreading innovative programmes like Sheffield's RISE initiative, which places graduates in local SMEs.
- Measures to increase the take up of apprenticeships – for example by encouraging prestigious businesses with

oversubscribed apprenticeship schemes to place more of their apprentices into firms in their supply chains.

- Helping businesses work with local colleges to develop the provision they need for apprenticeships, building on initiatives like the Black Country Skills Factory.
- Investing in local science and innovation strengths

As set out in the chapter above on research and innovation, we propose to create new competitive funding streams to support world-class clusters of research and innovation in all parts of the UK, whether they are led by business or universities, and large or small projects. In this way we will use some of the additional R&D funding to back world-class research and innovation, supporting local economies across the country. We will continue to publish regular data on the regional breakdown of public funding in this area.

We will also consider expanding successful mechanisms such as Higher Education Innovation Funding (HEIF) and Knowledge Transfer Partnerships (KTPs), which place PhD students into companies. Expanding these schemes would also allow universities to provide greater support for their local economy and small businesses.

3. Getting the institutional framework right to support local industries

The final chapter of this paper turns to the creation and strengthening of the institutions needed to support local growth.

In some places there may be missing institutions which we could create, be they educational institutions, trade associations or financial networks. In other places particular types of investments are needed to raise skill levels or deal with the constraints holding back growth.



Driving growth across the whole country

Actions under way:

- The Government has announced the **award of an additional £1.8 billion from the Local Growth Fund** for a new set of Growth Deals between Government and Local Enterprise Partnerships.
- We have already set out the next steps in developing the **Northern Powerhouse** by launching a Northern Powerhouse Strategy. We will be setting out a **Midlands Engine** strategy soon.
- We have launched a **Tourism Action Plan**, setting out a comprehensive set of actions to drive growth in inbound tourist spend across the whole of the UK.

New commitments:

- The Government will **use additional infrastructure funding to unlock growth** in areas where connectivity is holding it back by creating new funding which allow better coordination of local economic plans with infrastructure investment.
- **The Government will take account of the varying infrastructure needs and opportunities in different regions.**
- We will **deliver major infrastructure improvements which will help to drive growth across the country**, including supporting the development of proposals for the Midlands Rail Hub and Northern Powerhouse Rail.
- **We will work with local areas to test approaches to closing the skills gap**; from early years education and the retention and attraction of graduates, to measures to drive the take up of apprenticeships.
- **We propose creating competitive new funding streams to back the clusters of innovative businesses across the country.** These could support and develop world-class research and innovation strengths in local economies, and provide commercialisation funding to allow universities to work more with local businesses. In this way we will use some of the additional R&D funding to help stimulate local economies, as well as growing the UK overall.
- **We will work with local areas to identify and help develop industrial and economic clusters of businesses, and local specialisms**, putting in place the right institutions with the right powers to help support local areas of economic strength. This may involve creating new institutions or strengthening existing ones, discussed further below.

- We propose establishing **Ministerial Forums on Industrial Strategy with each of the Devolved Administrations**. These will bring together all relevant UK Government Departments and the Devolved Administrations to consider how the industrial strategy can best address key productivity barriers in Scotland, Wales and Northern Ireland. This is an open invitation to representatives of each Devolved Administration to develop jointly plans with the UK Government to support all areas of the UK, and to align closely our economic plans and strategies.

Questions for consultation

34. Do you agree the principles set out above are the right ones? If not what is missing?
35. What are the most important new approaches to raising skill levels in areas where they are lower? Where could investments in connectivity or innovation do most to help encourage growth across the country?