THE MAKING OF AN INDUSTRIAL STRATEGY

Taking back control locally

Jack Airey and Liam Booth-Smith
Foreword by Rt Hon Greg Clark MP

About Localis

Who we are

We are an independent, cross-party, leading not-for-profit think tank that was established in 2001. Our work promotes neo-localist ideas through research, events and commentary, covering a range of local and national domestic policy issues.

Neo-localism

Our research and policy programme is guided by the concept of neo-localism. Neo-localism is about giving places and people more control over the effects of globalisation. It is concerned by economic prosperity, but also enhancing other aspects of people's lives such as family and culture. It is not anti-globalisation, but wants to bend the mainstream of social and economic policy so that place is put at the centre of political thinking.

In particular our work is focused on four areas:

- **Reshaping our economy.** How places can take control of their economies and drive local growth.
- **Culture, tradition and beauty.** Crafting policy to help our heritage, physical environment and cultural life continue to enrich our lives.
- **Reforming public services.** Ideas to help save the public services and institutions upon which many in society depend.
- **Improving family life**. Fresh thinking to ensure the UK remains one of the most family friendly places in the world.

What we do

We publish research throughout the year, from extensive reports to shorter pamphlets, on a diverse range of policy areas. Recent publications have covered topics including building the homes we need, a sustainable healthcare service and the public service ethos.

We run a broad events programme, including roundtable discussions, panel events and an extensive party conference programme. Recent speakers at our events have included Rt Hon Greg Clark MP and Rt Hon Chris Grayling MP.

We also run a membership network of local authorities and corporate follows.

Acknowledgements

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Any errors or omissions are our own.

Jack Airey and Liam Booth-Smith

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Advisory Panel

This research project was supported by an Advisory Panel, whose members are listed below. Advisory Panel members attended two editorial roundtables and provided comments on report drafts. They may not necessarily agree with every analysis and recommendation made in the report.

- Paul Kirby, Visiting Professor at LSE (Chair)
- Nick Baveystock, Director General of Institute of Civil Engineers
- Prof. Rachel Cooper OBE, Distinguished Professor of Design Management and Policy at Lancaster University
- Rt Hon Stephen Crabb MP, MP for Preseli Pembrokeshire
- Ruth Duston, Chief Executive of Victoria BID
- David Frost, Chairman of Staffordshire Local Enterprise Partnership
- Cllr Louise Goldsmith, Leader of West Sussex County Council
- Gerard Grech, Chief Executive of Tech City UK
- Sir Peter Hendy, Chairman of Network Rail
- Chris Leslie MP, MP for Nottingham East
- Prof. David Phoenix OBE, Vice-Chancellor of London Southbank University
- Mark Rogers, former Chief Executive of Birmingham City Council
- Marc Vlessing, Chief Executive of Pocket Living

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Foreword

The industrial strategy is just one move the government is making to ensure Britain remains the most competitive and best place to do business in the world. From reforming our skills system to investing in the modern infrastructure Britain needs, the government is helping British business to grow. For our industries we are in the process of crafting ambitious new trade agreements which will see British goods and services purchased across the world, for emerging high tech businesses our investment in research and development will inspire the innovation and creativity needed to turn them into global players.

But as I have said before, growth doesn't happen in abstract. For growth to occur a business needs to choose to invest and take a risk. These decisions happen in places, they affect local people. The Prime Minister has made clear that we need to "drive growth across the country" and the industrial strategy will not ignore this reality. Place will be an important feature of the industrial strategy, it will be a lens through which to make decisions and judge success. Local civic and business leaders will be central to ensuring the government's vision of a country sharing in the prosperity of growth.

This means we need everyone to work together in the national interest. As the recent industrial strategy green paper sets out I am hoping for as much feedback and collaboration as possible from councils, businesses, universities, colleges and communities. Government won't have all the answers and this means we need partners to help us build a strong industrial strategy. This Localis report is an important contribution to that effort.

Rt Hon Greg Clark MP
Secretary of State, Department for Business, Energy and Industrial Strategy
March 2017

Executive Summary

Context

When reflecting on the value and purpose of a modern industrial strategy we must consider the context in which it has been necessitated. By understanding what has driven the need for one; we can better decide which approach will most likely achieve its goals. We must start with the decision of the British people to leave the European Union. We don't presume to cover the reasons why Britain voted for Brexit, but we do take it as the moment in which a more general dissatisfaction with our political and economic model, having been present for some time, finally manifested. This dissatisfaction, characterised as the widely held perception our political and economic order benefits a select few at the expense of the majority and that this elite is located in a small corner of the country, is as important to understanding the industrial strategy as it is Brexit. For this same force has not only taken us out of the EU, the European Single Market and the European Customs Union, but precipitated a change in government and, in turn, a new economic direction.

If the government draws legitimacy for its actions from the "quiet revolution" of the Brexit vote,[1] it stands to reason those actions should be considered, at least in part, a response to the source of this legitimacy. In other words, the government's new industrial strategy is driven as much by the political need to address the general discontent with the way the benefits of growth are shared as it is by the broader goal of national GDP growth. This means local places having a greater influence over the effects of globalisation in their area and more power to encourage greater economic prosperity. To achieve this an industrial strategy will need to be led locally. Building on the ambition laid down in the government's industrial strategy green paper,[2] the question this report answers is *how*?

Leading the industrial strategy locally

Every place is in a tough global fight for future economic prosperity. Things are going to get harder not easier. Technology and free trade will threaten many existing jobs even in currently prosperous areas and sectors. So, every place needs a clear bold industrial strategy for its own area, uniting industrial and civic communities with a common purpose.

Almost all places can explain the historic industries which gave them an economic purpose, the mines of Durham, the port of Liverpool or the pot banks of Stoke-on-Trent. Unfortunately, only a few have an industrial strategy for the future, one which is clear and powerful enough to attract people to spend their careers in those places and to cluster their business there. That's what's happening in Cambridge, London and Manchester. It's happening in the West Midlands. But where else?

1 BBC News (2016) - Theresa May: I'll use power of state to build fairer Britain

2 Building Our industrial strategy – BEIS Green Paper, January 2017

Government is right to lay out the framework for a national industrial strategy, even to directly support specific industries deemed strategically important. Yet these efforts won't suit, or even help, a great many places whose choice will be to either lead their own industrial strategy or have none at all. Therefore each place must take responsibility for understanding its own needs and assets and present their case to a global market of talent and investment. They should take back control and develop *local industrial strategies*.

If every place needs its own industrial strategy to make itself famous around the world for its cluster of businesses and talent, they require four key ingredients in place to create and implement a strategy:

- A strategic authority to lead the local industrial strategy. *Worryingly two thirds (66%) of England doesn't have a functioning strategic authority and this urgently needs fixing.*[3]
- A risk-sharing partnership between the public and private sectors that aligns investment capabilities. *Government should reconsider the fiscal straitjacket placed on local government and allow greater freedom to raise revenue and invest.*
- A set of new powers to attract talent, to unlock public investment, to allocate land for development at a non-NIMBY level and to organise public transport. *This means a new sub-national approach to immigration, newly devolved fiscal powers to break out of the national funding trap currently choking off money to public services and infrastructure; and new planning and transport powers to speed up development and better connect places.*
- A deeper level of insight into its local economy and understanding of what's happening in real time.

What is a strategic authority?

A strategic authority is the recognised body which leads the industrial strategy in a local area. It would most commonly be a formal collaboration of local authorities across a geographic area. This would be different to a (non-mayoral) combined authority because of a) the requirement for an additional level of democratic mandate and b) the new suite of powers it would wield.

To become a strategic authority an area must first have in place;

- A formal collaborative arrangement of local councils across a geography. (We have suggested in this report what these arrangements should be, covering the whole of England.)[4]
- Democratic legitimacy in the form of either a) a directly elected mayor, b) a strategic authority wide elected assembly led by a chair voted for by the assembly or c) in areas where the formal collaborative agreement consists of a county and its districts or a sole unitary county, the county could become the strategic authority (with agreement from partner councils where appropriate).

Following the creation of appropriate governance and collaboration arrangements, a new strategic authority should be entitled to the powers we note above and in more detail later in this report.

3 To be considered 'functioning' a strategic authority must be legally established and recognised by government or be operating in shadow form and currently be at an advanced stage of negotiation with government to establish legal recognition.

4 We have identified six areas covered by a sole unitary authority and as such would not require a collaborative agreement with other councils. Whilst our selection of strategic authority boundaries is merely our suggested approach for the purpose of this report, should government seek to implement these proposals they would need to be prescriptive on collaboration agreements with some areas to ensure the most sensible economic geographies were followed for the creation of a strategic authority.

Our research shows that as well as this strong economic leadership, successful areas get five things right:

- They are magnets for young, highly educated people (especially 25-34 year olds). *Unfortunately for the rest of the UK London attracts the vast majority of these mobile and ambitious young people. Places need strong quality of life offers and defined and future-facing identities to reverse this trend.*
- Education (from secondary level through to apprenticeships to post-graduate level) which is so good that it attracts both talent and businesses to the area. *Unfortunately, local education systems are not well enough connected to local labour market needs, lacking a broker between colleges, schools and businesses. Too many young people leave school not informed about the full range of education and employment prospects open to them, particularly those outside of the university route.*
- They have high levels of workforce participation, particularly 50-64 year olds. *As our population ages, the shape of the labour market will change, and so will the need to support greater numbers of people in work for longer.*
- They have strong local transport connectivity, so that people can access a wide range of job opportunities and have fulfilling careers. *This is often much more important than the current focus on large national infrastructure projects. Unfortunately, there is wide variety in the cost efficiency of transport networks for consumers, for example someone in Leicester will need to work twice as many hours (approx. 16hrs) to afford their monthly rail ticket as someone in Liverpool (approx. 8hrs).*
- There is an enterprising culture, where entrepreneurs are provided the space, talent and structures to thrive. *Unfortunately, our most economically unproductive places have less than half the rate of new business creation than our most productive.*

The stifled and the stuck

Our research also identifies two sets of places which require special intervention in the industrial strategy. Firstly, the places that are growing quickly but whose growth is restricted by their boundaries are the *stifled*. Secondly, the places that are still dealing with the fallout of the industrial trauma of the 1980s are the *stuck*. We take the necessary step of naming both typologies in our report, identifying the fastest growing places hemmed in by their borders and ranking the 30 structurally weakest economic areas in England. If we don't raise the ceiling on our best prospects and lift the floor underneath our most struggling places, we won't have a successful industrial strategy for the nation as a whole.

The areas we identify as the structurally weakest in England, the *stuck*, are small towns and rural places, cut adrift of big cities. They are areas where votes for exiting the European Union were high, with a strong representation of marginal seats. For instance Blackpool, the second structurally weakest economy in the country, is also home to two marginal seats, Blackpool North and Cleveleys (Con maj. 3340) and Blackpool South (Lab maj. 2585). Or Copeland, home of a recent Conservative by-election victory. *Stuck* places voted to leave the EU by an average of 61.8% compared to the national average of 53.1%, nearly a third of them (9) were in the top 10% of leave voting areas and all but one (South Lakeland) voted in favour of leave.[5]

5 The table highlighting this data can be found in the appendices – Data Source for EU Referendum Results is the Electoral Commission

Table A: The thirty structurally weakest economies in England, the *stuck*.

Rank	Place	Average national ranking on key economic and demographic indicators[6]	Rank	Place	Average national ranking on key economic and demographic indicators
1	Isle of Wight	263	16	Babergh	233
2	Blackpool	258	17	North Kesteven	232
3	Tendring	257	18	North East Derbyshire	230
4	King`s Lynn and West Norfolk	253	19	Staffordshire Moorlands	228
5	East Lindsey	252	20	North East Lincolnshire	227
6	North Norfolk	247	21	Suffolk Coastal	226
7	Torbay	245	22	North Devon	225
8	North Lincolnshire	245	23	South Norfolk	225
9	West Lancashire	242	24	Tameside	223
10	Wyre	241	25	Torridge	223
11	Copeland	239	26	Barrow-in-Furness	223
12	Dudley	236	27	South Lakeland	223
13	Eden	235	28	Great Yarmouth	222
14	West Somerset	235	29	Stoke-on-Trent	222
15	Sunderland	233	30	Christchurch	222

Successive governments have made significant progress focusing policy and funding on big cities, tackling their deprivation and supporting their economies. Our research suggests government now needs to pay more attention to smaller towns and rural places. These areas, commonly referred to as having been 'left behind' by the progress of big cities and metropolitan elites, are becoming increasingly important politically. One Advisory Panel member for this report upon seeing the *stuck* places suggested a similarity to the American rust belt; its rural hinterland and how it formed the bedrock of Donald Trump's support. The fate of small town England is not just of economic importance, but political too.

6 Average Ranking refers to the average ranking an area receives against a set number of economic and human capital indicators we have established as being important measures of a places economic vitality. Full details of our calculations are available in the appendices.

The time for devolution deals is over

The devolution deal process has been hugely important for places. It's seen significant powers transferred down to local areas[7] and encouraged a more mature dialogue between central and local government. However, there have been limitations to this method with places rejecting deals, for example because of requirements for additional democratic legitimacy in the form of an elected mayor, or simply down to local political tension. Government's stated ambition of an industrial strategy which improves the prosperity of all places and people fits poorly with the patchwork approach created by the devolution deal process. Instead government should make a wholesale offer of new powers, automatically transferred to places which meet a set criteria (the establishment of a strategic authority), thus enabling a place to quickly establish leadership of the industrial strategy locally and providing them with the tools to help themselves. Where strategic authority governance structures are not in place within eighteen months, government should impose them.

Devolution deals should now be wrapped up into the emerging industrial strategy in favour a single national transfer of power to local areas, something we call an *industrial compact*.

How government can bring the industrial strategy to life: key recommendations

Recommendation 1: an industrial compact so that places can lead the industrial strategy

Each strategic authority should receive a suite of powers which will enable them to overcome barriers to growth and compete with global counterparts. Power transfer should be automatic, avoiding the attrition of negotiation that affected the city and devolution deals. A selection of the key powers is included below.

1.1 **Strategic authorities should process and issue all visa applications for people who want to work and study in their area.** The strategic authority would become the co-sponsor of each visa, alongside the relevant business or university, and would be empowered to respond to shortages in local labour force capacity whilst working in tandem with the local university(s). This would give local areas greater control over the immigration levels in their area and encourage politicians to debate the issue honestly with residents over the benefits and drawbacks of immigration.

1.2 **As is the case in London, strategic authority leaders should be given the power to grant planning permission on sites of strategic industrial importance.** This would in effect operate as a 'call in' power on stalled or rejected development sites, overriding local political objection.

1.3 In places where they do not already,[8] strategic authorities should be given regulatory control over their local transport networks. This should include **control of local bus services and local suburban rail services across their geographies, and in each case the strategic authority should act as the local transport authority.**

7 E.g. Greater Manchester Health and Social Care Devolution Pilot – GMHSCP Introduction Document 15/06/2016

8 Mayoral authorities have been devolved some powers over suburban rail services. The Buses Bill provides local transport authorities with franchising powers.

Recommendation 2: creation of an Accelerated Growth Fund

From 2018 **government should replace European structural funds and the Local Growth Fund with a single pot, the *Accelerated Growth Fund*.** While government should set the national priorities this fund should target – and where relevant, honour existing agreements – its allocation mechanism should be devolved to strategic authorities, who are best placed to identify their local structural barriers to growth. As part of this, strategic authority chief executives (or similar) should become the accounting officer for the Fund.

Recommendation 3: fiscal freedom to raise funds locally

For a local leader to govern a place to its full economic potential, they must be given greater fiscal flexibilities, particularly if they are being encouraged to take a lead on revenue generation. We make a number of recommendations that would enable the creation of more competitive local economies.

3.1 **The abolition of nationally mandated business rate relief for charities.** Local authorities should have the sole power to offer rate relief at whatever level they deem appropriate for their area and local economic competitiveness.

3.2 **The creation of Fiscal Freedom Zones (FFZs) in those places we consider *stuck* towns**. These new zones would have bespoke tax arrangements to support inward investment and the creation of an enterprise culture. We envisage two options, both of which could be industry-specific:

a. To attract venture capitalists to an area, tax reliefs offered as part of the Enterprise Investment Scheme (EIS) and its subsidiary Seed Enterprise Investment Scheme (SEIS) should be enhanced to 60% and 80% respectively.

b. To encourage investment from large international businesses, corporation tax should be waived within FFZs for firms new to the country setting up head-quarters in the area.

Recommendation 4: capacity to grow, capacity to lead

Despite their differences, *stifled* and *stuck* places share the problem of capacity. For the *stifled*, it is literal geographic capacity – there isn't enough land on which to build. For the *stuck*, it is leadership capacity.

- **Those we classify as *stifled* should have the right to petition government for a boundary expansion.** Government should then consider whether a boundary should be redrawn to allow the *stifled* places additional land drawn from a neighbouring authority in order to meet demand for housing and economic development.
- **Government should create a Growth Leadership Capacity Fund to support the *stuck*.** Areas would then be able to bid for funds in order to bring in additional support to help develop leadership capacity.

Recommendation 5: public sector relocation

One commitment made in the government's industrial strategy green paper is a Cabinet Office review of the location of government agencies

and cultural institutions.[9] Complementing this, we believe **strategic authorities should be given a statutory right to propose public sector relocation.**
For instance, Leeds City Region could propose the relocation of the Department of Health, Health Education England and additional elements of NHS England. This would build on the city's health innovation sector.

A note on the report's scope

The focus of this report is on how an industrial strategy can be led locally. We have tried to be as comprehensive as possible given the length and depth a think tank report of this kind should be. However, we acknowledge we have not reflected some elements of an industrial strategy that are important. This is because the matter may be different legislatively across the devolved nations, this is why our report refers exclusively to England only. However, there are lessons and recommendations applicable to all of the UK. Other issues such as utilities regulation and funding, mergers and acquisitions and trade tariffs were raised during the research process but did not make the final version of the report. Some we considered issues best addressed at the national level, tariffs for example, and as such were not relevant to leading an industrial strategy locally. Others, such as utilities regulation, are important locally but were we to include them would represent scope creep on the part of research.

Finally, the state of local authority finances is a significant issue, particularly as it relates to service delivery. Whilst we believe there needs to be a national conversation on how councils are funded to deliver services such as children's and adult's social care, this report is not the place for that discussion. It is reasonable to assume however, that as places take on greater leadership in local economic planning the capacity for leadership of services and public service innovation will be limited. What a local authority is for, what it should deliver and how it should be funded are live questions without the added pressure of leading the industrial strategy locally. Whilst we do not cover the issue of local government finances in the report, it has remained ever present in our thinking.

9 HM government (2017) - Building our industrial strategy

Introduction — Why do we need a locally led industrial strategy?

We don't presume to cover the reasons why Britain voted for Brexit, but we do take it as the moment in which a more general dissatisfaction with our political and economic model, having been present for some time, finally manifested. The industrial strategy, with its stated focus on sharing the benefits of growth more fairly and support for places outside of the traditional economic hot spots of London and the South East, should be seen as part of a direct response to that dissatisfaction.

For some the term industrial strategy is loaded with connotations of state subsidy, picking winners (who are in fact losing) and inefficiency. The very opposite of a competitive free market economy. Despite these unfashionable associations our government has rarely been without one. Since 1995 government sponsored R&D spending allocated to private businesses has been steadily rising.[10] Sectoral deals with government have been commonplace for decades. One senior politician we interviewed for this report, a former Secretary of State in multiple departments, made clear "we've always done an industrial strategy, even if we don't call it one."[11]

Recent state interventions such as bank nationalisations or tailored promises to car manufacturers give only a minor sense of the scope of government influence over industry, both as policymaker and purchaser. From Michael Heseltine's vow to "intervene before breakfast, before lunch, before tea and before dinner" to the government's industrial strategy green paper, governments have always played a role in catalysing innovation, supporting growth and economic stability.

Despite this long history of industrial intervention the idea of place has rarely been a feature.[12] Whitehall has preferred to focus on industries, sectors or even individual companies. Undoubtedly some places have benefited as a result of this approach, London for example, but equally many have not. There are still parts of the UK which have not recovered from the economic and industrial reforms of the early 1980s. Focusing on industries or sectors is not wrong but the absence of 'place' as a key feature of, or 'lens' through which to view, an industrial strategy is a weakness.

If the only goal is national GDP growth then the last thirty years can be considered a success, particularly the country's performance since 2008 compared to fellow G7 nations.[13] However, because place has not been a feature of previous industrial strategy thinking we have not addressed the tensions this economic success has created. An economic divide between north and south, profound divergence on the desirability of immigration and a widening cultural gulf between big cities and small towns to name a few. Nationally

10 ONS (2016) – Gross Domestic Expenditure on Research and Development time series dataset

11 Research interview

12 House of Commons Library (2017) - industrial strategy briefing paper

13 OECD (2017), Real GDP forecast (indicator)

dictated strategies have not only failed to address these deep economic and social tensions, but have had a hand in exacerbating them. As Greg Clark has said, "for too long, government policy has treated every place as if they were identical… what is needed in each place is different, and our strategy must reflect that."[14]

Therefore, place should be considered a relatively new and value adding concept in terms of an industrial strategy. So, what does it mean for such a strategy to be led locally?

This report has four golden threads which guide our narrative listed below. These threads are woven through the important questions the report answers, namely who leads the industrial strategy, how they do so and under what terms. Whilst we cover a significant range of issues in this report, these four threads represent the central story our report is telling.

1. All areas need to have an established strategic authority to lead the industrial strategy

Two thirds of places (66%) in England are not covered by a functioning strategic authority. This must be resolved as matter of urgency if places wish to lead the industrial strategy effectively. We devote significant attention to how these authorities could be created and under what governance arrangements. Previous attempts at establishing collaborative governance via the city and devolution deal process has left most of the country without a strategic authority. Throughout this report we consistently refer back to the need for a strategic authority if a place is to use the new powers we argue are necessary to lead the industrial strategy locally. We detail exact places, noting where current arrangements satisfy our criteria for a strategic authority, where they are in shadow form or close to satisfying our criteria, or where they are currently non-existent. Whilst places should be given time to set these authorities up locally, government should not tolerate extended periods of inertia. If local councils in an area can't agree on the creation of a strategic authority then central government should.

2. A shift in focus to small towns is needed

This report consistently refers to places we have classified as *stuck*, areas still trapped by economic trauma of the 1980s, or *stifled*, areas growing rapidly but constrained by their boundaries. They represent the battleground towns of parliamentary elections and more recently the parts of the country which voted heavily for exiting the European Union, on average 61.8% in favour of Leave versus the national average of 53.1%[15]. These places are of increasing political importance. Successive governments have made significant progress addressing the social and economic issues of inner city boroughs, but there now needs to be a recalibration of policy to include the small towns of England and their rural hinterlands.

3. Local areas need new powers to attract the right talent and capital

Places already have a number of ways in which local economies can be supported, but the scale of political and economic challenge a modern industrial strategy poses means local areas are underpowered. Local collaboration between civic, business and academic leaders is central to a place's success, but new power on transport, planning, tax, immigration and skills would give places the opportunity to help themselves.

14 BEIS (2016) - Greg Clark speech to IoD

15 Data available in Appendix Four

4. Our demographic challenges are altering the shape of the labour market

It would be an oversight to offer a view on the UK's economic future without assessing the impact of the demographic challenge our country is facing. In short, our population is getting older. We therefore highlight two aspects of labour market influencing which we believe can be addressed in the context of an industrial strategy. The first is a focus on retaining and attracting 25–34 year olds. Whilst this is an arbitrary age range studies have identified young professionals as a key demographic for wealth creation.[16] The UK has seen a brain drain of this demographic to London predominantly, but the trend of this cohort towards urban centres is consistent with other major UK and international cities.[17] Immigration will be key in this regard. The second is on ensuring the country's older population, namely 50-64 year olds, remain economically active for longer. In the long term this means we require an economy that can flex its capacity to meet the need of people to remain employed for longer.

We know that an industrial strategy delivered from Whitehall will likely achieve marginal growth in our GDP, history suggests as much. Yet it will do nothing to address the long standing structural weaknesses in our economy: an over reliance on financial services sector, a skills shortage, a North South divide, an aging labour market and a growing gap between our big cities and small towns to name but a few. Whilst government must devise a national strategy, each area must take a lead in helping to develop its own economic vitality. We need an industrial strategy which puts place at its centre.

Report structure

In this report we make the case for a locally-led industrial strategy. It is informed by a methodology that has included an England-wide call for evidence, roundtable discussions, numerous interviews with experts and a considerable literature review.

- In Chapter One we consider the places and structures that should lead the industrial strategy locally
- In Chapter Two we consider the economic and demographic factors that make a place successful, including indicator scorecards of strategic authority areas, the stifled and the stuck
- In Chapter Three we describe how places can take control of their industrial strategy, using their existing tools and powers
- Finally, in Chapter Four we outline the actions which government should make in its industrial strategy

16 KPMG (2014) - Magnet Cities

17 Centre for Cities (2016) - The Great British Brain Drain

Chapter One – Which places should lead the industrial strategy?

The geographies and structures through which decisions on economic development are made matter. In the West Midlands for instance the establishment of a combined authority has enabled a city-region wide approach to growth and reform. Local partners are aligned behind a clear set of priorities, robust governance and delivery structures. As one Advisory Panel member said, more had been achieved in the West Midlands with two years of strong partnership than in the previous thirty years of weak partnership. West Sussex County Council has signed a growth deal with Crawley Borough Council – and is in the process of developing more with other local councils – that agrees to the delivery of key strategic projects and signifies a commitment to increasing collaborative working between the two councils. Conversely, in Cumbria local government boundaries cut across its functional economic areas. There is little history of joint-working by councils across the county and with neighbouring Lancashire, which has hindered effective economic planning around local employment centres such as Barrow and Morecambe.[18]

Questions of geography and structure are hugely important in the context of a locally led industrial strategy. **We believe it is essential that the industrial strategy is led at a scale where the factors that affect local growth manifest and are thus most effectively influenced.[19]** Establishing the right institutions to bring together sectors and places is listed in government's industrial strategy green paper as one of ten pillars upon which the industrial strategy will be built.[20]

Strategic authorities

The industrial strategy should be led by strategic authorities, which we identify as democratically-elected authorities spanning geographies over which people live their lives, economies function and businesses operate.[21] They have a strategic lead who is empowered to make strategic decisions and they are the vehicle to which the powers we outline in Chapter Four should be devolved. Given the patchwork nature of the England's local democracy, combined governance structures will likely look different across the country. We envisage three possible governance options for places to adopt:

- **Mayoral combined authority.** Like the model used in West Midlands, Greater Manchester and other successful devolution areas. Mayors are elected across the region and local councils make up the constituent members of the combined authority.
- **Elected assembly**. The assembly is the decision-making authority. It is chaired by a member who can command a majority of members and major executive decisions are voted upon.

18 Research Interview

19 In the long term, questions will and should be considered of local government's service output when leading an industrial strategy. For instance, counties delivering social care at the same time as industrial strategy

20 HM government (2017) - Building our industrial strategy

21 Hereon in, unless explicitly stated, any recommendation of devolved powers or industrial strategy leadership will be in relation to strategic authorities.

- **County council.** A memorandum of understanding is signed between the county council and local district and/or unitary councils, whereby it is agreed the county council takes on the role of strategic authority. It operates in shadow form until the next election where members are elected in the knowledge of their expanded role.

It is essential that strategic authorities are established in every place. At present two thirds of places in England are not covered by an established or shadow strategic authority. Simply put, without these structures there are currently too many tangled levels of negotiation, vested interests and competing mandates for local leaders to govern to their place's potential – the government commissioned Witty Review described this aptly as a "thicket of complexity".[22] Moreover history suggests no power transfer of significance from central government to local, as we envisage, will take place without them. In the table and map on the following pages, informed by existing institutional structures and geographies alongside our research, we identify what we believe to be the minimum spatial configuration upon which strategic authorities should be established. Places could, of course, choose to establish a strategic authority across a number of the geographies which we define. We acknowledge that some areas may feel alternate boundaries are more appropriate, but we believe strategic authorities should span every village, town and city in England.[23]

As also identified in the table below, although not named as such, a number of places already have established strategic authorities, for instance the Greater London authority and some combined authority areas. A number of places also have strategic authorities coming into place either by being in advances stages of negotiation with government to establish legal recognition, as is the case with Cheshire, or by being the sole unitary authority across an economic area thus with a democratically-elected leadership already in place, like in Cornwall. However the majority of places have no such strategic authority arrangement at all. Instead there is often an uneven, seemingly irrational patchwork of abstract bodies and powers where institutional boundaries reflect a place's history, identity and politics. Learning from the attrition of recent devolution deal negotiations, these places should be provided eighteen months to establish strategic authority governance structures across geographies recognised by government. If not, government should impose new structures, and precedent suggests government's preference is for the mayoral combined authority model.

As the main vehicles for the industrial strategy, it is paramount that strategic authorities collaborate with cross-boundary bodies such as Local Enterprise Partnerships (LEPs) and also neighbouring strategic authorities. Many, of course, already do so but government should place a *duty to collaborate* on strategic authorities (similar to the duty placed on local emergency services). Within strategic authorities we also recognise there are places which require higher levels of intervention from government and strategic authorities, two groups of which we identify below.

The stifled places

Our research suggests these are the places that are successfully reorienting their economies based on demographic and economic trends.[24] They are fast growing, with associated growing pains, but are often stymied by their administrative boundaries.[25] They need the power to grow.

22 BIS (2013) - Encouraging a British Invention Revolution: Sir Andrew Witty's Review of Universities and Growth

23 Where ambiguous we have provided further detail on suggested strategic authority areas in Appendix One.

24 These trends are explored in Chapter 2 – What makes a place successful?

25 This typology has been established by considering the local authority areas with the fastest absolute growth in population (we have included those whose populations have increased by 7,500+ between 2010 and 2015). We have also only considered places that are urban islands in rural areas – i.e. not those within city-regions (apart from Coventry and Bradford, which we consider cities constrained by their boundaries). See the scoreboard in Chapter Two for a breakdown of data.

The stuck places

Our research suggests these are the thirty most structurally challenged local economies in England, which perform poorly on multiple indicators, both long term demographic trends and more immediate short term economic performance.[26] They are penumbra economies that have not recovered from the 1980s. They have weak labour markets and much of the growth experienced in the past few decades has been in poorly-paid and insecure sectors such as retail. Many have attracted a great deal of investment from central government and the European Union, but structural issues persist. Local council's political make-up is often multi-party coalitions or, at the other end of the scale, 'one party states'. Greater top-down intervention is required, focused on building local capacity in leadership and skills.

Table 1: The minimum spatial configuration upon which strategic authorities should be established, and their constituent stifled and stuck places.

Strategic authority area	The stifled	The stuck
Strategic authority already in place or in place within eighteen months		
London		
Greater Manchester		Tameside
Liverpool City Region		
Sheffield City Region		
Tees Valley		
West Midlands	Coventry	Dudley
West of England		
Cambridgeshire and Peterborough	Cambridge Peterborough	
Leeds City Region	Bradford	
Cheshire and Warrington		
Brighton and Hove	Brighton and Hove	
Cornwall		
Durham		
Herefordshire		
Lincolnshire		East Lindsey North Kesteven
Northumberland		

26 *Stuck* towns and places have been identified by their average score in the factors and indicators we identify as being most important in a place. We identified the thirty worst performing areas as *stuck*. See the scoreboard in Chapter Two for a breakdown of data. See Appendix Two for an explanation of our method for ranking.

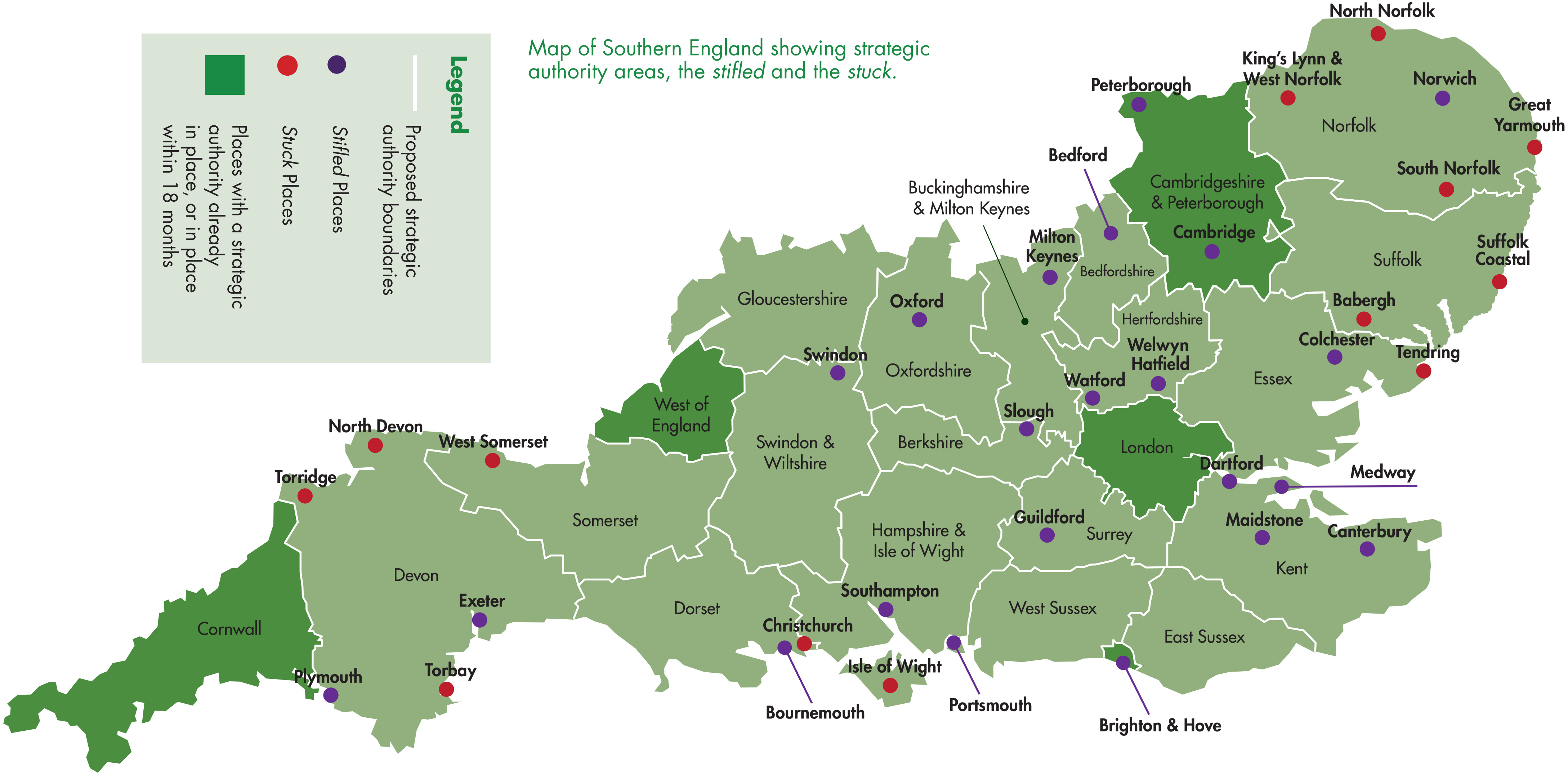
Strategic authority area	The stifled	The stuck
Strategic authority currently non-existent		
Tyne and Wear		Sunderland
Leicestershire	Leicester	
Bedfordshire	Bedford	
Berkshire	Slough	
Buckinghamshire and Milton Keynes	Milton Keynes	
Cumbria		Barrow-in-Furness Copeland Eden South Lakeland
Derbyshire		North East Derbyshire
Devon	Exeter Plymouth	North Devon Torbay Torridge
Dorset	Bournemouth	Christchurch
East Sussex		
Essex	Colchester	Tendring
Gloucestershire		
Hampshire and Isle of Wight	Portsmouth Southampton	Isle of Wight
Hertfordshire	Watford Welwyn Hatfield	
Hull City Region		North Lincolnshire North East Lincolnshire
Kent	Canterbury Dartford Maidstone Medway	
Lancashire		Blackpool West Lancashire Wyre
Norfolk	Norwich	North Norfolk King's Lynn and West Norfolk Great Yarmouth South Norfolk

Strategic authority area	The stifled	The stuck
Northamptonshire	Northampton	
Nottinghamshire	Nottingham	
Oxfordshire	Oxford	
Shropshire		
Somerset		West Somerset
Staffordshire		Stoke-on-Trent Staffordshire Moorlands
Suffolk		Suffolk Coastal Babergh Mid Suffolk
Surrey	Guildford	
Swindon and Wiltshire	Swindon	
Warwickshire		
West Sussex		
Worcestershire		
North Yorkshire	York	

Map of strategic authority areas, the *stifled* and the *stuck*

Map of North England and The Midlands showing strategic authority areas, the *stifled* and the *stuck*.

Map of Southern England showing strategic authority areas, the *stifled* and the *stuck*.



Legend

Proposed strategic authority boundaries

Stifled Places

Stuck Places

Places with a strategic authority already in place, or in place within 18 months

Chapter Two – What makes a place successful?

The Prime Minister has signalled an ambition to set a new economic direction. The industrial strategy will be more ambitious and activist than recent administrations have been prepared to adopt, which will "help to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East."[27] Allied to this new approach is the view that our understanding of economic success must be deeper than measures such as national GDP and should now include a greater focus on the local impact. As Business Secretary Greg Clark has said, "governments are fond of quoting national figures – of economic growth, of productivity, of employment. But the truth is economic growth does not exist in the abstract. It happens in particular places".[28] Too often national measures, whilst still hugely useful, are used to hide the geographic disparities in prosperity or mask the relative quality of growth places are experiencing. For instance, as shown by figure 1 below, between 2008 and 2015, some local economies came out of the recession much more healthily than others.

Figure 1: Indexed change in Gross Value Added (Income Approach) at current basic prices between 2008 and 2015, 100=2008.

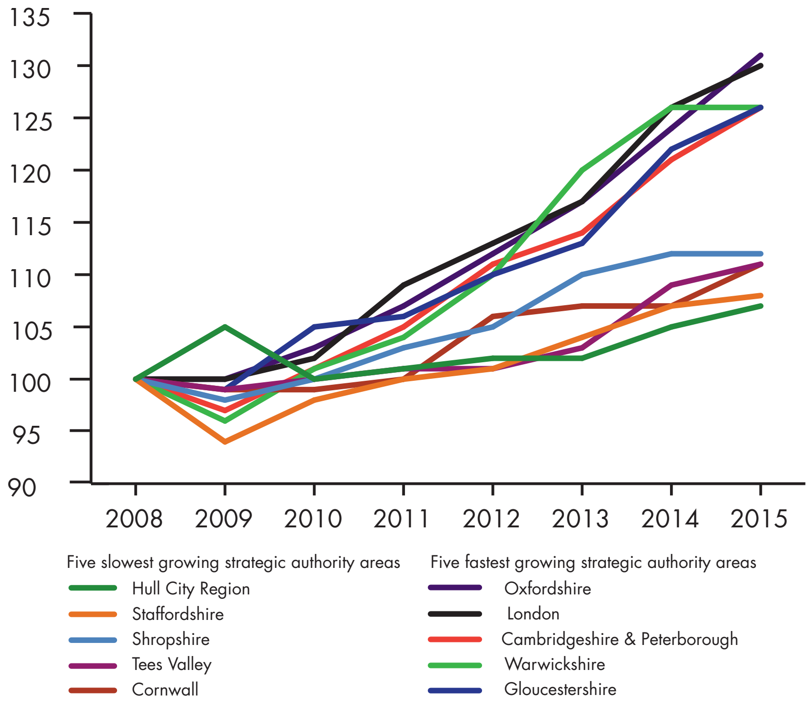


Figure 1. Data source: Table 1, Regional GVA, ONS.

27 Prime Minister's Office (2016) - CBI annual conference 2016: Prime Minister's speech

28 BEIS (2016) - Greg Clark speech: The Importance of industrial strategy

A deeper understanding of how growth manifests, why it *discriminates*, is therefore vital to the success of the industrial strategy and, more widely, the government's economic programme. To intervene effectively, places must recognise their strengths and weaknesses and government should recognise when and how it helps or hinders their growth. In short, what makes a place successful? Why does a business choose to locate in one place over another? Why have some places been able to reorient themselves toward a modern economy, whilst others have stagnated since the 1980s?

Our research indicates successful places have a set of industrial assets which are attractive to people and investment. They think globally in terms of economic competition and have clear strategies for future growth. Moreover they have a clear economic purpose. In the language of economists this is referred to as functional specialisation and is a theme in successful and emerging cities internationally.[29] Some places may have multiple purposes due to their size and diversity of economic base, but all have established an economic rationale for their existence. This sense of economic purpose helps to inform a place's offer to the right talent and investment.

Although there are a multitude of drivers of success, there are four which are most relevant when it comes to informing local industrial strategies (which we discuss further in Chapter Three). Each has a number of performance indicators that can be monitored and influenced. In the rest of this chapter we consider these drivers, providing examples of best practice domestically and from abroad. At the end of the chapter we include a scoreboard rating strategic authority areas as well as the stifled and stuck by the indicators we set out.

1. Strong and skilled labour market

Key performance indicators:

- Proportion of 25-34 year olds
- Proportion of 50-64s that are economically active
- Working age population with NVQ 4+
- Over 65s as percentage of working population

The depth, quality and flexibility of a place's labour market is a key driver of its productivity and economic success. Without the presence of the labour it needs, a business is unlikely to move into, or invest in, an area. Definitively assessing a labour market's quality in real time would be difficult, so for places leading the industrial strategy locally the key should instead be a focus on whether you have the right shape of labour market. From our research there are two labour market trends, not just in the UK but internationally, that presage an economically successful place. Firstly, 25-34 year olds form a high proportion of their population. Secondly their older population — namely 50-64 year olds — tend to be economically active. We explain why below. For places strongly dependent on European migrant labour this is especially critical as the country leaves the European Union. Employers reliant on EU labour are reporting drops in labour availability and that many EU workers are considering leaving their job.[30]

1.1. Magnetic to 25-34 year olds

Recent analysis has shown that there is a strong and positive correlation between

29 Cities Alliance (2014) - Managing Systems of Secondary Cities

30 FT (2017) - Employers start to feel pinch of EU labour shortages

a place's economic growth and the number of young people living there.[31] The same is true in places across England with productivity. As figure 2 below shows, the higher the proportion of 25-34 year olds living in an area, the higher its productivity. As well as being generators of wealth and employment 25-34 year olds also improve a place's dependency ratio, easing pressure on local public services and providing more to the local and central exchequer. Successful places are therefore magnetic to the young. They attract and retain graduates and technically skilled young people, providing ample opportunity for employment and career progression.[32]

The strategic authority areas with the highest proportion of 25-34 year olds are unsurprisingly urban. In London almost one-in-five people are in this age bracket. In Brighton and Hove the figure is 16.7%. In contrast in Cornwall and East Sussex, fewer than one-in-ten people are between 25-34 years old.

Figure 2: Productivity vs proportions of 25-34 year olds in NUTS3 local areas, correlation coefficient = 0.62

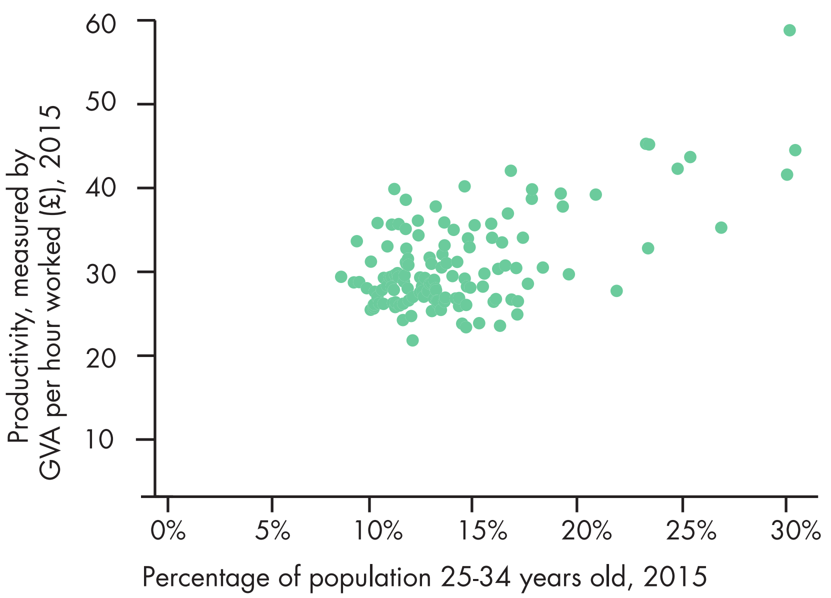


Figure 2. Data sources: Nominal (unsmoothed) GVA per hour worked (£), 2004 – 2015, ONS. Population estimates – local authority based by five year age band, ONS (accessed via NOMIS).

Why 25-34s?

While it is important to target the 25-34 year old demographic, this age range is an approximation. It has been chosen because the Annual Population Survey, the main data source for annual demographic change, uses standard age quintiles (i.e. 25-29, 30-34 etc.). We also accept there is a chicken or egg question of causality: do 25-34 year olds create opportunity or follow it? We acknowledge this uncertainty and invariably there will be elements of both, but the data shows a significant correlation between the proportion of resident 25-34 year olds and productivity.

1.2. 50-64s in work

As the British population continues to age, we will need people to work for longer. Through policies such as the rise in the State Pension Age and abolition

31 KPMG (2014) - Magnet Cities

32 Recent analysis by Centre for Cities shows that graduates tend to gravitate to places where the proportion of graduate opportunities in the public sector is low and knowledge intensive business services is high. Centre for Cities (2016) - The Great British Brain Drain

of a compulsory retirement age, we are slowly encouraging older people to do so and evidence suggests society is adapting.[33] According to the ONS Labour Force Survey, the proportion of economically active 50-64s in England increased from 67.2% in 2005 to 72.4% in 2015. However, the economic activity rate of 50-64s varies considerably across the country, as illustrated by figure 3 below. It is relatively low in urban areas hit by industrial decline, for instance Durham (65.4%) and Tees Valley (66.5%), and high in county areas such as Gloucestershire (81.9%) and Oxfordshire (81.3%). Our research shows the most economically successful places have a high proportion of 50-64s in work.

Taken alongside the proportion of 25-34 year olds, these two trend indicators provide strategic authorities with helpful measures as to whether their labour market is in a healthy shape (well supported by younger workers) and responding positively to the most pressing demographic challenge, that of an aging population.

Figure 3: 50-64s economically active vs GVA per head in strategic authority areas, correlation coefficient = 0.55.

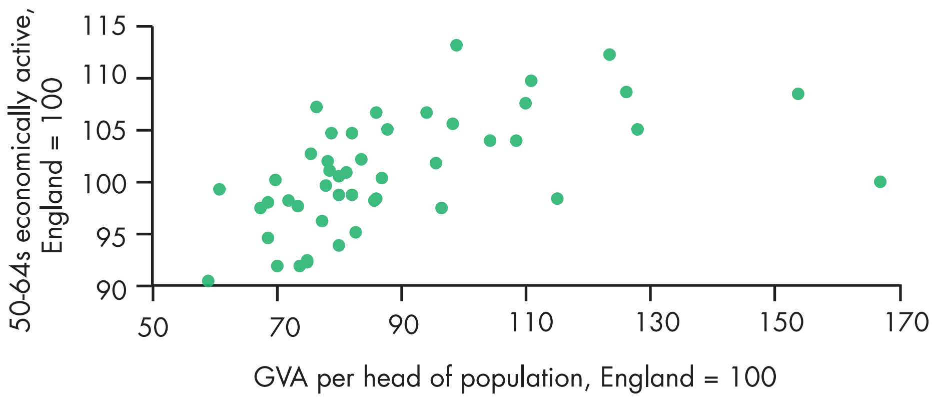


Figure 3. Data sources: Annual Population Survey, 2015, ONS (accessed via NOMIS); Regional GVA, 2015, ONS.

2. Attractive and fair place to live, work and invest

Key performance indicators:

- Employment opportunity
- Inward investment rates
- Choice in tenure, cost and type of housing
- Percentage of students in state-funded schools achieving five or more A*-C GCSEs (including Mathematics and English)
- Have an identifiable cultural anchor, be that an event, institution, or both

Our second driver of success is a place's attractiveness to people and investment. Successful places need attractive offers on housing, education and culture. As recent research by Centre for Cities and YouGov has shown, these three factors are often decisive in why 25-34 year olds choose to live where they do,[34] alongside employment opportunity. More subjectively successful places also have

33 Number of working pensioners rises by a third – The Guardian 30/12/2013

34 Centre for Cities (2015) - Urban Demographics

strong brands and identities. Conversely, some places struggle to attract people and investment because of negative perceptions about their identity.

2.1. Housing

Local housing economies need to be functional, by which we mean markets that allow the existing and new population to live in a home which meets reasonable expectations on quality and cost. A lack of choice – tenure, cost, type – in local housing markets can deter people from moving there and consequently businesses from locating there, because they cannot recruit and retain the skilled staff they require. For instance, there have been repeated warnings from business leaders about the acute nature of housing affordability in London, with some warning "The housing crisis in London is a major problem for business… if not addressed, whole sectors, including our world-beating technology sector and creative industries, will struggle to recruit and retain staff and find themselves losing out to international competitors."[35]

2.2. Education

The determination of parents to live within a certain school catchment area is well-documented.[36][37] Whether they are already raising a family or will in the future, good schools are highly-valued when people consider where they live. This is important not just for the skill levels of the future workforce, but also a place's workforce today. Good local education provision encourages the already talented to live in an area. For instance, London's broader social and economic success is seldom connected with the quality of its secondary schools, but it should be.[38] In places with poor educational attainment, there is the opposite effect. In Stoke-on-Trent for instance, an area we identify as *stuck*, the percentage of students in state-funded schools who achieved five or more A* to C GCSEs (including English & Mathematics) in 2015/16 was 48.5%. However educational structural weaknesses also blight the places we consider most successful. For instance, as figure 4 shows, educational attainment varies considerably across Greater Manchester and is second lowest in Manchester itself.

35 Evening Standard (2016) - Housing crisis is a threat to London's industry, business leaders warn

36 BBC News (2013) - Professional parents 'move for good schools'

37 The Guardian (2015) - One in four families move house to secure school place – survey

38 Burgess, S (2014) - Understanding the success of London's schools

Figure 4: Educational attainment across Greater Manchester by local authority areas.

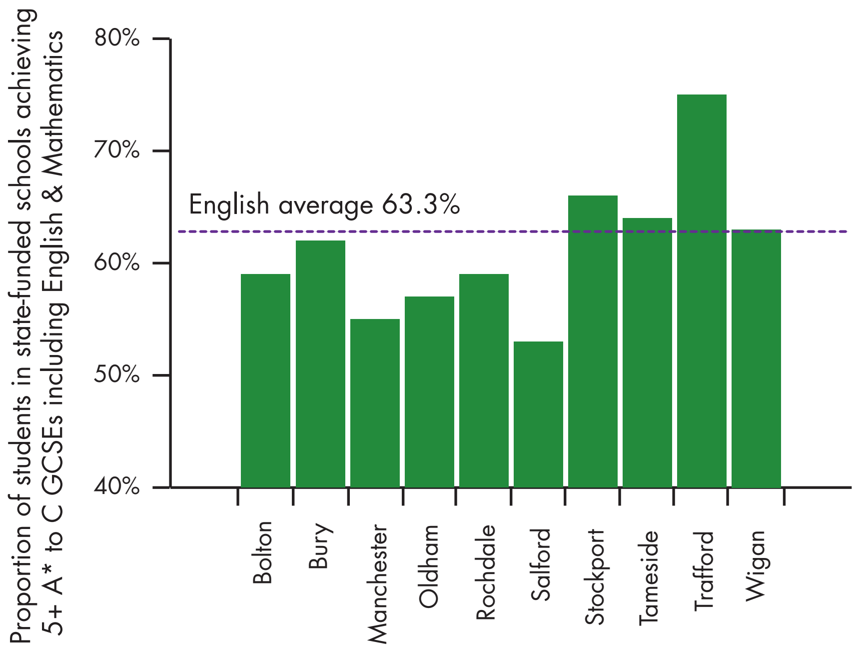


Figure 4. Data source: Table LA1, 2015/16, DfE.

2.3. Culture

From Edinburgh and comedy to Cheltenham and literature, a place's domestic and global brand can be greatly enhanced by its cultural anchors, be they events, institutions or both. Some place's regeneration is predicated on this cultural offer. For instance, Newham brands itself as an Olympic borough. By having a world-class sporting offer, or major festival, a place can raise its profile with a domestic and international audience. A.F.C. Bournemouth's presence in the Premier League gives the South Coast town a global identity. The Tour de Yorkshire has reinforced the region's attraction to cyclists. Cultural anchors also provide direct investment in an area. For example Reading Festival guarantees the city just under one-hundred-thousand visitors every August Bank Holiday Weekend.

Places with an identifiable cultural anchor often find them supported via concerted action by local leaders across the private and public sectors to either develop or retain the cultural offer. For example, the City of Manchester Stadium, now home to Manchester City F.C., was built for the 2002 Commonwealth Games and funded by Manchester City Council and Sports England. The Council converted the stadium from athletics to footballing use, and now lease the stadium to the football club and have sold its naming rights in return for an annual fixed sum of £3 million. In short, people and businesses want to be associated with culturally significant events and experiences. Curating them is an important part of leading a successful place.

2.4 Identity

According to Stanford Prof. James Fearon identity refers "to either (a) a social category, defined by membership rules and (alleged) characteristic attributes or expected behaviours, or (b) socially distinguishing features that a person takes a special pride in or views as unchangeable but socially consequential."[39]

39 Fearon, J. (1999) - What is identity (as we now use the word)?

In simpler terms, identity is a combination of intangible characteristics and perceptible assets. For a place, when it comes to attracting people and investment, identity matters.

By perceptible assets we mean the quality and reputation of the physical environment and service and cultural offer of a place. Is the environment aesthetically desirable? Are the schools high quality? Are there cultural events or associations people can enjoy and join? For example one evidence submission referred to the 'poor sense of arrival' experienced at a place's main train station being powerful enough to deter people, businesses and investors.[40] Perceptible assets are those things, concrete and corporeal, with which a person can directly interact.

Conversely intangible characteristics refer to the subjective aspects of a place's identity. The associations it has with famous people, its economic and social history, the performance of its sporting clubs, the perception of the people who currently live there and their attitudes and behaviours, to name but a few. These links generate connotations which have a powerful effect on the way outsiders perceive a place, even if such links no longer exist. Knowing what people think about a place and why, is central to understanding how you can begin to influence its intangible characteristics.

Brighton's status as the LGBT capital of the UK is good example of a place benefiting from its intangible characteristics. Cambridge similarly benefits from its perceptible assets, the university and associated biotech and medical research clusters, which attract talent and investment. A successful place understands the strengths and weaknesses of its identity, its perceptible assets and intangible characteristics, and uses this knowledge to shape its identity and reputation to attract the right people and investment to its area.

3. Mobility within and between places

Key performance indicators:

- Transport mobility across a place by time and cost
- Transport mobility with other places by time and cost

Successful places are easily traversable by car, bus, train, cycle and foot. Goods can move efficiently, businesses are linked to one another; and people are well-connected to their jobs, homes and local services. The local transport system is managed across boundaries – 11.3m people in the UK commute from one local authority to another for work[41] – and the place is well-connected to other areas. This is important because, as the Eddington Transport Study and more recently Centre for Cities have argued, when transport networks within and between places outside of London are poorly-serviced, they are considerable drags on local growth.[42][43] Places therefore need to be well-connected within and with other places, in terms of time and cost. Unfortunately, this is often not the case. For instance workers in Leicester have to work almost twice as long as their counterparts in Liverpool to afford their commute (see Table 2 below). A well performing and priced local transport system is an essential asset for a successful place.

40 Submission to our call for evidence cited the issue of 'sense of arrival' being an issue raised by local businesses

41 ONS (2016) - Where do we commute to?

42 The Eddington Transport Study (2006)

43 Centre for Cities (2014) - Fast Track to Growth

Table 2: Average hours worked to afford monthly rail ticket for residents within a 15-45 minute commute of the busiest stations within the eleven busiest English cities.

Place	Hours worked to afford commute
Liverpool	8hrs 23mins
Birmingham	8rs 27 mins
London	9hrs 13mins
Manchester	10hrs 8mins
Leeds	10hrs 50 mins
Nottingham	11hrs 25mins
Sheffield	11hrs 43mins
Newcastle	11hrs 52mins
Bristol	13hrs 55mins
Brighton	14hrs 57mins
Leicester	15hrs 19mins

Source: Fish4jobs (2016) – Which major UK city has the most affordable commute?

4. Enterprise culture

Key performance indicators:

- Rate at which local businesses 'scale up'
- Public-private employment balance in local economy
- Levels of agglomeration between local industries
- Percentage of jobs at threat of automation
- Business creation rate
- R&D expenditure

A successful place has a buoyant enterprise culture. Businesses are easily created with many developing into high-growth firms which generate wealth and jobs in the local economy.[44] Firms and industries are encouraged to collaborate and the importance of association is understood.[45] Entrepreneurs are provided the space, talent and structures to thrive. And when they don't, or when an employer closes or leaves the area, they are encouraged to start afresh. For example after Playstation restructured its European offices away from Liverpool, a raft of digital experts in gaming were left in the city. Because of the city's perceptible assets and intangible characteristics, they largely remained and the city now has more gaming publishers per head than anywhere else in the country.[46]

Successful places also have balanced economies where supply chains are developed and value retained. For instance, while no public-private balance in a local economy is inherently *right*, it is important that places are not overly

44 A high business creation rate is by no means a guarantee of local economic success, because entrepreneurship does not necessarily translate to high levels of growth, innovation or productivity. Just 41.4% of British businesses started in 2010 were still in existence five years later. ONS (2015) - Business demography, UK: 2015

45 The Pursuit of Power, Richard Evans, 2016

46 Research interview

reliant on the public sector for employment – much like they should not be overly reliant on one business.[47] Key local industries are well agglomerated and civic leaders respond to – and plan for – business cycles and trends. For instance, one trend identified by many of the evidence submissions we received from councils, business groups and universities, as a threat to a number of industries is automation in the workplace. Because some places are more reliant than others on certain industries, some places are more at risk than other. For instance Thurrock's high reliance on the retail sector – largely in Lakeside shopping centre – and the transportation and storage sector make 46.6% of its jobs at high-risk of automation, as illustrated by figure 5.

However, dictating growth is difficult – it discriminates. High-growth areas, such as clusters, tend to establish themselves organically and are more dependent on geography rather than nurturing. For example the strength of London's FinTech cluster stems from the city being the leading centre of global finance, a strong existing technology cluster and access to entrepreneurial talent.[48] Good practice is difficult to replicate.

Figure 5: Jobs at high-risk of automation in Thurrock by sector. Only sectors with 1000+ employees in the area have been included in this analysis.

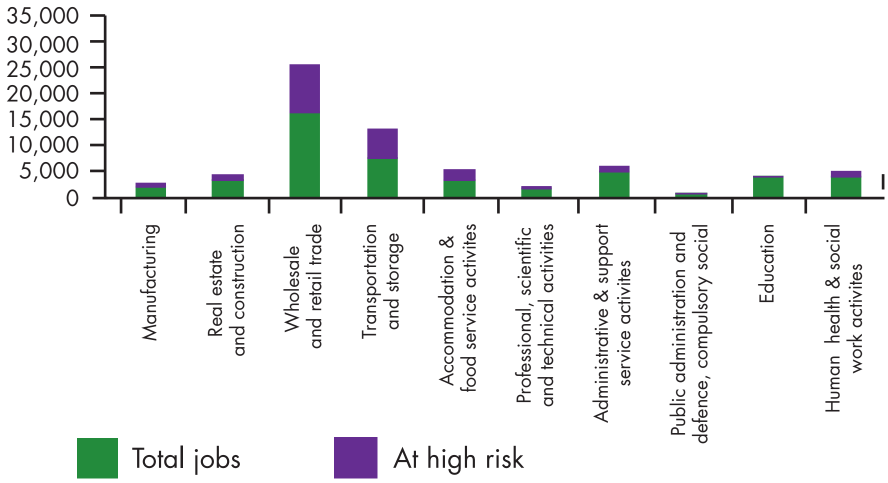


Figure 5. Data source: Business Register and Employment Survey, ONS. See Appendix Three for full explanation on risk calculations.

47 For instance one council's response to our call for evidence listed a large, recently under fire sports retailer as its second most important employer. To service the influx of agency workers, the local town's housing stock has been 'carved up'; while the factory has been accused of not treating its employees as humans.

48 Davis et al. (2016) - The UK's FinTech cluster

SCORECARDS

Not every strategic trend or indicator we have identified in this chapter is quantifiable, for instance identity. However, for those which readily are, we have assembled three scorecards of the structural strengths and weaknesses of the three place groups we identify:

- Strategic authorities (32-35)
- Stifled places (36-37)
- Stuck places (38-39)

The variables we use in the scorecards are some of a number of indicators, but the ones we believe are most important to assessing a place's vibrancy. Each data point has been indexed against the English average. An average ranking has been calculated for each place (see Appendix Two for explanation of this process), and scorecards are ordered accordingly. Scorecard variables include the following (full data analysis explanation and sourcing behind each indicator in Appendix Three):

- GVA per head of population (£), 2015
- Uplift in GVA, 2008-2015
- Nominal GVA per hour worked (£), 2015
- Percentage of employees working in the public sector, 2015
- Percentage of jobs at high-risk of automation, 2015
- R&D expenditure (€pp), 2014
- Business births as percentage of active businesses, 2015
- Percentage of population aged 25-34, 2015
- Percentage of students in state-funded schools who achieved five or more A*-C GCSEs (including Mathematics and English), 2015/16
- Percentage of population aged 16-64 with NVQ4+, 2015
- Over 65s as proportion of working population (OAP dependency ratio), 2015
- Percentage of population aged 50-64 economically active, 2015

Each strategic authority geography we use in the strategic authority data set aligns with the geographies outlined in Chapter One and Appendix One. Stifled and stuck geographies also align with their local authority boundaries. Some data is not readily available for the geographies we have chosen. For instance, GVA related indicators and R&D are only available by NUTS areas, which do not often align with local authority areas (R&D expenditure is only accessible by NUTS2 areas, so a relevant score has been assigned where strategic authority areas do not align with NUTS2 areas – e.g. Derbyshire and Nottinghamshire were both assigned the figure of 747€pp, the figure for the NUTS2 geography of 'Derbyshire and Nottinghamshire'.) GVA-related and R&D figures are therefore omitted from the stifled and stuck scorecards.

Strategic authorities scorecards

Place		Economic performance				
		GVA per head of population	Uplift in GVA (2008-2015)	Nominal GVA per hour worked	Employees working in public sector	Jobs at high-risk of automation
1	Berkshire	153.9	91.3	124.6	74.3	91.3
2	London	166.8	149.5	128.4	87.3	92.3
3	Buckinghamshire and Milton Keynes	126.3	124.5	-	76.0	99.9
4	Cambridgeshire and Peterborough	110.0	129.2	-	87.2	96.4
5	Hertfordshire	111.0	68.5	102.3	83.3	96.8
6	Oxfordshire	123.4	153.4	105.6	86.6	91.8
7	Surrey	128.0	108.9	-	69.7	93.8
8	Brighton and Hove	95.5	123.8	94.0	103.9	91.9
9	West of England	108.6	106.9	-	93.2	98.3
10	Warwickshire	104.3	127.5	93.1	74.2	110.7
11	Hampshire and Isle of Wight	98.3	84.3	102.7	92.9	99.2
12	Bedfordshire	82.1	58.4	-	93.5	103.5
13	Gloucestershire	98.9	126.4	93.4	90.9	102.9
14	Greater Manchester	82.7	85.2	86.9	103.9	100.5
15	Swindon and Wiltshire	94.1	68.1	-	93.9	104.6
16	Cheshire and Warrington	115.1	94.3	102.5	85.1	103.0
17	Leicestershire	85.6	100.2	-	90.0	104.7
18	Essex	81.4	82.3	96.7	93.4	103.6
19	Kent	80.2	83.2	93.9	98.0	102.0
20	Nottinghamshire	77.4	74.9	-	106.7	99.0
21	Northamptonshire	86.0	57.1	-	75.4	110.2
22	Derbyshire	78.6	107.7	-	106.0	107.0
23	Worcestershire	77.9	94.9	87.2	90.8	105.6

		Human capital					
R&D expenditure	Business births as percentage of active businesses	Population aged 25-34	Students achieving 5+ A* to C GCSEs	16-64s with NVQ4+	OAP dependency ratio	50-64s economically active	Average Ranking
298.7	100.5	99.8	108.3	123.0	83.1	108.4	5
107.9	125.7	142.6	104.9	135.4	61.5	100.0	6
298.7	93.6	90.7	109.2	118.9	107.0	108.5	9
273.9	90.6	100.3	101.2	111.6	97.1	107.5	9
197.5	97.5	95.2	110.0	115.1	95.3	109.6	9
298.7	78.7	98.8	93.5	140.5	83.1	112.3	9
87.8	90.5	81.7	102.1	125.6	107.6	105.0	13
87.8	96.0	121.8	94.5	132.0	71.9	101.7	13
162.9	89.4	106.0	98.7	118.4	102.4	103.9	13
166.6	95.3	85.2	106.2	112.3	110.4	103.8	15
149.4	87.7	89.3	100.8	95.2	111.5	105.5	17
197.5	103.5	104.5	97.9	96.3	88.1	104.6	17
162.9	79.6	83.9	98.4	112.0	119.5	113.1	18
45.3	105.6	108.2	96.4	91.4	87.4	95.0	20
162.9	86.9	87.2	102.1	94.0	109.4	106.7	20
22.8	89.0	81.3	104.0	107.9	115.8	98.3	21
63.9	90.3	93.6	99.7	89.0	96.8	98.2	21
76.8	96.5	87.8	102.0	77.0	113.5	100.9	22
62.3	92.6	87.3	100.9	89.5	111.1	100.5	22
126.9	99.3	93.8	98.1	91.1	99.1	96.2	23
63.9	108.8	91.5	94.3	79.2	99.2	106.6	23
126.9	110.8	87.0	95.1	89.6	112.2	101.1	24
166.6	78.1	80.7	102.7	101.6	127.4	99.5	24

Strategic authorities scorecards continued

Place		Economic performance				
		GVA per head of population	Uplift in GVA (2008-2015)	Nominal GVA per hour worked	Employees working in public sector	Jobs at high-risk of automation
24	West Midlands	80.1	98.5	86.1	114.5	102.6
25	Leeds City Region	82.0	62.9	85.9	109.0	100.2
26	Tyne and Wear	75.0	83.2	-	127.7	97.6
27	North Yorkshire	88.0	58.1	85.7	97.2	105.4
28	West Sussex	96.4	104.9	-	77.1	107.2
29	Suffolk	87.1	76.2	96.1	85.0	106.9
30	Dorset	83.7	77.0	-	96.0	103.8
31	Herefordshire	78.9	71.5	81.1	87.7	109.6
32	Liverpool City Region	73.9	56.9	88.6	131.1	100.5
33	Sheffield City Region	67.6	65.5	81.3	127.6	100.4
34	Norfolk	80.1	88.0	-	97.3	104.3
35	Somerset	78.1	81.7	83.8	95.3	108.2
36	East Sussex	70.0	89.5	90.2	100.0	101.0
37	Devon	75.6	71.4	84.1	108.1	104.8
38	Tees Valley	70.3	55.0	-	131.8	97.9
39	Shropshire	76.4	54.9	-	106.3	105.8
40	Lancashire	75.0	62.1	81.0	117.2	104.0
41	Durham	59.2	65.6	84.1	124.7	101.7
42	Lincolnshire	72.0	87.1	84.7	93.8	107.9
43	Hull City Region	73.6	34.3	86.4	114.9	107.4
44	Cumbria	86.0	80.2	85.6	132.8	113.6
45	Staffordshire	68.6	37.8	-	94.8	109.8
46	Cornwall	68.7	56.4	78.9	88.5	110.7
47	Northumberland	61.0	58.3	85.5	112.8	106.3

		Human capital					Average Ranking
R&D expenditure	Business births as percentage of active businesses	Population aged 25-34	Students achieving 5+ A* to C GCSEs	16-64s with NVQ4+	OAP dependency ratio	50-64s economically active	
83.9	115.4	105.4	92.5	76.9	90.2	93.8	24
52.6	97.3	100.0	93.8	82.3	90.9	98.6	24
48.4	95.5	99.3	99.1	85.6	98.2	92.2	25
73.6	77.3	81.0	107.0	101.7	127.7	104.9	25
87.8	83.0	79.5	93.5	104.7	134.1	97.4	26
273.9	73.7	84.2	94.9	75.4	135.4	100.2	27
39.2	81.1	81.2	104.0	95.7	147.1	102.0	27
166.6	69.8	81.5	98.1	91.3	159.3	104.6	28
76.8	104.4	97.5	93.0	79.0	104.2	91.9	28
44.6	107.3	97.3	94.7	78.9	100.0	97.3	29
273.9	74.2	84.5	96.2	77.2	142.6	98.6	29
39.2	76.3	76.3	99.2	97.0	129.4	101.9	30
87.8	81.8	71.6	91.8	84.2	150.4	100.0	30
40.1	74.1	80.9	99.2	98.8	138.1	102.6	31
37.0	97.7	92.0	94.3	82.7	105.5	91.9	31
28.1	76.2	82.4	99.8	87.7	121.8	107.1	32
41.2	83.4	87.6	98.6	83.1	111.4	92.4	32
37.0	83.8	85.1	91.0	78.9	103.2	90.3	34
15.6	85.5	81.3	89.7	78.3	135.0	98.1	34
32.5	86.3	88.8	95.8	75.5	114.6	97.5	35
46.1	68.5	75.9	89.4	84.2	135.8	98.3	36
28.1	83.1	88.3	92.9	80.5	114.0	94.6	36
9.6	73.8	72.3	101.6	79.6	144.1	97.9	37
48.4	78.7	74.3	87.4	84.0	147.3	99.2	37

Stifled places scorecard

Place		Economic performance			Human capital
		Employees working in public sector	Jobs at high-risk of automation	Business births as percentage of active businesses	Population aged 25-34
1	Oxford	111.6	75.4	110.3	134.9
2	Brighton and Hove	103.9	91.9	106.6	121.8
3	Exeter	149.5	90.5	121.8	114.7
4	Slough	77.7	103.4	94.9	124.7
5	Cambridge	111.9	77.1	75.4	135.5
6	Watford	190.5	88.6	88.8	124.9
7	Guildford	93.2	93.4	148.1	100.9
8	Norwich	85.3	98.9	136.3	129.3
9	Bournemouth	89.8	100.4	98.4	111.1
10	Welwyn Hatfield	55.5	99.2	64.7	104.9
11	Dartford	97.5	110.3	110.8	112.4
12	Nottingham	107.2	90.4	148.3	114.4
13	Colchester	99.7	96.9	70.0	101.2
14	Peterborough	80.9	101.7	133.7	115.1
15	York	107.5	99.5	63.6	102.0
16	Southampton	124.5	95.6	96.9	123.8
17	Milton Keynes	81.5	102.9	83.2	107.9
18	Portsmouth	122.5	95.8	140.3	115.8
19	Bedford	114.5	101.9	99.3	92.6
20	Maidstone	131.5	96.6	114.9	93.6
21	Coventry	104.5	96.9	98.8	121.9
22	Canterbury	94.4	93.3	79.4	81.2
23	Swindon	90.7	109.3	80.4	101.2
24	Plymouth	116.6	103.4	167.5	101.7
25	Leicester	129.2	94.8	80.4	119.7
26	Medway	117.6	100.7	77.3	101.1
27	Bradford	134.7	99.7	91.0	101.8
28	Northampton	89.4	104.5	63.7	110.9

Students achieving 5+ A* to C GCSEs	16-64s with NVQ4+	OAP dependency ratio	50-64s economically active	Average Ranking
103.6	172.3	41.3	111.3	57
103.3	132.1	71.7	101.7	84
102.2	113.6	72.8	117.8	86
114.2	101.1	47.6	103.9	86
107.0	180.7	57.4	103.0	92
110.0	117.9	80.8	106.9	96
110.7	119.6	100.1	94.5	97
96.2	106.8	71.8	101.7	103
105.7	98.4	105.7	100.7	120
110.0	105.7	93.1	96.8	121
100.6	88.3	68.5	103.6	132
79.6	93.5	69.5	96.7	132
101.6	87.5	88.7	116.4	137
86.9	70.9	94.2	105.1	137
108.4	110.3	96.4	101.2	141
90.2	88.0	83.0	105.2	141
94.6	96.5	95.0	107.5	142
92.1	81.8	86.0	99.4	146
93.4	102.4	91.7	105.9	149
100.6	97.6	106.0	98.8	150
96.1	80.2	76.0	90.7	154
100.6	108.4	107.6	95.7	167
96.4	78.3	80.6	106.9	168
91.6	81.3	97.5	98.3	168
90.4	78.3	69.1	96.3	178
102.1	70.4	96.8	97.9	181
82.3	72.8	81.4	98.6	183
94.3	81.8	95.9	101.0	184

Stuck places scorecard

Place		Economic performance			Human capital
		Employees working in public sector	Jobs at high-risk of automation	Business births as percentage of active businesses	Population aged 25-34
1	Isle of Wight	115.7	107.3	80.1	69.1
2	Blackpool	180.6	103.3	71.8	86.3
3	Tendring	88.8	111.4	84.3	62.0
4	King`s Lynn and West Norfolk	116.9	110.9	67.5	82.2
5	East Lindsey	81.9	111.7	78.7	65.6
6	North Norfolk	65.5	113.6	76.7	62.9
7	Torbay	152.7	106.1	77.6	73.3
8	North Lincolnshire	100.2	116.2	65.1	87.7
9	West Lancashire	90.8	111.6	69.7	73.2
10	Wyre	86.0	108.6	72.6	70.5
11	Copeland	298.2	115.3	100.8	81.8
12	Dudley	120.2	106.1	72.8	89.5
13	Eden	107.4	117.7	65.5	66.6
14	West Somerset	86.1	117.8	61.0	59.4
15	Sunderland	123.8	104.2	76.0	93.2
16	Babergh	57.4	111.9	86.3	64.6
17	North Kesteven	100.8	107.2	77.1	79.6
18	North East Derbyshire	94.9	109.0	73.6	73.3
19	Staffordshire Moorlands	80.6	105.0	78.9	68.6
20	North East Lincolnshire	103.9	111.6	60.7	92.8
21	Suffolk Coastal	62.8	113.1	90.1	58.9
22	North Devon	100.3	111.0	76.5	74.4
23	South Norfolk	159.6	98.3	78.7	73.5
24	Tameside	129.8	106.5	71.8	95.8
25	Torridge	77.4	105.6	78.3	67.2
26	Barrow-in-Furness	116.9	115.3	91.6	84.3
27	South Lakeland	78.7	116.0	72.4	62.8
28	Great Yarmouth	110.3	107.9	88.0	85.0
29	Stoke-on-Trent	132.5	106.2	86.9	103.9
30	Christchurch	63.5	114.7	65.1	59.5

Students achieving 5+ A* to C GCSEs	16-64s with NVQ4+	OAP dependency ratio	50-64s economically active	Average Ranking
81.8	76.9	181.0	95.9	263
75.5	59.5	139.7	97.4	258
101.6	52.4	207.4	73.1	257
96.2	63.3	172.0	102.2	253
98.4	68.5	160.4	93.6	252
96.2	62.2	227.6	101.1	247
98.9	71.5	171.7	102.9	245
98.4	73.6	125.3	93.0	245
100.5	90.8	133.6	73.1	242
100.5	78.5	148.5	90.6	241
100.0	63.3	126.7	92.5	239
88.0	67.1	116.2	99.0	236
100.0	94.0	166.1	107.5	235
99.2	79.6	219.7	118.2	235
93.0	68.8	105.1	89.6	233
94.9	63.6	148.7	97.5	233
98.4	75.3	137.9	96.8	232
98.6	84.2	132.6	98.3	230
94.3	55.4	141.5	103.9	228
98.4	64.1	112.4	100.0	227
94.9	99.7	176.8	92.8	226
102.2	69.3	147.1	102.2	225
96.2	83.7	167.7	104.3	225
100.3	68.2	99.2	90.5	223
102.2	87.2	156.3	79.0	223
100.0	55.4	98.0	93.4	223
100.0	108.7	188.7	101.9	223
96.2	45.9	94.4	89.0	222
87.7	66.0	96.9	81.5	222
102.1	75.0	191.2	106.9	222

Chapter Three – How places can take control of their industrial strategy

"In my view any successful industrial strategy has to be local."
Rt Hon Greg Clark MP, September 2016

The government's industrial strategy, as made clear in its green paper, will build on the country's existing strengths and make strategic interventions to address its structural weaknesses.[49] Informed by ten industrial pillars, such as upgrading infrastructure and developing skills, it aims to improve productivity and drive growth across the whole country. This process will be driven nationally, but as Greg Clark identifies, its success will be dependent on places leading it locally. The challenge of developing a modern industrial strategy which addresses both the economic and political imperatives set out by the Prime Minister is too great for central government to tackle alone, especially when it leads on the country's exit from the European Union. Working in concert with central government, places should therefore take control of their industrial strategy. Local leaders, across strategic authority geographies, should create their own vision for their place's future that builds on existing industrial assets and addresses its structural weaknesses: *a local industrial strategy.*

Local industrial strategies should be a process of planning ahead, attracting inward investment and managing growth, but also rebasing local economies to fit with the new technologies and trading arrangements that will affect them over the coming decades. For instance, learning from the mistakes made in mining villages in the 1980s, local leaders in areas most at risk of automation trends should work with government to make sure communities are resilient to this inevitable economic shift. In places where digital infrastructure is poor, innovative financial solutions should be explored for its improvement. And places with dysfunctional housing markets should use their local industrial strategy to spur more constructive collaboration between neighbouring authorities.

To be effective local industrial strategies should be driven by five principles which we outline in the rest of this chapter. As we make clear, a number of places already follow these principles, and we provide case studies of good practice, but the majority of places either don't, or don't do so enough. Supported by the central government action which we outline in Chapter Four, places should use all of the flexibilities available and take the lead in delivering growth.

1. Coordinated leadership across institutions that drive local growth

Local industrial strategies should be designed and led by institutions which drive and influence growth across a place. This means strategic authorities, local authorities, LEPs, business, universities and other local institutions working in concert, with a sense of common endeavour – a guiding coalition. Too often local institutions work and plan separately of each other. One Advisory Panel member said they had chaired a discussion where the LEP chair, council leader

49 HM government (2017) - Building our industrial strategy

and chief executive of the biggest employer had never met despite all being in their roles for over three years. Places cannot afford this when success depends on a combination of civic and business leadership.

Our research suggests stronger partnerships need to be developed across places in five ways:

1. **More meaningful risk-sharing partnerships between public and private institutions**. To attract more private investment into local infrastructure, public sector institutions need to take on a greater proportion of the financial risk; be that via money, land or another activity. This requires a clear understanding of which partner invests what and when. We require better commercial awareness, skills and capabilities in the public sector, alongside this more open attitude to risk sharing. One interviewee suggested this required super-charged executive directors within councils who can take a risk point of view of a whole project and more risk-oriented officer and member leadership in general. To be truly effective this will ultimately require more fiscal flexibility around revenue generation and investment options, something we discuss in more detail in Chapter Four.
2. **Stronger partnerships between places and their most important sectors.** As one county's major employer – a multi-national car manufacturer – said to us, in Germany they deal with regional government as that is where decisions are made and things gets done. When they speak to local governments in England, all they have is the power to create another conversation. More power held locally is necessary to address this issue (Chapter 4), but places should be cultivating excellent relationships with key local businesses helping them to invest and grow.
3. **Robust political partnerships.** Coordinated and integrated leadership should start with the recognition that strong leadership doesn't look like strength but confidence. Like the mantra of the West Midlands Combined authority: everyone benefits, but not in the same way at the same time. Strong political partnerships across parties and places are needed, especially given change often foments opposition from the local media, businesses and electorate.
4. **Place at a number of scales.** As is evident from the Northern Powerhouse and Midlands Engine, on issues of sub-national strategic importance, such as foreign direct investment and transport, places achieve more working in formal and informal collaboration than on their own. A local industrial strategy, however, must also be relevant to the high street and issues such as town and city centre improvement. Local industrial strategies must deal with place on a grand strategic scale but ensure the positive impact created is felt within local communities.
5. **A more balanced central-local relationship.** Places should understand they are delivering national government's agenda alongside their own. Devolution should be seen less as a one way transactional transfer of powers as it becomes subsumed under the industrial strategy becoming something more akin to a rebalancing of the central-local relationship.

2. Know your place

To develop a local industrial strategy, places need a strong understanding of their local area and its capacity to grow. What and where are its structural strengths and weaknesses? Which are the biggest opportunities for, or barriers to, growth? What investments should local leaders prioritise? For instance West Midlands Combined authority is using a Dynamic Economic Impact Model which will provide an objective assessment of a range of interventions including transport, regeneration, skills and innovation in order to prioritise interventions. Similarly, Greater Manchester's first growth strategy in 2009 was informed by, and a response to, the Manchester Independent Economic Review, published in the same year, which evaluated the city-region's economy.

A strong evidence base is important for presenting business cases for public investment, such as transport infrastructure, and also further devolved powers. On the former, as one Advisory Panel member said to us, without an evidence base there is often no general local agreement on strategic growth priorities. This type of uncertainty discourages investment. On the latter, when much of the rationale for passing control to a place is better and smarter prioritisations of investment, a paltry evidence base gives government little confidence to devolve.

3. Think global

In leaving the European Union, the UK also steps out of its trading framework. This brings with it a number of challenges. Most pressing for those places which have industries and supply chains reliant on exporting to the common market is their dependency on central government striking an advantageous trade deal with the EU.

Brexit makes it vital for places to consider their local industrial strategies in a global context. For instance England has a number of clusters which are considered world leading.[50] These clusters have been in competition with international centres of excellence for investment for some time, but with the country's departure from the EU comes heightened competition from mainland Europe. The country's role as a gateway to the EU market has been made more complicated, therefore knowledge of a place's global competitors; how they are approaching and enticing new investment, what policy or regulatory changes they are enacting to support this, becomes critical to remaining competitive. For example our world leading aerospace industry, with key clusters in the North West and South West of England shouldn't compete with each other for investment but with Toulouse in France, Hamburg in Germany and Lombardy in Italy, as well as global centres like Tianjin in China, Washington State in the USA or Montreal in Canada. The golden triangle of Life Sciences and Research (Oxford, Cambridge and London) is not in competition with other emerging centres in the UK but Boston in USA, Tel Aviv in Israel, Beijing in China and Leiden in the Netherlands to name but a few.

Thinking globally in terms of economic competition will elevate the leaders of places into important conversations about the future of trade. A key challenge for local leaders to date has been their limited role in any discussion over how the UK should leave the EU, and in turn what trading arrangements are necessary for places to thrive. Command over a strong evidence base linked to your place and its global competition will add value to Britain's negotiation of future trading arrangements.

4. Strategic investment and planning

Newly negotiated trade agreements will have significant implications for places whose economies are mostly export-reliant, particularly those dependent on trading with the EU.[51] Local leaders must therefore ensure their places remain as attractive as possible to inward investment and talent. Allied to a more commercial approach to risk, local authorities, strategic authorities and LEPs should be creative in finding ways to finance infrastructure and using the planning system to ensure their commercial environments are as conducive to growth as possible. One Advisory Panel member described this approach as *municipal entrepreneurialism.*

As we outline below, many places already use a number of the tools available to them in this regard. However most underuse them, often because they lack

50 Center for strategy and Competitiveness (2011) - Star Clusters in the United Kingdom

51 Centre for Cities (2017) - Cities Outlook

the resource and/or expertise. The collaborative nature of strategic authorities (alongside the measures we outline in Chapter Four) will provide places with the opportunity to establish weightier capital investment programmes and stronger planning policies as part of local industrial strategies.

Investing in comparative advantage

From their own reserves and assets, to government grants and borrowing facilities, local governments and LEPs have considerable investment capacities at their disposal. Allied to this, through measures such as section 106 contributions, the Community Infrastructure Levy, and business rate infrastructure supplements, there is some, albeit varied,[52] capacity to raise funding with which to invest. All are useful in delivering land and infrastructure and local governments and LEPs should be proactive in using them. For instance if a piece of land is contaminated, in need of remediation and unviable to a private investor, councils can bridge the viability gap and bring the site to the market themselves. Not only does this add to a council's pipeline of sites for employment growth, it also enables the council to run a commercial portfolio that generates a long-term revenue stream. On a grander scale Crossrail is partly being financed by a supplementary business rates levy which is expected to raise £4.1bn, a tool which some combined authority areas are able to use, and a £600m bond issued by the GLA.[53] The GLA has also part-financed the Northern Line extension to Battersea via the issuance of a £200m bond.[54]

When combined with other public and private investors, local authorities' and LEPs' investment capacities can grow dramatically. For instance drawing on the strengths and skills of nearby GCHQ, Cheltenham Cyber Park is being developed by a land-owning consortium, the local Council, gFirst LEP with support from DCMS.[55] Similarly, New Street Station in Birmingham was funded by the Department for Transport, what was then the Department for Business, Innovation and Skills, Network Rail, Birmingham City Council and what is now Transport for the West Midlands. Its retail function, Grand Central, was then sold to a property group for £335 million, repaying around half of the initial investment.[56] Somerset County Council, in conjunction with local authorities across Somerset and Devon, is investing in the extension of superfast broadband and mobile infrastructure to businesses and households that cannot viably be connected through commercial investment. Alongside its own direct investment, the Council is also levering central government funds through Broadband Delivery UK, its Growth Deal, and the European Regional Development Fund.[57]

Using their own balance sheets and fiscal capacities more productively, alongside leveraging in the investment capacities of third-parties, the local public sector has immense financial means with which to invest in their place. Where the finance and will is not available from elsewhere the local state will need to become the commercial developer and financier for certain projects of strategic importance. The collective might of a strategic authority could and should be used to great effect, for instance on bond issuance. At a time when public funding for infrastructure is tight, this is especially important. Vital infrastructure has not been, and will continue not to be, delivered if the state alone is the only financier, however.

52 All local authorities have the power to negotiate section 106 contributions and charge a Community Infrastructure Levy. Only mayoral combined authorities and the GLA have the power to impose a supplementary business rates levy of up to 2%.

53 Mayor of London (2016) - MD1590 2016-17 Crossrail Business Rate Supplement

54 Public Finance (2015) - CPI-linked bond 'could provide model for local government borrowing'

55 Call for evidence submission

56 Research interview and Network Rail (2017) - Birmingham New Street improvements

57 Call for evidence submission

Laying the framework for growth

Local planning and regulatory frameworks articulate a place's growth ambitions and investment priorities. They are vital in supporting a place's comparative advantage and overcoming local barriers to growth. For instance, developers and investors gravitate towards areas with adopted local plans. They provide certainty and positive-decision making and,[58] alongside supplementary planning guidance, are important tools for supporting local industry. In Norwich for instance, pedestrianisation of the city centre has supported the local retail industry.[59] In Hackney, the council's local plan requires 10% of new floor space within major commercial developments to be affordable workspace, supporting local start-ups.[60] And in Rochdale, the council negotiates its section 106 agreements to secure the use of local labour and local contractors.[61] As part of local industrial strategies, places should be supported to adopt and maintain local plans.

Places should also use zonal planning to overcome constraints to growth. For instance Enterprise Zones enable the creation of Local Development Orders, whereby automatic planning permission can be granted for selected developments and uses. This is advantageous to those looking to locate in the area as it increases certainty as to what would be acceptable and can improve the speed of decision-making. Business rate relief zones can also be used to attract investment – though as local authority budgets have tightened, this has come with greater risk. In areas where they are empowered to, places should also use Development Corporations – such as those in London and Tees Valley – to support development on strategic and complex sites. The Development Corporations have effectively acted as the local planning authority in the areas with them, enabling a single body to coordinate regeneration across local government boundaries.

5. Supporting innovation ahead of invention

Through their research and talent development, universities are increasingly expected to support local economic growth. Alongside their student and staff bodies' direct economic contribution to the local area their very presence is attractive to new businesses. The growth and jobs that universities generate through their research capacity is hugely valued.

Over recent decades, subsidised science parks which play host to start-up firms have been expected to 'capture' and develop the value from ideas created in British universities. This approach to innovation dominates conventional thinking on research and development, and science parks are sometimes part-funded by LEPs and local government.[62] Unfortunately it is ineffective. As the Prime Minister has said, "We have more Nobel Laureates than any country outside the United States, but all too often great ideas developed here end up being commercialised elsewhere".[63] As the Science Policy Research Unit at the University of Sussex has argued, universities and their associated, often subsidised, spin-out firms are poor at transferring their research into commercial propositions and can make it more difficult for the few productive spin out firms to expand.[64] Universities play a supporting role in the transfer of technology to the market, but they "are much less important than firms' connections to their suppliers and customers."[65]

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58 It is therefore concerning that in July 2016 just four-out-of-ten English councils have an up-to-date adopted local plan Inside Housing (2016) - Six in 10 councils without an adopted Local Plan

59 Call for evidence submission

60 Call for evidence submission

61 Call for evidence submission

62 University of Warwick Science Park (2011) - Universities and Science Park based Technology Incubators

63 Prime Minister's Office (2016) - CBI annual conference 2016: Prime Minister's speech

64 SPRU, Demos (2014) - The myth of the science park economy

65 SPRU, Demos (2014) - The myth of the science park economy

This is a crucial insight for the industrial strategy. Invention – which universities are good at – is a onetime event and innovation a longer term process. They require different kinds of support from government and different approaches to what we have now. Strategic authorities should be supporting the development of supply chain clusters based around big companies – where innovation tends to occur – not university-led clusters.[66] For instance the Centre for Advanced Manufacturing and Engineering is a partnership between Coventry University and Unipart, while the University of Lincoln and Siemens have established a school of engineering.[67] Haverhill, a town in Suffolk, has attracted investment from Sanofi in a major manufacturing plant because the pharmaceutical company's research and development facilities are located nearby in Cambridge.[68] Furthermore universities should be looking to attract global venture capitalists to their area to nurture and scale up innovation in the private and public sectors, not subsidise it on their own. In short, the value that university research creates needs to be captured and developed, just not by universities – whose skills are not suited to securing patents, developing efficient production processes or product marketing – nor their related start-ups, who lack the necessary resource.

Universities should instead be encouraged to do what they do best – cultivating high-quality graduates and transactional technological transfers with industry. Rather than commercialisation, universities should be encouraged towards specialisation, inspiring large companies to locate parts of their supply chain in close proximity to the university. For those universities that offer a melange of courses at low to mid-level quality, they could follow economic success stories such as Pittsburgh, Lincoln and Dundee whose subject specialisation has been productive for the local area in the robotics, food manufacturing and video-gaming industries respectively.[69]

66 Often science parks grow into managed office spaces, dependent on rent from recruitment firms, solicitors and web-designers, rather than high-innovation, high-growth firms. (Though recently piloted University Enterprise Zones, to some extent, recognise this issue.)

67 Call for evidence submission

68 Call for evidence submission

69 For Pittsburgh example, see KPMG (2014) - Magnet Cities. Lincoln example comes from a call for evidence submission. For Dundee example, see BBC News (2014) - How Dundee became a computer games centre.

Chapter Four – How government can bring the industrial strategy to life

In her speech to Conservative Party Conference in October 2016, Theresa May said her government's industrial strategy would do "what every other major and growing economy in the world does. Not just sitting back and seeing what happens – but putting in place a plan and getting on with the job."[70] As the government's industrial strategy green paper outlines, strategic sectors will be prioritised, places supported to achieve their full potential and a broad range of government actions, from trade to tax to infrastructure, used.[71]

So what should a 'whole government approach' look like? For the industrial strategy to be successful it must address the underlying political imperative behind it; the need to see growth and its benefits shared more widely. We have argued that to achieve this the industrial strategy must put place at the centre and be led locally. We have explained precisely who should be responsible for leading it and organisational form they take. We have also made clear how places currently can take a leading role and how they should be strategically planning for future economic growth. However, there remains a limit to the value which can be created without additional powers being devolved. Now is the time for government to give places the opportunity to help themselves so that everywhere has the potential to play an important part in a great economic renewal.

In this chapter we outline the specific central government actions which will bring the industrial strategy to life. Those recommendations which require primary legislation should form part of an industrial strategy Bill.

Recommendations

1. Establish an industrial compact

In the biggest single domestic transfer of power since the establishment of the Scottish Parliament in 1999, the government should create something we are calling an *industrial compact.* As parliament takes back control from the EU on matters of international trade, this industrial compact should provide strategic authorities the tools to succeed and lead the government's industrial strategy. Each strategic authority should receive a suite of powers which will enable them to resolve barriers to growth and compete with global counterparts. As we detail in this section, the compact should transfer specific powers over local labour markets, the planning system and local transport networks. Avoiding the attrition of negotiation that affected city and devolution deals, power transfer should be automatic.

Industrial compact summary:

Once a strategic authority has been established the following powers should automatically be transferred to them:

70 CCHQ (2016) - The Good That government Can Do

71 HM government (2017) - Building our industrial strategy

- Processing and issuing all visa applications for people who want to work and study in their area
- Leading area reviews of skills, and be charged and accountable for system oversight, audit and better coordination between providers
- Spatial planning powers
- Powers to grant planning permission on sites of strategic importance
- Powers to establish Development Corporations
- Pooled CPO powers which should be used to capture 'planning gain'
- The duty to develop medium and long-term transport strategies
- Regulatory control of local bus services, with franchising powers, regulating routes, frequencies, fares and standards
- Regulatory control of local suburban rail services, with franchising powers, regulating routes frequencies, fares and standards
- The power to introduce a place-wide Community Infrastructure Levy

Each of these proposed powers are discussed in more detail below.

1.1 Local labour market control

The industrial compact should provide strategic authorities and their leaders with powers to:

- Process and issue all visa applications for people who want to work and study in their area
- Lead area review of skills, and be charged and accountable for system oversight, audit and better coordination between providers

The industrial compact should empower places to more effectively plan for current and future labour market needs. This should include two key measures, both specifically tied to stronger evidence bases. Firstly **strategic authorities should process and issue all visa applications for people who want to work and study in their area.** The strategic authority would become the co-sponsor of each visa, alongside the relevant business or university, and would be empowered to respond to shortages in local labour force capacity and, at the same time, work in tandem with the local university(s). Like existing non-EU immigration, migrants would have to live and work and study in the place where their visa has been granted, but would of course be free to travel within the UK.

As well as enabling places to use the immigration system to help close structural demographic and skills deficits, local visa issuance would also speak to the general public's demand for greater control over immigration. Places would have a direct say over the balance and numbers of migrants which they want to attract, and local political leaders would stand for election on their immigration policies. For instance, if a place wanted more international students and less migrant labour, it would be able to choose so. If London wanted to issue visas to highly-skilled workers in its FinTech industry,[72] it would have the capability do so.

Strategic authorities should also take a much stronger oversight of local education systems. Strategic authorities should **lead area reviews of skills, similar to the way in which existing combined authorities with**

72 The UK ranked is only 43rd in access to talent for the technology industries.

devolution deals are doing,[73] and they should be charged and accountable for system oversight, audit and better coordination between providers. Oversight should be driven by the principle of better aligning skills provision with future economic need. One interviewee suggested area reviews led by those within the education system had historically been a mechanism for shutting Further Education colleges. However, with strategic authority leadership the focus of such reviews would be on the economic impact of the local education system. Furthermore strategic authorities would be better placed to ensure students are more aware of their post-16 opportunities, working with LEPs, local secondary schools and businesses to raise awareness of the employment and education routes available to people in their area from an earlier age. Research from Ofsted suggests children leaving secondary school are more confident about the range of education options available to them if they are informed at an earlier age.[74]

1.2 Planning for growth

> The industrial compact should provide strategic authorities and their leaders with:
>
> - Spatial planning powers
> - Powers to grant planning permission on sites of strategic importance
> - Powers to establish Development Corporations
> - Pooled CPO powers which should be used to capture 'planning gain'

The industrial compact should provide strategic authorities and their leaders a more muscular role in the planning system. This should include a coordinating spatial planning role and a specific suite of powers to intervene in the local planning system when it is not delivering the development a place needs. We detail both below.

Since the abolition of region spatial strategies, the absence of sub-regional planning has resulted in a significant capacity gap in respect of delivering large development projects at the local level. Local planning authorities – sometimes small shire district councils – have to fill the gap between the National Planning Policy Framework and local plans, and strategic decisions are often confined to district/unitary boundaries and beset by short-term parochial politics. Allied to this, a general lack of joint-planning and investment between local authorities and utility companies often creates a void of not knowing what, when and where major infrastructure provision will be delivered, particularly in more rural and disperse areas. Developers are hit by significant upfront costs which can prevent houses being built at the scale and speed at which they are required. Both trends militate against strategic planning for housing and employment growth.

Learning from the mistakes of regional spatial strategies – which operated at too great a scale to reflect functional economic geographies – **government should make it a requirement for strategic authorities, where the voluntary framework is not being delivered, to establish statutory spatial frameworks across their area.** In London and Greater Manchester respectively, such statutory frameworks already exist or are being developed. They allow both city-regions to manage the supply of land for jobs and new homes, along with identifying new infrastructure, such as utilities, needed to support this. As part of this, **strategic authorities should be responsible for the development and/or disposal of public land across their**

73 HM government (2016) - Reviewing post-16 education and training institutions

74 TES (2016) - Ofsted: parents concerned about 'quality and reputation' of apprenticeship

geographies.[75]

Strategic authorities should also be provided a suite of powers to intervene in the local planning system and land market. As is the case in London, **strategic authority leaders should be able to grant planning permission on sites of strategic industrial importance.** They should also be **empowered to establish Development Corporations**, which could be set up in *stuck* areas. Alongside these reforms, **compulsory purchase order (CPO) powers should be pooled at the strategic authority level.** Wielding CPO powers at strategic authority level would offer places the scale with which to use them to their potential. Many local authorities simply do not use their CPO powers because the procedures are either too expensive, take too long, or both. Strategic authorities would allow constituent councils to pool their relevant resources and expertise.

One particular area we believe **CPO powers should be used more proactively is in capturing the increase in value when land is granted planning permission.** For instance a strategic authority could compulsorily purchase land it has earmarked for development (providing compensation at market value[76]), and then enter a planning agreement with a developer whereby the land is sold on at the same price with the condition that necessary infrastructure – for instance roads and schools – is built before any housing. Once the infrastructure is built, the developer would have the right to develop the existing area and capture the uplift in value that new infrastructure has provided. This approach has been used extensively in Hong Kong by MTR, a company originally owned by the country's government, which underlines the fact that the public sector, solely or as part of a public-private partnership, could be the developer. It is also reminiscent of the approach used by the government in the development of New Towns. Alternatively a planning auction approach could be adopted – similar to the community land auction previously suggested [77] – where after compulsory purchase the strategic authority would invite bids from developers to develop the land. The bid which represented best value to the local community would then be chosen.

Repealing Office to Residential Permitted Development Rights legislation

Alongside the more muscular role we envisage for strategic authorities and their leaders in the planning system, reforms should coincide **with the repeal of Office to Residential Permitted Development Rights legislation.** While the legislation, which allows for the conversion of office buildings into residential units without passing through the planning system, has incentivised the conversion of surplus office space, it does not discriminate between occupied and vacant business space. It has thus encouraged a rapid loss of office space in places where a greater return can be made from the letting of residential units (namely London and the South East). This restricts the growth of local businesses and therefore also a local authority's business rates base. Moreover, because the legislation allows a bypassing of the planning system, developments have no requirement to provide affordable housing, transport improvements or to meet environmental quality regulations. Some councils have been able to introduce Article 4 Directions removing Office to Residential Permitted Development Rights in vital economic zones, but the legislation should be repealed.

75 And therefore the strategic lead across their geography in the One Public Estate programme.

76 There is an argument for allowing CPO compensation at existing use value, however government's recent neighbourhood planning bill does not allow for this. government could, however, allow a strategic authority to pilot this reform as part of the funding pilot programme we recommend in section 3 of this chapter.

77 Centreforum (2011) - Community Land Auctions

1.3 Powers to better plan, regulate and invest in local transport networks

The industrial compact should provide strategic authorities and their leaders with:

- The duty to develop medium and long-term transport strategies
- Regulatory control of local bus services, with franchising powers, regulating routes, frequencies, fares and standards
- Regulatory control of local suburban rail services, with franchising powers, regulating routes frequencies, fares and standards
- The power to introduce a place-wide Community Infrastructure Levy

The industrial compact should provide strategic authorities with the capabilities to better plan, invest in and regulate their local transport networks. Firstly, allied to their long-term spatial development plans, **government should place a duty on strategic authorities to develop medium- and long-term transport strategies.** For instance in London, the city-region's Transport strategy sits under the statutory London Plan, enabling the Mayor and Transport for London to coordinate its transport network to meet the needs of its economy. Although some city-region and sub-national strategic transport bodies have been established that plan in this way – e.g. Transport for Greater Manchester, Transport for West Midlands and Transport for the North – in most areas place-wide spatial transport strategies are limited. Local transport bodies, often LEPs, direct investment toward major local transport projects which are perceived to be most effective for business growth, but they have little influence over the strategic development of local transport networks.

Secondly, in places where they do not already,[78] strategic authorities should be given regulatory control over their local transport networks. This should include **control of local bus services and local suburban rail services across their geographies, and in each case the strategic authority should act as the local transport authority.** Once the Bus Services Bill has received royal assent, as several are already planning to, strategic authorities should regulate routes, frequencies, fares and standards. A franchising model should be used rather than partnership. Moreover, all commuter rail services starting and ending within their boundaries should be controlled by strategic authorities, with franchise contracts awarded and managed by the strategic authority or their transport body rather than DfT.[79] (This, of course, will be more relevant to urban strategic authorities than rural.) As a priority, strategic authorities should introduce integrated ticketing systems, allowing commuters to travel seamlessly – at least in ticketing terms – across a place. Moreover, like TfL in London and TfGM in Greater Manchester, strategic authorities should establish a single, clear interface for the public, businesses and potential investors. To support these processes, government should provide long-term consolidated transport budgets to strategic authorities.

Thirdly, enabling the financing of capital investment plans made in transport strategies – i.e. upgrading and building new infrastructure – strategic authorities should be provided new revenue-raising measures. As in London, **government should extend the power to introduce a place-wide Community Infrastructure Levy to strategic authorities.[80]** And as we outline in section three of this chapter, **a number of strategic authorities should**

78 Mayoral authorities have been devolved some powers over suburban rail services. The Buses Bill provides local transport authorities with franchising powers.

79 In London this should mean control of suburban overground routes transferred to the Mayor, as argued by Centre for London. Centre for London (2016) - Turning South London Orange

80 Like in London, their implementation should be tied to specific infrastructure improvements, allowing sub-city region local government to still exercise section 106 agreements.

be provided the chance to pilot zonal infrastructure levies on new residential or commercial developments built along the corridors through which new transport infrastructure is delivered. This would provide funding with which to repay the public sector's initial capital investment. As one Advisory Panel member said, too often developers wait for transport improvements to be delivered before developing and without contributing. We believe it is fair to reverse this process.

2. Accelerated Growth Fund

Government should:

- Replace European structural funds and the Local Growth Fund with a single pot, the Accelerated Growth Fund. Its allocation mechanism should be devolved to strategic authorities though government should set investment priorities.

As the UK leaves the European Union, places will no longer be beneficiaries of EU structural funds, namely the European Regional Development Fund (ERDF) and European Social Fund (ESF). Managed by LEPs, the 2014-20 round of funding for both is worth €6.9billion to England.[81] Each fund is used to develop projects such as capital infrastructure and some areas such as Cornwall and the Isles of Scilly, which received €590.4million, are highly-dependent on such funds. Because funding is guaranteed over a long period, this allows places to build a pipeline of activity, often across parliaments, on key policy areas in which national government remains inactive – for instance business support.

Government has pledged to guarantee these funding streams after the UK leaves the EU to 2020, but significant scope remains as to how they are used with what restrictions, and whether they will continue. Currently both the ERDF and ESF have four priority investment areas. For the ERDF they are: innovation and research, the digital agenda, support for SMEs and low-carbon economy.[82] For the ESF they are: promoting employment, support labour mobility; promoting social inclusion and combating poverty; investing in education, skills and lifelong learning, and enhancing institutional capacity and an efficient public administration.[83] While all are worthy aims and agendas, government now has opportunity to rewrite their aims, provide fewer restrictions and reform their administration. For instance there is currently a maximum unit cost of £3,000 for supporting a person into employment. This prevents councils from supporting those furthest from the labour market.[84]

We believe that from 2018, **government should replace European structural funds and the Local Growth Fund with a single pot, the *Accelerated Growth Fund*.**[85] While government should set the national priorities this fund should target – and where relevant, honour existing agreements – its allocation mechanism should be devolved to strategic authorities, who are best placed to identify their local structural barriers to growth.[86] As part of this, the strategic authority chief executive (or similar) should become the accounting officer for the Fund. One former senior Treasury civil servant we interviewed for this report said that a major barrier to a single

81 DCLG and European Union (2015) - European Regional Development Fund Operational Programme 2014-2020

82 DCLG and European Union (2015) - European Regional Development Fund Operational Programme 2014-2020

83 DWP and European Union (2015) - European Social Fund Operational Programme 2014-2020

84 Call for evidence submission

85 Many of the central government economic development budgets identified in Lord Heseltine's No Stone Unturned review, some of which became the Local Growth Fund, could be added to this funding pot.

86 Some local authorities already leverage their Regional Growth Fund allocations at a strategic level. For instance, the Greater Manchester Investment Team manage a portfolio of funds including the RGF.

local growth fund as we envisage, and others have before,[87] is that the relevant departmental Permanent Secretary has remained the accounting officer.

In conjunction with other funds such as the National Productivity Investment Fund and industrial Challenge Fund, the Accelerated Growth Fund should be used to remove local barriers to economic and productivity growth. In particular, government should make clear that funding should be used for:

- **Bringing land to the market for housing and employment growth.** Places should use funding to invest in and unlock sites of strategic growth, be that through land remediation, improved site access, basic infrastructure, utilities provision or CPO financing.
- **Enabling places to support cluster development.** By underwriting Enterprise Zone tax incentives and providing loan financing to emerging strategic industries, functional specialisation should be encouraged across the country, with local barriers to scaling up addressed. At a smaller scale town centre investment should also be encouraged.
- **Targeted small-scale transport investment.** Funding should be used to relieve congestion and deliver upgrades to roads and public transport routes of most strategic importance.
- **Parity of esteem between digital and physical infrastructure.** Funding should be leveraged with third-party investors to deliver new fibre and 5G networks.
- **Supporting SMEs to invest in their workforce.** Addressing the lack of time and resource that SMEs have to invest in their workforce, they should be supported to provide workforce planning, training plan development, skills provider identification and financial support, with the aim of expanding apprenticeships in the SME sector.
- **Supporting communities most at risk of automation.** Funding should be used to deliver capital investment and underwriting zonal economic planning (e.g. Enterprise Zones) in areas dependent on fading industries.
- **Investment in new providers of technical education.** To encourage the provision of technical education and lifelong skills, funding should be made available to new partnerships that bring higher education and businesses closer together.
- **A reformed approach to research and development.** Rather than focusing funding on higher education innovation centres, funding should be used to support the locating of company's supply chains close to universities.

3. Raising the funds to deliver local industrial strategies

Government should:

- Allow local authorities full discretion on applying business rate relief for charities and not-for-profit organisations
- Establish a series of fiscal devolution pilots across the country's strategic authorities

As we make clear in this report, places have a number of levers – and should be devolved flexibility on more – with which to drive local growth. But for local leaders to govern to their place's potential, they must be given greater fiscal flexibilities, particularly if they are being encouraged to take a lead on infrastructure and housing. As the government has already recognised in its

87 For instance, Lord Heseltine's No Stone Unturned review.

devolution packages to Scotland and Wales, business rates devolution, and the empowerment of mayoral combined authorities and the GLA to impose infrastructure supplements, it also strengthens a place's growth incentives. Moreover fiscal capabilities can not only be used to drive economic development but to ensure it is redistributive. For instance, voters across Los Angeles County will vote in March 2017 on the introduction of a quarter-cent sales tax to pay for homelessness prevention and housing services.[88] We recommend two industrial strategy actions on fiscal capabilities.

Firstly, complementing business rates devolution – the effects of which we cannot yet predict, given most local authorities have little to no financial capability with which to reduce rates – **local authorities should be provided full discretion on applying business rate relief for charities and not-for-profit organisations**. Charities occupying commercial property are currently entitled to 80% mandatory relief – worth £1.8bn to the sector in the UK in 2015/16[89] – with the council deciding whether to provide relief on the remaining 20%. As recognised in both the Portas and Grimsey review of high streets, this provides charity shops have an unfair advantage over other businesses. With full control, local authorities would instead be free to choose which industries to provide relief to, for instance those targeted in local industrial strategies. While local authorities could still choose to provide rates relief to charities, they would no longer be bound to what is an unproductive use of their high street assets. Subsidised employment space could instead be provided to local entrepreneurs. This measure would also encourage charity shops to better plug into modern retail trends, for instance online shopping.

Secondly, **government should establish a series of fiscal devolution pilots, detailed below, in strategic authority areas across the country.[90]** In each case, aspiring pilot areas should express a clear rationale, emphasising if relevant the capital investment programme which the fiscal provision would fund, and the outcomes they expect to achieve.

- **Fiscal Freedom Zones (FFZs).** In newly-established Development Corporation geographies, strategic authorities should be able to establish tailored tax regimes that encourage new businesses to locate in areas we identify as *stuck*. We envisage two options, which could all be industry-specific:
  - To attract venture capitalists to an area, **tax reliefs offered as part of the Enterprise Investment Scheme (EIS) and its subsidiary Seed Enterprise Investment Scheme (SEIS) should be enhanced to 60% and 80% respectively.** Currently the EIS provides investors with 30% tax relief on investments of up to £1m a tax year in shares of smaller, high-risk companies. The SEIS provides 50% tax relief on investments up to £100,000 and encourages seed investment in early-stage companies. By offering enhanced relief, FFZs would attract angel investors and the like and thereby foster local entrepreneurialism. As SPRU have recognised, firms backed by venture capital tend to be the most innovative and successful.[91]
  - To encourage investment from large international businesses, **corporation tax should be waived within FFZs for firms new to the UK setting up head-quarters in the area.** This could be for certain industries designated by government as strategically important. Of course, strict rules will need to be applied by government on what does and does not qualify – i.e. companies currently based in the UK

88 Los Angeles Times (2017) - Developers join the campaign for a quarter-cent sales tax to fund homeless services

89 HMRC (2016) - UK Charity Tax Relief Statistics 1990-91 to 2015-16

90 We suggest specific pilot areas in the map at the end of this chapter.

91 SPRU, Demos (2014) - The myth of the science park economy

should not be able to simply transfer their operations to qualify.

- **Zonal infrastructure levies.** Strategic authorities should be able to introduce levies on new residential or commercial development within the corridors through which new transport infrastructure is being delivered. The levy would be charged per square metre and would be zonal – i.e. the closer to transport access points, the higher the levy rate. The levy builds on the principles of the Community Infrastructure Levy – a developer would not be 'double-charged' with section 106 agreements as well – but would be more specific to areas (like the Mayor of London's CIL, which part-funds Crossrail) and the infrastructure which it is funding. (For instance a similar scheme in Sydney, a 200A$ per square metre 'special infrastructure contribution', is being levied on new residential development in the corridor of a 22km light-rail line from Westmead to Strathfield via Parramatta's CBD, and incorporating Camellia and Olympic Park.).[92]
- **Corporation tax top slice.** In strategic authority areas with a high number of businesses subject to corporation tax – for instance company head-quarters – local leaders could control a proportion of corporation tax – control over one third has been suggested[93] – encouraging places to focus on measures that support businesses to scale up, increase their productivity and ultimately their profitability.
- **Localised VAT.** As in Scotland, where half of VAT receipts will be retained from 2017,[94] strategic authorities with significant VAT revenue could be devolved a proportion of its revenue. This measure, now possible as the UK leaves the EU,[95] would provide both a more stable fiscal base with which to borrow against, and greater incentive to invest in infrastructure that drives business growth.
- **Removal of restrictions on prudential borrowing.** For instance, we reiterate our calls for the lifting of the cap on borrowing financed by a council's Housing Revenue Account (HRA).[96] This could be piloted at a strategic authority geography in areas where affordable housing is needed most acutely. Constituent councils could consider pooling their HRA capacities.

4. Capacity to grow, capacity to lead

Government should:

- Provide *stifled* places with the right to petition for boundary expansion
- Create a Growth Leadership Capacity Fund to support *stuck* places

Despite their differences, *stifled* and *stuck* places share the problem of capacity. For *stifled* places, it is literal geographic capacity – there isn't enough land on which to build. For *stuck* places it is leadership capacity. Alongside the transfer of powers and responsibilities to strategic authorities, the government's industrial strategy should also recognise the need to intervene directly at an individual local authority level.

92 Sydney Morning Herald (2015) - Parramatta light rail line via Sydney Olympic Park gets green light

93 NLGN (2016) - Smarter not Harder

94 BBC News (2016) - What are Scotland's tax powers?

95 EU law prevents differential VAT rates in member states. Reform Scotland (2016) - Why VAT should be devolved to Scotland following Brexit

96 Localis (2016) - Power Behind the Home

4.1 Capacity to grow: *stifled* places border expansion

At present many *stifled* places are constrained by a lack of available land, with high demand for housing and growing populations they are simply hemmed in by their borders. Therefore in areas where join local plan making is ineffective or where partners simply refuse to collaborate, ***stifled* towns and places should have the right to petition government for a boundary expansion. Government should then consider whether a boundary should be redrawn to allow the *stifled* additional land drawn from a neighbouring authority in order to meet demand for housing and economic development.** For example, in Swindon and Norwich the cities have grown and will continue to grow beyond their borders. Their housing market areas and economic geographies expand well into their neighbouring authorities, yet there is little structure in place to manage this growth. To date the Duty to Cooperate has been notably ineffective,[97] while recent measures in the government's housing white paper which encourage joint local plan making are not strong enough to ensure places are able to exploit their high growth potential.

4.2 Capacity to lead: supporting the *stuck*

For places we identify as *stuck* a critical issue is often they do not have the capacity to be strategic and future focused. As one call for evidence submission said, their council's leadership team spend so much time responding to social issues that they have little time to think about growth and their local industrial strategy. As a result of budgetary pressures, many place's – not just *stuck* places – strategic capacity has been hollowed out. Therefore, there should be a concerted effort by government to build capacity in these places. **Government should create a *Growth Leadership Capacity* Fund to support *stuck* places**. Areas would then be able to bid for funds in order to bring in additional support to help develop leadership capacity. One Advisory Panel member suggested we needed a similar approach to that taken by DFID or the World Bank in developing countries, using such a fund to provide intensive support around political governance.

5. Public sector relocation

Government should provide:

- Strategic authorities the statutory right to propose public sector relocation

One commitment made in the government's industrial strategy green paper is a Cabinet Office review of the location of government agencies and cultural institutions.[98] Effectively a form of inward investment, public sector relocation can have a significant impact on local economies and support thematic clustering. For instance, the relocation of parts of the BBC to MediaCityUK in Salford has not just regenerated the area, but also attracted its supply chain and similar businesses to co-locate.[99] Public sector relocation brings a significant multiplier. The relocation of parts of the MoD to Abbeywood near Bristol has attracted over five-thousand private sector jobs.[100] It also creates significant long-term efficiency savings – office floor space is generally much cheaper outside of London. The inclusion of public sector relocation in government's industrial strategy is timely because, in truth, there is much progress to be made. Since 2010 every newly

97 Communities and Local government Committee (2014) - Operation of the National Planning Policy Framework

98 HM government (2017) - Building our industrial strategy

99 For instance, see The Guardian (2016) - Salford's MediaCityUK gets £1bn expansion

100 Sourced from interviewee

formed quango and agency (thirty-eight in total), from the Green Investment Bank to NHS Property Services, has been headquartered in London.[101] This includes the government Digital Service whose very mantra, 'Digital by Default', is that the public sector should be able to deliver services from anywhere on the planet.

Complementing the Cabinet Office review, **we believe strategic authorities should be given a statutory right to propose public sector relocation.** For instance Leeds City Region could propose the relocation of the Department of Health, Health Education England and rest of NHS England. This would not only build on the city's health innovation sector, but also provide space in Whitehall for parliament to move into Richmond House when the Houses of Parliament is refurbished. Similarly, relevant parts of BEIS could be relocated to support Grimsby's renewable energy cluster. As part of this agenda, places should be proactive in establishing public service hubs for parts of the public sector to relocate to. For instance, in a joint venture with the developer Carillion, Sunderland City Council is speculatively redeveloping new office space at the former Vaux brewery.[102] Because the upfront cost of relocation is expensive – though ultimately repaid within several years in most cases – places may also be required to make some contribution, be that through capital funding or land.

101 Sourced from interviewee

102 Sunderland Echo (2014) - £100million redevelopment project gets underway in Sunderland

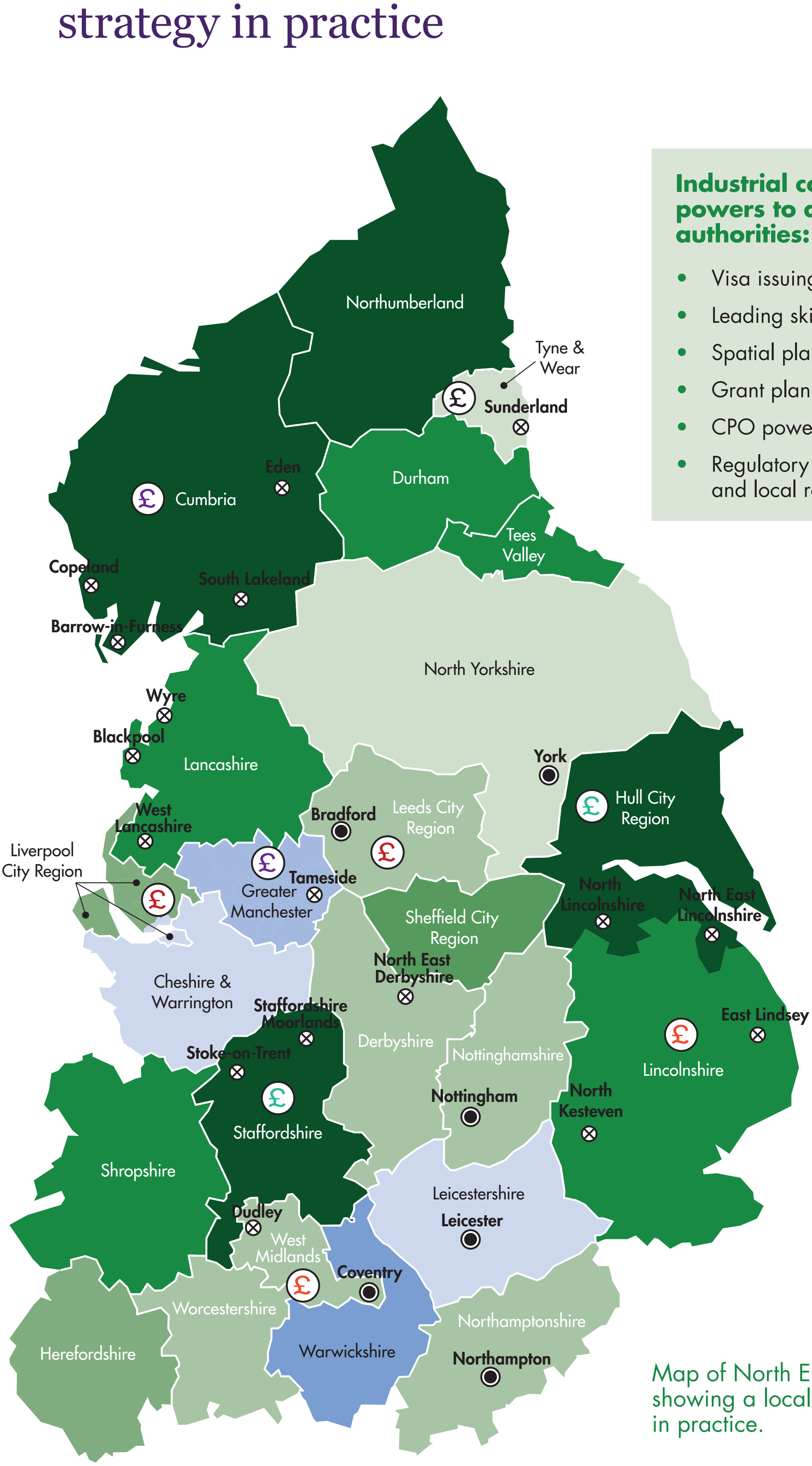
ACTION MAP

In this report we have argued for a locally-led industrial strategy. To illustrate what this should mean in practice, we have mapped a number of our recommendations onto the map on the following pages.

On the action map, we identify:

- Proposed strategic authority areas: the recipients of industrial compact powers and leaders of the industrial strategy locally. Strategic authorities are coloured from strongest to weakest (blue to green).
- The stifled: who should be able to petition government for boundary expansion
- The stuck: beneficiaries of the Growth Leadership Capacity Fund
- Pilot areas: the areas we believe should test the six proposed fiscal devolution pilots

A locally-led industrial strategy in practice



Industrial compact powers to all strategic authorities:

- Visa issuing authority
- Leading skills area reviews
- Spatial planning
- Grant planning permission
- CPO powers
- Regulatory control of buses and local rail

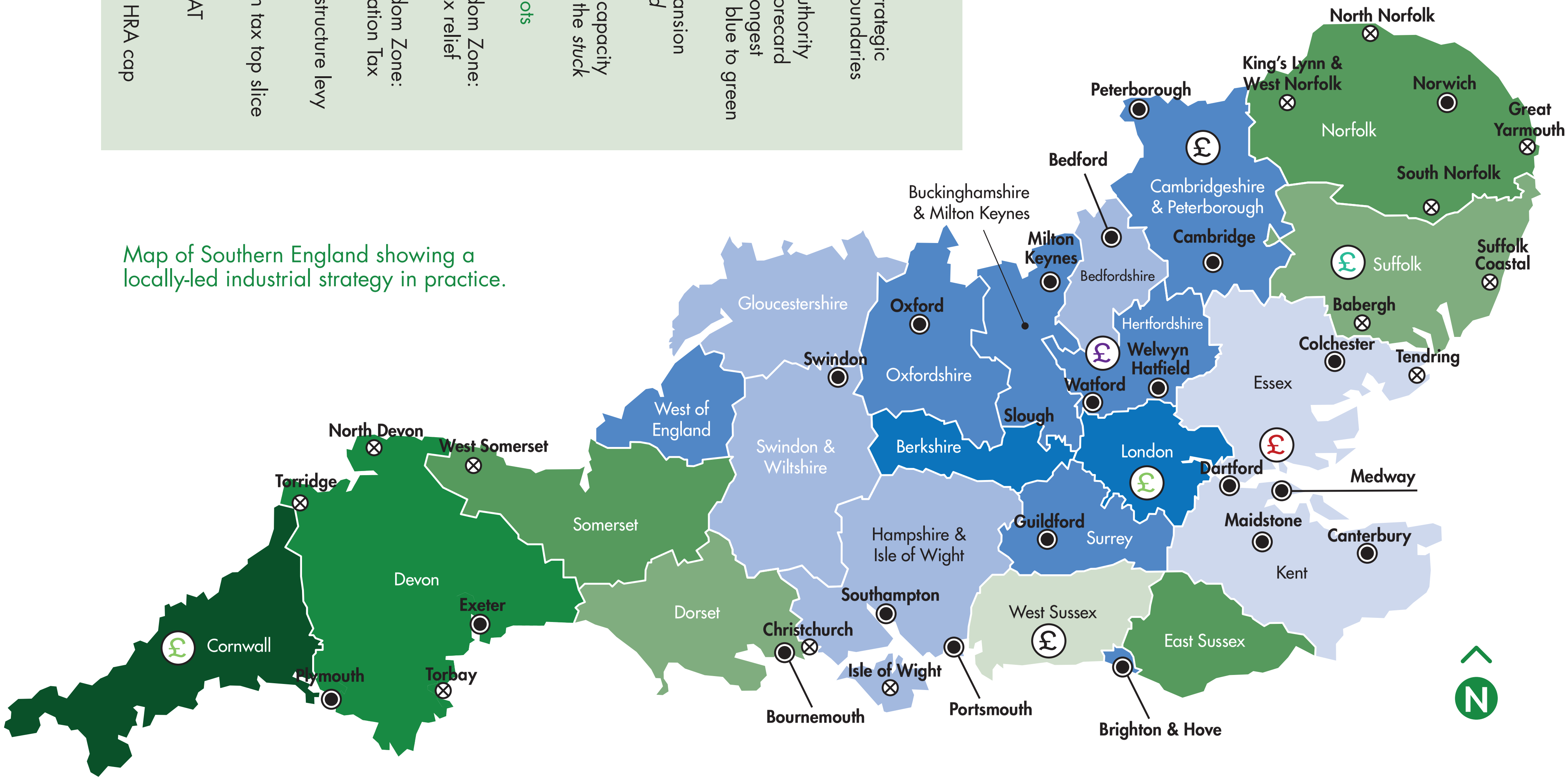
Map of North England and The Midlands showing a locally-led industrial strategy in practice.

Legend

- Proposed strategic authority boundaries
- Strategic authority average scorecard ranking, strongest to weakest: blue to green
- Border expansion of the *stifled*
- Leadership capacity funding for the *stuck*

Fiscal devolution pilots

- Fiscal Freedom Zone: EIS/SEIS tax relief
- Fiscal Freedom Zone: 0% Corporation Tax
- Zonal infrastructure levy
- Corporation tax top slice
- Localised VAT
- Removal of HRA cap



Map of Southern England showing a locally-led industrial strategy in practice.

Appendices

1. Appendix One: strategic authority areas

In areas where the local authority make-up of a suggested strategic authority area is ambiguous, we have listed clarifications below. When relevant (e.g. data sets related to GCSEs), the local authority make-up of a strategic authority has been used to inform data analysis.

- Hull City Region includes East Riding of Yorkshire, North Lincolnshire and North East Lincolnshire
- Leicestershire includes Rutland
- North Yorkshire includes York
- Shropshire includes Telford and Wrekin
- West of England's statistical analysis includes North Somerset. We note that North Somerset will not form part of the West of England mayoral combined authority, but have chosen to include it because it aligns with NUTS3 geographies in this instance.

2. Appendix Two: *stuck* towns and places ranking process

Stuck towns and places have been identified by their average ranking in the economic performance and human capital indicators we identify as being most important in a place. The thirty worst ranked local authority areas have been identified as *stuck*. See below for an explanation of our method for ranking. We accept that this ranking mechanism is rudimentary and do not intend for it to be definitive. The Isles of Scilly and City of London were removed from our analysis because of poor data coverage.

- Each local authority area was assigned a ranking on each of the eight indicators. For variables where a lower score indicates a stronger performance (e.g. jobs at risk of automation), rankings have been reversed. These scores were then averaged to provide the thirty worst performing local authority areas on our indicators in England.
- For instance, Tendring was ranked 157th out of 324 local authorities for employees working in the public sector, 270th for jobs at high-risk of automation, 199th for new businesses as a percentage of live businesses, 313th for population aged 25-34, 148th for students achieving five A*-C GCSEs, 321st for population aged 16-64 with NVQ4+, 322nd for 65+ population as a percentage of working age population; and 322nd for economic activity rate of 50-64s. This gave it an average ranking of 257, the third lowest.

3. Appendix Three: data explanations

Below are, where relevant, more detailed explanations of the calculations made for scoreboard indicators and graphs in the report.

- GVA per head of population (£). Source: Localis analysis of Table 1: Gross Value Added (Income Approach) at current basic prices, Regional GVA, 2015, ONS. Where strategic authority geographies combine two or more NUTS2/NUTS3 areas, its population has been calculated using figures from the Annual Population Survey, 2015, ONS (accessed via NOMIS).
- GVA uplift (2008-2015). Source: Localis analysis of Table 1: Gross Value Added (Income Approach) at current basic prices, Regional GVA, 2015, ONS.
- Nominal GVA per hour worked. Source: Localis analysis of Table 1: Gross Value Added (Income Approach) at current basic prices, Regional GVA, 2015, ONS. Where strategic authority geographies combine two or more NUTS3 areas, these figures could not be calculated from the data available.
- Percentage of employees working in public sector. Source: Localis analysis of Business Register and Employment Survey (open access public sector/private sector), 2015, ONS (accessed via NOMIS).
- Percentage of jobs at high-risk of automation. Calculated through Deloitte's analysis of automation and industries in conjunction with Business Register and Employment Survey data. Deloitte's data of the number of jobs at high risk of automation in each sector were used to establish the proportions of jobs in each sector that are at high risk. These were then used with Business Register and Employment Survey data on the number of jobs in each local authority by sector to produce an estimate of the proportions of jobs in each local authority area that are at high risk of automation. Source: Business Register and Employment Survey, 2015, ONS.
- R&D expenditure. Source: Total intramural R&D expenditure (GERD) by sectors of performance and NUTS 2 regions (euros pp), 2014, Eurostat.
- New businesses as percentage of live businesses. Source: Localis analysis of Table 6.1, Business Demography, 2015, ONS.
- Percentage of population aged 25-34. Source: Localis analysis of Population estimates - local authority based by five year age band, 2015, ONS (accessed via NOMIS).
- Percentage of students achieving 5 GCSEs A*-C (includes Mathematics and English). Source: Localis analysis of Table LA1: GCSE and equivalent entries and achievements of pupils at the end of key stage 4 by gender for each local authority and region, England, 2015/16, DfE.
- Percentage of population aged 16-64 with NVQ4+. Source: Localis analysis of Annual Population Survey, 2015, ONS (accessed via NOMIS).
- OAP dependency ratio. Source: Localis analysis of Annual Population Survey, 2015, ONS (accessed via NOMIS).
- Percentage of over 50-64s economically active. Source: Localis analysis of Annual Population Survey, 2015, ONS (accessed via NOMIS).

Below are, where relevant, more detailed explanations of the calculations made for specific charts in the report.

- Figure 2: productivity vs proportions of 25-34 year olds in NUTS3 local areas. Localis analysis. Data for proportions of 25-34 year olds compiled by NOMIS are sorted by district/unitary authority. These proportions were compiled into NUTS3 categories through using: Local authority District (December 2013) to NUTS3 to NUTS2 to NUTS1 (January 2015) Lookup in United Kingdom, ONS Geography Open Data.
- Figure 5. Jobs at high-risk of automation in Thurrock by sector. See above.

4. Appendix Four – EU Referendum voting data against the *stuck*

Rank	Place	% of people who voted 'Leave' in 2016 EU Ref	Rank	Place	% of people who voted 'Leave' in 2016 EU Ref
1	Isle of Wight	61.95%	16	Babergh	54.19%
2	Blackpool	67.46%	17	North Kesteven	62.26%
3	Tendring	69.50%	18	North East Derbyshire	62.78%
4	King's Lynn and West Norfolk	66.40%	19	Staffordshire Moorlands	64.73%
5	East Lindsey	70.65%	20	North East Lincolnshire	69.87%
6	North Norfolk	58.91%	21	Suffolk Coastal	53%
7	Torbay	63.16%	22	North Devon	57.04%
8	North Lincolnshire	66.30%	23	South Norfolk	51.69%
9	West Lancashire	55.31%	24	Tameside	61.14%
10	Wyre	63.77%	25	Torridge	60.83%
11	Copeland	62%	26	Barrow-in-Furness	60.62%
12	Dudley	67.60%	27	South Lakeland	47.14%
13	Eden	53.32%	28	Great Yarmouth	71.50%
14	West Somerset	60.59%	29	Stoke-on-Trent	69.36%
15	Sunderland	61.34%	30	Christchurch	58.83%

Source for the data – Electoral Commission

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