

Response to the UK Government's Green Paper:

Building our Industrial Strategy

Submitted by the *Hodge Economic Research Project*

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Introduction

The *Hodge Economic Research Project* at **Cardiff Metropolitan University** has been designed to examine the fundamental deficiencies in economic development and policy-making, primarily in Wales, but taking into consideration the UK and global context. In so doing the project has maintained a focus on the institutional structure underpinning policy-making and delivery, and on those areas of industrial policy that will work towards raising prosperity. In practice, this has meant concentrating primarily on the role of Executive Agencies as instruments to improve policy delivery and on the related issues of accountability and transparency. Another important area of research has been the efficacy of business support measures that encourage and fund businesses to expand beyond the start-up phase while facilitating local ownership to be retained as businesses grow.

Our contribution to the consultation is made from this perspective, and in the context of devolved responsibility for industrial development in Wales. It recognises the relevance of the 10 pillars of the UK industrial strategy, but also recognises that many of the policy areas are devolved and will need to be co-ordinated through the proposed Ministerial Forums. Given the division of responsibilities, this contribution will concentrate on those areas that we consider to be crucial for an industrial policy to work in Wales. These are set out below and include:

- the role of Executive Agencies in delivering policy goals
- the regional governance structure affecting industrial policy
- infrastructure development
- business support funding

Overarching Approach

In recent years, the UK government has more or less left regional policy, particularly as regards areas under the responsibility of the devolved administrations, to be delivered by EU programmes and supported by European Structural Investment (ESI) Funds. Thus, Brexit has important and widespread ramifications for regional policy. Whilst most of the UK is not in receipt of the higher levels of structural funds, Wales is at particular risk of losing substantially from the results of Brexit. Current EU funding in Wales amounts to about £450m. This seems secure until 2019, but it is not clear what, if anything, will replace ESI funds.

In this context, a renewed UK-level industrial strategy needs to have a strong regional focus and reflect a place-based approach. The focus on industrial sectors has led to the over-concentration of resources and talent in the south east of England, and within the financial sector. Meanwhile the divide between London and the rest of the UK has grown. The aim of an UK-wide Industrial Strategy should be to bridge this gap, and to encourage balanced industrial development in all parts of the UK.

Executive Agencies

Regional leaders can play an important role in unlocking a region from a relatively unproductive path and guiding it in a new direction, but there is an inherent tension between leadership and democratic forms of organisation. The presence of institutional support is crucial in many instances, and the creation of robust institutions, which will persist when there is change in political leadership, is required.

There are benefits and risks of setting up agencies: typical criticisms are fears of loss of control over agency operations and the exposure of Government to financial risks. However, designed correctly, there is a role for Executive Agencies in researching and, importantly, delivering on policy goals set by elected representatives. They also make accountability for delivery more transparent, where the CEO is responsible for the implementation of policy and the achievement of KPIs set by elected representatives.

In other European regions Executive Agencies have been at the core of efforts to create inclusive and open-ended networks of organisations delivering economic development and innovation policies.¹ The architecture of their public sector would, in many ways, seem to represent an ideal model of the ‘embedded state’,² since they often combine some form of regional or subnational government, public agencies or public-private partnerships responsible for certain areas of policy (such as innovation), business associations, universities or research institutes, and other relevant stakeholders. Executive Agencies are usually tasked with creating bridges between its different constituent parts and, therefore, can assist regional authorities in managing this complex web of organisations and interests in a way that aims to be efficient, democratically legitimate, and to deliver good policy outcomes.

Governance

For functions such as transport, land-use planning, and economic development, which are essentially regional, there is a clear need for a firm allocation of personal responsibility for outcomes within an institutional structure that will survive short term political changes. It is important that there is a group of people whose undivided responsibility is to the economic welfare of the region and the delivery of its development plans. Those people have to be sufficiently empowered to move affairs along, and high profile enough to carry the responsibility for failure. Reporting on Infrastructure Planning a challenge was identified by an expert meeting³ convened for the National Infrastructure Commission. They emphasised that institutional arrangements are just as important as the output plan, and

‘...that successful infrastructure planning needs both independent and transparent planning institutions as well as political courage and commitment to make infrastructure planning decisions.’

This mind-set should apply to all economic planning, and it highlights the need to build credible and robust regional institutions capable of delivery.

Different models of governance have been applied in different places across the UK, but from a Welsh perspective, the models that may be most applicable are outlined below:

¹ See for example Trippel, M., Asheim, B., & Miørner, J. (2015). Identification of regions with less developed research and innovation systems. *Papers in Innovation Studies*, 1–22

² See for example Morgan, K. (2016). Nurturing novelty: Regional innovation policy in the age of smart specialisation. *Environment and Planning C: Government and Policy*.

³ see *Strategic Infrastructure Planning: International Best Practice*; International Transport Forum OECD and National Infrastructure Commission pp16, March 2017

- A system that ensures that representatives are elected for a regional authority and constitute a Mayor and cabinet in charge of those regional functions.
- Some variety of a Combined Authority model, where the Authority acts as the supervisory Board of an Executive Agency, which would be an economic development and/or transport agency for the region. The Executive Agency's CEO would have responsibility, along with a management team, of running the Agency following broad policies set down by the supervisory Board. The CEO would be accountable for delivery and liable for sanction if the Combined Authority judged that to be sub-standard.

Combined Authorities, which are able to take a more regional and strategic view of industrial development, run the risk that they will be seen as a remote arrangement by the general public and will fail to engage their interest and participation. They must, therefore, be designed so that the lines of responsibility and accountability are clear and unambiguous.

Infrastructure Development

We have developed firm proposals for national (Welsh) Executive Agencies coordinated with regional, city-regions to work closely with infrastructure delivery authorities. In response to a Welsh Government consultation on establishing a National Infrastructure Commission for Wales (NIFCW), we proposed a stand-alone delivery and research executive, with a supervisory board on which the Government would be represented. The Commission's work would be confined to projects of national (Welsh) scope, whilst acting in a coordinating role with City Regions, and taking the lead in liaising and co-operating with UK-based organisations. It would have a high-powered research capability combining technical and economic expertise to assess the cost-benefit ratio of different infrastructure projects, whilst its reports would be published. The proposed Commission should also be the repository of procurement and project management skills that would deliver projects determined by Government.

We proposed that intelligent use be made of the City Regions, and that each City Region in Wales should have an Infrastructure Executive Agency. Each Agency would work to develop coherent, regionally focussed, plans for infrastructure development, including a strong advisory/planning role in areas such as housing. Projects currently falling under the auspices of Local Government, or due to fall under the auspices of City Regions, would not be in its remit. However, the local agencies could seek input or advice from the NIFCW, and would be required to keep the NIFCW informed of their own plans so that they could be harmonized with each other or with national plans where necessary.

It would be expected that the NIFCW would work closely with the regional infrastructure equivalents set up by City Regions but with a clear division of responsibilities.

The separation of policy from execution has its dangers but also considerable advantages. The danger comes if policy is made without the input of people with practical experience of execution. However, this danger can be overcome quite readily if policy-making is intelligent and takes appropriate advice at the appropriate time. The advantage is that Ministers who have determined on a policy are not automatically blamed for execution failures over which they have little control. The management or Commission board can assign, or take responsibility for significant failures, and personnel can change. However, if a policy is implemented contrary to published NIFCW advice (in this example), the political responsibility is clear.

Business Support Funding

On a more detailed level, our research has also examined practical business support measures that are aimed at building resilience into the industrial structure and supporting Welsh businesses as they grow. We have paid particular attention to those stages of development during which businesses, having grown past the start-up phase, are seeking finance and other support, but wish to remain independent and based in Wales.

As is also a focus elsewhere,⁴ our research has identified that there is a gap in large scale continuity finance, which will help to keep growing businesses in Wales, and in many cases what might be regarded as poor options for ownership succession for such businesses. Existing public sector finance support approaches, under present state aid rules, act like any Venture Capitalist funds, which are generally not in for the very long haul, and cannot meet large-scale requirements. Patient 'continuity' finance is needed to complement and strengthen aid to start-ups.

In the Welsh context, existing funds, including the Welsh Government's current *Succession Fund*, are inadequate, and will not achieve the widely held aim of encouraging the creation and sustenance of a Mittlestand-like sector in the Welsh (or wider UK) economy. Crucially, however, an adequate finance source for Wales cannot be wholly state-owned because of budget restrictions such as DEL. There should be a focus on addressing this gap, particularly through HM Treasury's *Patient Capital Review*, which enhances Welsh Government's financial freedom to support growing businesses and their succession plans.

⁴ UK Government: *Patient Capital Review*: <https://www.gov.uk/government/publications/patient-capital-review>

Concluding Remarks

Our submission is a contribution to debate made from a Welsh perspective. This perspective is instructive given that the UK strategy has ambitions to provide guidance for the range of economic conditions applicable across the UK. As the Green Paper recognises, an industrial strategy for the UK must be place-based if it is to address imbalances in economic development, and a commitment to devolution of power over economic development must be sincere and robust.

Our submission focuses on a few areas of policy interest such as a commitment to getting policy implementation right through a rebalancing of policy-making and policy delivery. This commitment to implementation would be better delivered through a strengthened role for Executive Agencies, where lines of accountability and transparency are clear. This approach serves well for all aspects of industrial policy and fits into a regionalised vision for policy development, co-ordinated for national objectives.

Meanwhile, it is necessary to address the log-jam in financial and other support experienced by growing businesses, which makes the nurturing of a strong, indigenous, industrial sector difficult to manage and sustain. A system that provides accessible patient capital is a pre-requisite for building such a sector, and policy should aim to help change a culture of short termism prevalent in industrial development and business support in the UK.
