

Industrial Strategy - Questions for consultation

Response from the West & North Yorkshire Chamber of Commerce

The West & North Yorkshire Chamber of Commerce (the “Chamber”) represents businesses that collectively employ a third of the working population of the Leeds City Region. Membership of the Chamber is diverse and reflects all sizes and sectors of organisation across services and manufacturing.

The membership includes a large number of exporting businesses who collectively contribute over £22bn to this country’s balance of payments. Chamber members employ people with a very wide range of skills and expertise, including a large number of apprentices and graduates.

This document is based upon the collective response from organisations across the Leeds City Region, including manufacturing, retail, professional & financial services, digital & creative industries and universities & colleges. It also includes comment directly from experts within the Chamber’s own policy, international trade and business finance teams.

Introduction

1. Does this document identify the right areas of focus: extending our strengths; closing the gaps; and making the UK one of the most competitive places to start or grow a business?

We acknowledge the need to improve productivity across the UK and that a rebalancing agenda is crucial to ensure the North of England and more specifically the West & North Yorkshire region plays its part.

2. Are the ten pillars suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing?

We believe the ten pillars represent areas to tackle low productivity; we acknowledge the reference to place based solutions believing that local areas have a greater understanding of local needs.

However this strategy has some notable gaps, for example there is a brief mention of **housing policy** under theme 9; we feel this could have been expanded upon. It is important to put in place joined up strategies if we are to create places where people can live and work. Within a similar vein, no reference is made within the document to **planning policy or spatial strategies**, whilst we recognise these both fall under the remit of another department and are linked to delivery of outcomes, these are very much place based issues and should be picked under themes 9 and 10.

Similarly there is no reference to the role **secondary education** only reference to picking up at post 16 level, and, if needed, to make up for the failure to address basic skills deficits. Connecting education establishments to the locations in which they are based is crucial if we are to advise and

guide young people in their pursuit of meaningful employment, higher/further education and apprenticeship opportunities.

The strategy needs also to acknowledge the rise of **artificial intelligence**; this will change the world of work as we know it and presents both opportunities and risks.

Addressing **health and well-being** issues is key to improving productivity. The population is ageing and the next generation of workers is going to have to work longer than the generations that have come before them; ensuring that the health and well-being issues of both are addressed is therefore an important issue for organisations from all sectors. The green paper acknowledges the health sector in relation to the role of government but this is a sector with enormous potential for innovation and export potential; the UK is not alone in facing an ageing population.

3. Are the right central government and local institutions in place to deliver an effective industrial strategy? If not, how should they be reformed? Are the types of measures to strengthen local institutions set out here and below the right ones?

The Chamber welcomed the formation of the West Yorkshire Combined Authority and recognises its growing capabilities to create economic and transport strategies, however we believe that its geography should mirror that of the Leeds City Region within the current governance framework.

We await news of a devolution settlement for our region but would hope that a single Combined Authority which mirrors the geography of any future regional devolution settlement is created.

With the establishment of Combined Authorities, thought should now be given to the passing up of some powers from local authorities, for example strategic planning and transport policy along with the passing down of powers from Whitehall as part of the devolution process.

We would welcome a visible mechanism which provides clarity across all Whitehall departments to ensure the multitude of strategies are developed in harmony, e.g. Northern Powerhouse Strategy, Industrial Strategy, Housing Strategy, National Infrastructure Commission.

4. Are there important lessons we can learn from the industrial policies of other countries which are not reflected in these ten pillars?

Most developed economies face similar challenges with regards to globalisation and the pace of technological change which, in turn has generated a need for greater technical skills and knowledge. Automation has removed mundane and repetitive jobs but replaced them with higher skilled jobs. This is a trend which will continue, and in many more sectors than traditional manufacturing; the rise of 'fintech' will have impact upon financial services for example. The challenge in the future is to enable a much broader range of our population to adapt to new technology and enhanced levels of personal service, so that they can help boost output while maintaining current levels of employment. This will require fundamental changes to primary and secondary education to ensure it is able to keep pace with the changing needs of future industries enabling people in turn to seek out these new opportunities.

Investing in science, research & innovation

5. What should be the priority areas for science, research and innovation investment?

The Chamber believes that this should be driven by institutions and locations themselves rather than being picked from the centre. Create the infrastructure (buildings, transport links, broadband, networks) and better linkages between universities, industry and market opportunities can and will happen.

6. Which challenge areas should the Industrial Challenge Strategy Fund focus on to drive maximum economic impact?

7. What else can the UK do to create an environment that supports the commercialisation of ideas?

Greater access to VC funding beyond the South East, this is picked up under theme 4

Better access to markets, especially markets in which the public sector is the main client such as the NHS, education and defence.

Greater access to university expertise; the green paper makes reference to knowledge transfer partnerships (KTPs), these have value but are unaffordable and beyond the reach of many smaller businesses.

8. How can we best support the next generation of research leaders and entrepreneurs?

Patience and acknowledgement that not every idea will deliver a commercial return, create the environment for ideas to germinate but don't panic and change policy after high profile failures. This is all part of the innovation lifecycle.

9. How can we best support research and innovation strengths in local areas?

Devolve funding for this activity to local areas (LEPs, elected mayoral combined authorities) and allow them to direct this rather than dictate from the centre.

Developing skills

Access to skills is regularly cited as an issue for business growth and expansion and it is good to see technical / STEM education referenced within the paper; however the document makes no reference to secondary education and the fundamental disconnect with the locations within which they are based. In our discussions with the FE sector many young people still lack basic skills in literacy and numeracy requiring remedial action to be taken, again whilst this is acknowledged within the paper it seems that action is needed to tackle this in earlier years rather try to remedy post-16. Employers also cite the unpreparedness of young people, with the lack of independent (or indeed any!) careers advice regularly listed. Schools are targeted to deliver GCSE results and whilst we acknowledge that good academic skills are important, this targeting drives perverse outcomes leading to a lack of time within curricula for work placements, careers talks, industry visits and employer engagement.

10. What more can we do to improve basic skills? How can we make a success of the new transition year? Should we change the way that those resitting basic qualifications study, to focus more on basic skills excellence?

The new transition year is comparable in a manufacturing sense to re-working product that has failed quality standards. This represents old thinking that left modern manufacturing many years ago. The modern approach is to understand the root causes of the failure and then go back further into the process and make changes to prevent future repeat failures. The transition year then should be a data gathering process alongside the re-work (resitting the qualifications) to determine what went wrong in each young person's educational history. As the data accumulates common root causes of failure can be uncovered. Changes to the educational system can then be identified that will drive down the number of young people requiring a transitional year. It's always better to prevent a failure than it is to detect the failure and then work to correct it which is why we feel the industrial strategy needs to work closely with the Department for Education.

11. Do you agree with the different elements of the vision for the new technical education system set out here? Are there further lessons from other countries' systems?

Whilst we support the STEM agenda and reference to it within the green paper, this, on its own, is too narrow a focus. The strategy needs to broaden to include arts, languages, design and creative subjects. Further thought must be given to the teaching of management and leadership also, for which again there are clear links to poor productivity.

The green paper makes reference to Institutes of Technology but disappointingly makes no reference whatsoever to University Technical Colleges. UTCs work closely to meet the needs of industry and are fitted out with much better equipment than standard schools in order to better prepare young engineers and technicians. Although relatively new, UTCs are having a positive impact on many young people's lives, including much better progression into apprenticeships and universities than ordinary schools. There have been some UTC closures; I would question how much of this is down to the behaviour of other secondary schools unloading poorly behaved pupils. Leadership and governance is undoubtedly a major reason also, if the UTC movement is to grow and produce the future technicians, engineers, scientists and programmers the country needs then support in this area is essential.

Reference is made, in the Green Paper, to a number of countries that have better educational outcomes than the UK. It is important, we believe, to understand the cultural differences within the countries mentioned which has a profound effect on outcomes. For example, a number of the northern European countries see vocational education as the prime aspirational target. When students complete formal schooling the more able either go to university or enter the employment market (apprenticeship). Those students who are not able to make the grade continue their studies at sixth form to improve the skills to be able to enter the labour market. This is culturally the polar opposite to the UK whereby students aspire to enter academic sixth form with the vocational education seen as second best. One of the foci of this green paper is to start the process of reversing this trend and raise the aspirations of vocational education in the UK. It is important, therefore, to consider these cultural differences when comparing educational systems in different countries.

The creation and development of a new system of vocational education, aligned to the 15 core technical routes identified in the Sainsbury review, should simplify the current system and make it easier for both industry and prospective students to understand.

It is important to note that some industry sectors, like construction and the built environment, are extremely broad and could run across a number of the 15 technical routes.

We believe it is important to consider the broader implications of the technical routes identified by Sainsbury, in that some are very specialised and although recruitment numbers are low, are still important to the UK Economy. The solution, therefore, could be to make a 'core' for each course with a flexible range of units (with credit values) as the main learning elements of the course of study. This would facilitate 'elements' from other industry 'routes' being incorporated into appropriate courses. This is also the case for apprenticeships which tend to be developed very much within silos. This, we believe, fails to make apprenticeships either responsive to changing industry needs and/or responsive to new technological developments within the industry sectors concerned. A 'pick and mix' approach to the units delivered through an apprenticeship would have significant benefits. From extensive conversations, with the construction sector companies and federations, all confirmed this approach would make apprenticeships more valuable and viable to the industry because the apprenticeship can be tailored to the work undertaken by the company. Additionally, apprenticeships would remain vibrant and keep pace with the technological changes within industry sectors and new methods of working. This structure would be very similar to the current Pearson/BTEC model, which has been in existence for many years. The only difference with craft apprenticeships would be that each unit would have a credit value that would accumulate to create a qualification of a certain level within a vocational area. This would not only better meet industry needs but also mean that within the 15 core routes there is a degree of flexibility, which would enable all industry sub-sectors to be included, which would potentially bring them under the apprenticeship banner.

12. How can we make the application process for further education colleges and apprenticeships clearer and simpler, drawing lessons from the higher education sector?

The Chamber would like to see regionally focused apprentice clearing houses, akin to the suggestion in the green paper for a UCAS style system. Ideally we would like to see this in association with the provision of a one stop shop for business- education engagement, which would facilitate:

- i. A clearing house for work placement opportunities

- ii. Promotion and recruitment of business governors for schools and colleges
- iii. Delivery of universal, consistent, mandatory and independent careers advice across the region in which they operate

More education must also be carried out to inform parents and carers about the opportunities which apprenticeships offer. In a recent series of apprentice focus groups aimed at parents and carried out in partnership between Leeds City Council, the Chamber and industry, the lack of knowledge about apprenticeship pathways was staggering, especially within sectors that traditionally have not been known for this. Upon further questioning the key cause of this ignorance was either unwillingness or an inability of secondary schools to provide appropriate levels of information in a timely manner. Schools with sixth forms were particularly bad at segregating out those students who were considered to be 'A level appropriate' from any briefings on apprenticeships. Quite simply, and despite efforts to remedy, there still remains a lack of parity of esteem between academic and vocational education when in reality both are equally valued by employers.

13. What skills shortages do we have or expect to have, in particular sectors or local areas, and how can we link the skills needs of industry to skills provision by educational institutions in local areas?

The importance of connecting industry with education cannot be underestimated; better informed young people will make better decisions and in turn be more productive. UTC's, were founded on the premise that employers help set the curriculum providing projects which contextualise the learning and in turn create fully rounded young people who can be more productive to industry more quickly. This model is not universal amongst secondary education providers. As stated at the start of this chapter, the pursuit of GCSE results as the sole indicator of school performance is harming the mental health of young people, their parents and the teaching profession. Academic qualifications are clearly important but so too are other skills such as communication, team working, problem solving and creative thinking which employers consistently say is lacking in school leavers.

Within the Leeds City Region there is an acute shortage of skills within **IT, digital and creative** industries. Anecdotally we hear of more schools dropping IT from the curriculum as they struggle to recruit appropriately skilled teachers, which in turn will perpetuate the problem.

The **manufacturing and engineering** sector within the Leeds City Region is facing challenges around an ageing workforce. In a recent survey, the average age on manufacturing sites in the Leeds City Region was found to be c. 55 with the distribution heavily weighted towards the upper end the age profile. The manufacturing sector in our region is dominated by SMEs; in turn these smaller businesses feed into supply chains around the UK and around the world. Their ability to create large scale training programmes alone is limited so some kind of aggregation of needs is required.

Within the Leeds City Region as of early 2017, the **construction** sector pipeline stands at around £5.8bn according to the CITB. Furthermore the CITB are citing challenges around an ageing workforce predicting that approximately 19% of the current workforce will retire by 2022; this equates to a further 350,000-400,000 people nationally potentially leaving the sector. This situation will impact on major construction projects and infrastructure schemes, including housing developments.

A further implication of this situation is the issue of recruiting staff to FE colleges and providers in order to deliver the 3 million apprenticeship starts targeted by the current Government. Leeds College of Building for example are experiencing major difficulties recruiting staff to teach many subjects, most noticeably those with a STEM emphasis. This is essentially because the individuals can earn significantly more money in industry than teaching at a Further Education college

14. How can we enable and encourage people to retrain and upskill throughout their working lives, particularly in places where industries are changing or declining? Are there particular sectors where this could be appropriate?

The Chamber would advocate the reintroduction of personal learning accounts, but with consideration given to the type of course on which these funds could be spent. Basket weaving courses no doubt have value but it is not something which will rebuild our industrial base for example. There is a role for junior and secondary education to encourage the spirit of 'life-long learning', education should not end once school has finished.

Renaming and refocusing the Apprentice Levy as a Business Training Levy might encourage more companies to invest in staff development also. Anecdotally we hear from companies looking to recoup their levy payment through the rebadging of training to an apprenticeship programme. Whilst we are in no way critical of this, we feel it may simply be used to accomplish the reaching of an arbitrary government target rather than meet future skills needs.

Debate has taken place within the **construction** sector, over many years, as to whether the sector should operate a 'license to practice'. Up until now the decision, taken by the industry as a whole, has been to reject this approach. The adoption of this industrial strategy provides a unique opportunity to review this situation. By adopting a license to practice we believe it could place the construction sector in a uniquely different position both within the UK and more importantly the international market place. As part of adopting a license to practice employees would need to undertake recognised CPD to sustain their company's license. The adoption of a license would, therefore, ensure construction employees keep up-to-date with relevant changes affecting their sector of the industry but would also open up construction companies to the world market. Many companies across Europe and other parts of the globe have and/or apply a license to practice within the industry and it is therefore very difficult for construction companies to operate in these markets.

Should the Industrial Strategy adopt the more flexible approach to apprenticeships, as described in Question 11, the range of units developed which are not chosen for specific qualifications would actually form the 'recognised' CPD for the sector. Because this modular approach would enable units to be developed ready for delivery by training providers within 3 to 6 months, it would mean that the units are maintained at the cutting edge of developments and would remain relevant to the sector concerned.

Upgrading infrastructure (in West & North Yorkshire)

The following principles should direct decisions over strategic transport priorities for the Leeds City Region:

- The focus should be on strategic routes connecting markets, with a medium-term plan to deliver upgrades needed. Too often, funding has been diverted in smaller packages to more localised schemes, for short-term advantage, that have not delivered transformative economic gains. This is an opportunity to ensure commitments to more complex, but ultimately more beneficial projects. These will centre on Trans-Pennine road and rail links, and connections from this corridor to the major population centre of the North East.
- International links from the North should be prioritised. One of the great advantages the North has is the capacity to put more traffic through ports and airports without the need for major expansion of these assets, as would be required in the south. To ensure this can be maximised, road and rail connections to our ports and airports must be improved. This is essential to support the Government's ambitions for export growth.
- As implied above, this is an opportunity to break out of the London-centric nature of the UK's transport system, in which almost all major road and rail routes connect regional cities to London far more effectively than to each other. Connections between Northern markets should therefore be emphasised, as well as to other cities in the Midlands and, crucially, to Scotland.
- There should be sufficient attention paid to freight transport both road and rail, particularly given the strength of northern economies in manufacturing and the key role they play in local, regional, national and international supply chains.
- Plans should complement delivery of the Y-shaped HS2 network, with scope for further extension of this network to the North East alongside investments in existing rail lines.
- The benefits of these investments must go beyond Leeds City Centre, other major population and industrial centres must be adequately linked in to improved transport networks.
- Through this process, the region working with other northern cities, should collectively establish a case for future investment decisions to shift from short-term relief of congestion to long-term expansion of capacity. The former approach, which has resulted in an obscene over-concentration of investment in the South East, merely creates a vicious cycle of more expensive investment for diminishing returns. The latter would lead to a better balanced economy and stronger long term returns for UK plc. This approach should be embedded beyond the lifetime of this individual strategy alone.
- Policy measures should support the value of these investments in Northern economies. These include reforms to air passenger duty which disproportionately hit connections to regional airports, and design of rail franchises to support investment in rolling stock.
- Support for the delivery of the above principles could be achieved through compulsory purchase powers where appropriate and if necessary divesting such powers within a city region development corporation (or devolved mayoral combined authority)

Rail Investment

- HS2 arriving in Leeds and York within the proposed timescales must be supported by investment into local and regional rail services to maximise the economic impact of the new high-speed services,
- Leeds rail station is redeveloped into a piece of inspirational, national transport infrastructure which integrates not only high-speed services but also Northern Powerhouse Rail (NPR although we would request that this is changed to 'Crossrail North') services, and increased local and regional services. Passenger footfall is estimated to double to over 60m per year by 2045 and so the rail station needs redeveloping to effectively accommodate the significant growth in passenger numbers as well as rail services,
- The Chamber would want to see some high-speed services travel through Leeds and onto York, the north of England and Scotland (and the return journeys) and believes that a connection (a "hook") needs to be built from the HS2 lines coming into the city directly into the existing rail station thereby providing the through connection. In addition the Chamber would also want to see the existing 2 rail lines between Leeds rail station and York increased to 4 lines thereby facilitating higher speed journeys and contributing towards the conditional outputs for NPR.
- The Chamber is supportive of the proposals to have an intermediate station sited in Bradford city centre on the proposed NPR network and is actively contributing towards collecting economic evidence, as well as working with the city of Bradford Metropolitan Council to support the case for NPR to come to the city.
- The City of York will also have a significant role to play, primarily because of its location with both HS2 and NPR services using the city's rail station. It will need a certain amount of redevelopment to accommodate the additional services but this appears dependent upon the development of the nearby York Central site. The Chamber would want to see this site opened up (there are significant access problems) as soon as possible and plans produced to adequately accommodate the additional rail services.
- Uncertainty remains about the timescales for the commencement and completion of the proposed Trans-Pennine electrification project and the Chamber would like the Government to re-affirm its commitment to the project and for Network rail to clarify when it will start and end.
- As well as HS and NPR rail projects investment need to be continued in local rail services and whilst the announcements by Virgin Rail, Trans-Pennine Express and Northern are welcome, the Chamber would want to see a firm commitment to continued investment.
- The supporting infrastructure for rail services should not be overlooked and whilst the Chamber welcomes recent announcements to upgrade facilities, including increased car parking at many rail stations in the Leeds City Region, this investment should be expanded to cover all stations in our Chamber's geography.

- The Chamber welcomes the change to franchise agreements for Train Operating Companies and also the focus upon growth within those agreements. However if the franchise holders fail to deliver on the commitments for new rolling stock, reducing overcrowding and punctuality then the Chamber would want to see powers in place to replace the existing franchise holders.

Road

- Road travel remains the chosen mode of transport for many companies and their employees, and the ever increasing levels of traffic and also congestion are mentioned by many as a barrier to growth. The Chamber's geographic area includes motorways, strategic "A" roads and the local road network and with traffic levels in the area forecast to increase by around 23% (DfT's figures) by 2030 there is considerable concern that congestion levels will further increase and thereby all the associated problems. The Chamber welcomes Transport for the North's (TFN) proposals to produce a road strategy for the North and will be looking for a clear commitment to increase capacity and reduce congestion. In particular the Chamber wants to see proposals for:
 - Upgrading the existing A1 dual carriageway between the M18 and M62 motorways to full motorway status,
 - Upgrading the A64 road to dual carriageway along its full length from York to Scarborough,
 - Upgrading the northern ring road around York to dual carriageway,
 - Full approval by DfT for the proposed transport investment programme in Leeds,
 - A further upgrade to the Lofthouse interchange on the M62 with its junction with the M1, this is a regular source of severe congestion and a major interchange on the North's motorway network,
 - Completion of the upgrade to the trans-Pennine section of the M62 to Smart motorway status however further consideration will need to be given to increase capacity for road travel across the Pennines. One possibility could be an extension (possibly dual carriageway) of the M65 motorway into Yorkshire to the A1/M1.
 - The introduction of more park and ride schemes across the Chamber's region which then properly integrate with local bus and rail services,
 - Introduction of a comprehensive electric charging network for vehicles.
 - Improved surface access to Leeds Bradford Airport. Whilst the Chamber welcomes the recent proposals for a park and ride facility near to the east of airport, this doesn't improve access from the west and south west and in particular Bradford.

Air

- The Chamber is supportive of plans to redevelop parts of Leeds Bradford Airport and the surrounding area including a link road and park and ride facility. However the Chamber would want to see an increase in flights to London Heathrow, especially earlier in the morning and later in the evening. A direct connection to North America would also support increased trade with that part of the world.

Increased Capacity

- Much of the Leeds City Region's supporting transport infrastructure is nearing or at capacity particularly at peak hours. Without significant investment and cross-boundary planning and integration the situation will only worsen. The Chamber welcomes the more joined up approach that the two LEPs (Leeds City Region and York, North Yorkshire and East Riding) have brought but this needs to continue.
- Current broadband speeds in many parts of the Chamber's geography, particularly outside the main urban areas are insufficient to meet the needs of modern business activity and a firm commitment from government to improve this situation is required.
- Similar to the comments above about broadband, in even more parts of our area mobile connectivity is patchy or even non-existent! This situation is intolerable for many of those affected and is certainly a barrier to business activity in the affected areas. The Chamber wants to see a concrete commitment from government for this situation to be resolved and quickly.

Improving reliability of networks

- The poor reliability and resilience of much of the supporting networks, particularly road and rail is a serious concern to the Chamber. There is concern that there is too much emphasis on getting projects built and not on maintaining them once they are in place. All projects should have accurate costings built into them for in-going maintenance.
- The Chamber wants to see funding "ring-fenced" for repairs to pot-holes experienced by many on the area's road network. The recent cuts in local authority budgets have resulted in reductions in funding for pot-hole repairs whilst the funding requirement escalates.

Managing Demand

- With the country's population increasing and a continuing rise in city/town living and working there will be ever increasing demand upon supporting services, facilities and infrastructure. The Chamber does not want to see the introduction of charges for these services however, particularly on the road network some form of charging may have to be considered to reduce congestion and/or pollution. The Chamber would not want to see the introduction of charging without an effective alternative being in place and nor for charging to be perceived as a barrier

to economic growth. If charging was to be introduced the Chamber would want to see the funds raised “ring-fenced” for investment in the local transport network.

15. Are there further actions we could take to support private investment in infrastructure?

Clarity of objective, certainty around timings and confidence that investment will create opportunities of a return would help. Housing development has the potential to contribute hugely to local and regional infrastructure projects; however it is often cited by developers that a ‘shopping list’ approach by planning authorities undermines trust and confidence.

Involvement of the private sector at an early stage would help to create greater sense of shared ownership and purpose.

16. How can local infrastructure needs be incorporated within national UK infrastructure policy most effectively?

Not sure that they can. National policy should focus on connecting infrastructure hubs within and between major conurbations to each other. Local infrastructure needs are best served by those closest to the situation, the real question should be what constitutes ‘local’ and at what point does something become ‘investment of national significance’?

17. What further actions can we take to improve the performance of infrastructure towards international benchmarks? How can government work with industry to ensure we have the skills and supply chain needed to deliver strategic infrastructure in the UK?

As mentioned under developing skills, connecting industry with education at all levels will help facilitate better engagement about future careers. In addition, creating a ‘points based’ immigration system allowing industry to fill skills gaps with migrant workers must be part of the short to medium term solution.

Supporting businesses to start up and grow

- 18.** What are the most important causes of lower rates of fixed capital investment in the UK compared to other countries, and how can they be addressed?

We have a debt based economy as opposed to an investment based economy as for example in the United States. Outside of the south east equity investment is limited and we would question the appetite of southern based investors to travel beyond the rich hunting grounds of London. Recent British Business Bank statistics ¹show that investment literally stops north of the Watford gap.

The UK as a majority services based economy may also impact upon the lower rates of investment compared to other countries.

- 19.** What are the most important factors which constrain quoted companies and fund managers from making longer term investment decisions, and how can we best address these factors?

The cost of transaction along with the size and number of available deals influences where activity happens. Equity investors are all scrambling for the same opportunities and under cutting each other.

- 20.** Given public sector investment already accounts for a large share of equity deals in some regions, how can we best catalyse uptake of equity capital outside the South East?

Cost of transaction is a factor. As above

- 21.** How can we drive the adoption of new funding opportunities like crowdfunding across the country?

There have been a number new entrants in to the funding market since 2012, not only crowd funding but also peer 2 peer (P2P) and invoice trading. Whilst we would regard this as a positive move, the question is how effective are they at lending to those companies who struggle to raise finance through traditional channels. P2P and Crowdfunding are essentially retail investment vehicles for whom risk aversion may be high, and in turn may end up competing for business with those companies for whom finance is already available. The adoption of new funding opportunities may not achieve the aim of removing barriers to finance.

The challenge for developing new funding platforms is building relationships with the SME community. We would regard greater use of existing organisations like CDFI schemes such as is currently in operation through the British Business Bank as being more effective at getting finance to SME businesses. Intelligent marketing, word-of-mouth and a strong local presence are still important channels for building the profile of alternative finance; CDFI schemes with their strong connection with 'place' will already have this trust.

¹ <http://british-business-bank.co.uk/research/equity-tracker-2016/>

22. What are the barriers faced by those businesses that have the potential to scale-up and achieve greater growth, and how can we address these barriers? Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread?

Risk aversion remains a major issue for business owners when it comes to accessing finance in order to scale up. In research carried out by West & North Yorkshire Chamber, the following were listed as reasons why companies chose not to seek out finance:

Why are you reluctant to seek external finance?	Share of response
Cost of credit	39%
Don't want to give up equity in the business	35%
Lack of confidence in banks	41%
Lack of confidence in the economy/future of business	41%
Insufficient security	34%
Problems with credit history	11%
No credit history/not been trading long enough	14%
We have been turned down in the past	10%
Not prepared to give a personal guarantee	44%

(Sample size 1,526 SME companies in Leeds City Region)

Not wishing to post their house up as security for debt finance was a common theme from business owners, so too was confidence in the long term economic outlook.

A solution could be more risk based funds that operate from a lower base value e.g. £50k equity deals as opposed to the typical £500k min equity deal – with some form of improved government guarantee scheme.

Improving procurement

23. Are there further steps that the Government can take to support innovation through public procurement?

For innovation to be encouraged through procurement then a different approach to risk needs to be taken by the public sector.

Public procurement is overly burdensome to smaller businesses and existing procedures favour larger organisations with the resources or connections to complete tenders 'at risk', **proportionality of paperwork and proportionality of required accreditation** is an oft cited request.

Often the public sector mind-set is to seek to procure a product or service rather than a solution. By providing greater insight into the **outcome** which is being sought could potentially bring about a more innovative solution, however this would require greater contact time between purchaser and supplier.

With regards to **local authority procurement**, we would like to see more flexibility to allow for the selection of local providers. We strongly believe that value for money and quality are important factors but 'local economic impact and sustainability' should also form part of the marking criteria. There is good evidence to show that of the money spent by councils with local companies, more of this is likely to stay within the local economy.

We remain to be convinced of the value of **framework agreements** also. In theory they exist to expedite the procurement process in reality they are an expensive undertaking with no guarantee of work and effectively limit the size of company who will apply. Furthermore companies will seek to recover costs over the course of the framework programme and individual projects may end up not providing best value for money.

Another consistent comment often heard from companies relate to the scale of required **liability insurance**. In so many cases it is felt to be disproportionate to the type and scale of activity hoping to be delivered. A recent example we heard was provided by a photographer who was required to possess £10m liability cover in order to pick up work worth less than £50k with a government department.

We would like to see guarantees included within publicly procured contracts which ensures smaller companies within supply chains are not overly disadvantaged through overly long **payment terms** (<45 days) or unnecessarily delayed payments.

24. What further steps can be taken to use public procurement to drive the industrial strategy in areas where government is the main client, such as healthcare and defence? Do we have the right institutions and policies in place in these sectors to exploit government's purchasing power to drive economic growth?

The Chamber has heard from innovative manufacturers within the health sector that there are major barriers to doing business with the NHS. Examples include companies unable to speak to decision makers, unable to showcase their products effectively and unable to compete on a level playing field with existing suppliers. We hear repeatedly from companies who have tendered for work only to find

it awarded to the existing supplier as the public body was '*testing the market*', again fine for large companies but unaffordable for smaller companies.

A further example is that of a Leeds based manufacturer of components for the rail industry being unable to supply to a foreign owned manufacturer of new UK rolling stock. Instead components are brought in from the manufacturers supply chain in their home country. If UK government infrastructure investment is to benefit UK companies then procurement policy should be reflected in supply chain agreements also.

Encouraging trade and inward investment

25. What can the Government do to improve our support for firms wanting to start exporting?
What can the Government do to improve support for firms in increasing their exports?

It shouldn't be just all about creating new exporters

Intensive support to inspire and motivate companies to look for new markets

Small new to export businesses increase their vulnerability when accepting orders from more challenging markets and need extra support. Deadlines are missed, unexpected costs incurred and management time is given over to resolving issues due to limited procedural or market knowledge. Therefore, they are less likely to succeed, sometimes end up worse off for trying and turn their back on exporting. However, intensive expert support given from the start has been shown to create export ambition.

Case Study - British Thornton ESF Limited

British Thornton ESF Limited is a leading UK furniture manufacturer specialising in furniture for education, schools and science laboratories based in Keighley, West Yorkshire. The company was established after a management buyout in 1996. At the time their Turnover was £20m and they employed about 100 people. 70% of their sales were coming from major national contractors who specify their products, 20% through catalogue sales with refurbishment work making up the balance.

They first came onto our radar in 2009 during a customer care visit when they said they didn't do any exporting but would be in touch if they needed us. On the way out the MD mentioned a tender that they were looking at for Brunei and that if it went anywhere they'd get in touch. One year later we got the call. They'd won the contract and it was worth half a million pounds. We assembled a project team who meet with their production director, MD and FD and we were appointed to handle the contract from order through to final delivery. This involved:

1. De-risking the order
2. Checking the payment contract (Documentary Letter of Credit) at the application stage for workability before it was submitted to the opening bank
3. Checking country, buyer risk and bank risk. Requesting that the international contract terms (Incoterms) be reset and that the Letter of Credit be confirmed and made payable at sight by a UK bank
4. Assessed the regulations around the use of timber for case packing the goods along with the need to protect against humidity while in transit
5. Assessed their loading capability to make sure they could accommodate containers and provided them with the container dimensions and images showing the anchorage points so they could plan how they would load the goods.
6. Placed the freight and the insurance. Got the insurers to discount the premium against the cost of annual cover

7. Prepared the paperwork for each shipment and made all the presentations to the bank
8. Shipped 24 full containers over a period of 6 months snag free, all arrived on time and all funds were transferred to British Thornton's bank on time

The client was pleased with the project and began looking at more overseas markets to assess the potential. We continued to support them for over 2 years until they reached a point where they'd built their own capability. British Thornton is now a fully-fledged exporter. They still ask for our help but only when selling to new more challenging markets.

DIT

The reality is that government support is focussed on medium sized, higher value exporters. The rest receive fragmented support from different organisations, the market place is cluttered and depending on your location can be ineffective for example if your business is based in an area served by a poorly resourced chamber or an under-performing DIT advisor. According to the Cole Review 800,000 UK businesses are '*hidden from view businesses*' they don't have use of a digital platform. These day's customers don't think twice about going online and finding the best product at the best price, even if that means ordering from the other side of the world and we're coming across examples of how businesses have been found in this way, they see the potential and go on to develop e-commerce platforms. The case study company below found a DIT digital advisor who helped them:

Case Study - Quality Bearings Online Limited, Leeds

"2 to 3 years ago my colleague and I were working late when we received a telephone call from a gentleman in the Netherland Antilles. He had found our details by looking for a specific bearing on Google. The reason he needed the bearing was one of the main ferries which connected the Island with South America had broken down leaving a large part of the Island cut off. We had the bearing in stock and agreed sale and using express couriers we had this bearing with our customer within two days. This resulted in the urgent repair taking place and the Island being fully serviced again.

"At this point we didn't immediately think Exporting was the future but the seed was planted. As our business grew and we spent more time in Google Analytics it became obvious that our website was receiving visitors from across the World, yet we were not converting these visits to orders as we would expect for our business.

"E-Commerce is a very important area of our business and our strategy has been critical to our growth over the last 24 months. Without E-Commerce we would find it impossible to export. All the overseas business which we have begins with a website visit. We spend huge amounts of time in Google Analytics which has been critical for our business. Doing this gave us hard evidence of where our export potential was. It was clear that we had a significant number of visitors from the USA but these visitors were not becoming orders as they should"

By adopting more of a private sector approach to the way they operate, DIT, would in our view, improve its performance and I think we're already starting to see this happen. The UK's network of global Posts is the envy of the world. One of their roles is to harvest trade opportunities. This pipeline is managed digitally and businesses can register their interest to receive alerts. It's reactive; it relies

on companies to find the service but what about the 800,000 who have yet to get online? In Yorkshire & Humber we have 30 or so International Trade Advisors (ITA's) visiting companies. The 900 or so trade enquiries that are featured on the DIT system at any one time should be profiled against the region and then disseminated to ITA's for them to put in front of their client companies at face-to-face meetings along with an explanation of the support they and partner organisations can give to help push the opportunities over the line.

Peer- to- Peer Networks

From our experience running the Leeds City Region LEP Export Network we have learnt how powerful peer-to-peer networks can be. In the Chamber's 2011 report 'Beyond Borders - Realigning the Leeds City Region Economy Towards Export-Driven Growth', 85% of respondents said they had not considered exporting and of which 90% didn't believe they had a suitable product or service. Over the intervening years we have picked up the following while we delivered the LEP Export Network:

Anecdotal

'Give us the contacts and let us get on with it'

'Help us to spot opportunities, identify openings'

1. Lack of leads
2. Lack of ambition
3. Regulatory barriers and standards

Suggestions from the Chamber's Ambassador Network:

- Sharing top tips on starting to export
- Feature case studies to inspire people to export
- Declutter the support networks

- 26.** What can we learn from other countries to improve our support for inward investment and how we measure its success? Should we put more emphasis on measuring the impact of Foreign Direct Investment (FDI) on growth?

Having the right eco-system which includes access to an appropriate talent base, efficient transport networks, and high quality digital infrastructure coupled with quality of life measures and a business friendly legal and tax framework will support greater FDI. However, thought needs to be given as to who benefits in the long term, where are taxes paid, what upskilling of local labour is carried out, what is the economic impact in supporting regional objectives, such as inclusive growth and poverty eradication.

Delivering affordable energy and clean growth

27. What are the most important steps the Government should take to limit energy costs over the long-term?

We think there needs to be policy certainty – uncertainty drives up costs as risks increase. The raft of energy policy changes over the last few years has not encouraged investors to invest in projects that would drive down energy costs in the long term (such as solar PV or larger biomass projects). The best way of limiting energy costs, though, is to use less energy and there should be more emphasis on energy efficiency rather than encouraging more energy generation. There should be policy and financial incentives to reduce energy use, such as promoting demand side response (DSR) from businesses that can turn down their energy use on request from National Grid and making it easier to buy in to DSR services without the bureaucracy. The Government should do more to encourage a "circular economy" where waste is recycled and energy is not wasted; something the EU has been attempting for a number of years. This is likely to be overlooked by the UK on its exit from the EU, but should be given more priority as a low-cost way of reducing energy costs to the UK. There should be more joined up thinking in Government between departments, and hopefully the merger of BIS and DECC to form BEIS is starting to achieve this, as the Green Paper mentions. The focus should be on end users, whether industrial or domestic. An example is if a manufacturer wants to build a CHP plant, and use this both to power and/or heat its own manufacturing plant and also to export power and/or heat, policy and regulation allows that without undue bureaucracy. Energy and heat policy could be devolved to the regions as far as possible, so that they can tailor an industrial strategy to fit the manufacturing in that region.

28. How can we move towards a position in which energy is supplied by competitive markets without the requirement for on-going subsidy?

The reference to subsidy is odd as in reality there are not many subsidies, and those that apply to larger energy generation projects are mostly awarded as a competition. We also query the idea that energy costs more in GB than it does in Europe. Looking at the tables cited in the paper (BEIS quarterly energy prices based on Eurostat data) it is only industrial electricity where GB has one of the highest energy prices; industrial gas prices in 2015 were the third lowest in the G7 and 7.8 per cent below the IEA median. Given that most heavy industry relies on gas rather than electricity as its main fuel source, it is misleading to look solely at electricity prices. These are understandably higher than elsewhere in Europe, since GB is an island with only four electricity interconnectors with mainland Europe to date (although this will change by 2020 and costs should come down as a result). At present, some subsidy is needed for the newest low carbon energy technologies, but these will get cheaper over time so there should be a gradual move to competition rather than subsidy. But the Government will need to invest to encourage new R&D in ways to bring costs down quicker – and stick to their promises (CCS withdrawal being a classic example).

29. How can the Government, business and researchers work together to develop the competitive opportunities from innovation in energy and our existing industrial strengths?

This is where regions could really come into play; as if policy were devolved to them they could tailor an industrial strategy to fit the manufacturing, businesses and research institutions within that region. Regions can think outside sector "silos": Leeds is known for a number of different areas and

could really benefit from them all working together on a particular project (e.g. digital, energy, automotive all working on integrating electric vehicles into smart grids).

Government should have a venture capital-type fund that develops ideas so they can then be invested in later by the private sector.

30. How can the Government support businesses in realising cost savings through greater resource and energy efficiency?

There needs to be a tangible benefit – most businesses will already be looking at ways to become more efficient. The public sector has had to, driven by progressive reductions in income. Rising energy prices would encourage efficiency, but the Government wants to bring prices down, in which case there would be little incentive for businesses to implement efficiency measures if there is minimal impact on their bottom line. We await the outcome of the consultation on the reform of business energy efficiency tax, which might help to answer that.

The Government could encourage localised generation if the offtaker also shows efficiency gains. That way capital investment should happen at both ends (generation and end user).

Cultivating world-leading sectors

- 31.** How can the Government and industry help sectors come together to identify the opportunities for a 'sector deal' to address – especially where industries are fragmented or not well defined?

This could happen through supply chain initiatives, although care must be taken about not picking winners and subsidising inefficient businesses. Government can help by creating the environment for clusters to form through investment in regional infrastructure, access to markets, access to innovation and access to a strong talent pipeline. Further devolved powers to create more Enterprise Zones may have merit.

Rather than an industrial strategy based on sectors, we would much rather see an industrial strategy based on place. Focus on connecting these places to world markets by improving communications infrastructure (physical and digital) to cure the fragmentation and definition. This is something which government has more or less direct and total control over.

- 32.** How can the Government ensure that 'sector deals' promote competition and incorporate the interests of new entrants?

We are not sure that they can and would encourage the approach outlined in Q31.

- 33.** How can the Government and industry collaborate to enable growth in new sectors of the future that emerges around new technologies and new business models?

Create the environment for more research and development to happen and ensure this connected to industry and finance .

Driving growth across the whole country

34. Do you agree the principles set out above are the right ones? If not what is missing?

Yes, but with the comments mentioned in earlier questions

35. What are the most important new approaches to raising skill levels in areas where they are lower? Where could investments in connectivity or innovation do most to help encourage growth across the country?

As set in theme 2, skill levels are directly linked to primary and secondary education. Additionally the theme of **graduate retention** is not mentioned within the green paper, the brain drain to London and the greater South East has an impact on companies' ability to recruit in the regions. There is evidence that this trend is reversing with cities like Leeds holding on to more graduates although this is not reflected in average graduate starting salaries – are people taking jobs below their level of education as this will directly impact productivity? The industrial strategy must facilitate regions to create the ecosystems where businesses will locate higher skilled and higher paying jobs.

The north of England significantly underperforms the national average in terms of productivity. Transport connectivity is a major barrier, specifically east-west connectivity. It is often easier for companies from Liverpool and Hull to meet each other in London than to get to each other's sites. Average train times to London from the north are much higher than those journeys going east to west.

Start	Destination	Distance	Rail journey time (best)	Average speed (mph)
Liverpool	London	179 miles	2h 4m	87
Leeds	London	170 miles	1h 59m	86
Manchester	London	163 miles	2h 0m	82
Leeds	Hull	60 miles	0h 57m	63
Hull	London	155 miles	2h 45m	56
Leeds	Birmingham	92 miles	1h 57m	47
Leeds	Liverpool	65 miles	1h 25m	46
Leeds	Manchester	36 miles	0h 49m	44
Manchester	Hull	80 miles	1h 57m	41
Liverpool	Hull	112 miles	3h 13m	35

Proposed developments will see HS2 and Northern Powerhouse Rail (HS3) arriving into Leeds as part of single transport hub, this will put 10 million working age people within less than an hour's commute of the city centre. This will be a huge opportunity to build on an already strong economy, providing access to the widest possible talent pool. We welcome the collaboration between Transport for the North, HS2, Network Rail, West Yorkshire Combined Authority, local authorities and the Chamber and would encourage more of this cross-boundary, pan-northern communication. Already we are seeing investment decisions by companies and developers to locate jobs into Leeds, not a track has been laid and yet economic activity is already happening. By providing greater confidence and certainty that major infrastructure schemes will happen can only aid in future investment from the private sector.

Creating the right institutions to bring together sectors and places

- 36.** Recognising the need for local initiative and leadership, how should we best work with local areas to create and strengthen key local institutions?

Progress is already underway to make Transport for the North a statutory body, this is welcomed although we would want to ensure the private sector is represented alongside local authorities around the decision making table. This pan-northern approach is an essential component in bringing investment into east-west connectivity.

Devolution, when it happens, should dictate what if any additional, (or ideally transformed), institutions are required to create regional strategies. We would like to understand what powers should be passed up from local authorities in order to create Combined Authorities which have the capacity and capability to create strategies and *commission* initiatives which deliver economic growth without duplication of efforts.

- 37.** What are the most important institutions which we need to upgrade or support to back growth in particular areas?

Yorkshire universities already contribute significantly to our region's economy and whilst links exist between them and the business community these really could be improved. We have frequently seen university business engagement activities driven by specific initiatives, e.g. knowledge transfer partnerships; graduate recruitment; innovation vouchers, etc. The structures to deliver this activity is set up and taken down as funding for activity comes and goes, we would welcome a permanent 'front door for business' into the collective HE institutions within our region.

Chambers of Commerce have supported industry for over 200 years and still carry out this role today, we remain 'Remarkably resilient' in the words of Lord Heseltine. The West & North Yorkshire Chamber has a strong track record in supporting regional business from start-up through growth to maturity and as an institution we have a trusted brand. In his report Lord Heseltine recommended government to make greater use of Chambers to deliver support initiatives and clearly we would agree with this view. However, Chambers could fill the business support space and invest in resources if it was clear that such investment wasn't jeopardised by later government initiatives which undermined this. Chambers are 'of place', created and directed by business in their region, independent of politics but with strong civic leadership at their core. This trust is hard to replicate and we would encourage government departments to build strong relationships across the accredited Chamber network.

- 38.** Are there institutions missing in certain areas which we could help create or strengthen to support local growth?

There exists within the West & North Yorkshire, and indeed the wider region a rift over which geography any kind of future devolution settlement will hold sway. This remains a source of extreme frustration for the business community, the belief from many being that political rivalries are taking precedent over the delivery of economic growth. This is unacceptable and we would urge this Government to step in and impose a solution if headway is not made during 2017. The business community is largely agnostic over which geography any settlement will cover, they just want to see

progress so that our region is not disadvantaged in its ability to create regional strategies which deliver economic growth.

Conclusion

The North has the capacity to support much greater levels of economic activity. There is available land for development, at a cheaper cost, than many parts of the South. In addition, development can be delivered without putting the same pressure on environmental resources, such as water. Our ports and airports have capacity to expand their activity without the need for the scale of infrastructure development in the South – and can also take pressure off some such assets elsewhere. Inadequate transport infrastructure must not be allowed to remain a constraint on this development. Road and rail connections should support this.

The UK Government needs to stay the course with whatever industrial strategy is eventually created and remain committed to delivering against its strategic objectives for the long-term. We would endorse the concept of a place based industrial strategy and would wish to see successive Governments able to maintain the direction of travel without the need to tinker, replace or dilute the strategy unless under exceptional economic circumstances.

This response was prepared on behalf of the West & North Yorkshire Chamber of Commerce by Mark Goldstone, Head of Policy & Business Representation. To discuss the points raised in more detail please contact via any of the following methods:

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