



# New Industry, New Jobs

## Part 2

### The Government and the market

A more active approach from Government to competitiveness policy does not imply a fundamental change in its view of the relationship between the market and the state. The Government's essential view remains that this balance requires markets, wherever possible, complemented by state action wherever necessary.

However, the way the Government sees its own role in the market needs to change in order to deliver a more coherent and effective approach. Government can promote investment, growth and jobs in Britain through more policy consistency across departments, greater regulatory certainty, smarter public procurement and a readiness to intervene where necessary. This involves Government acting creatively and pragmatically in new ways to supplement the market, not the Government substituting itself for the market.

### Complementing the market and correcting significant market failures

The Government believes that open markets are a source of efficiency and dynamism and that open trade and the discipline of competition are vital to innovation and growth.

Nothing that has occurred in the financial markets undermines that overall view. However, the credit crisis has brought home vividly the crucial importance of strong regulatory frameworks. Markets are extremely powerful tools but they cannot always be relied upon automatically to serve the long-term public interest.

The Government fully accepts the need for radical change in the regulation of financial markets. Its response to the Turner and de Larosière reviews will set out its approach to improving oversight of financial markets in both Britain and the EU. Britain is also playing a lead role through the G20 process in assessing the need for change in global frameworks for financial markets.

More widely, Government has a fundamental role in setting the regulatory and legal frameworks in which markets can operate fairly and effectively. This means a readiness to address market failures – or the failures caused by uncoordinated Government action – where these may significantly constrain the economic performance of UK businesses.

*Problems can occur, for example, where:*

- Businesses are handicapped in competing effectively in markets through supply side constraints that are no fault of their own, such as poor infrastructure or lack of skills;
- The necessary finance for business investment is not available to some growing businesses for reasons that might include

the cost structure of venture capital markets or preference among investors for short-term investments;

- Businesses hold back from investment in innovation or skills because the benefits do not accrue solely to the firm itself but to other businesses or the economy as a whole through staff movement;
- Businesses lack the necessary information and expertise to enter new or overseas markets.

There is a pragmatic role for Government in identifying solutions to these problems. While this is something the Government already does, in future there should be no barriers of mindset that hold back sensible and prudent intervention.

### Aligning Government action across departmental boundaries

Possibly the most desirable – and most difficult – dimension to get right is to join up the many different aspects of Government policy that shape the business environment. Alongside the basic levers of taxation, regulation and expenditure, the interaction of public policies on infrastructure, planning, public procurement, innovation, education and skills, migration, consumer welfare, social welfare and trade, all influence the environment in which businesses operate, in some cases in crucial ways.

This requires all Government departments and agencies at national, regional and local level to work together across traditional boundaries in order to promote business competitiveness. Too many worthy initiatives in Britain are still designed according to how the Government is organised, rather than according to how the British economy operates. The long-term competitiveness of the economy will depend on the ability of both Ministers and officials to change this.

The model of cross-departmental strategy-making for individual sectors and markets – piloted, for example, in the Digital Britain review and the Office for Life Sciences – needs to be applied systematically where it is useful to enforce a cross-governmental approach on major industrial policy issues.

### A more strategic approach to Government's role as a market shaper

The UK Government's regulatory decisions and frameworks define the investment landscape for millions of businesses and create incentives for individuals to choose between different skills. Regulators set the framework for investment in many network industries.

The importance and potential influence of this role must be recognised and managed more effectively. The experience of other European countries shows the potential benefits of a clear combination of firm,

strategic Government commitments and private enterprise in building technological strengths.

Clear incentives to produce and use renewable energy, for example, along with action to facilitate installation sites and support for research and development, have given Denmark and Germany a headstart in a number of renewable energy technologies.

Britain needs to draw on the lessons of this experience in reflecting on how Government action influences conditions or shapes the market for UK-based businesses. This is important in two general ways.

First, there is an obligation on Government to send clear and transparent signals of its strategic intentions where these will inevitably shape the long-term investment decisions made by businesses. This is particularly important where businesses entering a market face large initial investments. In areas such as these the right regulatory framework is a key condition for long-term investment; it must reflect the need for long-term stability, especially in areas where large-scale technological or industrial change is needed.

For example, this is the case for a number of renewable energy technologies such as low carbon vehicles, wind and wave power and nuclear power generation. Here, the Government itself is not the procurer, but its actions in incentivising or facilitating low carbon or other technologies through regulation, taxation or other action will fundamentally shape the nature of consumer and business demand in the economy, and thus business planning and investment.

Second, when the Government regulates or acts in a way that has a serious impact on demand or supply conditions in Britain, it must fully take into account the consequent effect of its actions on UK-based businesses. It must also ask what conditions need to be in place to enable them to benefit from any new opportunities.

For example, when the Government regulates standards in social care or low carbon requirements for building construction this has a direct impact on the demand for, and investment in, skills and certain technologies. Indeed, the very success of the Government's wider policies may depend on its ability to equip or incentivise businesses and their employees in Britain to implement them.

However, the Government will not achieve this goal unless there is a machinery and a culture in place that considers and acts on the wider industrial implications of Government action. In future, when regulating in ways that will affect demand in the UK, policymakers should assess the potential supply chain opportunities for UK-based businesses and their employees as an integral part of planning work. This practice cannot be limited to one or more Government departments: it must be replicated across all departments.

## Smarter, more strategic procurement

There is also a need to see the Government's long-term role as a direct customer and purchaser in the same way. The public sector itself spends or invests around £175 billion annually and is by far the largest customer in the British market. This procurement can have a powerful role in shaping markets, with the potential to drive demand for new technologies, skills and processes. This in turn represents a huge source of opportunity for UK-based businesses and their employees, where they can compete successfully to meet Government needs.

This requires that we see the 'pre-procurement' phase as being just as important as the procurement process itself. The Government needs to think ahead about the shape and nature of its likely requirements for new products and processes. It needs to communicate those requirements, in a structured way, to the right audiences. Particularly where markets are new and significant, it should be willing to take active steps to encourage new supply chains and to ensure UK businesses of all sizes are able to compete. The Government must work actively with UK-based businesses to overcome their potential skills and technology deficits so as to enhance their ability to compete.

During 2009, all Government departments must publish Innovation Procurement Plans that will embed a clear obligation to procure goods and services in a way that drives innovation, and to identify clearly the areas in which they are seeking to procure innovative solutions to help deliver their objectives.

Expansion of the Small Business Research Initiative (SBRI) reinforces this by using the chance to compete for Government procurement contracts to incentivise early-stage, high-technology businesses and support these companies through a critical stage in their development. Building on the successful pilot competitions run by the Department of Health and the Ministry of Defence in 2008-09, the reformed SBRI programme will be extended in 2009 to involve a wider range of departments and a greater number and increased value of competitions.

The Government will routinely consider skills issues and promote training through procurement across Government. For example, it reserves the right to require that successful bidders for public construction contracts provide training and apprenticeship opportunities for the project workforce.

## A change of culture in Government

In future, the market-shaping role of regulatory or procurement decisions must be a key concern of policymakers. Over the last decade the principles of better regulation have permeated the way public policy is made in Britain, and are now reducing the administrative burden of regulation on small businesses in particular. In the same way, examination and articulation of the opportunities and challenges in the supply chain must now become an integral part of the policymaker's toolkit.

*To embed the necessary changes the Government will:*

- Ensure that the consideration of business opportunities is part of every department's policy making, starting with pilots in selected key areas. These will include an assessment of what the Government needs to do to enhance the capability of UK-based businesses and their employees to compete for industrial opportunities created by Government action;
- Deepen collaboration with industry sectoral groups in Britain to build up a clear and evolving picture of the capabilities of UK-based businesses to meet major shifts in market demand in the years ahead in Britain or globally. It will work in consultation with sectoral bodies to build that capacity where appropriate;
- Create more sectoral or issue-based cross-departmental teams modelled on the Digital Britain initiative and the Office for Life Sciences, with ministerial champions at their heads to enforce a cross-governmental approach on major industrial policy issues;
- Make greater use of the temporary recruitment of secondees from the private sector to provide necessary expertise in all of these areas.

An important corollary of all of these approaches to policy is the ability of Government to produce targeted or tailored UK supply chain strategies for key markets or sectors affected by regulatory or other change.

## National strategy, regional expertise, local delivery

The right balance between central Government and the bodies that deliver industrial policy in the nations, regions and local communities is critical to ensuring that there is a match between a clear national strategy and the expertise and local knowledge that are central to effective delivery.

National Government's role must be to define a single set of strategic priorities for sustainable economic development for all national, regional and local bodies. These priorities will be set out in the Government's new guidance for integrated regional strategies for England, on which we will consult later in 2009.

However, within this national framework, there is a vital role for better coordination of Government work at the regional and local level, working in partnership with the private sector. Each region has a unique set of challenges and capabilities, and understanding these is critical to effective policy delivery, as is rapid feedback to Government from delivery partners.

The recent Regional Development Agency Impact Evaluation by PricewaterhouseCoopers has demonstrated the Regional Development Agencies (RDAs)'s effectiveness in generating economic growth for their regions. Building on this strong performance, the RDAs will have a key role to play in driving sustainable economic growth within

the English regions. The new responsibility of RDAs for developing regional strategies in partnership with leaders of local authorities will create a new and powerful means of aligning regional and local partners in delivering a coherent economic vision for their region, rooted strongly in the responsibility for generating sustainable economic growth.

Delivery at local and city-regional levels should also meet national and regional strategies and priorities. In particular, partnerships at city-regional level have the potential to also deliver a stronger focus on economic growth and increase alignment in support of common objectives. In London, the Government will work with the Mayor on how it can complement the Mayor's approach. In combination, these strategies will need to reflect local and sub-regional concerns and aspirations – but delivery must also deliver national priorities in a regional context.

To improve the delivery on the ground of Government services to business, the Government has continued to consolidate the Business Link service, which is now the front office for most businesses accessing Government assistance in areas such as innovation, business and manufacturing advice, training and skills. April 2009 saw the creation of an integrated skills and business support brokerage service delivered through Business Link. The successful simplification programme to

streamline 3000 Government support schemes for business to 30 – all accessible through the Solutions for Business portfolio that is part of Business Link – will be a model for all future publicly funded business support.

### Summary of key next steps

- The Government will set out in more detail how all Government departments will actively consider industrial opportunities created by major government action, and the skills and other strategies required to address them;
- In summer 2009 the Government will consult on guidance for regional strategies in England, setting out a single set of strategic priorities for national, regional and local delivery. It will also announce city-regional pilots which will develop the mechanisms for supporting greater economic development and business engagement at the city-regional level;
- In autumn 2009 the UK Commission for Employment and Skills will publish its recommendations for delivering a simplified and effective skills service for business. The Government will respond to its recommendations without delay.



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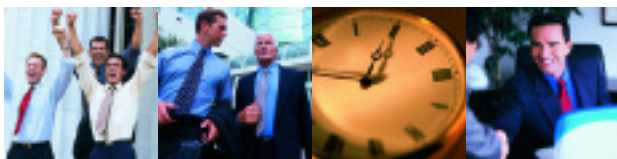
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