productivity insights network

PIN – 11

Policy Review

Productivity Policy Review

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About PIN

The Productivity Insights Network was established in January 2018 and is funded by the Economic and Social Research Council. As a multi-disciplinary network of social science researchers engaged with public, private, and third sector partners, our aim is to change the tone of the productivity debate in theory and practice. It is led by the University of Sheffield, with co-investigators at Cambridge Econometrics, Cardiff University, Durham University, Glasgow Caledonian University, SQW, University of Cambridge, University of Essex, University of Glasgow and the University of Leeds. The support of the funder is acknowledged. The views expressed in this report are those of the authors and do not necessarily represent those of the funders.

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Introduction

We have witnessed significant changes in the policy landscape in the last 20-30 years, with some suggestions that the speed of change has accelerated in recent years (Norris & Adam, 2017). With this, policy emphases, programmes and the institutional architecture have altered, shifting in line with political fashions and socio-economic imperatives of the day. Within organisations, changes in personnel may have resulted in decay in institutional memory affecting the ability to learn from past successes and failures. The purpose of this paper is to review how the overall productivity policy narrative has changed since 1997, as well as key areas of policy that are expected to enhance productivity. In doing so the paper identifies where there may be insights from how policy has changed that can help policy-makers of today, and where there may be areas for further investigation.

The paper reviews how the policy and institutional landscape has changed from 1997 to 2018, and the extent and way in which productivity is referenced in policies and programmes (or specific intermediate factors that may be expected to influence productivity). Many policy areas relate to productivity. For practical reasons, the review focusses on a defined set of policies and institutions. It is also important to note that the paper has traced how policies have changed; it has not sought to examine the effectiveness of policies. The focus of the review is as follows:

- policy domains of business support, innovation and skills
- policies from 1997 (from the election of the Labour government) to the present day
- the interface between national and sub-UK policy on economic development[1].

This review has covered the UK-level policy narrative, though in its treatment of sub-UK policy the focus has been on England. Many aspects of business, innovation and skills policy are devolved, and there exists significant variation between nations. It has not been possible to cover this within the scope of this review.

The approach to this work involved mapping the key institutions, policies and programmes in each policy domain since 1997. This provided the basis for the second step, the selection, review and coding of documentation, including budget reports and speeches, spending reviews, policy reviews and strategies, academic articles, and grey literature. Third, the information that was collated and coded was analysed to provide a synthesis covering:

- the overall productivity policy narrative
- a cross-cutting section reviewing the links between national and regional development
- three sections linking the productivity narrative to activities directed towards…
    - …boosting business
    - …instigating innovation
    - …supporting skills
- conclusions and future research questions.

[1] The focus is on what was known as the Department for Trade and Industry in 1997, and is now the Department for Business, Energy and Industrial Strategy, and sub-UK bodies established for economic development (e.g. Regional Development Agencies)

Overall productivity policy narrative

For two periods between 1997 and 2018 (1997 to 2010, and 2015 onwards), productivity featured at the apex of the policy narrative. The "five foundations of productivity" that underpin current policy echo the "five drivers of productivity" that framed policy throughout the 2000s. Between these two periods, however, the key institutions and government departments charged with devising and delivering policies for each of these drivers/foundations have been changed and restructured substantially.

The financial crisis and change in government in 2010 brought significant changes in the policy narrative. From 2010 to 2015 productivity was a minor part of public discourse as attention turned to public finances and austerity; and following 2010 there were significant changes in the institutional landscape, affecting policies and programmes relating to drivers of productivity and the regions.

The "five drivers of productivity" under Labour

> *Britain can do better. We must build on the British qualities of inventiveness, creativity and adaptability. New Labour's objective is to improve living standards for the many, not just the few. Business can and must succeed in raising productivity. This requires a combination of a skilled and educated workforce with investment in the latest technological innovations, as the route to higher wages and employment (Labour Manifesto, 1997)*

The Labour manifesto of 1997 outlined the need for businesses to raise their productivity to promote widespread prosperity. Once in government they introduced the "five drivers of productivity" (herein the "5Ds"), which were first outlined in the *Productivity in the UK* report – a new policy framework for achieving economic objectives of high and stable levels of growth and employment (see Figure 1 for a description of each driver).

Figure 1: The 5Ds Framework outlined

3.2 The Government's five driver framework

Analysis of the underlying components of economic performance suggests that certain factors are critical for determining productivity growth. The Government's productivity framework identifies five drivers that interact to underlie long-term productivity performance: investment, innovation, skills, enterprise and competition.

Investment is in physical capital – machinery, equipment and buildings. The more capital workers have at their disposal, generally the better they are able to do their jobs, producing more and better quality output.

Innovation is the successful exploitation of new ideas. New ideas can take the form of new technologies, new products or new corporate structures and ways of working. Such innovations can boost productivity, for example as better equipment works faster and more efficiently, or better organisation increases motivation at work.

Skills are defined as the quantity and quality of labour of different types available in an economy. Skills complement physical capital, and are needed to take advantage of investment in new technologies and organisational structures.

Enterprise is defined as the seizing of new business opportunities by both start-ups and existing firms. New enterprises compete with existing firms by new ideas and technologies increasing competition. Entrepreneurs are able to combine factors of production and new technologies forcing existing firms to adapt or exit the market.

Competition improves productivity by creating incentives to innovate and ensures that resources are allocated to the most efficient firms. It also forces existing firms to organise work more effectively through imitations of organisational structures and technology.

Source: National Statistics (2007)

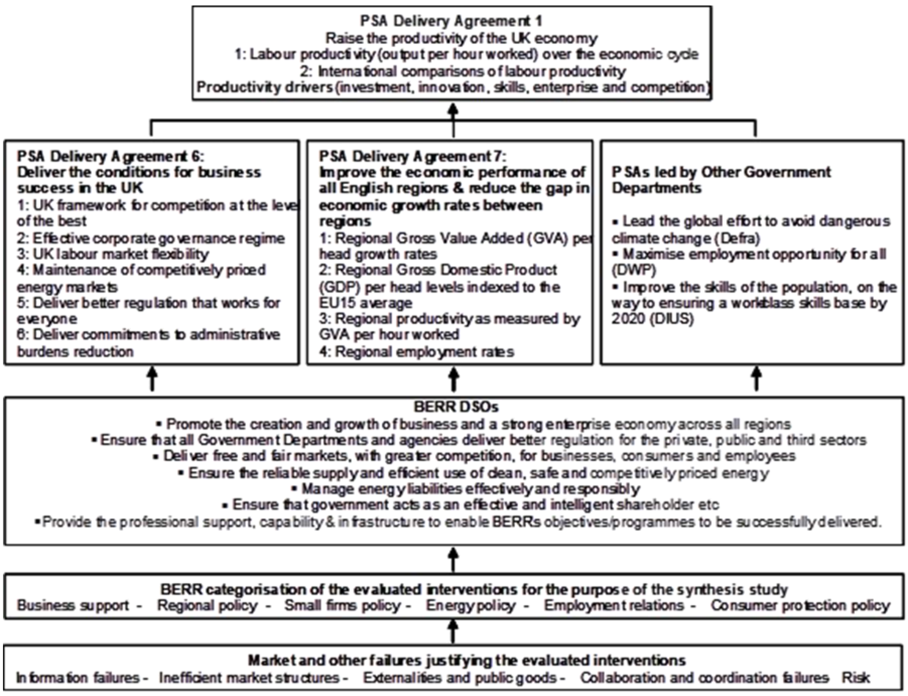
The 5Ds set a framework through which Labour developed and implemented its policy agenda throughout its time in government. They were institutionalised through Public Service Agreements (PSAs), which were introduced as a government-wide performance management system. Announced in the 1998 CSR, and introduced the following year, PSAs set explicit, output-based, multi-year targets for each government department to deliver against.

For the various incarnations of the Department for Business and other relevant departments, the 5Ds featured prominently, and included an explicit objective to narrow the gap in growth rates between English regions. This theme focussed on ways to *"raise the productivity of the UK economy"*, *"improve the skills of the population"*, *"promote world class science and innovation in the UK"*, *"deliver the conditions for business success in the UK"* and *"improve the economic performance of all English regions and reduce the gap in economic growth rates between regions"* (HM Treasury, 2007).

Figure 2 outlines the interlinkages between the PSAs and the 5Ds for the Department for Business, Enterprise and Regulatory Reform (BERR) in 2007. The figure illustrates the pathways from market failure rationales to interventions to departmental objectives and then on to PSA targets. At this time, BERR held responsibility for business support, SME policy and regional policy, while the remit for innovation and skills policy was held by the Department for Innovation, Universities and Skills (DIUS).

In the 2000s, therefore, improving UK productivity was positioned as a final objective. It was to be achieved through improvements in the performance of the 5Ds, and also through narrowing the gap in regional disparities in terms of growth rates, regional productivity and employment.

Figure 2: Department for Business's departmental objectives and PSA (2007)



Source: SQW (2008)

The financial crisis and the response from government

The financial crisis, and the deep recession (from Q1 2008 to Q2 2009), marked a major inflection point in relation to the productivity policy narrative. There were two particular aspects to this. The first was the resulting policy narrative under the incoming Coalition government from 2010. This was heavily influenced by the economic context they faced and an austerity agenda to help address the public sector deficit. The emergency budget of June 2010 outlined the new government's priorities, designed to address the dual challenges of rebalancing the UK economy and providing the conditions for sustainable growth, in particular through fiscal measures to address the deficit. The 2011 Budget Report and the accompanying *Plan for Growth* reiterated this through a slightly revised set of priority areas to, including the promotion of enterprise and fairness in the pursuit "strong, sustainable and balanced growth" (HM Treasury, 2011). The ultimate objectives were therefore around reducing the deficit and enabling private sector-led growth. Productivity was not an explicit objective in the policy narrative, though elements that are related to the 5Ds, such as the business environment and an educated workforce, remained as part of the government's four "ambitions"[2].

The second aspect of change was the return of industrial policymaking that was provoked by the financial crisis. This was initially set out through Labour's *New Industry, New Jobs* (HM Government, 2009), and subsequently through industrial strategy policy under the Coalition and Conservative governments, culminating in the Industrial Strategy in 2017. This marked an important shift in public discourse. Prior to the financial crisis, and since the 1980s, industrial policymaking was synonymous with ineffective, perhaps "misplaced", attempts to "pick-winners" and promote "national champions" (OECD, 2009). Rather, the approach of governments from the 1980s was one based on free market principles and 'horizonal' policies designed to set the economic conditions and business environment for increased competitiveness, growth and productivity. For example, in 2000, Labour highlighted that the key to productivity growth was to create and sustain an "economic environment for productive businesses" rather than through "supporting failing businesses or trying to 'pick winners'" (HM Treasury, 2000).

New Industry, New Jobs did not directly cite the 5Ds, though it did highlight many of the 5Ds individually under a competitiveness-driven agenda. A key feature of the strategy was to "support advanced industrial projects of strategic importance to the UK's economic renewal and future growth". These were the origins of the rise in importance of industrial policy-making that was taken forward by the Conservative-Liberal Democrat Coalition government (elected in May 2010), and subsequently as the lead towards an Industrial Strategy under the Conservatives.

The road to the Conservative's "five foundations of productivity"

The appetite for industrial policies to support the economic recovery, protect vital sectors and boost internationally competitive sectors increased under the Coalition Government with the *Plan for Growth* (2011)[3]. The Coalition further developed industrial policy based around several key themes, including '11 key sectors' and, later, the 'eight great technologies'[4] (Commons Library Briefing, 2018). There was an emphasis on learning from international peers, including:

- advocacy of the use of public procurement to create opportunities for UK businesses - following the US model – a recommendation of the Dyson Review (2010)
- support for the development of Technology and Innovation Centres (later re-badged as Catapult Centres), based on Germany's "Fraunhofer Model", as recommended in the Hauser Review (2010)
- a need for increased investment in innovation to match international peers (including US, France, Germany and South Korea), as encouraged by Nesta (2012).

Productivity as an explicit objective returned to prominence in policy discourse in the 2015 *Fixing the Foundations* report, which emphasised productivity as the "challenge of our time" (HM Treasury, 2015). It outlined a framework around two pillars, long term investment and a dynamic economy. Within this a set of eight themes and 15 productivity "points" were outlined (see Figure

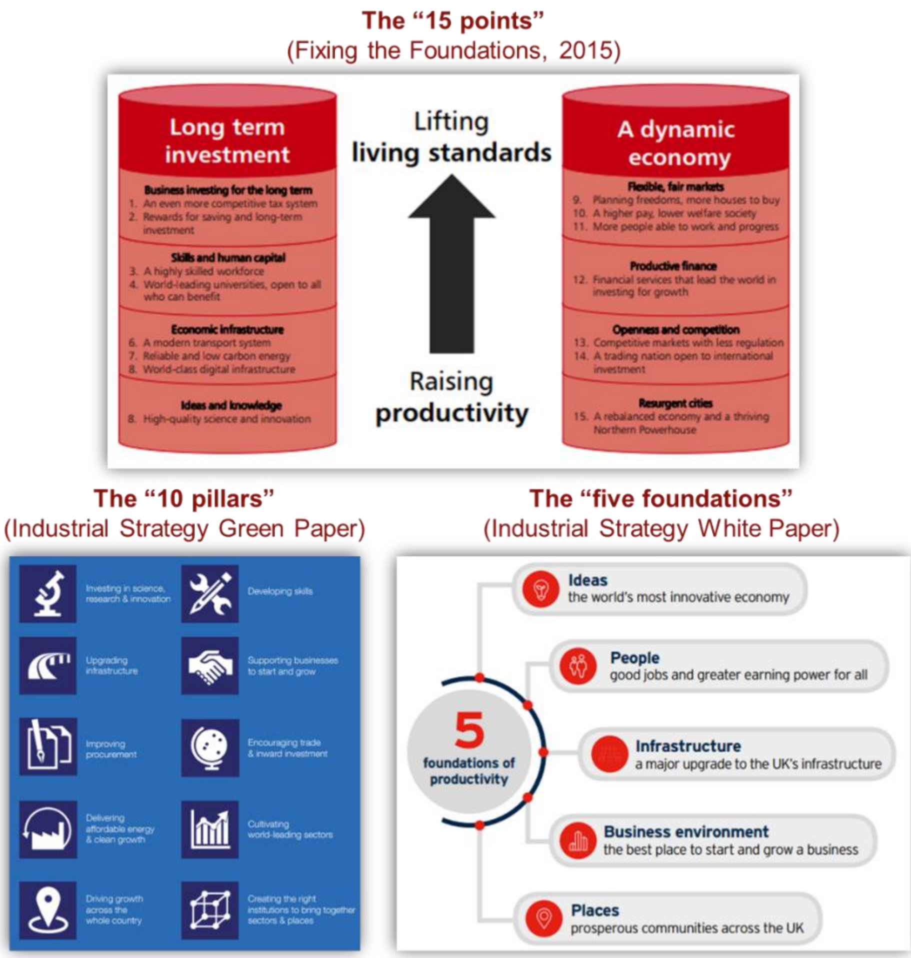
[2] Ambition 1: The most competitive tax system in the G20; Ambition 2: To make the UK one of the best places in Europe to start, finance and grow a business; Ambition 3: To encourage investment and exports as a route to a more balanced economy; Ambition 4: To create a more educated workforce that is the most flexible in Europe.

[3] This emphasised key sectors: Advanced Manufacturing, Healthcare, Life Sciences, Digital, Creative, Professional and Business Services, Engineering, Construction, Space, Tourism and Retail

[4] Big Data, Satellites, Robotics and Autonomous Systems, Synthetic Biology, Regenerative Medicine, Agri-Science, Advanced Materials and Energy Storage.

3), though the Business, Innovation and Skills committee highlighted how this was simply “an assortment of largely existing policies”.

Figure 3: From the “15-point Productivity Plan” to the “Five Foundations of Productivity”



Sources: HM Treasury (2015); HM Government (2017a); HM Government (2017b)

Building on the 15-point Productivity Plan, the Industrial Strategy Green Paper retained productivity as a keystone of public policy, this time recast in terms of “10 Pillars”. Following the conclusion of the public consultation, the Industrial Strategy White Paper (HM Government, 2017b) was published, launching the “Five Foundations of Productivity” (herein 5Fs). There are clear overlaps between the 5Fs and the former 5Ds framework, such as: ideas (5F) with innovation (5D), people (5F) with skills (5D), business environment (5F) with competition and enterprise (5D), and investment with infrastructure (5D). Place (5F) also aligns with the cross-cutting aspect of regional disparities within the 5Ds framework.

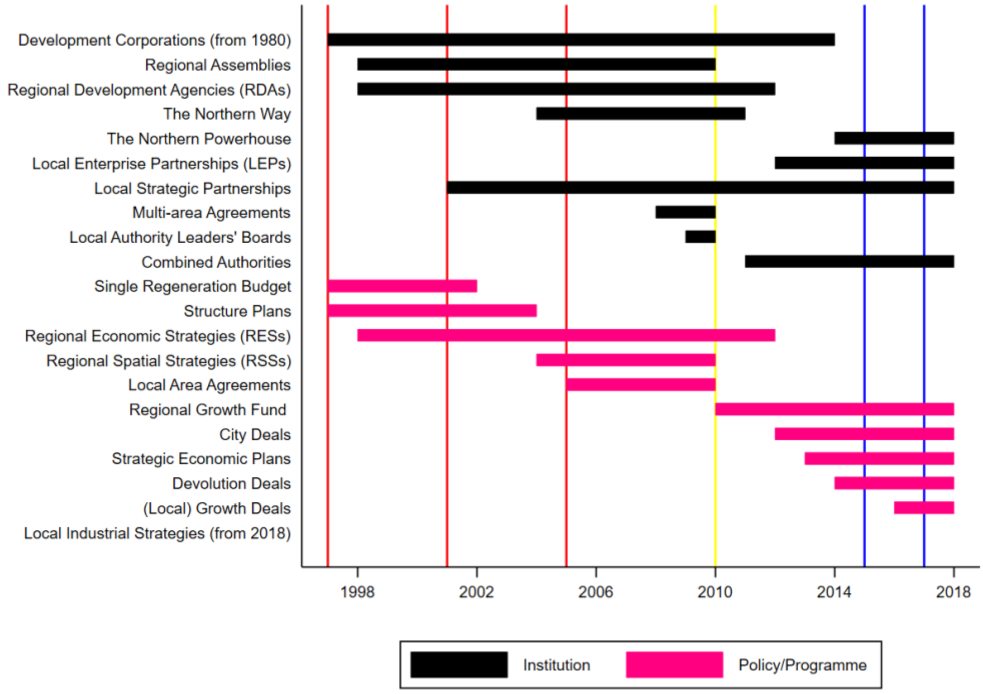
The evolution from the “points” to “pillars” to “foundations” may reflect the importance of breaking down silos by bringing key issues together under the small set of foundations. Places as the fifth foundation is effectively cross-cutting, as the other four foundations apply at UK-level but would also apply within a particular region or locality.

Regional development

The role and shape of the regional tier has shifted over time, and along with this the extent of emphasis on addressing regional disparities (including on productivity performance). Under Labour there was an explicit and strong reference to reducing regional disparities, and this was tied to productivity and the 5Ds. This was instituted in the Devolved Administrations and in England the Regional Development Agencies (RDAs), which were required to work within their regions to develop economic strategies that sought to consider the mix of levers of economic development. The policy issue of regional disparities did not disappear with the abolition of RDAs and their replacement with Local Enterprise Partnerships (LEPs). However, this new institutional framework, and the reduction in capacity, funding and explicit link to productivity, represented a significant point of change in policy. Over time, there has been gradual strengthening of LEPs, and the localism agenda and the Industrial Strategy have re-established the policy focus on addressing regional (and local) differentials in economic performance, including productivity.

Figure 4 provides timeline of the key institutions, policies and programmes related to regional development over the review period. It illustrates the considerable level of churn for supporting regional development in England, as highlighted in other reports (NAO, 2016).

Figure 4: Key regional development institutions, policies and programmes from 1997 to 2018



Source: SQW

The rise and fall of RDAs

Labour prioritised tackling regional disparities throughout their time in government, and in promoting the 5Ds productivity framework sought to develop the capabilities of regional and local institutions to identify and address regionally- and locally specific issues (HM Treasury, 2001). To do this, the following devolved/regional institutions were established: the Scottish Parliament, the National Assembly for Wales, the Northern Ireland Assembly, and nine Regional Development Agencies (RDAs) in England. Here we focus on the RDAs.

The RDAs were set up between 1999 and 2000 in each of the nine English regions. They had five statutory objectives, as outlined in the 1998 RDA Act, including the promotion of regeneration, enterprise, employment, the development and application of skills, and the contribution to sustainable development. The RDAs had responsibilities to develop Regional Economic Strategies[5] (RESs) as well as Corporate Plans. RESs were 5-10 year strategies

[5] Known as the Mayor's Economic Development Strategy in London

developed jointly with partners from across the region to ensure the priorities were "owned by the region" and had support across sectors for their delivery. RES priorities were aligned with relevant PSA targets, within which the 5Ds framework featured prominently. Therefore, the framework encouraged strategy-making that looked across drivers of productivity and the levers for influencing economic development. Plans were drawn to strengthen this through the integration of economic and spatial strategies – thereby seeking to ensure infrastructure investment and planning aligned with economic development (however, the RDAs were abolished before this could be implemented).

Corporate Plans set out how each RDA allocated its own resources to support delivery of RES priorities (alongside the resources of other partners). To support this, from 2002/2003 RDAs had a flexible funding source as they were financed through Single Programme Budgets (the "Single Pot"), drawn from several government departments. RDAs were granted increasing levels of responsibility over time and across policy domains, as outlined in Table 1. This included, for example, leading Regional Skills Partnerships, managing business and innovation support schemes, and for rural development.

Table 1: New responsibilities for RDAs over time

2002	2003	2004	2005	2006
• Regional Development Grants • Manufacturing Advisory Service	• Regional Skills Partnerships	• Selective Finance for Investment	• Business Link • Grants for R&D	• EU Structural Funds/ERDF • Rural Development Programme

Source: Business and Enterprise Committee (2009)

The incoming Coalition's 2010 Emergency Budget announced that the RDAs were to be abolished. All had closed their doors by March 2012, to be replaced be a new arrangement of institutions, the LEPs. This was a substantive shift in shaping regional economic development in England.

With RDAs abolished many programmes were scrapped or centralised to the Department for Business or its agencies, including Capital for Enterprise for finance schemes, Technology Strategy Board for innovation programmes, and the Skills Funding Agency for skills. RDA abolition also resulted in the end of the Northern Way, a joint initiative between the three northern RDAs to progress areas of pan-regional significance such as innovation, private sector investment and transport. Elements of this continued or were established again later, such as through the N8 partnership of northern universities and the Northern Powerhouse.

The creation of LEPs and the role of challenge funding

The Coalition's White Paper, *Local Growth: realising every place's potential* (BIS, 2010a), suggested that LEPs represented the "right level" (or functional economic area) for conducting regional development. LEPs were established to provide local "strategic leadership" and to support the development of a "clear vision" to "drive sustainable private sector-led growth and job creation in their area" (BIS, 2010a). They were facilitators of, as opposed to delivery agents for, regional development initiatives.

As operationally independent, non-statutory bodies, the roles, objectives and responsibilities of LEPs were flexibly defined. Broadly speaking, LEPs have engaged in the following activities:

- the development of economic strategies
- the setting of local investment priorities (e.g. for infrastructure, and initiatives to support national priorities)

- a role in co-ordinating the raising of finance (from public and private sector sources)
- supporting business growth, e.g. through the development of Growth Hubs and Enterprise Zones.

LEPs were quite different to RDAs in several respects. They were smaller geographically - from 9 RDAs emerged 39 LEPs. They took on various organisational forms as, unlike RDAs (whose role was defined in statute in the 1998 RDA Act), LEPs were non-statutory bodies. For their initial operating years, LEP objectives were not driven by a broad framework integrating various domains of policy, but rather through a flexible approach that allowed them to establish their own foci. This contrasted with the core policy framework for the RDAs, which was grounded in PSAs and the 5Ds. Certainly initially, this resulted in LEP objectives being related to short-term initiatives and funding opportunities rather than longer-term development. Funding for LEPs was largely based on challenge funding, as opposed to the dedicated funding available to the RDAs, and at the outset it was approximately one third of that allocated to the RDAs (Bentley, Bailey, & Shutt, 2010).

Following the 2013 Spending Review, LEPs were tasked with producing Strategic Economic Plans (SEPs), documents designed to outline local economic development priorities. Whilst representing a strategic framework for local economic development, SEPs were also bidding documents. They were used to negotiate 'Growth Deals' with Government from the Single Local Growth Fund (SLGF) (Commons Library Briefing, 2017).

Industrial Strategy has further renewed the emphasis on place and on reducing regional disparities. Whilst the 'Place' chapter within the Industrial Strategy includes "initiatives and efforts that were already in motion" prior to its publication (Fai, 2018), there is an important new (or renewed) focus on long-term strategic development and the role of LEPs within this.

"Local Enterprise Partnerships will focus on enhancing productivity. This will be achieved through the development and delivery of their Local Industrial Strategy" (MHCLG, 2018)

As part of the Industrial Strategy, the government committed to working with LEPs in the delivery of "prosperous communities" focussing on how local areas "maximise their contribution to UK productivity". 'Local Industrial Strategies' (LISs) are to be developed in collaboration with Government, and should set out "specific, achievable and long-term ambitions" that take into account local capacities (in the domains of business, innovation, and skills, among others) and contribute to the objectives of the national Industrial Strategy. This means once again economic strategy development for the different parts of England under a productivity-based framework. The institutional context is very different however: there are 39 LEPs (as opposed to 9 RDAs); and the arrangements for funding the delivery of the strategies is to be determined. In certain areas, devolution may provide some solutions to this.

The Localism agenda

Alongside the changes in the sub-national architecture just discussed, there have been drives towards devolution. The Core Cities Amendment in the 2011 Localism Act provided Local Authorities (LAs) with the ability to "make the case for being given new powers to promote economic growth and to set their own distinct policies".

The Act was followed by the *Unlocking Growth in Cities* report, which outlined measures to increase the finance-raising powers of local authorities through measures such as business rate retention and new borrowing powers. The report outlined the creation of 'City Deals' as an opportunity to develop "bespoke packages" of powers and resources for local authorities, LEPs and other local bodies to negotiate with government. City Deals were based on three aims: to give cities the powers and tools they need to drive local economic growth, to unlock projects or initiatives that will boost their economies, and to strengthen the governance arrangements of each city. At the time of writing, City Deals had been approved across the England, Scotland and Wales, and others were in progress.

The 2012 Heseltine Review's recommendation to increase local responsibility for economic development influenced the development of a new form of deal, the 'Devolution Deals'. These represented a mechanism for decentralising powers and funding to local governments, including the opportunity to appoint a directly elected mayor in combined authorities. The 2016 Cities and Local Government Devolution Act provided a more efficient legal framework by which 'Devolution Deals' were implemented, including amendments to existing legislation[6] to facilitate the creation of combined authorities (of two or more local authorities).

Boosting business

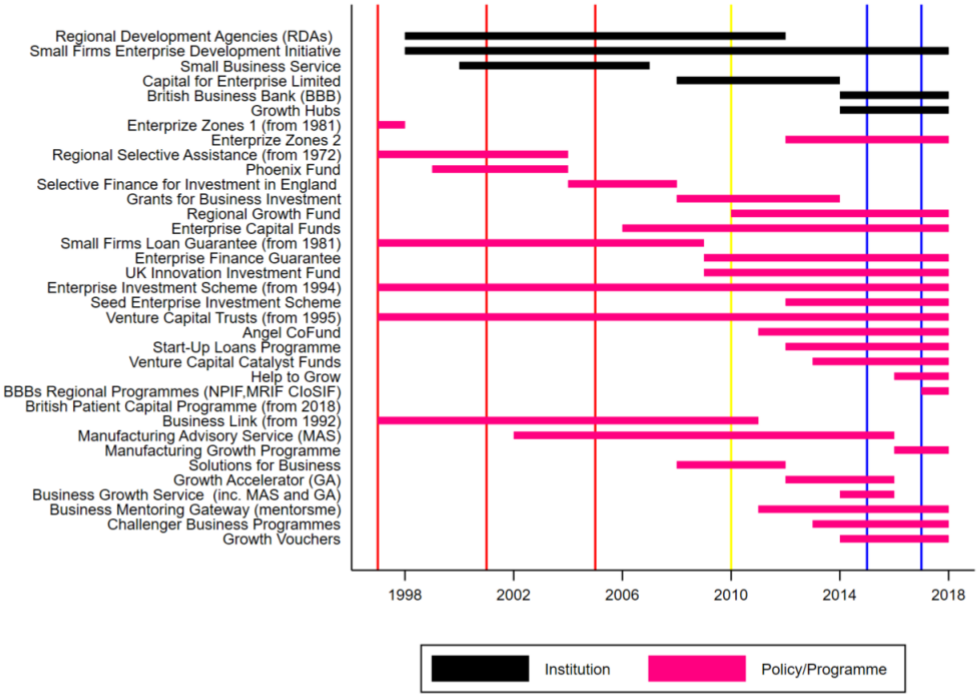
Key changes in business support mirror the overall narrative of policy changes and institutional shifts over the period. Three key themes are evident:

- The regionalisation of business support under Labour, followed by part centralisation and part localisation under the Coalition.
- A shift in orientation, from generalist support to reach as many businesses as possible, to targeted support for businesses with growth ambition and 'scale-up' potential.
- On-going efforts over the period to simplify business support, and, in particular since 2010 an increasing emphasis on mentoring and peer-to-peer networks.

Figure 5 provides a timeline of the key institutions, policies and programmes designed to support businesses over the period under review. The apparent increase in initiatives to support business from 2010 reflects the centralisation of initiatives and the focus of the timeline on national-level programmes – rather than an actual increase in provision.

[6] the 2009 Local Democracy, Economic Development and Construction Act

Figure 5: Business policy from 1997 to 2018: key institutions, policies and programmes



Source: SQW

Regionalisation followed by part-centralisation, part-localisation

The incoming Labour government, in 1997, continued to support several prevailing business support policies and programmes, including the flagship Business Link programme (in place from 1992), the Small Firms Loan Guarantee (from 1981), the Enterprise Investment Scheme (from 1994) and Venture Capital Trusts (from 1995).

A focus of policy was on stimulating take-up of business support by addressing barriers to using advice, particularly amongst SMEs. The establishment of RDAs created a new and resourced regional tier that was linked strongly to the productivity narrative. Meeting the needs of regional businesses and sectors and tackling regionally-specific issues were key aspects of their role in contributing to economic development.

Over time the RDAs took increasing responsibilities for business support in order to achieve "greater coherence in business support delivery from the customer's perspective" (HM Treasury, 2004a). These responsibilities included Business Link and innovation support programmes such as Smart/Grants for R&D. Business Link, established in 1992 by the Conservative government to create a 'one-stop-shop' for business support, had operated locally through, at its peak, "89 […] offices employing 650 personal business advisers" (Centre for Cities, 2013). From 2005 it was regionalised, becoming "Business Links", and the model shifted to one based on 'Information, Diagnosis and Brokerage', with private companies contracted to deliver support. RDAs could develop different support strategies which, although linked to a national policy framework, served to increase the variety of business support options available.

The Manufacturing Advisory Service (MAS) was also established under Labour, in 2002 by DTI. Based on the US Manufacturing Extension Programme (MEP), MAS focussed on the provision of specialised strategic and technical advice to manufacturing businesses, and was delivered regionally through Regional Centres of Manufacturing Excellence.

The business support landscape underwent its third major reform in less than two decades following the formation of the Coalition Government (Centre for Cities, 2013). The abolition of the RDAs and spending cuts resulted in many business and innovation support programmes being centralised, rationalised or scrapped entirely. The austerity agenda, pursued by the Coalition given the economic context, was a key reason for the reforms. It is notable, though, that enterprise support maintained a high profile in the overarching policy narrative, unlike the productivity agenda per se.

Business Link was centralised within the Department for Business (BIS at the time), and was also significantly simplified to a website and call centre. Other business advice services were either brought into BIS or distributed to other national and local institutions, such as the newly formed LEPs, Jobcentre Plus and Chambers of Commerce. Funds like the Regional Growth Fund (RGF), which was launched as a vehicle for allocating public money to business support, represented a shift to challenge-based funding, obtained via a competition process. Other initiatives to support businesses included the re-launch of Enterprise Zones in 2012, and the establishment of local Growth Hubs in 2014.

A shift in targeting of business support

Instead of seeking to maximise the reach of business advice, the Coalition changed the focus of business support towards tackling barriers to the expansion of businesses with growth ambition[7]. Nesta's 2009 report titled *The Vital 6%* was influential in advancing support in this area, through highlighting the potentially "vital role fast-growth businesses will play in UK economic recovery" (Nesta, 2009).

This manifest itself in the launch of the flagship GrowthAccelerator programme in 2012, designed to increase the stock of high-growth businesses in England. The programme focussed on four key areas (raising finance, leadership and management, commercialising innovation, and strategy development and execution) through the use of "Growth Managers/Coaches". GrowthAccelerator was subsequently consolidated within the Business Growth Service (BGS) in 2014, alongside the Manufacturing Advisory Service, to create a single access point for business seeking mentoring support and growth.

A further key development under the Coalition was the setting up of the British Business Bank (BBB) in 2014, succeeding Capital for Enterprise (CfE). Early schemes focussed on start-ups and growth potential companies, and included the Angel Co-Investment Fund (2011), the Start-Up Loans Programme (2012), and the Venture Capital Catalysts Fund (2013). In more recent years, the BBB has introduced Regional Funds, related to the increasingly important place-based narrative and aimed at tackling barriers to business growth (due to limited access to finance) in areas of the UK. Three Funds are currently in operation, including the Northern Powerhouse, Midlands Engine, and Cornwall and the Isles of Scilly Investment Funds.

On-going efforts to simplify the landscape

A consistent theme across successive governments have been the attempts to simplify the business support landscape. In practice, this has been difficult to achieve, and has resulted in constant changes to provision. The intentions were well-founded with the barriers to take-up related to the complex, sometimes overlapping, policy landscape.

[7] This is not to say that support for high-growth business was lacking under Labour, but rather that support for high-growth businesses became a priority under the Coalition. See HM Treasury (2003) which outlines the targeted support Labour provided to high-growth SMEs to address market failures in accessing finance.

The Labour government launched the Small Business Service (SBS, an executive agency of DTI) to improve the coordination of small business support policies across government. SBS led a *Cross Cutting Review of Government Services for Small Business* (DTI, 2002), which outlined further recommendations for improving the effectiveness of support services. Efforts to simplify public business support provision continued throughout Labour's time in government. Of note was the Business Support Simplification Programme (BSSP), announced in the 2006 Budget (HM Treasury, 2006), which led to the creation of Solutions for Business (SfB), an umbrella for government's portfolio of business support programmes. The idea was to reduce the thousands of publicly-funded support schemes (estimated at 3,000 at the time) to 100 or fewer by 2010. The SfB launched with thirty products, including business advice services (e.g. Business Links and the Manufacturing Advisory Service), support for innovation (e.g. Grant for R&D, Knowledge Transfer Partnerships), the provision of coaching (e.g. Coaching for Growth) and access to finance schemes. Business Links became the primary access point for businesses seeking support.

As previously noted, the Coalition centralised much of business support, simplified the Business Link offer to a website and call centre, and merged key services under the Business Growth Service. As part of the Conservative's 2016 Spending Review the Business Growth Service itself was abolished as part of a 17% budget cut for BIS. It was suggested that £12m of the £84m saved through the scrapping of BGS would be directed through the Growth Hubs[8], led by LEPs.

The Coalition government placed an emphasis on building the capacity of, and information on, the private sector to provide advice to businesses, such as through mentoring and peer-to-peer networks. The British Mentoring Gateway, established in 2011 in collaboration with the British Bankers Association, UK trade bodies and networks of mentors, set out to raise both the stock of mentors, as well as the awareness of the benefits of mentoring to SMEs, in order to raise demand and use. This theme has continued under the Conservative government, most recently with the intent to draw on the experience of leaders and managers of high productivity firms to share knowledge with those seeking to improve.

Whilst simplification has good intentions at its root, it is unclear whether the end result has been a simpler landscape as access points have constantly changed and the balance between national, regional and local emphases shifted.

Instigating Innovation

Innovation policy has consistently been linked to the aim of raising levels of R&D investment – where the UK has historically performed poorly relative to international peers. This has been a consistent feature of policy throughout the period. Aside from this consistency, there have been some changes in the landscape, in particular the institutional architecture and trends towards demand-led (to complement supply-push) innovation policies.

Consistent targeting to increase R&D spend

Recognising the dual challenges of low productivity and an underinvestment in R&D in the UK, Labour identified innovation as one of the 5Ds and set a target to spend 2.5% of GDP on R&D (compared to the prevailing rate of 1.9%). A very similar target exists today under the new Industrial Strategy. The recently created UK Research and Innovation will lead the delivery of research and innovation aspects of the Industrial Strategy, linked to the 5Fs. UKRI is to lead in aiming to raise levels of R&D spending to 2.4% of GDP.

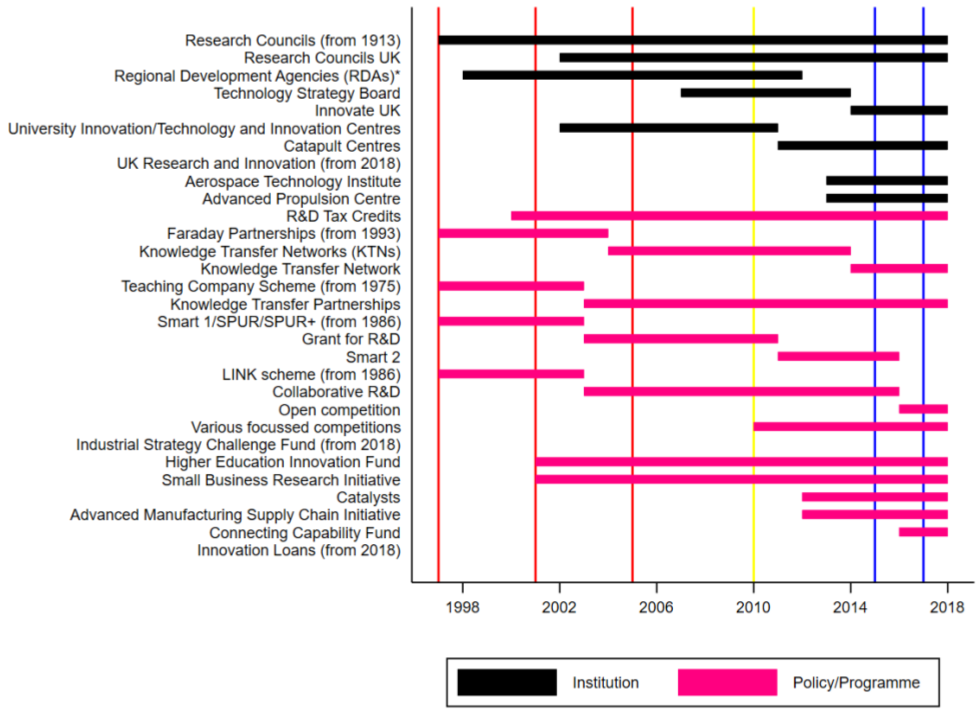
8 https://www.ft.com/content/c49773c4-9e90-11e5-8ce1-f6219b685d74 [accessed 1/10/2018]

Some of the key policies around R&D and incentives for commercialisation have also remained consistent over time. A flagship initial policy of Labour was the introduction of R&D tax credits in 2000, designed to raise R&D spending by reducing the cost for businesses. Initially launched for SMEs only, the scheme was expanded to include large companies the following year. The scheme is still active today, remaining an important part of the UK's innovation policy mix, though the levels of tax relief have changed over time. Labour also launched new initiatives, including the Small Business Research Initiative (SBRI) in 2000, to increase the involvement of SMEs in public sector R&D, and the Higher Education Investment Fund (HEIF), also in 2000, to support English higher education institutions to undertake knowledge exchange and research commercialisation with the private sector. Both schemes remain in operation today.

Institutional changes

There have been some important institutional changes over the period. These do not, on the face of it, indicate radical shifts in policy, though have affected targeting and focus. Figure 6 outlines the key institutions, policies and programmes in place over the 1997 to 2018 period.

Figure 6: Innovation policy from 1997 to 2018: key institutions, policies and programmes



Source: SQW

As with business support, Labour regionalised some aspects of innovation support, including programmes such as the national Smart scheme, which became the regional Grants for R&D programme. Labour also established the Technology Strategy Board (TSB), which followed a recommendation of the DTI's 2003 *Innovation Report* for an advisory board to help establish strategic priorities to "drive up sustainable productivity and competitiveness in British business". The TSB was subsequently announced in the 2004 Spending Review with the objective to support the government to maximise "the productivity benefits of increased investment in the science base". The introduction of TSB marked a shift towards a more strategic approach to innovation policies, particularly following their transition to an independent Innovation Agency and the launch of their first strategy in 2008, *Connect and Catalyse* (TSB, 2008).

Following the abolition of the RDAs by the Coalition government, innovation support programmes became more centralised. The TSB, which later became Innovate UK, took on enhanced delivery responsibilities. Whilst on the face of it, this may have simply meant moving programmes between organisations, it may have affected the nature of companies and innovation projects supported as delivery and assessment shifted from region to UK.

Other institutional developments followed, including the establishment of the Catapults (initially called the Technology and Innovation Centres), which were based on recommendations in the Hauser Review (2010) and the Fraunhofer Model in Germany. The Conservative government continued with institutional developments and changes to programmes, including the extension and evolution of key policy initiatives such as the Catalyst programme and the refinement to national innovation funding competitions under Innovate UK. A substantive recent change to the landscape was the creation of UK Research and Innovation (UKRI), bringing together research bodies (Research Councils and Research England) and Innovate UK under the same organisation in an effort to stimulate greater working between research and innovation to bring about economic, knowledge and societal outcomes.

Evolution of innovation policy to supplement the traditional linear-push model

There has been a gradual evolution of innovation policy. This has sought to supplement the traditional linear-push paradigm of stimulating R&D spend and pushing research through to industry. The Department for Innovation, Universities and Skills (DIUS) released the *Innovation Nation* White paper in 2008, which was influenced by the Sainsbury Review of 2007. The report highlighted the "changing face" of innovation and the need to depart from the prevailing linear-push model of the innovation process, to a more holistic stance, one driven "as much by demand as by supply". This led to the launch of demand-side interventions, such as a requirement for Government Departments to develop Innovation Procurement Plans to "drive innovation through procurement". The TSB, and now Innovate UK, had a key role, establishing 'Innovation Platforms', which were based on a new approach to stimulating innovation around specific societal or market challenges.

This has continued to the present, and the current Industrial Strategy Challenge Fund (ISCF) focuses around societal or market challenges where there is a global market that is growing or has the potential to grow, and where the UK has recognised strengths. The ISCF was set up to support "the long-term plan to raise productivity and earning power in the UK"[9]. The ISCF is also an example of the increasing shift towards stakeholder- and industry-informed innovation in the UK and is an early initiative that works across the constituent parts of the newly-formed UKRI.

The ISCF is also an example of the gradual evolution to more strategic targeting of innovation support to particular industries and technologies where the UK has identified strengths. This has followed the move towards industrial policy-making that began after the financial crisis. In addition to the ISCF, other developments are pertinent here, including the Catapults as "physical centres of excellence" based on "clusters of expertise" to support innovation (TSB, 2011) and programmes that have been directed to particular areas such as aerospace (e.g. Aerospace Technology Institute), automotive (e.g. Advanced Propulsion Centre) and agricultural technologies (e.g. Agri-Tech Centres). Latterly, localities in the UK have been asked to develop Science and Innovation Audits that identify specific research and innovation strengths, such that these can be focussed upon and exploited as part of implementing the Industrial Strategy.

[9] https://www.ukri.org/innovation/industrial-strategy-challenge-fund/ [accessed 1/10/2018]

Supporting skills

There have been two key features of change in skills policy over the period:

- the push to demand-led skills policy and the influence of the Leitch Review within this
- significant institutional change.

The push towards demand-led skills policy

Improving educational achievement is the top priority of this Government. Higher skill levels will raise productivity, improve employability and increase the rate of innovation (HM Treasury, 1998)

Labour entered government placing considerable emphasis on improving skill levels to raise productivity, including both for the young and the existing workforce. There was a strong supply-side aspect to this and Labour increased spending on education and training, with objectives to increase the number of young people entering higher education and the introduction of Foundation Degrees (HM Treasury, 2000).

Skills became increasingly regarded as central to the productivity challenge through their effect on the other productivity drivers, particularly investment, innovation and enterprise. As part of this, there were moves towards seeking to create a more demand-led system, with the creation of the Skills for Business network in 2002, comprising the Sector Skills Development Agency and Sector Skills Councils (SSCs). SSCs were independent, employer-led organisations designed to shape a skills system that was more responsive to employer demand. Their role was to help inform the "skills required to support the future productivity and competitiveness of the industry" (HM Treasury, 2004b) through engagement with both the supply and demand sides for skills. Each SSC was tasked with producing a Sector Skills Agreement (SSA) to set skills priorities over a "a five to ten year horizon".

Support for a more demand-led (or employer-responsive) skills system became an increasingly important theme following the publication of the 2006 Leitch Review of Skills. This became the "centrepiece of skills policy in England" (Payne & Keep, 2011) and continues to be influential today.

The Leitch Review affirmed the importance of skills to productivity (including important links to the other 5Ds), highlighting how "[p]roductivity is increasingly driven by skills" and how "[h]igher levels of skills drive innovation, facilitate investment and improve leadership and management". The review argued that becoming a world leader in skills would yield a "net benefit of at least £80 billion over 30 years", realised from "a boost in the productivity growth rate of up to 15 per cent" and "an increase in the employment growth rate by around 10 per cent" (Leitch Review, 2006). Five key recommendations were made, namely to:

- share responsibility between employers, individuals and the Government
- focus on economically valuable skills
- be more adaptive and responsive
- build on existing structures.
- develop demand-led skills

The principle of demand-led skills signalled an important step-change in the Government's approach to skills policy, moving from a largely supply-driven system to one which was more demand-led and designed to give employers and individuals "a strong and coherent voice", more employer engagement, and increased investment in skills (Leitch Review, 2006). This has underpinned responses from the different government administrations where employers and individuals are placed more at the centre. Following the financial crisis, there was also a fiscal basis for this with the Coalition Government arguing that, "in the current fiscal climate" only those with "very low levels of skills or the disadvantaged" would receive full state support. For other forms of training, it was expected that learners and employers co-invested with Government (BIS, 2010b). Examples of demand-led policies and programmes have included:

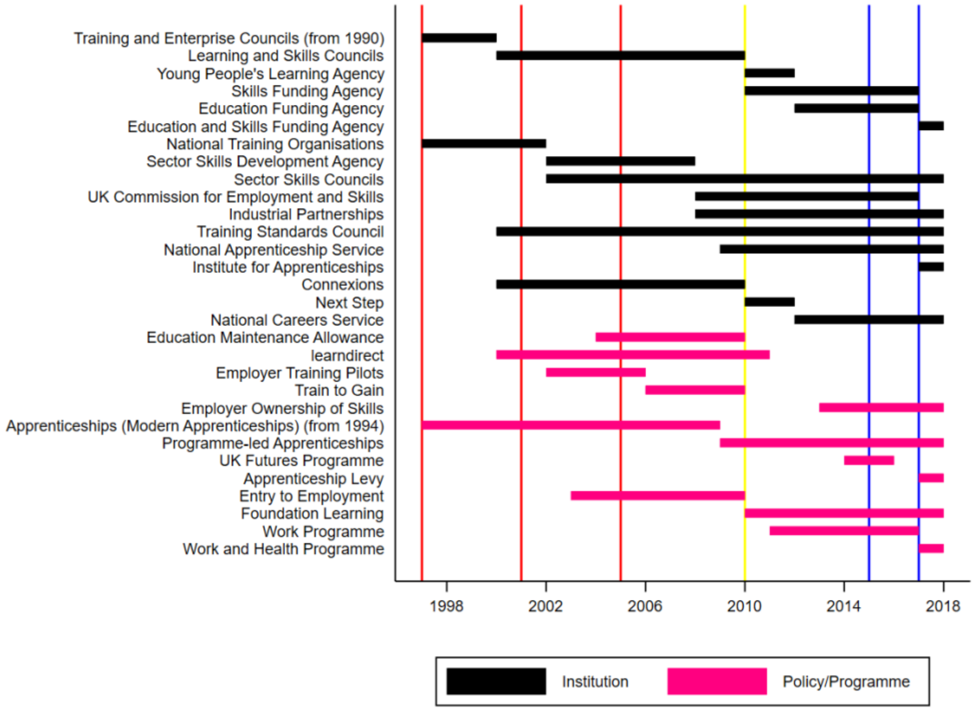
- the launch of the Train to Gain initiative in 2006, which was led by LSCs and provided skills support that matched the needs of business with training provision through "skills/business brokers"
- the introduction FE student fee loans in 2013[10] to give individuals and employers "an even stronger interest in making sure the course and provider is the right one for them" (BIS, 2011).
- the Employer Ownership of Skills pilot, which set out to test the potential to raise business engagement and investment in skills by routing public investment directly to businesses, rather than through FE colleges and training providers
- the introduction of the Apprenticeship Levy in April 2017 to support quality training by putting employers at the centre of the system.

Significant institutional changes

As illustrated in Figure 7, the skills system has been subject to significant reform over time. Institutions, policies and programmes were rebranded and/or reorganised, both within and between different government administrations. At times this was linked to the evolving skills agenda that sought to be more reflective of demand, while at other times issues such as budgetary cuts (especially as part of fiscal consolidation after the financial crisis) and political whim appeared to be the causes.

[10] Though training was still free at the point of access. Repayment would begin once the borrower started earning over a certain threshold.

Figure 7: Skills policy from 1997 to 2018: key institutions, policies and programmes



Source: SQW

In addition, there has been a shift towards localism of the skills agenda. Following the Localism Act in 2011, the Heseltine Review argued that "without devolving a significant proportion of the central skills funding to local areas" (Heseltine, 2012) the skills system would not be aligned with the local needs and prove less effective as a result. Skills have since been a central feature in regional development initiatives, including the City Deals and Local Growth Deals (UKCES & Centre for Cities, 2015).

In a continuation of the Coalition's push towards the decentralisation of skills funding, following *The Cities and Local Government Devolution Bill* in May 2015, a core power transferred in the devolution deals was the restructuring of the further education system. This enabled local commissioning of the Adult Skills Budget, with full devolution of the budget planned from 2019-20. For example, the Greater Manchester Devolution Deal included powers to restructure further education in Greater Manchester, plus control of the Apprenticeship Grant for Employers (before it closed in mid-2017).

Since 2015, the Government has announced a series of reforms to skills policy, which are yet to be implemented. For example, in its *Post-16 Skills Plan*, published in 2016, the Government set out its priorities for the future of skills policy, including the ambition for all young people to be presented with two choices at aged 16: an academic or technical option. The Sainsbury Review recommended that the government reform post-16 technical education through the introduction of 'T levels'. These recommendations are to be delivered through the introduction of 'T levels' from September 2020. They will be new two-year, technical programmes designed with employers to give young people the skills that industry needs and to contribute to "improving individual's social mobility and economic productivity" (DfE, Oct 2017).

Conclusions and questions for further research

Productivity as a policy imperative has waxed and waned. The policy narrative on productivity was explicit in the 2000s with the 5Ds framework an important device for policy formulation, both nationally and regionally. At the regional level the fundamental rationale was to enable the specific market failures affecting regions to be addressed by the regions themselves. The hiatus in productivity as a policy objective from around 2010 until the 2015 Productivity Plan reflected the focus on other issues, especially dealing with public finances. Nevertheless, policy in relation to individual productivity drivers continued, albeit with a need to reduce spending. An explicit productivity framework has re-emerged since 2015 and the recent Industrial Strategy has established the 5Fs framework and called for Local Industrial Strategies to set long-term plans to improve productivity at the local level.

There has been constant churn in the policy and institutional landscape, between different administrations, but also throughout successive governments' times in office. This has been commented on in other reports and raises issues about stability and allowing institutions to mature and develop, certainty for businesses, and institutional memory. With objectives relating to productivity and its drivers inherently long-term in their nature, has the churn in and of itself been damaging to these endeavours?

Regional institutions were critical to delivering on policy relating to productivity and its drivers in the 2000s, and now the local tier, including LEPs and local and combined authorities are important. There remain debates about the appropriate geographical level for intervention, and other spatial configurations exist, e.g. regional or pan-regional initiatives on issues like research and innovation, access to finance, and transport.

There are areas for learning and further questions that arise from these issues:

- In developing, delivering and measuring the progress of Local Industrial Strategies (and potentially other local strategies for economic development), can LEPs learn from the Regional Economic Strategies? How can Local Industrial Strategies be best implemented so that they are integrated and can genuinely focus on long-term issues? And how can funding and alignment with statutory obligations and planning help?
- How can the local-regional-national interface in delivering the Industrial Strategy work most effectively? This raises several issues, such as on the rationales for intervention at the appropriate spatial level, and joining-up policies and programmes to make the most of synergies and avoid duplication.
- In institutional terms, RDAs were quasi-autonomous, which was a benefit in the independent nature of their work and their ability to consider priorities that were longer-term and outside of political cycles. However, it also left them open to criticism as they lacked democratic accountability. How can LEPs, and local and combined authorities strike the right balance between these factors?

In the context of individual policy areas supporting productivity, there have been some consistencies across the period, even though the productivity focus has changed. There have also been some substantive shifts, which raise important questions:

- The reduction in the availability of business support may have affected the proportion of SMEs that take-up advice, and the targeting of recent programmes on high growth may have also affected the nature of companies that do. This raises challenges in the new policy context to engage lower/middle performing firms where there is a policy imperative to improve productivity. There may be lessons from past initiatives around the messaging of support, its integrated approach and its purpose that can inform engagement approaches.

- Innovation can be at the 'frontier' through the development of new technologies and ideas as well as within the 'frontier' as innovations are diffused and organisations take up new ideas. There is a question as to the balance that innovation support, combined with business support, achieves. For instance, might the centralisation of innovation policy have affected the nature of companies taking-up of innovation programmes, and does this raise an issue that should be considered in the implementation of national and Local Industrial Strategies?

- Successive governments have claimed to be making radical reforms to the skills system, though much of this has involved institutional changes and moving programme activities around. The common thread has been the continuous trend towards a demand-led system. Has this happened, and is there evidence that this is supporting investment in human capital and affecting productivity?

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