



Select Committee on Science and Technology

Corrected oral evidence: Life Sciences and the Industrial Strategy

Tuesday 21 November 2017

10.05 am

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Members present: Lord Patel (The Chairman); Lord Borwick; Lord Fox; Lord Griffiths of Fforestfach; Lord Hunt of Chesterton; Lord Kakkar; Lord Mair; Lord Maxton; Baroness Neville-Jones; Lord Oxburgh; Lord Renfrew of Kaimsthorn; Lord Vallance of Tummel; Baroness Young of Old Scone.

Evidence Session No. 17

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Questions 143 - 152

Witness

The Rt Hon the Lord Heseltine CH.

USE OF THE TRANSCRIPT

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Examination of witness

Lord Heseltine.

Q143 **The Chairman:** Good morning and thank you very much indeed for agreeing to come to talk to us today. We appreciate very much your making time to speak to us and give us your assistance in the inquiry we are currently involved in. We are on the record, by the way, and live-streamed on the parliamentary website.

We are doing an inquiry following the Government's publication of a Green Paper on industrial strategy and particularly the first sector deal and the sector report that came out on the life sciences industrial strategy, which Sir John Bell was asked to chair. He has produced this strategy, and we are concentrating on that particular aspect in our inquiry. But, of course, in our evidence lots of issues have come up. For instance, there is no implementation plan. There are other issues, such as the significant commitment required from the NHS and how this could be delivered.

We have all read your excellent document, and some of us have read the article you have written in today's *Financial Times*. In that context, with your expertise and your knowledge, we would like you to address our inquiry on the life sciences industrial strategy, but we would be happy to hear from you first before we go on to questions.

Lord Heseltine: My Lord, thank you very much indeed. It is a very important privilege to be able to talk to this Committee. Of course, I have looked at Professor Bell's report, which in many ways fulfils the Government's remit arising out of the Green Paper. It takes a view of this sector, and the professor is obviously deeply involved in and has expertise of the sector. He has consulted very widely to produce an indication of a way forward.

My approach really started right at the other end. Having looked at the Green Paper, I felt it was trying to restrict the replies to certain fields that interested the Government. It was almost leading the witnesses, if I may put it like that. My experience, having been involved in government industrial strategic activity for decades, is that the Green Paper needs to be much wider in its approach. That is why I have produced my document on industrial strategy, to which you kindly referred.

There is no industrial strategy in this country. There have been many attempts in my lifetime to create a framework for an industrial strategy, but the whole issue is still extremely controversial. I might remind your Lordships that before the election there was a serious body of people arguing that you should close down what was the DTI and is now BEIS. This represents an intellectual conviction that the market rules, economics is supreme and industrial strategies are interventionist and unlikely to do anything other than frustrate, as opposed to enhance. I take a totally different view, and every other Government shares the approach I take.

If you look at the administration of the British Government, there are a number of very clear things. First, it is top-heavy. The power based in London and exercised either directly or through the influential processes of circulars and the allocations of funds is much more concentrated than it is in competing economies.

Secondly, if you look at the organisation of Whitehall, the very names of the departments indicate the problem: they are functional. You have departments for transport, housing and education, but you do not have a mechanism to bring them together. Professor Bell is very good on this subject, about the lack of co-ordination.

Now, one has to be aware of generalisations. If there is a big issue of public concern, of course papers are called for and colleagues come together to look at the round of the issue. But in the vast majority of daily activity, if a government department is carrying out its responsibilities out of the headlines, there will be little creative tension about what it is doing. That will apply not just to the officials in the department but to the quangos beneath the department, many of which are extremely powerful and very important in any industrial strategy. Your Lordships will know them all, but let me take the Port of London Authority. If you are going to look at the commercial exploitation of the Thames, the Port of London Authority is critical in any policy judgment.

There is a third point that seems important to me: where is the creative tension in Whitehall? There is one absolutely overriding and very legitimate creative tension, which is the role of the Treasury in trying to contain public expenditure. That is absolutely essential as a role, but there is not a creative tension designed to question the standards of Whitehall and the quality of Whitehall's performance.

It is this that led me to the first of my proposals. The Prime Minister has established an industrial strategy committee. That is a very interesting and important innovation. The most important innovation of all is that she is the chair of it because, without prime ministerial authority, Whitehall is very capable of defending its own compartmentalisation by buck-passing, by delay, by going behind people's backs to the Treasury or whatever it happens to be. If you have a Prime Minister in charge of an industrial strategy committee, that gives it an authority that Whitehall will respect.

Secondly, it is important that it has the capacity to question the individual strategies of government departments. One of my experiences has been the lack of awareness of what competitiveness means in an international context. In other words, if you take life sciences, Professor Bell's topic, where is everybody else? Where are the Koreans, the Germans, the Japanese, the French, the Italians or the Americans? A whole range of people are doing exactly the sort of things that Professor Bell says. Where are we in the competitive race? We do not know. There is no immense and obvious pressure on government departments to know.

Time and again, when I have been involved in a situation where we are facing an issue of industrial-strategic significance, as someone coming from the private sector with an awareness of SWOT analysis, the first

question I ask is, "What are the strengths, weaknesses, opportunities and threats? Show me the challenge". In my view, we need to brief the committee that the Prime Minister chairs through a competitiveness unit drawn from academia, the public sector and the private sector—people with expertise in the industrial, commercial and international world. When a functional department comes with a strategy, their job is to say, "Look, you say we are going to develop in this field. We are three years behind this country or that country. The technology you are advocating was taken over in that country a couple of years ago". This will create a dialogue of excellence.

I would then say to each government department, "Now, produce your industrial strategy". Here, Professor Bell is indicative of exactly the problems that would emerge. What does the National Health Service see as its responsibility in helping domestically based British companies to pioneer tomorrow? I have seen enough of the work of Health Secretaries to know the sort of pressure they are under. It is an enormous responsibility and an extremely difficult job.

The Health Secretary may say, "I understand the purpose of your question, but just look at my waiting lists; look at the A&E situation; look at the shortage of skills. I do not have the time, the civil servants or the ministerial help to become preoccupied in relatively theoretical concepts of how I can help one company or another". That is wrong, but it is very understandable. When the Health Secretary arrives at the committee structure I am talking about, he or she would have no choice but to answer those questions, and the Government would refocus, because the Cabinet Minister would be sent away to come back with an answer.

It gets more complex. In Professor Bell's analysis you could see it is perhaps just the National Health Service that is relevant to the enhancement of life sciences, but it is not. Where are the skills coming from? Where is the education necessary to create the young people for this? To whom are the bodies that allocate the research funds accountable? You very rapidly realise that this is a trans-Whitehall process. In my report, I give some different examples of much the same thing. Government should think across, not just within, the disciplines.

The Chairman: Those are extremely helpful comments. They raise a lot of questions that we would like to explore with you, particularly in relation to the life sciences industrial strategy, referring back to what you just said.

Q144 **Lord Vallance of Tummel:** I found your paper very interesting indeed, partly because you are bilingual, in the sense that you speak politics and business. That is extremely important if you are to get a grasp of this.

We are looking at one specific area, life sciences, but it is within a three-dimensional issue. The first dimension is horizontal, which comprises, as you mentioned, the different functions across Whitehall. Then we have a series of vertical pillars, one of which is life sciences, and there are others. The third dimension is geographical: it is how you handle it in a particular location.

Our concern is how we handle this vertical thing in the middle. It is very complicated in its own right. Perhaps we could start at the top. You have suggested, and I tend to agree, that having an industrial strategy committee chaired by the Prime Minister is a good way of doing things, but having looked at it, there are 14 Cabinet members on it—none of whom are from a devolved Administration by the way, which is interesting from the geographical point of view—but there is, if I can put it gently, not a great deal of business experience there. There is an accountant, a solicitor, a banker, a tax manager and a financial consultant, but most of them are from media, PR and consultancy in one way or another.

The first question is: we may have the right committee, but do we have the right membership? The second is to do with the competitiveness unit. Again, it appeals to me that there is something multilingual in its knowledge of what it is talking about within industrial strategy. What is it going to do? Will it be involved in not just the creation of the strategy, but the implementation? The implementation is key. Again, quite correctly you said that there have been manifold previous strategies, but they all tend to go into the ground because they are not implemented properly.

First, let us assume the top committee is the correct thing to do. Does it have the ability to do it? Secondly, what is the actual role of the competitiveness unit?

Lord Heseltine: You have the politicians you have. I do not know of any way you can actually change the processes of representative democracy to create a larger number of people who would be seen as specialist and elite. It is very important that Parliament represents the whole community and not just the business side of it. In my view, in any system I can see, we will always have generalists as opposed to specialists in ministerial roles, but that does not worry me.

In the way I see an industrial strategy working—again, I looked at Professor Bell's model—you have to have an effective dialogue with the participants. In other words, you have to try to find a policy that fits the interests of the nation. In the end, those interests will be arbitrated by the politicians, but the composition of it will come from the businesspeople whose money you need to make it work, from academia, the intellectual input of which is fundamental, and from the public sector, which will often be a major procurer of the products that are coming out.

You have to have a dialogue that leads to the evolution of a strategy. That evolved strategy would go to the ministerial committee and the competitiveness unit, which will ensure that it is looked at in terms of world competitiveness and in the round of government departments, as opposed to the specialist ones, and gets the imprimatur of the prime ministerial committee to implement.

That is the interlocking way I would see the process working. In my report, I refer to the trade associations, of which there are some 2,500. That is way in excess of anything that is rational or reasonable in the

process I am talking about. However, it is so easy for Ministers simply to say, "It's another trade association. Officials look at the recommendations. This is just another whinge. Say some nice things to them and they'll go away". That is not how trade associations work in other countries. They are much more powerful. In many cases they have the ability to stand up to their own members. All their members want is the latest whinge. What officials, government and the excellence at the top of most of our industries want is a constructive dialogue about a strategic way forward.

Lord Vallance of Tummel: I appreciate that. Can I bring you back to the competitiveness unit for a moment? Does it have a potential role in overseeing implementation of the strategy?

Lord Heseltine: The committee is responsible for the strategy as agreed. When you have an agreed strategy, which is your first step, it will then be monitored by the committee. My proposal is that there is a White Paper every year, as there is with the defence industries. I have explained how you create the strategy. Again, I list all the departments that will be the sponsoring departments. They will be responsible for implementation, but they will be monitored and they will have to report. The Government will report as the strategy unfolds.

Lord Vallance of Tummel: The implementation is not just a function of government; it is also a function of the private sector. You need to bring those two together to implement this properly.

Lord Heseltine: They will have signed up to the strategy.

Lord Vallance of Tummel: Can I put a slightly different spin on it? One of the additional reasons why I suspect strategies have failed or lost traction in the past is that the timescale of an industrial strategy is different from that of a Government, let alone a Secretary of State. It tends to be longer; it needs consistency. Does that not argue for having something independent of government to look at the long term and to ensure there is consistency over time in implementation?

Lord Heseltine: Government closed it down. I created the Audit Commission for just that purpose: to analyse and produce details and comparative statistics for the performance of local authorities, service by service. It became a matter of controversy and they closed it down. At the same time, I tried to get the Audit Commission to monitor government performance. The Treasury would not have it. We have the Public Accounts Committee, but that looks back. The essence of what we are talking about is to look forward.

Lord Vallance of Tummel: It is. As you mentioned before, it needs to be a body that has a combination of industry, politics and academe on it.

Lord Heseltine: Yes.

Lord Vallance of Tummel: Can I come back to our specific area of interest, life sciences? How would one handle that? Let us assume we have sorted the horizontals. How does one handle implementation of a specific sector?

Lord Heseltine: You go to the sector. First, you have to decide which government department sponsors it. Again, there were two interesting points on this in Professor Bell's report. Who sponsors life sciences? Is it the Department of Health? I remember the pharmaceutical industry coming to me and saying, "Look, please will you get us out of this situation? All they're interested in is cutting costs". Professor Bell's report makes it clear that he was told he could not discuss pricing. How do you do a strategic report if you cannot talk about the pricing of the products of your industry?

That is the first decision. Secondly, you invite that department, in conjunction with Whitehall, to produce a draft industrial strategy. You lay down the broad parameters within which they should do it: we want to know about competitiveness; we want to know what the companies will do to be part of the strategy; we want to know how academia sees its role; and we want to know how universities see the follow-through for their research into development, spin-offs and that sort of thing.

You set the obvious parameters, then you allow the sponsoring department to produce its strategy, naming the companies, institutions and hospitals where this will unfold. It has to be much more detailed than Professor Bell has yet done; he probably would have liked to have gone on and done that. That is the document that goes to the industrial strategy committee and is subject to the competitiveness unit review. Out of that comes a refined strategy, a request for further and better particulars or whatever it is. The process I have outlined is detailed, comprehensive and coherent.

Lord Vallance of Tummel: You are still talking about the public sector part of it, not the input of the private sector.

Lord Heseltine: No.

Lord Vallance of Tummel: Not quite. The competitiveness unit will be multiskilled: it will consist of business, academe and government. Is there not the case for having something similar at the level of the individual sector—the life sciences sector in this particular case?

Lord Heseltine: No, that is part of the process for creating the strategy. It is why I was so critical of the trade associations. You have to get a representative body from the industry that is aware of and wishes to develop excellence and carries the support of the industry itself. When you say, "The strategy is that we're going to back this or that particular form of development", companies have to say, "Yes, and we will invest in this. If you have a project in that hospital, we will locate ourselves alongside it".

If I gave the impression that this was just the public sector that is not at all correct. This is across the disciplines of what makes up an industrial strategy: academia, the public sector and the private sector.

Lord Vallance of Tummel: I was thinking more about implementation, but we will leave it there.

Q145 **Lord Griffiths of Fforestfach:** I read your paper with great interest and

I found it fascinating. I found myself agreeing with it substantially if not entirely.

Lord Heseltine: Thank you.

Lord Griffiths of Fforestfach: It is an excellent paper. From my time in No. 10—five and a half years—I can see that, when you talk about starting at the top, you absolutely need the Prime Minister to lead it. There is no question about that. Having an industrial strategy committee makes a lot of sense, and I can see the role it plays. When you get into more detail as to how you then bring in the private sector—in particular, how you mandate individual companies to do this, that or the other—although they say, “We agree in principle that we will join this”, I wonder what the co-ordination of that exactly requires.

I remember, years ago now, Neddy, with Fred Catherwood and people like that. I remember all the little Neddys and so on. It seems to me that fell down at the level of going from the industrial strategy committee to exactly what you want the pharma companies or the small private equity companies to do. This is about how you integrate that into your overall framework, for which I have a great deal of sympathy. I can imagine this committee meeting in No. 10. I can imagine the Cabinet Office being very involved and servicing it, but when the rubber hits the road—this is back to Iain’s question—how would you manage that on the ground in the way, for example, that you did in Liverpool?

Lord Heseltine: One of the things the Green Paper stresses is the need for the private sector to lead. The private sector will not lead. It is just not organised to lead, and the Government is too powerful to be anything other than the leader.

How do you organise it? You have all the procurement policies in the control of the Government. That includes research budgets, regional budgets and a whole range of specialist budgets. For example, if you were going to build more hospitals, which is going to happen, instead of doing what we do today, which is to say, “There will be a new general hospital here”, you would say, “We need a hospital specialising in life sciences”. You would take the land for the purpose and say to the pharmaceutical and medical equipment industries, “This is going to be one of the specialisms of this hospital. Are you interested in any development projects in co-operation with the hospital?” If they say no, you might think again as to whether you have the right specialism.

In my experience, if you have made the right judgments, they will say, “Yes, this is what we’ve been trying to do”. Then you say, “Good. This is the timescale. This is the specialism. This is the part of the hospital that’s going to specialise. What are you going to do?” They will say, “We happen to have some plans to develop a new research facility. We’re looking at a site. We’ll put it there”, or, “We’ve got a subsidiary in Canada that has been looking to expand its work. It wants somewhere in Europe. It will join us here”. The hospital might say, “That’s quite interesting, but we would like to see small businesses generated around this hospital, medical equipment manufacturers who are going to specialise in this particular form of our treatment. We are going to set up such a place and

there will be grant funding for small businesses using the sort of mechanisms we use now”.

Let me give you an example, which is exactly the same sort of thing. I believe that education will very rapidly become personalised. It will not be a teacher talking to a room like this; it will be electronically controlled, adjusted to the aptitudes of the individual pupil. When we build a new school, why can we not say to Britain’s educational publishers, “You will have a special classroom in which you will learn with students how to adapt electronics to their particular aptitudes”? This is a world market of mega scale, so why do we not do it? I can go on and on—indeed, I do in my report—giving examples of this sort of transdisciplinary approach, which is what an industrial strategy is about.

Lord Maxton: I agree with you on the last point, except that I would give every child a Kindle or some e-reader.

Are you aware that there are four health services and four education systems in the United Kingdom? That makes a difference to the whole industrial strategy. The health service in Scotland, where I live, is different from the rest of the United Kingdom. So it is in Northern Ireland and in Wales. Your industrial strategy does not cover everything, does it?

Lord Heseltine: It is merely a matter of dialogue. I have not sought to get involved in the devolution agenda. Why build controversy where you do not need it? If you have an industrial strategy of the sort I have just outlined, you can say it applies to England, to the United Kingdom or to any component of it. It is up to the Scots to say, “Very sorry, we don’t want anything to do with this”. If they say that, that is fine; you can go and do it for England.

My view is that the academia element of the public and private sectors—not just the professors and lecturers themselves, but people at the forefront of the industry, many of whom will be extremely clever and highly qualified—will say very rapidly, “Look, if there is a major research project in this sort of field, we don’t want Scotland excluded”. I may be wrong, but certainly they should have the offer.

Lord Griffiths of Fforestfach: The monitoring and co-ordination of this is quite an exercise. Top civil servants are terrific, but I wonder whether there is enough depth in the quality of the Civil Service to manage this.

Lord Heseltine: If one looks at the components of the process, you have agreed an industrial strategy. You will have some top-class academics in the universities and top-class industrialists in the commercial world. If it is not being implemented, you will have some pretty sharp journalists working for the specialist press who will rapidly get to know. It will not just be civil servants monitoring it. You will also have the competitiveness unit. Your question would be more worrying if it were left to the individual departments or their quangos. There is a very great bonding that goes on. Instead of being quality-controllers, they are part of a club.

You will have the competitiveness unit to inject into that, but you will also have the participants who make up the strategy from the private sector, academia, local authorities or whatever it may be. There is a lot of

tension in that. Of course, you also have the people who did not win the contracts. One of the essences of my belief, from a lot of experience, is that you should distribute money competitively to people who will add extra money to what the Government can afford. That has a great impact on improving quality, but it also creates losers. Your losers are among your best critics, because they will be watching.

Q146 Baroness Neville-Jones: Lord Heseltine, like a lot of members of the Committee I found your strategy very interesting and parts of it extremely compelling.

I wanted to take you further down the road of what you were saying about the UK being top-heavy. You have said a lot about government. It seems to me that one of the things the Government are trying to do in their industrial strategy, of which life science is a part, is lead the UK into the fourth industrial revolution. They see this as one of the main vehicles for doing that. That involves a very strong element of innovation, which is then commercialised. I do not know whether you agree, but in my view this is something the UK has historically been pretty weak at. That is the one bit: we fail to translate our science into things that create prosperity across the community.

Take life science as an example. How do you see us being able to do that and strengthening our capacity here? I come back to what Lord Vallance was saying about implementation. We need to focus on how to get a productive relationship between the academics, business and government to push things through into something on the ground that represents a new source of wealth.

In particular, given that you are well known for advocating getting out of the magic triangle in the prosperous areas of the south-east, how do you see us being able to do that more broadly across the country without sacrificing what some people regard as being a key element—excellence? In a lot of places where you would like to see prosperity seeded, some of the necessary elements of it do not actually exist. How could we plant more broadly across the country the ability to succeed in these areas where we have been weak?

Lord Heseltine: You go through a massive programme of devolution. Whitehall sees its function much more as ensuring the provision of services, as opposed to providing the services. You create organisations locally that are relevant to local economies. The Redcliffe-Maud report of 1969 reckoned that we needed about 60 unitary authorities in this country. The government reforms of 2010 created about 60 local enterprise partnerships. The joke is that, if you looked at Redcliffe-Maud and the local enterprise partnerships, you could be forgiven for not seeing the difference. The reality is that Redcliffe-Maud recommended 60-odd; we have 350.

Again, I give the example of Cambridge, which is right at the forefront of the sort of report you are doing. It is a spider's web of obfuscation. I could not believe what I found when I went there recently.

Redcliffe-Maud wanted four there. Two of them have since merged, so in fact he wanted three. If you go there, you have counties, districts, three different study groups and a local enterprise partnership. You have the best part of 15 or 16 different authorities, all with different boundaries, all with their own layers of opportunity. This is in the epicentre of excellence in this country, the Cambridge conurbation.

You create relevant authorities, in my view, with directly elected mayors. We have begun to do it. We have six now, which is encouraging. You then devolve power to them. On your subject, skills, I would devolve to the organisations that you have in charge of the local economies. For me, they would be local enterprise partnerships. Local enterprise partnerships are well-conceived. The power lies with those in local government because they are the only people who have the ability to take the big decisions, but academia and the private sector are very heavily represented and they have a sort of blocking power. They cannot force things through, but they can fail to agree, which means the local enterprise partnership is weakened in its bids for central money.

You then use competitive funding. In the life sciences, as in virtually all projects of this sort, you will have competing organisations. There will be universities saying, "No, we want to do the research here. We are ahead here", or whatever it is. Someone has to make up their mind about that, and that will always be central government. It means you can distribute funds competitively by saying to the practitioner, "Okay, you're in the competition. What will you do? What will you add? What skills do you have? What partners do you have? If you get the contract, what will be the process and the product?" That is a very different way of allocating funds from simply saying, "Everybody is entitled to 10p per person" or something, such as using the entitlement method.

It is almost impossible to overstate the significance of this and I have seen it so often. If you devolve power and people start exercising discretion and choice, the upsurge of initiative and enthusiasm can be felt. I have done this in the extreme cases of deprived communities and really bombed-out estates, where I have distributed funds competitively. There is an extraordinary effect on the quality of what you get on offer. The authorities that lose the first year around say, "Golly, we'll find out how we win". This applies generally throughout the distribution of public money.

Q147 Lord Mair: To continue on this subject of regional devolution, what is your view on the role of infrastructure? What part should the National Infrastructure Commission play?

Lord Heseltine: The National Infrastructure Commission is the best argument for my theories. It was George Osborne saying, "I'm fed up with the restrictions of the Treasury. I'm going to have my own industrial strategy". That is where the National Infrastructure Commission came from. I was a member of it until I was sacked. It was doing a very good job. You just knew it was the Chancellor driving this agenda because he wanted things to go faster.

I do not know whether you have noticed that in my report there is a revolutionary idea about road pricing. Why do we not privatise the road system? If you privatise the road system and charge people for every time they use or do not use it, whatever time of day they use it, whatever pollution they create for using it, you will get a massive injection of money to reduce the national debt—not consume it, I hope—you will have removed all the public expenditure constraints and you can build your roads. It seems to be a win-win.

Q148 Lord Griffiths of Fforestfach: Lord Heseltine, you made the point about international comparisons and the way that other countries have a much more international look when they are devising their strategy. Why is that? There are obviously examples, but generally there is not the same approach in Whitehall of trying to find international comparators. Even in the United States, where I have been from time to time, the trade department is always looking at research and development around the world.

Here, partly because of pressure from internal sources, we are trying to use our own research. Of course, a bit of this report was about how we in the UK need to be importing. We do only 10%, 15% or whatever it is of the world's research. That leaves 85%. We should be importing it and using it together. How could we move a bit more in that internationalist direction?

Lord Heseltine: The one thing we all now know is that internationalism is here to stay. There is no stopping globalisation and all that goes with it: the technological explosion, the educational explosion and the cultural explosion. It is going to accelerate as opposed to diminish. We are part of a world market, and there ain't no escape.

There are forces at work in this country that have encouraged centralism. The first and obvious one is that we are very small. It is quite easy to get from one place to another in this country. To me—this was one of the defining events of my lifetime—nationalising the commanding heights of the economy was a disaster. That completely removed great centres of power locally. The punitive tax rates of the 1940s were a disaster because they prevented the capitalist system regenerating itself.

The evolutionary process that flowed from that was another disaster. Publicly quoted companies in the City of London gained the ability to give paper tax-free in exchange for shares. If those shares had been sold for cash, they would have been taxed at 40% or 50%. That led to a further accumulation of power in London in the quoted companies, and the phenomenon of the branch office developed apace.

This is also about the lack of patient capital. There is a need to reform local authority pension schemes. Everybody knows it needs to be done. There are far too many of these local authority pension schemes. They are too small. They do not have the resources. They cannot take the risks. You have a situation now where they are investing in small start-ups in America, because America has developed the framework to make it possible and they do not invest in small start-ups in this country.

Patient capital, as opposed to the treadmill of public flotation, is a very important part of preserving local autonomy.

In the end, my Liverpool experience, which is fundamental to all this, was about local leadership. It was about persuading people that they could and should do it and to get on with it. As I have seen devolution happen, what are we doing? We are just returning to the great power blocks of the 18th and 19th centuries. That is what made this country. We need to enhance them. There are people out there longing to flex their muscles, but there is a sort of culture of deference in this country. They touch their forelocks the moment Whitehall says "jump".

Q149 Lord Kakkar: I will come back on the question about which government department might lead in being custodian of the life sciences strategy. You very kindly made the point that in Sir John Bell's report he was told not to deal with cost. The great driver of expenditure is principally the public sector in terms of healthcare, yet the department's focus is elsewhere. Would the department have credibility to unite the different constituencies, including the private sector, around the life sciences strategy? If not, and if it went, for instance, to the business department, would it have the capacity to influence behaviour in the Department of Health?

Lord Heseltine: If I were asked that question by the Prime Minister, I would say, "Look, the Secretary of State for Health is going to be in the firing line every day as a result of their responsibilities for the health service. Put one of your brightest, aspirant young Ministers as Minister of State responsible for industrial strategy in that department". While the Secretary of State would be the one who came to the industrial strategy committee—we have to keep him or her involved—the actual day-to-day negotiations and arrangements would be ministerially discharged by a Minister of State. There are some very bright young Ministers of State.

Q150 Lord Fox: I would like to move from there to look at the workability of the Bell report, particularly the role of the NHS. We have heard evidence on one side saying that there is a unique opportunity for a national health scheme given the possible availability of patient-outcome information. We have heard a fantastically utopian dream from you about how we might build a new hospital and involve all sorts of different parties. On the other hand, when it comes to the adoption of new treatments, we know the NHS is poor compared to western economic peers. We know that its capacity is overloaded and, from the outside, the focus of activity seems to be on firefighting and crisis management rather than planning for a future.

How do we create an environment where this NHS delivers the goods? You described having a bright young thing as the Minister. The Minister will be called into question for the fact the health service is missing its winter A&E targets. The bright young thing is unlikely to have public vilification for the research level dropping 10% or 20% below people's view. That public role of the NHS seems to get in the way of many of the things we are hoping this strategy can deliver.

Lord Heseltine: It is built into the system. If you have a very largely monopoly health provider with an ageing population and ever more sophisticated treatment, you will find that the pressure groups that build up the health service and the media that report on the health service will keep it in the front line. It is like saying, "Why don't we get rid of politics?" I do not accept that this means you cannot run an effective industrial strategy. Lots of people within the health service and within the industries and the academic world that surround the health service would love to have an industrial strategy. Professor Bell makes this absolutely clear. It is a question of doing it effectively.

Lord Fox: What are the three, four or five things you are going to do to create that environment within the NHS? What can we do?

Lord Heseltine: The truth is that I am not going to anything at all.

Lord Fox: In an ideal world.

Lord Heseltine: I have made clear that in the industrial strategy that I would advocate, which I hope the Government will adopt, would set up the process of consultation with the industry, academia and the relevant departments in order to evolve a strategy. Professor Bell is a starting point. You simply say, "Fine. The things you have said in here are very interesting. Now we need flesh, blood and bones. Let's see what it means. Let's name names, let's indicate places. Let's put costs and budgets together". That would be the next step.

Lord Fox: Would you see that on a ground-up basis, hospital trust by hospital trust, rather than on a top-down basis across the whole of the NHS?

Lord Heseltine: I would not have a theory. I would take advice. Do we need to be so diverse in this case? Are the trusts up for the job? I have never been in the politics of health, so there would be caution on my part before I started wading in. You could have a meeting in this room where people could answer all those questions. In the end, as a Secretary of State I would not be frightened of masterminding the process. I am not looking for a job—let me make that clear. A Secretary of State would be perfectly capable of doing it.

You have to realise that we are talking about the whole economy here, not just manufacturing. We are talking about the whole of our economy being galvanised to a quality that is above its present performance. We have excellence everywhere; it is the tail that is the problem: the underperforming 20% of schools, the 20% productivity gap and the skills shortage. The great and the good do not need to talk about any of that, but the Government need to talk about it if they want to get the average performance up. All the things you are talking about are microcosms of the national requirement.

Q151 **Baroness Young of Old Scone:** I was going to ask Lord Heseltine something that he answered before I could get my question in. People from other countries admire the NHS and think we are nuts not to be able to capitalise on having this single organisation. They do not seem to

realise it is actually umpteen organisations locally. If competitiveness is helped by having a large domestic market, how could we get the NHS to be a better market in taking up innovation and new developments in order to be a driver of the productivity initiative? At the moment it is lousy at picking up innovation and development, and introducing new techniques, technologies, drugs and all sorts of other things, because it is fixated by cost.

Lord Heseltine: There will always be a budget. Let us be frank, and let us understand the dilemma. Every day, Ministers in that department are under appalling pressure. I have never known any exception to it. It is impossible to avoid the story of one citizen who has had bad treatment out of the millions who have had good treatment. The one where something went wrong is the one that will be in the daily paper the next day. That is the one that will have the Parliamentary Question. We all know the process. It is the one the pressure groups will build on. The health service is full of highly articulate pressure groups and they all have an agenda. I have always had the most profound sympathy for my colleagues in that department.

That does not in any way preclude the introduction of an effective industrial strategy. You must have somebody in charge and you have to have someone whose job and career is affected by it. I have answered the question: a good Minister of State, a Cabinet committee, the competitiveness unit, a partnership with the private sector and academia, documented, articulated and monitored. You will know how other countries are doing it.

Q152 **The Chairman:** Lord Heseltine, I guess what will happen next is that Sir John Bell's document will be responded to by the Government in terms of a sector deal. Presumably there will be other sector reports for the rest of the industrial strategy, but we are told we will get a White Paper on Monday on the industrial strategy. Whether that will have a sector deal in it, we do not know. On driving the life sciences industrial strategy in John Bell's report, what are a couple of recommendations we could make that would help with that?

Lord Heseltine: What I did not see in the report—I probably have not studied it as carefully as you have—is the answer to your question. There is no answer to your question in that report. That is the next step: how. I have answered the question several times today as to how I would do it, and I have no reason to change that. It is the most important question that will come. My preoccupation is to make sure that this is not just about life sciences. I fear this will be about manufacturing, which is 10% of our economy. We have to be preoccupied by 100% of the economy. It is as important in tourism and all these places as it is in life sciences for overall economic performance.

The Chairman: Lord Heseltine, thank you very much indeed for coming. We are very appreciative of you making the time to do so.