HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Industrial Strategy: Sector Deals and Productivity, HC 663

Wednesday 28 February 2018

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Watch the meeting

Members present: Rachel Reeves (Chair); Vernon Coaker; Stephen Kerr; Peter Kyle; Mr Ian Liddell-Grainger; Rachel Maclean; Mark Pawsey; Antoinette Sandbach; Anna Turley.

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Witnesses

I: Lord Adonis, Former Chair, National Infrastructure Commission.

II: Professor Richard Jones, Member, The Industrial Strategy Commission.

Examination of witness

Witness: Lord Adonis.

Chair: Thank you very much, Lord Adonis, Andrew, for coming in to give evidence to us this morning on industrial strategy, about which you know a huge amount. I am sure you have views on the Government's industrial strategy, sector deals and particularly how the strategy feeds into productivity. I think we all agree that is a huge challenge for our country since the financial crisis. The slowdown in productivity growth and the widening gap between us and our competitors is something that we need to address. We are keen to understand the extent to which the industrial strategy and particularly the sector deals can help close that productivity gap, not just in a few sectors but in the everyday economy where most people live and work.

Q1 **Peter Kyle:** Lord Adonis, it is good to see you. You were an adviser to the previous Labour Government and you were then a Minister in that Government. What is your assessment of the industrial strategy of that particular Government? Do you think it was a coherent industrial strategy? What is your assessment of that and its impact?

Lord Adonis: Until late in the day, both parties—the Labour Party before 2010 but also the Conservatives at the same time—were very reluctant to call industrial strategy by its proper name. There was an acute concern that mention of the word industrial strategy harked back to picking winners. I remember all the conversations. As soon as you mentioned industrial strategy, it was all about bailing out, lame ducks and that this would be a disaster. As Peter Mandelson famously said, the problem with British Leyland was not that the Government were picking winners but that the losers were picking the Government, which was a fundamental problem in the 1960s and 1970s.

We underestimated the extent to which other advanced economies, which had been hugely successful over the last 30 years, did have an industrial strategy, even when they did not use the name. I remember serious conversations before 2010 with American counterparts about the extent of their industrial strategy that did not use the name, so the huge outreach, particularly in the case of the United States with its massive defence spending, its defence procurement, defence research and the impact of that on civil R&D and on the formation of companies.

Q2 **Peter Kyle:** Can you have a strategy when you do not have the name?

Lord Adonis: We then did start using the name towards the end. When Peter Mandelson became Business Secretary at the end, he did then overtly talk about industrial strategy. We talked about sectors for the first time. We talked about support for sectors. He looked very closely at the German experience and what then became the Catapults, which were based on the German research institutes, linking universities and businesses in the States, particularly at regional level. That then led to the work of the coalition after 2010, which also adopted part of that strategy. It adopted the sectoral part of the strategy but not the geographical part of the strategy.

It has always seemed to me, as I have engaged in this as a Minister and looking at it as a policy-maker, that there are two essential elements to industrial strategy. One is sectors. You need very strong sectors. You need the research, development, training and interaction with small and large companies and the entrepreneurism in those sectors. You also need to have a geographical strategy, because of course all businesses have to be located somewhere, so it is about having really strong support for key sectors in key regions, and understanding what the strengths of those regions are and how they can develop those strengths.

Q3 **Peter Kyle:** Other areas of questions are going to go into those in quite some detail. There have been various Governments since of various colours and constituent parts. How do you rate their performance in terms of industrial strategy? Could you also address the fact that what business often tells us, or universities tell us, is that they want stability and long-term planning? Do you think that since your time in Government there has been any coherence and true long-term thinking in that time?

Lord Adonis: The best way to answer this is to tell a story. The biggest decision I had to take in terms of procurement when I was Secretary of State for Transport was what we were going to do about the successor trains to the InterCity 125s, which was a huge order. We needed also to replace a lot of other trains. We also needed to link this in with the programme for electrification. It was a classic case of the state interacting with both the market and business sector. There was no strategy—none at all. The forward investment strategy for the railways then went ahead just precisely for five years. It finished in 2014, which is part of the reason why there was no electrification strategy, because you cannot electrify in five years. It is also why we had no policy for high-speed rail, because you cannot build a high-speed line in five years either. There was no strategy in terms of forward investment and there was no strategy in terms of how that investment might link in with procurement.

What we sought to put in place was a proper 25 to 30-year strategy in terms of infrastructure investment, which was hugely important; that is what led to the electrification programme and to HS2. I shall never forget my meeting with the Chinese Transport Minister while we were planning HS2, where over many of their elaborate toasts and dinners, he said to me, "Lord Adonis, we want to build your HS2. We are looking at your plans in great detail and we think they are excellent". He said, "Whatever the Germans say they will build it for, we will do it for half". I said, "That is very, very kind of you but how do you know you will build it for half". He said, "Because we have all the German technology". He was very clear. Indeed, they have. As somebody famously said when I was there in China, R&D stands for "rob and duplicate". They had a lot of work on that side.

So we have those elements in place. The other bit that we have in place, which has a story going through and tells you so much about industrial issues, is procuring trains. I was very anxious that we had both highly competitive procurement, which seems to be absolutely essential that the state does on behalf of the taxpayer in Britain, but also that we had proper regard to the location of jobs in this country and to building up new industrial sectors. It is possible to put those two together. For the InterCity 125 trains, we had a strong international competition, but I made it very, very clear to the potential bidders that we did expect these trains to be built in the UK.

That then led to the deal with Hitachi, arguably the best train manufacturer in the world. We could not interfere in the European procurement rules but it was very clear to them that if they won, and that if there was not going to be a factory in a part of the UK where there was potentially a very big industrial strategy dimension to this decision, we would not place an order at all. That is what led to the decision of Hitachi to locate in the north-east in what is now the Newton Aycliffe factory. That was going to be hugely important for the whole next-generation technology in rail. There was a big competition, which was very interesting, between Derby—where Bombardier, the only existing rail manufacturer we have in this country, wanted a plant near—and the north-east. All kinds of attractive engagements were made.

Following that through, one of the first decisions the coalition Government took in 2010, when it was doing the order for the Thameslink trains, which was a huge order, was that they did not require a factory to be built, which was a big, big failure of industrial strategy. What is happening with those trains is that they are being built by the Germans, by Siemens, in Germany. I was very clear to my successor at the time that I thought this was a big mistake. I said, "If you tell the Germans they can only have this contract if they build a factory and develop a big manufacturing base here, and otherwise there will not be a contract, they would have done it". I know that company and they would have done it.

Q4 **Peter Kyle:** You would describe that as interventionism, would you?

Lord Adonis: I would describe that as putting together the best of the private sector with a state strategy. The state must have a strategy for these things. We obviously want competitive contracts and you put the two together. To be fair to them, that is what they then did in the next contract, which is the one Bombardier are doing for the Crossrail trains, which are just coming into service now; they are all being built in Derby but after a proper competitive process for that contract.

Q5 **Peter Kyle:** Thank you. I have a final question. I have an itch I simply have to scratch. We had three former Secretaries of State for trade and industry here who all said that the best industrial strategy could not outweigh the damaging impact of a bad Brexit, if it goes wrong. We had the Minister here, the present Secretary of State, who disagreed with that statement, and another Minister who disagreed with that statement also, saying that the three previous ones were talking heads. What is your expert opinion?

Lord Adonis: The best industrial strategy in this country at the moment is not to Brexit, full stop. If you would like me to elaborate, I would be happy to. You cannot get proper forward investment planning. The Japanese, who I have just referred to, are one of the biggest industrial partners we have in this country at the moment. They are hugely important because of their enormous success and expertise in high-end engineering. They will not place big future investments in this country if we leave the European Union. The basis on which I got Hitachi to set up their factory in Newton Aycliffe was that this was going to export to the whole of Europe. It is called Hitachi Europe; it is not called Hitachi UK. If I had said, on behalf of the state, that in five years' time, there are going to be tariffs and obstacles to exporting to Europe, they would not have put that factory in the United Kingdom. It would have been somewhere in mainland Europe. Indeed, I know the other sites they were potentially looking at for it as well. That is just in one sector. You can go through all the other sectors too.

Chair: We are going to come on to talk about Europe a little bit later with another question, so if it is okay I will move on to Anna Turley.

Q6 **Anna Turley:** Welcome, Lord Adonis. Thank you for joining us today. I was particularly interested in the reference you were making there around infrastructure because obviously that is absolutely vital to an industrial strategy. Do you think the current industrial strategy aligns with some of the aims you were trying to set out when you were at the National Infrastructure Commission? What discussions did the NIC have with the Government during the development of this industrial strategy, and do you feel there was alignment between the two ambitions?

Lord Adonis: There are three different elements on this. The Government are doing a reasonable job on two, but there is a third that has a big question mark attached. The first big requirement is that you do have some long-term, systematic planning. The setting up of the National Infrastructure Commission, with a brief to chart a course for infrastructure, investment and priorities over 25 to 30 years, is a big step forward in that regard, and it follows the success that we had in planning HS2. I pay tribute to the current Government on this. The HS2 plan, which has a classic 25 to 30-year industrial policy horizon, is a classic in that kind. It spanned three Governments: the Labour Government, the coalition Government and now the current Conservative Government. It has also spanned something like six Secretaries of State for Transport as well and, of course, three Prime Ministers.

Each of those Governments has remained true to it; they have not flinched and the whole thing is being seen through at the moment. It was on the basis of the experience with that that Sir John Armitt and I put together the original plans for a National Infrastructure Commission, and the draft plan was published last autumn and set out in each of the major economic infrastructure sectors what we believe the medium to long-term priorities were. The Government accepted those recommendations in principle, and the National Infrastructure Commission, which John Armitt now chairs, is going to produce its final report this June or July. I hope it will set that out in clearer detail and the Government will accept it. That is the first piece of good news.

The second piece of good news is that there is in some sectors—not all—great coherence in the longer-term industrial strategy. The one that has always been the leader in this respect has been the automotive sector, which is hugely important to us as a country if we can maintain our supply lines and export markets in the European Union. That has been a phenomenal success story, to be fair, since Margaret Thatcher got Nissan to establish in Sunderland. That was the renaissance of the British car industry. That has been going from strength to strength. What we need now to see is that model replicated sector by sector. It is happening in some more than others and needs to happen more.

The bit that I am still most concerned about is our geographical approach. You need to have really strong regional leadership in industrial planning and all of those parts of industrial planning and location that are dependent upon public authorities. I have long regarded the most important element to be a much, much stronger tier of city regional governments in this country. Michael Heseltine and I have spent the best part of the last 20 years campaigning hard for regionally elected mayors based on the major cities. They are starting to happen now. You have Andy Street in Birmingham and the West Midlands. You have Andy Burnham in Greater Manchester. You have Steve Rotheram in Merseyside. They are of course building on the phenomenally successful experience in London with a directly elected mayor since 2000. Those are big steps in the right direction. The problem is that if you look at those regional mayors outside London, their powers are exiguous. What the Government need to do—and I believe your Committee, Chair, could play a big part in this—is give them significant new powers. Can I give a concrete example? Apprenticeships.

Q7 **Antoinette Sandbach:** Can I pick up on that? There are real concerns around devolution and the way that that works. Having experienced it first-hand in Wales and also being on the Cheshire border, so in Cheshire and on the border of Manchester, there are considerable powers that have been devolved, but what tends to happen is there are endless complaints that the powers are not enough. Instead of getting on with dealing with the powers that they have and using those powers to make improvements, there were endless complaints that a particular part of the power has not been devolved or sent down. Where does it stop?

Chair: Rachel Maclean has some questions on regional support as well.

Lord Adonis: I am no apologist for public authorities that are not doing their job properly. I am sure at local level, as at national level, people can do their jobs more effectively. To be fair, the Mayor of Greater Manchester has only been in existence for what, a year?

Antoinette Sandbach: He is already complaining.

Lord Adonis: He has only just started. Wales is a different case because they have significantly more powers—a whole sight more powers than any of the regional mayors in England—so those two cases are very different.

Greater Manchester has, without a mayor, in comparison with other regions in the midlands and the north, done a phenomenally good job in this area over the last generation. It has had an effective mayor, to be blunt, in Sir Howard Bernstein who has been chief executive of Manchester City Council for the best part of 25 years or whatever it was. The whole of the planning of the Greater Manchester metro and the infrastructure that has gone alongside it, which has been hugely important in the development of modern Manchester, has come by effectively Manchester City Council itself acting as the regional economic infrastructure planning authority for the whole region. Greater Manchester, when the Met authorities were abolished in the 1980s, managed to maintain far more of an institutional identity than most other regions in the midlands and the north. Members with experience of this would probably agree with that. They have been ahead of the pack anyway.

To carry on from where I was just a moment ago, one of the biggest problems we have in the regions at the moment is really poor levels of skill training, which I believe is at crisis levels for those not going on to university at the moment. At the moment, there is a big decline taking place in the number of apprenticeships, even though we have the apprenticeship levy, which was introduced last year. No one is quite sure why this is happening. I hope some parliamentary Committee is looking at it, because it is a massive crisis in the country at large. That is a classic instance where a power that the state currently exercises very badly in London should be given to regional authorities.

The planning of apprenticeships across Greater Manchester, which involves a sectoral approach, engagement with employers large and small and so on, looks to me to be an entirely appropriate power to be exercised at the city-regional level rather than the national level. It has been done very badly at national level at the moment. It is hugely important for industrial policy and is a classic example of where you could safely give new powers to elected mayors.

Q8 **Anna Turley:** To bring it back to infrastructure, because that is my theme for today, while we are on regional diversity and the importance of rebalancing our economy outside London, could you say a bit more about the role of infrastructure and proper strategic infrastructure planning to rebalance the economy outside London?

Lord Adonis: Unless you can get around the regions properly and move goods and people around efficiently and access labour markets very efficiently, you are of course going to hold these regions back. It is no accident at all that the region that has been the most economically successful has also had by far the biggest investment in infrastructure over the last 20 years, which is Greater London. Later this year, we will see the opening of Crossrail, which will add 10% to the public transport capacity of London and integrate London economically with what will essentially become new cities to its west. Slough, Maidenhead and Reading are in the process of becoming big cities, which will have—Mr Kyle won't be pleased to hear this—much faster connections now with central London than Brighton does, which is dependent upon rail infrastructure that was built in the 1850s, even when the train companies are able to run the trains on existing infrastructure.

I can go through this case by case in the point of London. Even though we have had mayors of both parties, so you might expect a discontinuity, what is extraordinary if you look at London is that even as Governments and mayors have changed between parties, there has been incredibly strong continuity in policy focused on, at any given time, two or three big infrastructure priorities playing to the needs of the London economy. We need the same to take place in Manchester, Leeds, Newcastle and so on. Andy Street is just starting it in Birmingham, and he has great experience of this as chief executive of one of our biggest companies in the country. To be frank, we are still in the foothills at the moment.

Q9 **Mr Liddell-Grainger:** I have been listening to you, and my constituency has Hinkley C, so I am very grateful to you.

Lord Adonis: We recommended strongly in favour of that.

Mr Liddell-Grainger: You did. I am incredibly grateful for all the work you have done. It does not seem 12 years.

Lord Adonis: We cannot chop and change on our nuclear programme. Once we have decided, we have to go ahead.

Mr Liddell-Grainger: You do realise it is 12 years since we started.

Lord Adonis: I am well aware.

Q10 **Mr Liddell-Grainger:** It is amazing, is it not? In 2017, the NIC, if I remember rightly, published 12 priorities. When you resigned, how many of those were on track, and how many were needing a substantial prod?

Lord Adonis: Some were as long as a piece of string. For example, we said that having leading edge mobile and broadband connections internationally was a key priority. To be frank, we are not remotely close to that at the moment. Even if all the things we said should happen this year happen—a proper rollout strategy for 5G, dealing with cold spots for 4G, getting an accelerated rollout for superfast broadband—we would still be behind the world leaders. Some of them are very hard to meet. Others of them depend critically upon decisions that are taken this year.

If I could give the Committee a prime example, look at the expansion of Heathrow. People can have different views about what is the way to meet additional airport capacity requirements in the south-east of England but we, as a country, have now spent 25 years wrestling with different options. When I was Secretary of State for Transport eight years ago, I took the decision that we should expand Heathrow. That was then cancelled by the following Government. Because the then Chancellor decided that this was probably not such a good idea after all, he set up an independent commission. That independent commission spent three years recommending. It recommended three years ago. Parliament has still not taken a decision on the expansion of Heathrow Airport. It may or may not take a decision this year, depending on whether the Government can agree amongst themselves, because there are different views in the Cabinet as to whether it should happen.

The first of the 12 infrastructure priorities we put on our list was a decision on the expansion of Heathrow. In the context that you mentioned, Chair, that we might have more of a discussion about Europe later, we cannot be a global Britain if our major hub airport is running at 100% capacity and it cannot lay on new flights to new emerging markets that are important to us as a country. Going through that list, I am afraid there are all too many priorities there where some action has been taken but we have not been following through and critical decisions have been delayed.

Q11 **Mr Liddell-Grainger:** Can I take you back to one of those, which is broadband? It is the bane of all our lives. It was the bane of your life. Do you think that the way that we powered Openreach to do it was the wrong decision at the time? Should we have split Openreach apart when we had the chance?

Lord Adonis: Yes, we should have done. Also, the regulator, Ofcom, in all of these areas of communications, has not been tough enough on the private sector. That is my very strong view, having engaged with these issues over recent years. What it has got itself into the mind set of doing is trying to split the difference between what the private sector says it can make a return on and what the Government and Parliament say they want on behalf of the public and businesses at large. I can see why they do that, because they are subjected to massive pressure from, in the case of Openreach, BT, which gave them all kinds of lurid assessments about how the return on capital would not be high enough if it had to accelerate its rollout and so on.

My own view is that the job of the regulator, in its remit set out in Acts of Parliament, is to make clear what the public interest is. It then has to trade off what the cost is going to be on that, though my own view is that it is far too generous to the private sector often in the way it does so. Having done that, it should rigorously enforce it. With the Openreach issue, if you look at what has happened, it has been a constant splitting of the difference. It has still not split Openreach completely from BT, which is a decision that should have been taken 10 years ago. We have ever more fine gradations of separateness, but even now the Openreach decisions on investment, which are so important in your constituencies and others, are still being taken with reference to the BT board, which has to agree the investment strategy. The BT board has a whole lot of other considerations to take account of, which are not in any way related to the direct return on capital for providing a proper superfast broadband service across the country.

I was in Great Yarmouth on Friday. The big issue they were all talking about, apart from the fact that it still takes half an hour to get to Norwich—and you are not going to have a great industrial strategy in Great Yarmouth if you cannot get to places quickly—was that Openreach has just cancelled its rollout of the next 5,000 homes in Great Yarmouth. For the economy of Great Yarmouth, there is nothing more important to them than being able to get to and from Norwich, which is their local regional economic centre, and having superfast broadband.

I do not know why it happened, but if I had been the chief executive of Ofcom and had been told that had happened, I would have asked to see Openreach immediately and got a timescale for precisely when they were going to make that investment. That is not just Great Yarmouth; I imagine, Mr Liddell-Grainger, you can tell me areas of your consistency too where Openreach should be acting, and we could probably go around the Committee.

Antoinette Sandbach: We do not even have a 3G service. Most of my constituency has 2G.

Q12 **Mr Liddell-Grainger:** I suspect there are not many MPs that could not give you horror stories, as you are aware. Can I just follow on from what you have been saying, excluding broadband and Heathrow? Has the infrastructure policy changed? If it has, whereabouts? If it has not, should it? Are our priorities different from how they were when you were there?

Lord Adonis: In most infrastructure areas, there has not been a significant change in policy. There has been both continuity and some serious action. Particularly in transport infrastructure, we are in a much better position than we were 10 years ago. In aviation, we have a set of decisions that now just need to be taken, and the only thing stopping the next wave of big investment in aviation infrastructure is the will of Parliament. It is as simple as that. If Parliament takes decisions on the third runway, all of that can happen now.

The legislation for the first phase of HS2 was enacted by Parliament just before the general election. The Bill to take HS2 from Birmingham to

Crewe is before the House of Commons at the moment. It was agreed just before Christmas and is now in a Select Committee. That is excellent progress. The plans to take HS2 right through to Manchester and Leeds are being published. The detailed route plans have already been published and the legislation to enact that is due to be introduced next year. I do not see any reason why that should be delayed. That is good news too.

On highways, where there has been massive stop-go of investment over the last generation, the Government set up Highways England as a freestanding company with a five-year remit and investment strategy. To be blunt, that is a big improvement on the situation that I dealt with at the time, where we had an agency that had to agree budgets every two or three years with the Treasury. All of those are steps forward.

In some other areas, it is less good, though. If you ask me what our energy infrastructure investment strategy was for the next 10 years, I do not think, with the best will in the world, you could get a coherent answer to that. How many nuclear power stations are we going to be building after yours? That is a good question to ask a Minister at the moment, because no one can provide an answer. Are even the next two, which the Government are committed to, going to proceed? We do not even know that at the moment.

I am going to Swansea next week to discuss tidal power, which is a really interesting subject. Charles Hendry, the former Energy Minister, did a report on that two years ago now; the Government still have not properly responded to it. There is an argument for it, there is an argument against it, but there is no argument for constantly delaying a decision on this.

Chair: That is something we have raised with the Minister.

Q13 **Mr Liddell-Grainger:** You hit on a very important one: the National Grid infrastructure. That is what is probably going to creak more than anything over the next few years. To slightly crystal-ball-gaze, because, again, the National Grid affects us all, what would you do with it?

Lord Adonis: There is a question about whether there should be a controlling mind when it comes to this, like there is with some of the US utilities. There might be something to be said for that but the National Grid itself is a pretty well-run company. It has at the moment a very good chief executive. It might well be worth inviting her to come along. They have very ambitious investment policies. Of course, the big issue with National Grid is that the grid can only convey the electricity from where it is being generated. The decisions on where the generation is going to take place are the big critical decisions at the moment where we are behind the curve.

Chair: We are doing a separate inquiry into electric vehicles at the moment. National Grid is critically important for making that work. We will be taking evidence from them on that, and maybe some other issues might come up at that session.

Q14 **Mark Pawsey:** Lord Adonis, as former chair of the National Infrastructure Commission, you are making a very strong case for infrastructure, but is it your view that, in recent years and currently, we are spending at the right level? Are we making the right levels of investment for our economy to grow in future? To what extent should we have a view about spending what we can afford? In the 2010 emergency Budget, some projects were cancelled or put on hold. We can always work with these grand schemes and we will invest in as many as we possibly can. Part of your role was to identify priorities but in its totality, are we at about the right level? Would you like to see more? How can we measure the effectiveness of the investment that we make?

Lord Adonis: The Government themselves accept that we had been spending too little in the past, because the remit of the National Infrastructure Commission—I can now say since I am no longer holding that post that it was subject to very intense discussions behind the scenes—says that up to 1.2% of GDP should be devoted to public infrastructure investment. That is a very significant increase on the long-run level of infrastructure investment.

Q15 **Mark Pawsey:** Is that number publically known? We know what we are spending on international development. I am not sure that that figure is as widely known.

Lord Adonis: It was in the remit letter from the Chancellor to me when I was chairing the National Infrastructure Commission last summer. That implies a very significant increase in public infrastructure investment. The thing that I had not properly appreciated until chairing the National Infrastructure Commission and that is hugely important to your Committee is that most infrastructure investment that is in utilities and essential economic infrastructure—leave the pure private sector largely aside—is made by private companies regulated by state regulators. More infrastructure investment is put in by electricity, communications and energy companies regulated by state regulators than is made by the state itself. That is not on the public balance sheet at all.

Q16 **Mark Pawsey:** Sure, and we do not know how much is taking place because we do not measure that in the way that we measure public investment.

Lord Adonis: The Treasury does gather statistics on it, which is how I know, if you take the last five years, there has been more investment by the private companies regulated by state regulators than there has been by the public sector itself. The issue there, which is a crucial one for your Committee, is what the industrial strategy and infrastructure strategy is for the regulators. Not nearly enough attention has been paid to that.

If you take this crisis that we have in 4G—and as Antoinette Sandbach was just saying, even in 3G coverage across large parts of the country—

Ofcom has spent the last 20 years basically worrying about prices to the consumer. It is right to worry about prices to consumers because you need value for money. It has not paid nearly enough attention to the quality of the infrastructure that provides the service, and what the balance should be between the two.

My own view, as former chairman of the National Infrastructure Commission, is that there should have been significantly more investment in mobile infrastructure even if that meant somewhat higher prices. Consumers would have accepted that trade off if, in return, they knew they were going to get a more reliable service, or in the case of 4G any service at all. The regulators have not paid enough attention to that. That is an important point for Select Committees to take account of.

Q17 **Mark Pawsey:** If we look at the target for the amount of public investment, should we undertake that regardless of our economic circumstances? Should we have regard to our ability to pay the bills?

Lord Adonis: Because it is a percentage of GDP, it will vary depending upon the success of the economy. The argument that the Chancellor now accepts, and that I was a strong proponent of when I was chair of the National Infrastructure Commission, is that we spend too little of our public spending on infrastructure, irrespective of what that spending is. You are constrained in terms of the total by the health of the economy—obviously you are—but we need to give a greater weight to economic infrastructure within that if we are going to have in place the means to succeed as an economy in future.

Q18 **Mark Pawsey:** Do we have the right measures in place to measure the potential effectiveness of the investment? Every MP can tell you of wonderful schemes for their constituency, and there are instances, of course, where investment takes place for reasons of support for an area. Do we measure things in the right way? Do we make the right decisions?

Lord Adonis: We do measure, but whether we measure the right things is another matter. If you take transport infrastructure, over the last 50 years there has been a whole burgeoning sector of the economics profession that has been measuring cost-benefit ratios. They have been attaching cost-benefit ratios to projects. When I was Secretary of State for Transport, I would get the cost-benefit ratio for all of the rail and road investment proposals that were coming forward. The theory was you agreed the ones with high cost-benefit ratios, and those with lower ones, you did not agree.

The problem, as ever—and I know I am treading dangerous territory here, because your Chair is an economist and will have views on all of this—is that it is the things that you choose to measure that you then give priority to. In the case of transport infrastructure projects, the cost-benefit ratios give a very high premium to journey time savings. Journey time savings are one of the things that are important, but it is by no means the only thing that is important. It is increasingly clear to me that we need transport investment in transport infrastructure to sustain big, long-term increases in our housing supply where we have massive problems across large parts of the country. The impact on housing and the connectivity to new communities is not a factor we take account of at all in our cost-benefit ratios for transport projects. If all you are doing is looking at journey time savings, then what you will essentially get is a lot of bottlenecking of changes and improvements to existing infrastructure. You will not do something bold like Crossrail 2 or Crossrail, which can unlock whole new communities and the potential for significant new housing. Getting that balance right is a big issue.

Q19 **Chair:** I will move on. I will just say two things. You mention the time savings on trains. The model that Network Rail or the Department for Transport uses in terms of the benefits for saving time also can sometimes stop investment in new railway stations. If a train stops at a new railway station, that delays people further up the line. Sometimes that can be a hindrance to the new infrastructure investment that we need to unlock opportunities in other communities. I would also say that one of my issues with the cost-benefit ratios that Government look at and you look at, Lord Adonis, is that it looks very much at the static cost and benefits, rather than the dynamic ones.

You have mentioned Crossrail, Crossrail 2, Heathrow, Maidenhead and Reading. The fact is that we all represent constituencies outside of London that are poorly under-invested in, in terms of transport, but every time there is a northern rail extension or Crossrail, investments in London beat us on the cost-benefit ratios. More and more investment goes into London and the south-east, or Oxford and Cambridge. Obviously Oxford and Cambridge are incredibly important but places like Redditch, Redcar, Huddersfield and Grimsby are never going to be able to pull their weight unless they get the infrastructure investment that they need, but they lose out because you go down the list, and the Great Yarmouth broadband or the connections between Great Yarmouth and Norwich lose out because you get much higher benefits by putting another train station or train line in London. You are missing the point.

Lord Adonis: I completely agree. Can I give two examples of how that should apply in practice? We were talking about tidal power. A key factor that the Government need to take account of as to whether or not it is in the public interest to make a big investment in tidal lagoons—starting in Cardiff and Swansea, but it could spread more widely—is the impact on the regional economies. This is not only a potential source of long-term green power. There is an issue about the costs and all of that.

Antoinette Sandbach: It is huge. They are seeking a contract that goes over 60 years.

Chair: Lord Adonis has said that there are costs and benefits; it is just the decision that has not been made.

Lord Adonis: A critical factor in that must be the impact on the regions, because this is a big technology that could be applied in an area at the moment that desperately needs an industrial policy boost. That needs to be a factor. The other one you will be only too familiar with, Chair, is the northern Crossrail. We talk about HS2 going up from the midlands to the north, which is hugely important, but just as important is connectivity east to west—Liverpool, Leeds, Manchester, Newcastle and Hull. On a straight cost-benefit analysis, that project is much less attractive than HS2.

Q20 **Antoinette Sandbach:** However, the Government have put £40 million into doing it. They have launched Transport for the North to get that kind of integrated infrastructure planning in the north, and are supporting those kinds of developments, even though there may be that cost-benefit analysis. There is clear evidence that the Government are taking action in that area.

Lord Adonis: There is good news and bad news. The good news is that Transport for the North exists. The bad news is that there is no plan at the moment. The Committee should ask the chief executive of Transport for the North to come and say, "What is the plan?"

Antoinette Sandbach: It has been set up for a year. You made the same comment in respect of Andy Burnham as mayor.

Chair: Antoinette—

Antoinette Sandbach: I am sorry. I think this Committee should get evidence that is not politically motivated.

Chair: Antoinette Sandbach, I am in the Chair. Everybody else who has intervened has gone through the Chair, so if we could conduct the meeting like that. Lord Adonis.

Lord Adonis: It has been set up for more than two years. The determination to have an east-west Crossrail goes back to when I was Transport Secretary. It goes back 10 years now. This is not a party-political point; it is about how we as a country give proper priority to these projects. At the moment there is not, and the reason that there is not is because all the cost-benefit analysis and the work that has been done in the Department does not place a high enough premium on significant transformational transport investment in the north. This has been a long-running theme. The Government accept it now in principle, which is the reason why it set up Transport for the North, precisely to do that. Transport for North at the moment has not actually done anything. What it needs now is a plan. That is what needs to happen.

Q21 **Rachel Maclean:** Lord Adonis, I want to come back to regional issues that we have touched on already with my colleagues. I am a midlands MP and my constituency is a non-constituent member of the West Midlands Combined Authority, so I am familiar with Andy Street and all of that. You talked about metro mayors. You have advocated metro mayors as being a good solution. My constituency, Redditch, is on the outskirts of Birmingham. If you are devolving to a city region, how does that affect towns like Redditch and how does it affect the rural area where you do not have a major city but just have a rural coastline? What would you advocate for those types of geographical locations?

Lord Adonis: The great virtue of having the metro mayors is that the whole of the metropolitan area then has somebody who is responsible for producing a proper plan. Andy Street in the West Midlands is seeking to put together a plan for what he calls the West Midlands metro.

Q22 **Rachel Maclean:** I am very familiar with that. I think it is a very good plan, but if you look at an area, maybe Redcar or somewhere that is not particularly right next to a big city, how would you govern that region, where there is not a big, major city in the vicinity?

Lord Adonis: You need to do it case by case. Tees Valley does have a metro mayor that has been established. He is seeking to put those plans together. There is a problem in some regions where it has not been possible to get agreement on setting up a metro mayor. A classic problem in the north-east at the moment is Gateshead, Newcastle and Sunderland. It is a hugely important urban corridor. I chaired an economic review of the north-east nearly 10 years ago. We recommended then a combined authority for the north-east, which was first set up and then, unfortunately, all in my party, the leaders of the Labour Party all could not agree and so they disbanded the combined authority they were going to set up.

Rachel Maclean: That is often a problem. We have seen that in the midlands too.

Lord Adonis: There still is not a metro mayor now. The Government should say—and this is not a party matter but a matter of national priorities—that it expects the north-east to come forward with a plan to have an elected mayor covering the metropolitan area of the north-east beyond Tees Valley. If that does not happen, the Government should impose one because it is absolutely essential that there is proper city-regional leadership and planning.

When it comes to the counties that are not covered by the city regions, you have to make a case-by-case assessment of how this is best done. It may be by individual counties having their own strategic authorities, which may be the existing county council given additional powers or it may be via counties coming together, as had happened in Peterborough and Cambridgeshire, where they have a directly elected mayor covering those two councils; it is a crucially important travel-to-work area between Peterborough and Cambridge. What needs to happen is a case-by-case assessment, with the Government determined to see that every part of the country does have an elected strategic authority whose job is to do those things on economic infrastructure that cannot be planned at the local level and that national Government is not taking enough account of.

Q23 **Rachel Maclean:** Is it the view of the commission, then, that an elected representative is the right way to go for those regions?

Lord Adonis: Yes.

Q24 **Rachel Maclean:** The view of the commission is that a metro mayor for such a wide area as the West Midlands, where it could be argued that Redditch has nothing common with Walsall, Dudley and Coventry, is still a good way to have that representation?

Lord Adonis: We did not say what the boundaries should be. Clearly there is a debate to be had area by area about what the appropriate areas are. This is a huge issue at the moment in Yorkshire where we are deciding what the appropriate elected strategic planning areas should be within Yorkshire. That has been very contentious and still is not properly resolved at the moment.

Chair: At all resolved.

Lord Adonis: It is not acceptable to say that because we cannot get agreement, we are going to do nothing. That is not acceptable. What the Government should do is set a timeframe, which should be a fairly short timeframe, and say that if you cannot get agreement within the area concerned then it will impose a way forward, because otherwise what happens is these areas just get left behind. I know the north-east well because I chaired the economic review. The north-east, in terms of business location decisions, is at a significant disadvantage now to Greater Manchester and the West Midlands, because it does not have an equivalent of Andy Street and Andy Burnham who is out there with credible plans for how economic infrastructure is going to develop over the next generation.

I greatly admire Andy Street; he is a Conservative so I can say this. Andy has a whole plan for how, when HS2 gets to Birmingham International in 2026, which is only eight years away, this is going to generate massive industrial growth around that new station there, including significant new housing, a revamp of the National Exhibition Centre, and a possible relocation of Birmingham Airport to have its terminal facilities relocated to be on the same site as the HS2 station, which is an absolutely fantastic thing to do. Without a mayor, none of those things would be happening at the moment.

Q25 **Rachel Maclean:** I totally agree. I am a great admirer of his and he has achieved a massive amount in a short period of time. That goes to my next question, which is that there is clearly going to be a difference in performance of these regions depending on the quality of leadership. If you devolve that, the logical consequence is that some might not do very well. What should happen then, in the view of the commission?

Lord Adonis: It is the job of the political parties to see that they select good candidates to be mayors. It is a hugely important job. Most of these big mayoral jobs are as important as being a member of the Cabinet, in many ways. Mayor of London, the West Midlands, Greater Manchester or First Minister of Wales are hugely important jobs and are vitally important for our whole industrial strategy region by region. There are many things that are not encouraging at the moment, looking at the whole Brexit scene, but one very encouraging development in the politics of the last 10 to 15 years is that you are starting to see very major political figures, who previously would have only seen their future as being here in Westminster, now seeing their future as being mayors and leaders of major authorities outside of Westminster. That is very encouraging.

Q26 **Rachel Maclean:** I agree. On LEPs, is it the view of the commission that the performance has been mixed, and does that account for some of the regional disparity in performance and productivity we have seen across the regions?

Lord Adonis: It is very mixed. The best ones have made a very big difference. Indeed, the reason Andy Street is mayor of the West Midlands is that he started off as chair of the LEP. It was his experience as chair of the LEP—a very successful one—that led him.

Rachel Maclean: So a LEP can drive productivity.

Lord Adonis: It certainly can, but some of them have been almost AWOL in terms of making a difference in their area.

Q27 **Chair:** Apart from the West Midlands, are there any other LEPs that you would point to that have been success stories?

Lord Adonis: The West Midlands is quite exceptional in that you had a very exceptionally dynamic and successful chair, even though you had quite a disparate local authority.

Q28 **Rachel Maclean:** There is still a big productivity issue in the West Midlands, and in Birmingham specifically, which I am very well aware of.

Lord Adonis: Generally speaking, in my experience, the strength of the LEP is dependent upon the strength of the local authorities. Where you have strong and coherent local authority leadership, the LEP can play a key role, as in Greater Manchester. Where the local authority structure is weak, as I am afraid is classically the case in parts of the north-east, the LEP has not been a great success either. LEPs, because they are unelected, cannot substitute for powerful democratic leadership, both at national level and local level. I become ever more convinced, as I see how local economies work, that it is very hard for an area to outperform the success of its local elected leadership. Where that is weak, all of those public decisions that need to be made in terms of infrastructure planning, skill planning, support for the universities and all these things are just not there.

Q29 **Stephen Kerr:** It seems to me that having a successful industrial strategy involves the UK Government being able to work in a collaborative way with the devolved administrations. As a Scottish Member of Parliament, one of the concerns that I live with is the fact that we do not have the proper constitutional machinery in place to make that happen, but that is a separate issue.

The industrial strategy the Government have produced is all about sector deals and grand challenges. Have the Government taken the right approach by focusing on sector deals and grand challenges? Have they got that right?

Lord Adonis: You can have a debate about what the sectors should be but, broadly speaking, that is an important new element in our armoury of industrial policy, but it has to go hand in hand with the proper support for and emphasis on regional institutions too. Getting the elected mayors in place, and regional economic planning infrastructure under them, is hugely important. It is no accident that the place where it has done best by far is London, where you have had a strong mayor, the Greater London Authority and all of the business organisations working hand in glove with the mayor and the Greater London Authority behind a unified strategy.

Stephen Kerr: And the UK Government, of course.

Lord Adonis: Yes. Another key point about London, as I know intimately from my experience as a Minister—and this links in with what Anna Turley and Rachel were saying about some of the regions more remote from London—is that it is very important to understand that the United Kingdom Government in London also, to a very significant extent, acts as the Government for London. If you look at why London schools and transport are doing so well, it is because the Department for Transport and the Department for Education, because of the huge importance of London to the national economy and because the Departments are based in London, place a very great premium on planning and improvement within London. If the Department for Education was giving half as much attention to the schools in Newcastle as it gives to the schools in London, we would have seen a transformation in those schools. It has not happened because, by definition, our national Government and national Departments are so remote geographically from many of the areas where their policies make an impact.

Chair: We made exactly this point when the Permanent Secretary of the Business Department gave evidence to us last week—that it would be good if some of the people who are building our industrial strategy and energy policy were based in our industrial heartlands and our energy heartlands. I think we agree with you on that.

Q30 **Stephen Kerr:** Are we focusing on the right sectors in the industrial strategy?

Lord Adonis: Yes, I think so. Looking down the list of the dozen or so that there now are, it is broadly right.

Q31 **Stephen Kerr:** The criteria for selecting these things is sound, is it?

Lord Adonis: They are the ones where we either have a very significant competitive edge at the moment, or, like the creative sector, where we do well but we could give a rocket boost to it. That is broadly correct.

Q32 **Stephen Kerr:** What were the criteria of the NIC under your chairmanship?

Lord Adonis: We were only concerned about infrastructure. Our concerns were communications, energy and transport above all.

Q33 **Stephen Kerr:** How did you decide on those priorities, though?

Lord Adonis: Because of the remit we were given by the Government. The Government specifically asked us. The area that was tricky was housing, because you will not get a decent industrial strategy unless you have enough places for people to live. Particularly in hotspots in the country at the moment, housing costs are going through the roof and there is not enough supply. This was quite an interesting dialogue between George Osborne and myself. I was very keen that we had a direct remit for planning new towns and significant urban extensions. My view is that England, particularly southern England and parts of the midlands, very badly needs those. He was concerned about the political impact of the National Infrastructure Commission, to be blunt, making recommendations about major new settlements, so we finessed it.

We said that the National Infrastructure Commission would have power to plan economic infrastructure, taking account of the need for additional housing settlements, but we were not to make specific recommendations for those settlements. My own view is that the National Infrastructure Commission should have a responsibility—because it only makes recommendations to Government; it is Government that makes the decisions—for recommending major urban extensions and new towns. Nobody else in the state machinery at the moment has that responsibility. It is no accident that the last major new town that the state set up in England was Milton Keynes 50 years ago. There has not been one since. That is because there has been no machinery for producing such a policy.

Q34 **Stephen Kerr:** Can I ask one more question about sectors? There are sectors that are very people-dependent, such as retail, social care, hospitality and so forth. What should the Government offer be to those sectors?

Lord Adonis: I will be quite frank: I am not so familiar with those sectors, so I could not tell you, in the way I can on the infrastructure areas, what is the right strategy in hospitality or retail. I would get someone like Andy Street to come and tell you, because I am sure he has a very good idea.

Chair: Yes, you are definitely giving us ideas about other people we could get to give evidence.

Q35 **Antoinette Sandbach:** Your views on Brexit and leaving the European Union are well known. How realistic is it, bearing in mind at the moment Brexit is happening—and I would argue that is a fact that has to be accepted at this point, in terms of your evidence to the Committee—to have a state that has a policy on the edge of Europe that would potentially lead to huge nationalisation and big state aid? Do you think that is realistic?

Lord Adonis: I think I know where that question is leading. There are lots of things that need to be done before we start thinking about whether or not a big redrawing of the state public boundaries is the right thing for the country. If you just take the areas that I am intimately familiar with, in infrastructure, the biggest challenge we face in infrastructure at the moment is decisions on medium to long-term infrastructure where we do not have those decisions in place. If I was able to take decisions that have not been taken at the moment, I would place a very high premium on getting an aviation strategy in place, both in terms of airspace and expansion of Heathrow, that could be implemented in the next five years.

Q36 **Antoinette Sandbach:** How realistic do you think that is if we are not members of EASA?

Lord Adonis: That is a big issue, a huge issue, as to what happens over the next year in terms of our aviation.

Q37 **Antoinette Sandbach:** Where are the opportunities in terms of how the National Infrastructure Commission could be used to support a post-Brexit economy in the UK?

Lord Adonis: The single most important decision we will take in terms of national infrastructure relating to Brexit over the next year is what we do with Heathrow Airport. It is hugely important for inward investment decisions and trade with "global Britain" over the next year.

Q38 **Antoinette Sandbach:** Given that HS2 is coming on-stream and that is going to provide connectivity to Birmingham and potentially to Manchester Airport too, why do you think it is necessary for a third runway at Heathrow when there are further runways planned in Manchester, given the connectivity?

Lord Adonis: All of this was looked at in the Davies Commission. It is because Heathrow is a hub airport. The others are not hub airports. Manchester has some hub characteristics to it, and that is important, but Manchester has a policy. It is expanding fast and has the resources it needs to do so. Heathrow does not at the moment. Hub business forgone at Heathrow does not, unfortunately, go to Birmingham, Manchester or Stansted; it goes to Schiphol, Frankfurt and Charles de Gaulle. This is a huge, urgent issue. Heathrow at the moment has two runways. Schiphol has five runways. Charles de Gaulle has four runways. Frankfurt, when I was Transport Secretary, planned its fourth runway and it has now opened it. This is the real world in which we are supposedly competing in global Britain.

That is a classic instance of a decision that can and should be taken whether we Brexit or not, but it is all the more important if we are going to Brexit, because it is all to do with our relations with developing economies, which, so the Government tell us, are at the heart of Brexit.

Q39 **Antoinette Sandbach:** Is it still your view that, in terms of state aid, high-productivity firms should be allowed to expand and low-productivity firms shrink—in other words, that state aid should not be used to prop up failing businesses in the UK? The Commission's view was that it is extremely hard for politicians to resist calls to assist struggling major industries.

Lord Adonis: To be quite frank, you need to take sensible decisions. Those sensible decisions will generally be in high-productivity areas. You have to have some regard for regional policy, which is a big issue in terms of maintaining state investment. You do need a balance there, but obviously it should be geared largely to high-productivity sectors.

Q40 **Antoinette Sandbach:** Coming back briefly on the LEPs and leadership, the Cheshire LEP is one of the most successful LEPs with one of the highest-productivity areas outside the country. Given that example, why would you say it requires elected leadership?

Lord Adonis: In the case of Cheshire, I am not saying that necessarily. It is Greater Manchester that has been the huge priority, as well as Merseyside, in terms of motoring the northern economy in areas where it is not working well at the moment. Cheshire, I entirely accept, has been doing better, so I would not place huge priority on new arrangements for Cheshire unless the county itself wishes to do so.

Q41 **Antoinette Sandbach:** In terms of Manchester, you spoke about skills but it was the decision of those local areas to put together their bids and decide what to include in their bids. It was perfectly possible to put together a bid that included skills. That is something that has been or can be part of a devolution package.

Lord Adonis: It can be. To give a concrete example of this, which is hugely important, the problem is that quite a number of the LEPs and the mayors have asked for the devolution of the apprenticeship levy or rather, to be more accurate, the surplus on the apprenticeship levy over and above what companies are spending themselves, which is then returned, so they can deploy that for an apprenticeship strategy, region by region. The Government have not been prepared to agree that. That is a concrete example of where devolution could drive a significant improvement in skills, policy and performance in an area that is very weak at the moment, which is skills outside the university sector.

Q42 **Vernon Coaker:** In your remarks and the interesting evidence that you have given, there is a frustration as well with the infrastructure that should happen and then what does happen. How influential do you think the commission was in influencing the Government to take various decisions or not?

Lord Adonis: The answer is that it is too soon to say, because a lot of those decisions are in the pipeline at the moment, so it depends what happens over the next two or three years. I keep coming back to it, because it is so important: the acid test, in my view, of whether or not the Government is serious about a medium-term infrastructure strategy is whether, this year, it takes the decision on the expansion of Heathrow. The National Infrastructure Commission has consistently said that that was the single most important infrastructure decision. It has been ducked now for the best part of, to be blunt, 25 years, but, in the most recent context, the last 10 years, since a decision in principle was taken. If that is ducked, I do not have much confidence that other hard decisions will be taken.

Q43 **Vernon Coaker:** Interesting. How far did you and the commission feel that you were butting up against political reality and against party politics? Did you feel independent from that? Did you feel there was a conflict there between the commission coming forward with these great ideas and then it hitting against the political reality? For example, if I was playing devil's advocate and I was the MP for areas and communities near Heathrow Airport, I might have a different view. Even though, nationally, my view might be that we should have a third runway, it would be very difficult for me to stand for election in some areas around there demanding that. How far did you feel that you butted up against that political reality, and that party politics and political reality, essentially from people who were elected, butted up against the recommendations you were making in what you regarded as the national interest?

Lord Adonis: In my experience, there is not one political reality. I am being slightly philosophical here, but there is more than one political reality. If you take the case of Heathrow, it is true that most, though by no means all, west London MPs are opposed. In fact, Heathrow is by far the largest employer in west London, so quite a number of west London MPs are keen on the expansion of Heathrow. Indeed, you saw that when Boris Johnson was putting his proposals forward for the estuary airport. As soon as it became clear in the work of the Davies Commission, when it moved down to the shortlist, that the estuary airport could only happen if Heathrow closed, at that point west London MPs, irrespective of party, all rallied to Heathrow's cause immediately. Vast numbers of jobs were potentially at stake if Heathrow closed and the airport was moved to the east.

However, it is also true of Heathrow that a majority of London MPs are in favour of expansion, a majority of MPs across the country are, because there have been conversations and we know what views people have, and a majority of members of the Cabinet are in favour. What is classically the case with Heathrow is how majority opinion—both the silent majority but also the express view of the majority of MPs in all parties—can make itself felt when you have very vocal local groups that are opposed. We see that time and again in infrastructure. We saw that with HS2; we are seeing it with Heathrow.

Q44 **Vernon Coaker:** I understand, and that is an example you can use locally. Let me make a more general, national example. Correct me if I have misunderstood, but if the commission came forward with ideas for massive expansion of energy generation based on nuclear power, that might be a view that the commission took, but that would generate massive, in my view, political debate as to whether that was the right way forward or whether that should not happen and future energy generation should be wind power, wave power, et cetera. Where does that leave the Government? It is quite an interesting philosophical but important practical decision. Would the commission then expect the Government to automatically do that and be frustrated if they did not? In other words, is the commission making statements and saying to Government, "This is what you have to do", or is it just making recommendations that the Government should consider and then make the decision?

Lord Adonis: In many ways, a better way of putting the role of the commission is that it acts as the conscience of the Government and Parliament in areas where they have wanted to act themselves. If you take the question of nuclear power stations, it is the policy of the Government at the moment to have a new generation—

Q45 **Vernon Coaker:** Sorry to interrupt, but it is, in a sense, moving the decision into the future because, I would suggest, it is difficult. The reality would be, if you started to say, "This is where it should go; that is where it should go; this is where it should go", then that is the political reality again, maybe.

Lord Adonis: That is precisely the role of the National Infrastructure Commission. It is the policy of the Government and the policy of Parliament, because it has agreed the national policy statement, that there should be a new generation of nuclear power stations. What we have said is, "Hey, where are the next two? If this is the policy, where are they? What are the plans for them? When are they going to be built?" That is quite an important role of the commission, to act as the conscience of the Government and Parliament where decisions have not been taken to follow through with commitments that have been made in principle, but just have not been delivered on.

Q46 **Vernon Coaker:** Is it the commission's role to do that or is it the commission's role to advise and then for the Government to make the decision?

Lord Adonis: The commission's role is only advisory, but it has the bully pulpit and because it can make a noise, it does have the power, if it exercises that role wisely, to help Government focus on what can be politically quite difficult decisions. To come back to both nuclear and the

Heathrow decision, I saw my role when I was chair as to make it much easier for the Government to take a decision that, in principle, it was already committed to. I constantly said that a key test of whether or not we are serious about global Britain is that we take this decision on Heathrow. It is, in principle, the policy of the Government to expand Heathrow. The Prime Minister said that two years ago. The problem has been that the follow-up decisions that need to be taken just have not been taken.

Q47 **Antoinette Sandbach:** Can I very quickly ask whether it is your view, in terms of the air quality report—that is what caused the delay and the issue, because air quality is now a big issue—that residents who are affected by that air quality report should just be ignored because of the wider hub interest of Heathrow?

Lord Adonis: The reason why the decision is being taken this May or June is so that the assessment of air quality can be updated. That is not a reason for delaying beyond this May or June. That process is taking place at the moment. The key test will be whether that decision is taken in May or June. If it is not taken then—because you asked me my advice on what you should regard as big landmark decisions—that will be, unfortunately, a straightforward political delay in what is an essential decision on national infrastructure.

Q48 **Chair:** Your top priorities on the commission were Heathrow and HS2; what would be the third one?

Lord Adonis: We had a key priority in each area. We said that the next wave of decisions on green energy and nuclear should be taken, following through on the Government's own commitment; that they needed to have much more ambitious rollout targets for 4G and broadband—

Q49 **Chair:** What I was going to ask, then, is whether you attached to those your views and your impact assessments of those decisions on productivity.

Lord Adonis: Yes, in the sense that our chief economist, who was a former deputy chief economist at the Treasury, did an assessment and these were, in all these cases, very high-productivity-yielding decisions.

Q50 **Chair:** Later in this inquiry it will probably be useful to take evidence from the new chair of the National Infrastructure Commission and perhaps their economist as well.

Lord Adonis: James Richardson is the chief economist at the NIC and it would be good if he came along with the chair.

Chair: Yes. Thank you very much for your time today, Lord Adonis.

Examination of witness

Witness: Professor Richard Jones.

Q51 **Chair:** Thank you very much, Professor Richard Jones, for coming to give evidence today. You have been left stranded, as the only one who could make it because of snow. Kate Barker and Craig Berry have given their apologies, but I am sure that you can do a perfect job speaking for all three of you. We may look to reschedule the other witnesses for another time, but you have done very interesting work, Professor Jones, on your commission, and so we are keen to get your perspective on productivity, industrial strategy and the sector deals. We are a little short of time, but I am sure that everybody will keep it as brief and succinct as possible.

Q52 **Peter Kyle:** Welcome. Your review said that Government should not be doing everything everywhere, but they should be doing something everywhere. Do you think that is possible and do you think the Government are taking that on board?

Professor Jones: That really came from a desire to underline the nature and depth of the regional problem that the UK has. We tried to cut that in a particular way to note that the UK has underperforming core cities. Every core city apart from Bristol and Aberdeen is below average, so we have many cities that in most countries would be the drivers of productivity underperforming. We have formerly deindustrialised areas that have really not recovered from deindustrialisation and they have their own problems. We have rural, coastal, peripheral regions, some of the poorest parts of the country—I think of Anglesey, south-west Wales—that are places that perhaps one does not think of in terms of underdevelopment but are where the problems are. We wanted to suggest to the Government that they ought to at least think about doing something for everywhere. We appreciate that different solutions are appropriate for different places. You are the people with constituents who you have to go and talk to.

Q53 **Peter Kyle:** You have read the Government's industrial strategy. Do you think they have taken that on board? Do you think they are doing something everywhere?

Professor Jones: There has been a great deal of progress in the idea of place being more prominent in the industrial strategy than it has been in the past. That is an important development.

Q54 **Peter Kyle:** To the question, do you think the industrial strategy does indicate something being done everywhere?

Professor Jones: The industrial strategy is work in progress. You should look at that in a few years' time.

Q55 **Vernon Coaker:** What we have seen is the reduction in research and development over a period of time, but the Government have a view to increase that. What is your view of all that and how that is taking place?

Professor Jones: It is a really serious issue. People should appreciate that, in 1980, the UK was one of the most R&D-intensive countries in the world; it is now one of the least. We ought to bear in mind statistics such as, I think it was 2009, when the R&D intensity of China surpassed the R&D intensity of the UK. This is a long problem that has been long in development. It has many causes, but it is very difficult to look at our very poor productivity performance and not connect that with our very poor R&D performance. It is a problem that has both a Government element and a private sector element.

In fact, if you compare the R&D intensity or the innovation of the UK to Germany, for example, in terms of the academic research that I do in my day job, the UK and Germany are pretty comparable. Where the UK falls down is, first, in industrial R&D—we do less private sector industrial R&D than other countries of our size—and then there is a giant missing bit in the middle of translational R&D, which translates the academic work into job and money-creating industry. In Germany, that is what happens in Fraunhofer institutes very much, and in the US in the national labs. In the UK, that is a sector that is pretty much completely missing. The Catapults were an attempt to start that, but the scale of that is very small.

Q56 **Vernon Coaker:** It is quite astonishing when you look at it. Our figure at the moment is 1.7% and it has been declining to that figure since the 1980s—there is a bit of up and down—so over quite a considerable period of time. The average for OECD countries is 2.4%, so there is quite a way to go, and the Government are aiming to achieve that by 2021. Do you think we are going to get there? Do you think that needs to accelerate?

Professor Jones: It is a very hard ask and it needs some really hard analytical thought about how you are going to get to that point. To give a philosophical perspective, as it were, industrial policy and science policy were pretty much the same thing, which in itself is a problem, because they should not be. Since probably Waldegrave's time, there has been a huge continuity in innovation policy, through William Waldegrave and the Conservatives, Lord Sainsbury and the Labour Government, into the coalition. The fundamental foundations of that have been very similar; it has essentially been a supply-side innovation policy that says if we have a strong science base, if we have lots of skilled people, and maybe we do a little bit of tinkering to make the connections better, then automatically that will follow into private sector R&D and then into growth and productivity. That has not happened.

The case that I would want to make is that one needs to think a lot more about the demand side. What is pulling through the need for new technology? We have some things that work. The automotive sector is a very important and interesting sector, which has astonishing performance, if you look at it: in 10 years, the R&D expenditure of the automotive industry has increased by well over a factor of two. That, to some extent, shows us how it happens, but you have to have a granular view.

The pharmaceutical sector is another one. That is the largest private sector contributor to R&D and is very important in a number of parts of the country, including Cheshire. That has had a decrease in R&D of 20% in the last five years. This really takes an analytic look at what is going on in each sector and what interventions you can make to drive up innovation. The Government need to think about what they need to do to drive up innovation in the private sector using the levers they have in things like, particularly, procurement and the money the Government spend or, for that matter, the money the Government, in a sense, control, because it is through regulated industries, such as the energy industry. There needs to be much more thought about driving the demand end to get to that target.

Q57 **Chair:** Are there any best examples from overseas of countries that have managed to improve their R&D and productivity performance that we could learn from?

Professor Jones: The best examples probably are in east Asia. Korea has very high R&D intensity at the moment. It has done that by a very conscious industrial strategy and it has been based very much on export. One of the themes that my economist colleagues on the commission were very keen to stress was the importance of competition. The issue that people had with industrial strategy in its 1970s generation was that it was about blunting the effect of competition. Countries that have been successful have been successful because they have supported industries and sectors, but on the condition that they go out and survive in a competitive world. Getting that competition right is important.

Q58 **Stephen Kerr:** The commission did not go along with the idea of sector deals. In fact, you rejected it, as did an earlier BEIS Select Committee. Why?

Professor Jones: It was more that we were ambivalent about the sectors. There are places where they worked; the automotive sector goes to show that it can if the sector is right. It is worth looking into why that happened. I think it was because the industry was relatively coherent, it recognised also that it had a major challenge on its hands and it really did need to come together to drive the technologies and skills to make that happen. Institutions like Warwick Manufacturing Group were pretty important in that as well. That is the positive side.

The negative side is that we thought that sectors were prone to being captured by incumbents, which perhaps is what happened in the 1970s. Politically powerful but not very productive industries were able to capture the process. We worried about sectors being, to some extent, backward-looking: that a sector reflected the economy as it was rather than as one hopes it will be in 10 or 20 years. Even the way that we cut sectors reflects old thinking. The division between services and manufacturing is being profoundly eroded. Companies like Rolls-Royce are exemplars of this idea of servitisation. Manufacturing companies are getting increasing amounts of value by capturing more and more parts of the value chain that previously would have been thought of as the province of a service industry. Business and technological trends mean the lines that you draw are no longer accurate.

You need to be quite hard-headed about what you mean by a sector. For example, one of the sectors that is under discussion is the life sciences sector. I would argue that the life sciences sector does not exist; it is a very bad way of thinking about it. As the name suggests, life sciences is something that comes from academics; it is people in universities who study life sciences. You start out with a technology push argument, which is the wrong way of thinking about it to begin with, but then what do you mean by the life sciences sector? Probably, people mostly mean the pharmaceutical and biotech sector. That is fine, it is a really important sector that has lots of big problems, but that is not the same as the health and social care sector, if you see what I mean, so you get these confusions. If you want to make health and social care in the UK better, more affordable, drive new productive industries on the basis of that, then that is not the same as promoting the pharmaceutical industry, which is an important sector but, fundamentally, an export industry.

Q59 **Stephen Kerr:** Talking about the grand challenges as described in the strategy that I have in front of me, are they grand enough? You had your strategic missions.

Professor Jones: Yes. This was our attempt to say how the Government should think about this. Governments—not just the current one, but the state—have goals that they need to deliver. You start with security and you go on to energy. The question to ask is about what the Government are going to get blamed for if it all goes horribly wrong. The Government will get blamed for the lights going off even if it is not a nationalised industry. Thus, it is in the strategic interest of the Government to make sure that those things that drive the economy—energy, connectivity, transport—happen. The Government have a whole bunch of strategic goals they need to deliver. Most of those strategic goals need new technology.

Q60 **Stephen Kerr:** AI, green growth, future mobility, ageing society—are those the right challenges?

Professor Jones: Those challenges are not a totally stupid starting place.

Stephen Kerr: A ringing endorsement.

Professor Jones: They need to be made more concrete. The Government have to understand where the UK fits into the world economy. Future mobility is a very important area. Clearly, there is a huge drive to electric and autonomous vehicles. The UK will have some part in that. It can take a leading role, but it is not going to own the whole area, because we have enormous global companies' forces pushing on that.

Q61 **Stephen Kerr:** I have one very quick last question. You talked about being hard-headed earlier, so in that spirit should the Government's focus be on the least productive sectors or the most productive sectors?

Professor Jones: This is a really interesting question. My personal view is perhaps slightly different from the view of the whole commission. If you have an economy that does not have very productive sectors you are in trouble, and that applies both to the nation as a whole but also regionally.

If I take my own example, Sheffield is one of the most underperforming core cities in the UK. I have had many discussions with its local leadership about what the economic priorities are. We have had some great success, in that we have had inward investment from Boeing and McLaren. That has been the right approach, because what we have done there is we have managed to persuade companies that are at the technological leading edge to arrive. If you do that, then you will raise the game of the whole economy. All the manufacturing companies in the region will be forced, on the one hand, to compete harder, but they will find it easier to do that because the level of skills and innovation in the region goes up. There is a strong reason, in any economy, to try to get very high productivity parts of it going, because they will then pull the rest of the economy up.

Kate Barker and Diane Coyle, our economists, were very keen to stress the relative size of different bits of the economy. The retail part of the economy is very large; the care sector is very large. They are not very productive. There is no reason why they should not be more productive than they currently are, so one should not neglect them.

Chair: That is a really important point and something that we will want to look at further. Andy Haldane, the chief economist at the Bank of England, has said that if you can get large parts of the economy to move an inch in terms of their productivity, that would probably be better for productivity overall than if you got a small number of companies or sectors to move a mile. One of the challenges we have is how to boost our productivity in those low-wage, high-employment parts of the economy, where we are lagging behind. That is an historic issue, but one that we need to face into.

Q62 **Anna Turley:** I would like to step back a bit, if I may, and talk more broadly about the concept of an industrial strategy. In particular, in terms of your organisation, what would you say that a successful industrial strategy looks like and how can that be measured and monitored in terms of its outcomes?

Professor Jones: The monitoring ought to be on the economic numbers. If, in 10 years' time, productivity growth is still in this 100-year stagnant trough, you will know it has failed. This is a very boring answer, but you would need GDP per capita to look like it was starting to increase again. That is the answer that a Government would want, because our low productivity performance underlies so much of what our current troubles are in terms of people's living standards and the fiscal difficulties of the Government; a percent or two on productivity growth solves a lot of problems. Those economic metrics are important.

I do think one ought to have some geographical fine-grain-ness on it. This goes back to the argument we made that this ought to be spread over the whole country. Even if the growth is not totally uniform, something ought to be happening everywhere in the country so that people would think, "This has made a difference to me", even if it is people in Great Yarmouth having decent broadband. That is the sort of infrastructure issue that we talked about too.

Q63 **Anna Turley:** I am going to move on now to points that have been referenced in the past, about sectors being allowed to fail and having a sector focus. Do you think the Government are equipped to prevent sectors from failing? Do you think they understand cycles and shocks? I speak particularly with an interest in things like the steel industry. We lost the steelworks in my constituency, because there are peaks and troughs in the nature of the steel industry, but it is now flourishing; Port Talbot and other places are doing very well. A small bit of intervention of a few million pounds might have made a difference to enable us to have kept this industry alive. What should the Government be looking at and what should they be doing to make sure that key sectors have the resilience to enable them to withstand shocks or cycles?

Professor Jones: That is a question about Government analytical capacity, which, to some extent, has eroded. It is not clear that that capacity in Government currently exists.

Q64 **Anna Turley:** Should it?

Professor Jones: Yes.

Q65 **Anna Turley:** Is that something that your organisation can play a role in supporting Government with?

Professor Jones: There is a lot of expertise in the country more widely, including even in universities, and that perhaps can be mobilised more effectively than it currently is. When you talk about innovation policy, there is a danger of it being made by too few people who do not understand enough either about different industries or about different parts of the country. Thinking about the inclusive mechanisms by which those decisions are made begs questions about how one brings in expertise from outside London. It was quite tricky to get here this morning. In terms of what the economy looks like outside London and what the different sectors look like, integrating that information is a hard job and I am not totally sure that we are in a great position to do that at the moment.

Q66 **Chair:** One of the things that the commission recommended was a universal basic infrastructure. Can you explain what that is and how that would help, in your view, boost productivity and contribute to our industrial strategy?

Professor Jones: Yes. This was really our answer to the question about what does this do for Anglesey or Louth or the different types of places. The title was coined by Diane Coyle; it is her term. She wrote a very convincing piece about it in the *FT* a while ago and, in a sense, UBI is a play on "universal basic income". The philosophical underpinning was that we should not be saying everyone has a right to a universal basic income, but everybody ought to be in a position to make a living, if you see what I mean. Everybody ought to have the basic requirements to be able to create a productive business. This is connected with technical discussions that you probably should ask Diane about rather than me, about the nature of investment appraisals and how you do those investment appraisals for making infrastructure decisions. The simple answer is that we think, across the country, wherever you are, if you are in a coastal town or a deindustrialised former industrial area, you should have access to hard and soft infrastructure. Broadband is a particularly important one, but also the availability of skills training would allow you to, for example, create a productive business.

Chair: It is a very appealing concept. We did ask Diane Coyle to give evidence in the earlier session today. She was not available, but she said that she would be happy to come and give evidence as part of this inquiry. She has some interesting things to say about these issues.

Q67 **Rachel Maclean:** I have lived and worked in Birmingham and that region all my career and I have a memory of Advantage West Midlands, which was a previous attempt at regional development, which was spectacularly unsuccessful in the wide-ranging opinion of civic leaders, politicians, businesses and anybody who has any knowledge of the city and its economy. Given that something like £750,000 was spent to create one job—that sort of level of failure—do you think the Government can create a regional development zone or area that works and delivers?

Professor Jones: The question is about what the right unit is. City regions are probably the right unit rather than wider regions, so the starting place is that is probably the right geography. In terms of the structure you have, we have been through this phase of having local enterprise partnerships. Rather than saying which of those have been successful or not successful, stepping back, more generally, what do you need to make those things a success? You need democratic legitimacy and that was the problem with the RDAs, because without democratic legitimacy you cannot really make proper decisions that you can get to stick; you cannot make hard decisions that will upset people. That is the first point.

The second point is capacity. You need to have the kind of expertise that we were talking about earlier in terms of genuine knowledge of what the local economy looks like and how that fits into a national scene, so that is about capacity. You then need some instruments and some levers to pull.

In designing regional structures that is what you need. Again, I am the physicist on this thing, so it is my colleagues who are better able to answer the questions about institutions and organisations, but with the success of elected mayors it looks like they were a good idea, and I wish South Yorkshire would get its act together.

Q68 **Mark Pawsey:** My question follows on from Rachel MacLean's in terms of government intervention. One of the decisions in 2010 was to proceed with the Catapult centres. The Manufacturing Technology Centre is in my constituency, so I declare an interest. Is that not an example of picking winners? We have picked sectors that we are going to steer some investment into, really to deal with this problem that we are great at innovating—and we have done that through academic institutions such as yours—but have not been very effective at getting a commercial advantage from that. Are they working? Is it too early to say?

Professor Jones: I have a stake here, because Sheffield has the Advanced Manufacturing Research Centre, which is part of the High Value Manufacturing Catapult. I think that has been an enormous success.

Q69 **Mark Pawsey:** Can we point to commercial successes, and things that would not have happened without them?

Professor Jones: Yes. If you get Boeing saying, "We are putting our first manufacturing facility outside the USA in Sheffield because this facility gives us access to innovation and skills that we would not otherwise have", that is a success. The resurgence of JLR has come about because of Warwick Manufacturing Group. These are very positive successes.

Catapults are very different creatures. It is wrong to think of Catapults as necessarily just taking stuff from universities and putting it out into the world. That is a wrong view about how that kind of technology transfer works. It is about getting people together, getting people to share problems and coupling that with skills at all levels. At AMRC, we have many hundred apprentices with apprentice programmes developed with local employers. It is coupling together innovation and skills and recognising that this is a very important place, which is not about academic research, where the Government do have a role in bringing companies together and supporting that.

With the Catapults, there is an interesting issue about how consistency of approach is not something that we always see. Catapults came from Innovate UK. Innovate UK is also a good agency. It has been underfunded but it is good. We have seen these things. They arrive, and when the new Conservative Government came in, in 2015, they were out of favour again. With the change of Minister, suddenly people were keen on Innovate UK again. We have these constant changes and it is not helpful.

The High Value Manufacturing Catapult looks like it is a great success, which it is, and, to some extent, that comes because it built on pre-existing things; both at Warwick and Sheffield there was an existing infrastructure that that was built out of. People think the Cell and Gene Therapy Catapult is going pretty well. Some of the others have not got going very quickly, but it is going to take time.

Chair: We are visiting the Advanced Manufacturing Research Centre in Sheffield on 19 March. We have a lot to learn from that visit, so thank you for the plug.

Q70 **Antoinette Sandbach:** How relevant will the current strategy be after the UK leaves the EU?

Professor Jones: The fact that we will leave the EU means that the need for a strategy is much more urgent. You are not interested in my view about whether it is a good idea or not if we leave the EU. I will merely say that the kind of economy that people are talking about will necessarily be a different economy from the one that we have had, because the economy has grown used to a particular set of conditions.

Q71 **Antoinette Sandbach:** Can I ask what kind of differences you see? Do you see regulatory differences or state aid differences?

Professor Jones: I do not really know, because I do not know where we are going, but it is clear from the companies that, say, talk to AMRC, that these are companies that are embedded in international supply chains, which have got used to a particular regime for stuff flowing backwards and forwards. On the one hand, how individual sectors operate is going to need to change in ways that we do not understand yet, because we do not know where we are going.

Leaving the EU will put a big spotlight on our trading performance. As you know, our trading performance has been very poor for some time. One can make very optimistic statements about being a global trading nation, but if you are not making anything that anybody wants to buy, you are going to be somewhat found out.

There is an issue about manufacturing versus services. If one is looking for markets that are further away, services are going to be more difficult to trade, so that is a possible argument for more focus on manufacturing.

To go back to my comfort zone of science and innovation, the UK's science base has benefited enormously from collaboration with Europe. In terms of people, our universities are absolutely full of researchers: brilliant, bright people, at all levels, from Europe, who have found the UK a very attractive environment for doing science, so there is a people dimension to it about making sure that that internationalism is maintained. There is the European funding mechanism. I was in

Brussels a few weeks ago for a European Research Council meeting, and it is clear the UK has been enormously successful in the European Research Council. That is particularly important because it is very competitive.

Coming back to talking about competition, competition drives up standards. UK science is better because we compete in this larger environment and our proposals are judged against the best proposals from the whole of Europe. It is very important and it is far from out of the question—in fact, it is Government policy—that we ought to try to stay in those European institutions as much as possible, and we should. It would be a great danger to us if that did not happen.

Chair: Thank you very much, Professor Jones, for coming to give evidence to us today and for the work that the Industrial Strategy Commission is doing. We wish you safe journey back to Sheffield.