

Thinking Business in Policy: an interim report



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We will work closely with the Devolved Administrations in Northern Ireland, Scotland and Wales, recognising their particular and varying responsibilities. While some of the policies in this paper are specific to England, the challenges are common across the four countries of the United Kingdom. Each will consider the most appropriate arrangements in those areas for which they have devolved responsibility, to address the issues in ways that meet their own circumstances and needs.

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Introduction

- 1.1** In April the Government published *New Industry, New Jobs*, where it committed to take ‘a more strategic approach to Government’s role as a market shaper’. The paper set out the need for Government to understand better how it influences markets with a view to capturing the economic and commercial benefits that can be realised when Government sends clear signals of its strategic intentions.
- 1.2** *New Industry, New Jobs* recognised that to achieve this, there need to be processes and a culture within departments that consider wider industrial opportunities of Government action. The Government committed to taking action to ‘ensure the consideration of business opportunities is part of every department’s policy-making, starting with pilots in selected key areas’. This paper sets out the progress to date and the next steps. It also indicates how we will engage with business and representative bodies to gauge their views on how this process could be conducted.

Policy needs to be developed in the light of its impact on business and facilitate business opportunities

- 1.3** Government intervenes in markets to achieve policy goals and correct market failures. The way it intervenes can have intended and unintended consequences. These actions can affect the way markets operate, and both positively and negatively impact on business. Where policy-makers recognise this, Government can advance policy that creates business opportunities and captures value for the economy.
- 1.4** It is important policy-makers understand the impacts they can have on markets through regulation, procurement and information provision. Some interventions may lead to consequences that create burdens for businesses across a range of markets, or incentivise behaviour that does not support policy objectives.
- 1.5** Departments should, as a matter of good practice, consult with a range of stakeholders when developing policies to develop a more rigorous evidence base that can, in turn, inform impact assessments, already a core part of the policy-making process. But it is often difficult to assess some of the benefits and costs of policies, particularly on aspects of the supply chain that are one or more stages removed from the immediate impact of the policy.

- 1.6** The Government believes that by engaging better with business, and developing a better understanding of supply chains, a more complete understanding of the costs and opportunities created by policy choices would be achievable. In particular, Government is keen to understand how better supply chain analysis can help policy-makers identify economic opportunities that might flow from certain policy choices.
- 1.7** To assess what this might mean in practice, the Government has launched four pilot projects across departments. The pilots are covered in more detail in the next section. Section 3 sets out the next steps the Government will take.

The Pilots – Demonstrating the Impact

Trialling a new approach across Government

- 2.1** Business opportunities can arise where Government action in a particular policy creates a set of circumstances for increased economic growth opportunities for a certain sector or sectors of the economy. This may require additional action, such as the removal of barriers, additional investment or the effective provision of information from Government to ensure these opportunities can be realised.
- 2.2** There are currently four pilot projects, on Rail, Waste, Housing and Digital Communications. These cover important sectors of the economy; procurement, regulation and target setting interventions; commercial and social welfare policy issues; and a cross-section of Government departments. Each is assessing the impact of policies on businesses and identifying business opportunities.

Supply chain analysis in the pilots

- 2.3** Understanding supply chains as part of the policy-making process can be a useful approach to identify where and how to act within markets for the benefit of the economy and to capture business opportunities.
- 2.4** Supply chain analysis is the systematic mapping and analysis of the physical commercial and cost linkages that exist between businesses. It aims to identify the opportunities and barriers created by Government policy decisions or actions connected to a particular policy. These chains can be confined to a particular sector in a specific geographic location or divided between different sectors spanning across different regions.
- 2.5** To assess the impact of policies on business and identifying business opportunities, the pilots are incorporating supply chain analysis in the policy-making process. It should provide:
- A wider and deeper assessment of the policy options open to Government;
 - A clearer view of the capability in the UK to take advantage of new commercial opportunities created by Government;
 - A better understanding of the barriers companies face in supply chains; and
 - A more complete understanding of the policy delivery implications of different choices.

- 2.6** Effective supply chain analysis is challenging – supply chains are multi-dimensional and ever-evolving. Policy-makers do not have robust guidance to do this analysis. As such, existing supply chain analysis can be inconsistent or not conducted in a timely way. Where the analysis has been undertaken, it can provide a useful tool to guide Government intervention, as shown in the nuclear power industry.

Nuclear power case study

One of the active steps the Government is taking to facilitate the construction of new nuclear power stations by energy companies is to work with industry and other stakeholders to develop the supply chain and skills required to support new build.

Initial analysis of the UK supply chain quickly uncovered some key areas for action in the UK, particularly in developing the capabilities required for companies in the manufacturing sector to supply the nuclear industry and the availability of skilled workers across the supply chain.

This analysis was carried out at an early enough stage in the policy cycle so that the Government could start to take measures that would address some of the major gaps and barriers to establishing UK capability.

For example:

- Funding of £15 million was announced in the Low Carbon Industrial Strategy to establish a Nuclear Advanced Manufacturing Research Centre that combines the knowledge and expertise of industry and the research community to ensure manufacturers in the UK are able to develop in a short period of time the skills and capacity required to compete in the industry.
- The Manufacturing Advisory Service has also been strengthened to provide support for potential British-based suppliers for the civil nuclear industry and Government is supporting the trade bodies in delivering programmes to promote business opportunities within the nuclear supply chain.
- The Office of Nuclear Development is working with the National Skills Academy for Nuclear, the relevant sector skills councils, the Engineering Construction Industry Training Board (ECITB) and a range of business stakeholders to develop and improve nuclear skills and capabilities.

- 2.7** The pilots will also look to identify where there are capability gaps in the supply chain that might be addressed through Government action – for instance through targeted investment in skills and training to support a particular sector as in the nuclear case study. The pilots will also consider whether supply chain analysis is more appropriate for commercial outcomes, such as procurement, or if it can also help deliver better outcomes where the Government is making choices around regulation and target setting.

Testing the approach in procurement

- 2.8** With annual expenditure of £220bn on procurement, Government has a profound effect on markets. Good market management centres on engagement at the pre-commercial stage before procurement starts. When it manages relations well – adopting a systematic approach and signalling needs – suppliers can plan to respond and achieve value for money. Two pilots will explore how the approach works where procurement plays a significant role.

Box 1. Department for Transport – Rail Pilot

Over the last ten years, UK rail freight and passenger traffic has grown by 40 per cent; growth is expected to continue. The Government has already committed to investing £15bn over the next six years in developing the network. In addition to this, the Government has an ambitious forward programme of investment covering electrification and the potential development of new high-speed rail infrastructure. Against this backdrop of significant investment and future procurement, the pilot will look at the potential business opportunities within the rail supply chain, looking in particular at commercial opportunities that could be created by potential investment in electrification and a new high-speed rail network.

Box 2. Department for Business, Innovation and Skills – Digital Communication Pilot

The Government has already committed to ensuring that homes and businesses across the entire country are able to access a broadband connection capable of delivering 2Mbps. The Department for Business will both look at the potential business opportunities in the existing broadband supply chain and how capability to support Next Generation broadband could be developed and supported. This pilot will look at future technology options and the opportunities for UK companies – from technology developers to content creators – to innovate and take advantage of the opportunities offered by this major investment in the nation's infrastructure.

Testing the approach in regulated markets

- 2.9** Good regulation plays an important role in making Britain a prosperous society by helping markets function efficiently and fairly. Regulation, however, can create costs that hold back businesses, and can stifle innovation or lead to unintended consequences.

2.10 The Government, through the Better Regulation Executive, is already working to improve the regulatory environment by promoting good regulatory design and prioritisation: making life as simple as possible for everyone. The Government is on track to deliver £3.3bn net annual savings to businesses on administrative burdens.

2.11 When the Government decides it is necessary to regulate, business opportunities may be created through demand for goods or services. A pilot on the waste sector is looking at how DEFRA can ensure that the regulatory choices it makes work with markets wherever possible, and how DEFRA can support new entrants into the waste market to create sustainable long-term opportunities that firms are able to benefit from.

Box 3. Department for the Environment, Food and Rural Affairs – Waste Pilot

The UK produces around 434 million tonnes of waste every year and the waste management sector, currently worth around £8bn, is likely to increase dramatically as the UK focuses on greater resource efficiency. The pilot will identify new business opportunities that can transform the waste and materials markets to deliver both economic and environmental benefits that now might be created by different policy choices.

Testing the approach in markets with Government targets

2.12 Government can achieve policy objectives by shaping markets through the targets it sets. These targets send a signal to the market about where Government will act to achieve policy goals. Such signals can provide markets with better information on which to base investment decisions, which may encourage new entrants.

2.13 New firms often bring with them new ideas and better, more efficient ways of producing goods. They also create incentives for existing firms to improve their performance and develop their products and avoid losing market share and being forced to exit the market. The housing pilot will investigate the market barriers that prevent firms entering the sector, aiming to develop policy to help reduce these barriers. It will also consider the barriers to innovation that may constrain the Government's ability to meet its low carbon housing targets.

Box 4. Department for Communities and Local Government – Housing Pilot

A well-functioning and strong house building construction sector in the UK is crucial to meet the growing demand for housing. It is estimated that the number of individual households in England will increase to 27.8 million, an increase of 6.3 million by 2031 on 2006 figures. This change will create pressure on the existing housing stock. The Government has already set stretching targets to increase housing supply, with an additional 240,000 high quality and energy efficient homes to be built each year between now and 2016. The recession has had a significant impact on the housing construction industry and the sector faces significant challenges. The pilot will investigate business opportunities arising from the need to increase housing supply while enhancing the environmental performance of new homes. It will assess the drivers of housing growth and the steps Government and the industry could take to overcome any barriers to achieving greater diversity and innovation in the sector.

- 2.14** Based on the pilots, Government will develop guidance for policy-makers by spring 2010 on how to conduct timely and appropriate supply chain analysis as part of the policy-making process.

Business engagement in the pilots

- 2.15** Creating and supporting effective business engagement has benefits. The diversity of the business expertise is a resource for policy-makers – business stakeholders are adept at spotting unintended policy consequences. Bringing diverse perspectives together as part of the policy-making process can promote creativity and innovation.
- 2.16** There have been recent moves to strengthen engagement between business and policy-makers but there are still improvements that can be made. The Whitehall and Industry Group, an independent, non-political organisation, recently published a report *Closing the Gap*¹, that showed Government and business communications have improved greatly over the last 25 years. The Government will respond to the proposals from *Closing the Gap*.
- 2.17** The pilots will explore how departments can engage with business earlier and more effectively to ensure that policy is shaped by a better understanding of both current and potential future capabilities that exist in the UK supply chain. Over the coming months, working within Government and with businesses, there will be efforts to understand the areas for improving Government and business engagement through the kind of discussion topics set out in Appendix A. The work will extend existing best practice, address some of the key barriers and make recommendations.

1 http://www.wig.co.uk/aboutus/press_gallery/ClosingTheGap.htm

Next Steps

- 3.1** During the coming months, Government will make progress in the following areas:
- **Pilots** – run a programme of pilots to assess the impact of policy on business and identify business opportunities, testing the approach both with businesses and representative bodies. The outcome will be a policy-making approach to use across Government to ensure policy is formulated in a more effective way;
 - **Supply chain analysis** – as part of the pilots, develop options for a roll-out of a methodology for policy-makers to understand the impact they have on business supply chains; and
 - **Business engagement** – a programme of dialogue to ensure business and Government are working together to deliver this framework of change, underpinned by evidence collated during the coming months. A best practice guide will be produced as a result of this work.
- 3.2** Implementing this across Government, however, will be a significant challenge. It is clear that this will not happen simply by developing a process for assessing business opportunities. It will ultimately require a change in the mindset of policy-makers across Government. Alongside testing the policy-making methodology and business engagement approaches, the pilots will inform considerations about what may be needed to enable change to take place across Government.
- 3.3** Government recognises the challenges entailed in this approach and intends to engage with businesses and representative bodies to gain views on both the content and objectives of this work. It welcomes feedback on this by email to thinkingbusiness@bis.gsi.gov.uk.
- 3.4** Next spring, further consideration will be given to what is required to support the changes that are needed and ensure departments produce policies that consider the impact on businesses and support business opportunities. The pilots, underpinned by both supply chain analysis and business engagement, will be a step in achieving this.

Next steps for *Thinking Business in Policy*

The pilots – demonstrating the impact	
<p>As part of the <i>New Industry, New Jobs</i> agenda, the Government is running pilots to understand better how policy can impact businesses and identify business opportunities with a view to rolling-out such a process across Government. Government will publish the lessons learned in spring 2010.</p>	
Supply chain analysis – an approach to policy-making	Better business engagement – collaboration in policy
<p>To understand policy impact, Government needs a thorough understanding of the environment in which business operates, including their supply chains.</p> <p>It will publish guidance for policy-makers for analysing supply chains effectively in spring 2010.</p> <p>The outcome will be a broader and deeper understanding of the markets businesses operate in, and therefore a wider and more robust set of policy options.</p>	<p>Working with businesses, Government will seek to understand areas for improving engagement with business.</p> <p>The work will build on existing best practice, address some of the key barriers, and make practical recommendations on better business engagement in spring 2010.</p> <p>The outcome will be more effective engagement with business in the policy-making process.</p>

Business Engagement Questions

Effects on business

1. How can Government better know what effects policies are having on business?
2. What information would you want policy-makers to better understand about the potential impacts of their actions on business?

Business-Government engagement

3. What are the key barriers that prevent businesses becoming more involved in the policy-making process?
4. Where businesses are already working with Government on policy formulation, what makes this work well and what hinders their involvement?

Skills and knowledge

5. How can skills and knowledge be better shared between policy-makers, between Government departments and businesses?

