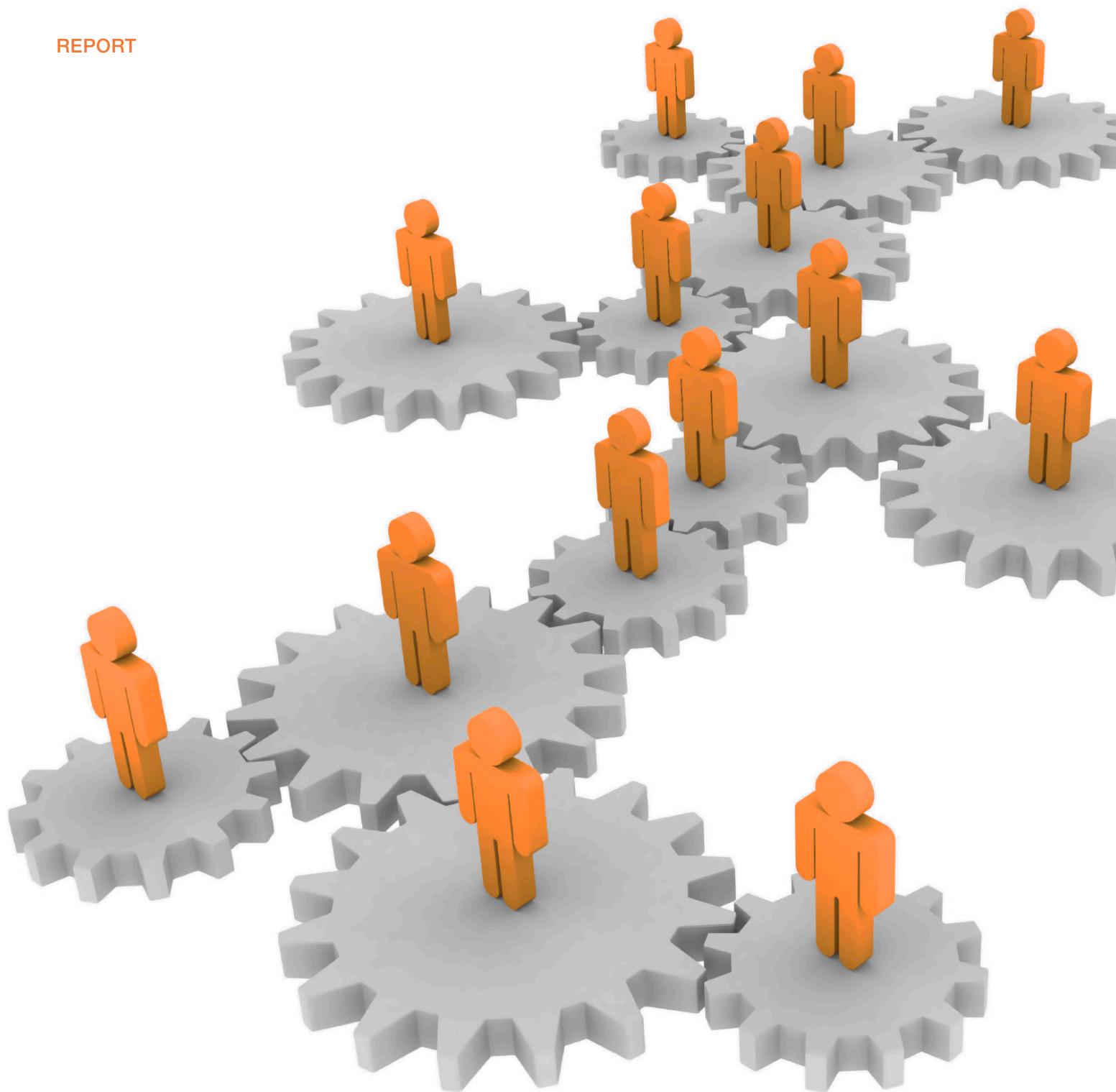


REPORT



Ed Cox
and Luke Raikes

September 2015
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RHETORIC TO REALITY

A BUSINESS AGENDA FOR
THE NORTHERN POWERHOUSE

ABOUT IPPR NORTH

IPPR North is IPPR's dedicated thinktank for the North of England. With its head office in Manchester and representatives in Newcastle, IPPR North's research, together with our stimulating and varied events programme, seeks to produce innovative policy ideas for fair, democratic and sustainable communities across the North of England.

IPPR North specialises in regional economics, localism and community policy. Our approach is collaborative and we benefit from extensive sub-national networks, regional associates, and a strong track record of engaging with policymakers at regional, sub-regional and local levels.

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POSITIVE IDEAS
for CHANGE

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FOREWORD

The north of England was once the economic powerhouse of Britain, and I believe it can be again. Each of the regions and major cities which make up the North retain huge economic strength, as well as a history, culture and quality of life which make them the envy of the world. But in our changing world size really does matter. Megacities of 10 million will become commonplace. Cities and regions will thrive only if they can attract a huge diversity of people into a melting pot of talent – developing ideas, innovating in the production of goods, inventing new services, leading the knowledge economy. Our north of England will be in the premier league of global economies, but only if it looks, feels, operates and believes it is ‘one economy, one north’.

That is why the ‘northern powerhouse’ concept is so important. Today it is a political idea, gradually taking shape through political institutions, and I am delighted that both national and local political leaders are showing that leadership. But many of those I speak to in the business community are unclear what it is all about and sceptical as to what tangible impact it might have. That is why KPMG has teamed up with IPPR North to start to look at the northern powerhouse through the eyes of business; to start to answer the questions, what would business like to see happen and what might it mean for business if the northern powerhouse were to exist?

I think business should be at the heart of the northern powerhouse, working closely with our political leaders to set the agenda and determine the priorities. We need the business communities of the North to come together and speak with one voice, to work together to make the North great again.

Richard Threlfall

Partner, UK Head – Infrastructure, Building and Construction, KPMG

SUMMARY

The state of the North

The cities and regions that make up the north of England have some huge economic strengths.

- The economy of the three northern regions – North West, North East, and Yorkshire and the Humber – is worth £289 billion.¹ This is twice the size of Scotland's, and bigger than all the devolved nations' economies combined. If it were a national economy, the north of England would rank as tenth largest in the EU.
- The economies of the five biggest cities² together grew by 38.8 per cent in the 10 years to 2013 – more than the UK outside London (38.3 per cent). Their populations grew by over half a million (5.4 per cent) in the 10 years to 2014, which is more than live in the city of Manchester.³
- Northern ports and airports exported goods worth £55.2 billion in 2014, and imported goods worth £54.2 billion.
- In the last year, the rate of job creation in areas such as North Eastern (4.8 per cent) and Leeds City Region (4.0 per cent) was more than double the national rate of 1.9 per cent (which is matched by the North as a whole).

And yet the north of England continues to underperform relative to the world's most successful economic regions. The north has grown more slowly than all but one EU country in the past 10 years and northern labour productivity is lagging, at £26.88 per hour compared to £30.05 per hour nationally.

One of the main explanations for this underperformance is that the region has failed to properly 'invest in success'.

- **Infrastructure:** The north has seen underinvestment in transport for many years. Expenditure per head on transport capital in the North was £166 in 2013/14, which is half that in London (£332) and less than the average spend across UK regions (£189).⁴ As a proportion of gross value added (GVA), this investment level has remained relatively static in recent years, and is part of a long-term pattern of underinvestment in infrastructure in the UK compared to other similar countries (OECD 2015). Looking to the future, the national infrastructure pipeline shows that London and the South East will continue to swallow up the lion's share of transport investment.
- **Connectivity:** Underinvestment in transport connectivity is all the more significant because it means the north of England cannot behave as a single economy and develop the strengths of many similar metro-regions across the world. Separate cities and separate regions cannot build up the economic scale and weight that would allow them to compete in a global economy.
- **Skills:** Qualification levels tend to be lower in the north of England than nationally, which acts as a drag on economic growth. OECD research has indicated that raising the skill levels of the lowest-skilled is top priority for the North (OECD 2012). This is especially important because it is projected that in

1 In gross value added (GVA), which is similar to GDP at a regional level, in 2013 (presented in nominal terms as is standard).

2 That is, the LEP areas of Leeds, Liverpool, Manchester, Newcastle and Sheffield.

3 Although not in the larger Greater Manchester city-region.

4 This includes only projects which are assigned to particular regions, excluding for example all England-wide projects.

the 10 years to 2022 well over half of new jobs created in the North (57.9 per cent) will require a qualification at level 3 or above, with only one in 20 new jobs (5.9 per cent) requiring no qualifications at all (UKCES 2014).

Figure S1

London will continue to attract the lion's share of transport investment

National infrastructure expenditure on transport per head in real terms from 2015/16



Source: HM Treasury, 'National Infrastructure Pipeline: July 15 update' (HMT 2015a)

Measuring the potential power of the northern powerhouse

The idea of the 'northern powerhouse' has captured the national imagination in a way that is rare for political policymaking. In part this is because it rests on several years of research and lobbying about growing regional economic disparities; in part, because it has captured the international zeitgeist for city-led economic development. Nonetheless, the prospects for its long-term success rest not on its political salience but on its potential to generate genuine economic prosperity for its businesses and citizens.

In this paper, we seek to assess the northern powerhouse from the perspective of business. We take a hard-nosed look at the facts and figures, and examine current government policy and its potential for driving further change. In both cases – despite some significant challenges ahead – it shows that many of the conditions are in place for the northern economy to experience a period of economic growth at a scale not seen since the Victorian era of grand municipal development.

Far from giving businesses cause for despair, our analysis reveals the potential that could be derived from properly directed investment and change.

- If the North had matched the national increase in economic output per head since 2003 then its economy would be £5 billion (1.8 per cent) bigger today.
- If the North was able to halve the gap between its own economic output per head and the national level then its economy would be £34 billion (11.9 per cent) bigger.
- If the North could reverse its net outflow of people to other regions then, by 2030, its population would be 264,000 (1.6 per cent) higher than is currently forecast.⁵
- There are 40 per cent fewer commuter journeys between Leeds and Manchester than there should be, given their physical proximity. A 20-minute reduction in the time this journey takes could increase wages by as much as 2.7 per cent.⁶
- Productivity gains arising from the HS2 high-speed rail investment could be worth £2.1–3.2 billion per annum in the north of England by 2037.
- If the government invested the same proportion of its total research and development spending in the North as businesses do then it would spend £179 million more than it does now, or more than twice as much (112.8 per cent).

Delivering on this potential

Business has a key role to play in driving the changes required to capitalise on this potential. The relationship between city authorities and businesses and the way these organisations learn from one another are key dynamics in a prosperous modern economy. In 2010, government established local enterprise partnerships (LEPs) as business-led bodies to coordinate economic policy more effectively from a business perspective, but these have varied in their form and effectiveness.

For businesses to flourish the right economic conditions need to be in place. Research conducted by the OECD, IPPR North and a number of other credible sources shows that there are four key drivers of growth, each of which is widely recognised by the business community as being critical to their success,⁷ and each of which has gained increasing attention from central government. One thing that these four drivers have in common is the decentralisation of decision-making, so that cities and regions are able to shape their own economic destinies.⁸

Four key drivers of growth in the northern economy

1. **Infrastructure and connectivity:** High-performing regions tend to have better infrastructure and connectivity to global markets, but for decades the north of England has lacked the necessary levels of investment in its road, rail, ports and airports. This is beginning to change. The Transport for the North partnership is bringing forward a northern transport strategy with clear plans for capital investment, alongside government plans for transport devolution to the city-regions. But much more ambitious plans need to be developed and driven forward if connectivity levels in the North are to approach those of London or other major conurbations, such as the Randstadt in the Netherlands.
2. **Human capital:** Educational attainment and labour market performance are critical drivers of regional economic growth. Crucially, skills systems need to be driven by local labour market needs. Increased local powers over skills and employment policy has been a feature of many of the devolution deals already

5 Without factoring in births and deaths.

6 Nearly all of this is due to the theoretical impact this would have on the composition of the workforce.

7 See for example Cox and Hunter 2015.

8 This issue has been rising up the business agenda – see Cridland 2015, FSB 2015.

struck by government, with Greater Manchester leading the way in pioneering new approaches to adult skills, apprenticeships and the Work Programme.

3. **Innovation and business support:** Driving up productivity requires a positive business environment in which innovation and entrepreneurship can flourish. Innovation and R&D feature significantly in government policy, with new 'catapult centres' designed to commercialise new technologies and the devolution of business support in some of the recent city deals. However, more needs to be done to decentralise R&D expenditure, which for now remains heavily concentrated within the south of England's 'golden triangle'.
4. **Leadership and policy development:** While there is no perfect model of governance or rubric for success, it is clear that stable, integrated and coordinated economic governance and policymaking is critical. The previous Coalition government made significant steps in this regard, establishing combined authorities and LEPs as the principal institutions for driving change and carving out city deals, growth deals and devolution deals that passed powers into the hands of more local decision-makers. In this parliament, the Cities and Local Government Devolution Bill represents a further opportunity to build the leadership, autonomy and collaboration cities and counties require.

Beyond these four key drivers, business leadership is also critical. Few LEPs are constituted in such a way as to be able to take on the necessary powers or to integrate policymaking with their constituent authorities. Also, LEPs have tended to include representatives only of larger businesses, and have rarely shown a desire to 'reach out'.⁹ For this reason, the focus at the subregional level is likely to remain on combined authorities and the different ways that they engage with businesses and business associations.

However, there is a further question as to how businesses can or should engage across the wider geography of the North, particularly in relation to issues of connectivity, infrastructure, innovation and inward investment, which often require strategic planning at a higher, 'mezzanine' level. At present there are very few bodies that exist at this pan-northern level – and none representing business.¹⁰

In London, by contrast, businesses have been well represented by London First – a not-for-profit business membership organisation with a significant secretariat that represents the capital's leading employers in key sectors such as financial and business services, property, transport, ICT, creative industries, hospitality and retail. Its membership also includes higher education institutions and further education colleges, and it promotes policies in a wide range of fields, including transport, housing and planning, skills and even taxation.¹¹ There is plenty of scope for a similar body to exist in the north of England.

Converting the rhetoric: three key ingredients of a real northern powerhouse

IPPR North has long argued that northern prosperity is national prosperity.¹² In this light, there are three elements required to ensure that the northern powerhouse rhetoric is converted into northern – and national – economic prosperity: **investment, leadership and urgency.**

Lack of investment has inhibited economic prospects in the North, not least in the realm of transport infrastructure. We have seen in London and overseas

9 See Cox et al 2014a.

10 Although a few large businesses do have operational teams which span the north of England and many individual firms work primarily across the North.

11 See <http://londonfirst.co.uk/>

12 See IPPR North and NEFC 2012.

how public investment can be the trigger for private investment, which in turn generates business confidence and wider investment in skills, R&D and business growth. In the North, this virtuous cycle – once it is unleashed – would generate widespread returns for business, government and northern citizens. So far, there has been plenty of warm rhetoric and some modest funding for scheme appraisal, but more is required. **The forthcoming spending review must make a step-change in commitment to the north of England, with large-scale government capital spending of up to £50 billion that can be used to leverage even greater private investment.**

This kind of ‘pump-priming’ is not enough – confident investment also requires strong leadership. We have already seen city leaders step up to the plate – not least in Greater Manchester – but business leadership has been critical alongside this public leadership. Business bodies – often through LEPs – are playing a growing role in northern city-regions, but there is wider demand too. **Scope exists for greater business leadership in strategic planning at a pan-northern level, particularly in areas such as transport connectivity.** For example, Transport for the North should develop advisory boards to ensure businesses, alongside other stakeholders, are formally involved.

The final driver of change is urgency. For too long the north of England has been presented as lagging. Policies to narrow regional disparities have largely failed, too often the victims of political caprice in an overcentralised nation. This government has opened a window of opportunity for devolution, and business must seize the chance. Unlike previous initiatives that pursued local economic development by turning on – and off – central government funding, devolution promises much greater levels of local autonomy and direct control over the drivers of change which, once seized, will be much harder for government to take back. **There is an urgent need more detail and more action to support the pan-northern vision – ‘one north, one economy’ – to ensure that business, public and civil sectors are galvanised to act now to sustain the momentum behind devolution and take advantage of this unprecedented window of opportunity.**

Investment, leadership and urgency: these are the key ingredients for turning northern powerhouse rhetoric into national economic prosperity. The momentum is building, the benefits are great – the opportunity is there to be seized.

1.

UNDERSTANDING THE NORTHERN POWERHOUSE

Over the past 15 months, chancellor George Osborne has put the idea of the northern powerhouse at the forefront of efforts to rebalance the national economy. He first articulated the idea in a speech in Manchester in June 2014:

'The cities of the North are individually strong, but collectively not strong enough. The whole is less than the sum of its parts. So the powerhouse of London dominates more and more. And that's not healthy for our economy. It's not good for our country. We need a northern powerhouse too.'

'Not one city, but a collection of northern cities – sufficiently close to each other that combined they can take on the world. Able to provide jobs and opportunities and security to the many, many people who live here, and for whom this is all about. You know, if you brought together the best players from each of the Premiership teams in the North, you'd have a team that would wipe the floor with any competition. We need to bring the cities of the North together as a team – that's how Britain will beat the rest.'

Osborne 2014a

In subsequent speeches Osborne has elaborated on these ideas, with particular emphasis on the importance of investment in transport and science innovation, and on strong civic leadership.

'I said that if we can bring our northern cities closer together – not physically, or in some artificial political construct – but by providing modern transport connections, supporting great science and our universities here, giving more power and control to civic government; then we can create a northern powerhouse with the size, the population, the political and economic clout, to be as strong as any global city. [...]

'There is a prize that awaits the north of England. If we work together, bring our cities together, invest in future transport and skills and science, we can build a northern powerhouse. The prize is worth fighting for: adding over £56 billion to the economy of the North – in real terms, over £1,600 for each person living here.'

Osborne 2014b

References to the northern powerhouse have also been made in budget and autumn statements, and it was notable that the first speech the chancellor made after the general election was staged in Manchester and centred on devolution to northern cities.

Following the most recent budget, HM Treasury produced a 'productivity plan', *Fixing the Foundations* (HMT 2015b), which includes a crucial chapter setting out a series of commitments concerning 'resurgent cities, a rebalanced economy and a thriving northern powerhouse'. Some of the key proposals in this document include:

- devolving further powers to city-regions that adopt directly elected mayors, including Sheffield, Leeds, Liverpool and the Midlands
- providing a statutory footing for the Transport for the North body

- pushing forward plans to transform east–west rail and road connections via TransNorth, and exploring options for a new trans-Pennine tunnel
- the formation of institutes of technology and a new round of enterprise zones
- bringing forward a 10-point productivity plan for rural areas.

The plan makes clear that the government’s commitment to the northern powerhouse concept is a key plank in its wider ambition to drive up UK productivity and ensure the national economy is a dynamic one.

Behind speeches and policy announcements, the thinking behind the northern powerhouse concept rests on four key ideas:

- The combined ‘economic mass’ of cities in the north of England can act as a significant counterweight to London, reducing the nation’s dependency on the capital city and rebalancing the economy.
- Economic growth in the North will be predicated on the agglomeration effects generated by the biggest cities – particularly focussed on Manchester – and key economic assets in science, technology and other innovation hubs.
- To achieve mass and agglomeration there needs to be much better connectivity within and between cities, which requires significant investment in transport infrastructure.
- Economic growth potential is best unlocked by devolution of key powers and funds to city-regions formed of combined authorities and local enterprise partnerships (LEPs) under the visible and accountable leadership of directly elected ‘metro-mayors’.

The origins of the northern powerhouse

This agenda is certainly not new. Many look back to the Northern Way initiative advocated by then-deputy prime minister John Prescott, which brought together the interests of the three regional development agencies (RDAs) in a series of ‘programmes’ on transport, investment, housing and other pan-northern concerns (see SQW 2011).

In advance of the abolition of the RDAs in March 2012, IPPR North established the Northern Economic Futures Commission, which published its final report, *Northern prosperity is national prosperity*, in November that year. This report called for ‘a paradigm shift in our national economic thinking which re-evaluates the significance of the north of England in relation to the national economic interest’. It set out a series of propositions about the northern economy and made over 30 recommendations, many of which have subsequently been woven into the government’s programme (see IPPR North and NEFC 2012a).

Since then there have been a number of other reports which have promoted the importance of city growth and devolution. These include:

- *No Stone Unturned in Pursuit of Growth*, by Lord Heseltine (2012)
- *Competitive Cities, Prosperous People*, by the Core Cities Group (2013)
- The publications of the City Growth Commission, including its final report, *Unleashing Metro Growth* (2014)
- *HS2 Plus*, a review of progress made in the HS2 high-speed rail infrastructure project, by its chairman, David Higgins (2014)
- ResPublica’s report *Devo Max – Devo Manc*, which proposed a plan to give Greater Manchester greater control of its finances and an elected mayor (Blond and Morrin 2014)
- *Northern powerhouse: One Agenda, One Economy, One North*, by the Transport for the North Partnership Board (March 2015)

While there are differences in emphasis and in terms of the specific recommendations in these different reports, there has been remarkable consensus and consistency in the core message: devolution to cities and economic prosperity in the north of England go hand in hand.

2. THE STRENGTHS AND WEAKNESSES OF THE NORTHERN ECONOMY

Behind all the rhetoric and macro concepts like agglomeration and decentralisation, there lie some critical realities about the northern economy and its prospects for growth. Historically, economic conditions in the north of England have been presented rather negatively. Now, however, there is a growing sense that the growth potential in the North is far greater than hitherto recognised. Many northern businesses already recognise this – indeed, many are flourishing – but too many others are experiencing weak productivity and failing to maximise their potential.

A survey of existing data on the North and its economy paints a picture of its strengths and assets – and some critical challenges.

Key economic assets

Size matters ...

- The north's economy is worth £289 billion in gross value added (GVA),¹³ equivalent to 18.9 per cent of the national economy (ONS 2014a).
- Its economy is more than twice the size of Scotland's, and is much bigger than all of the devolved nations' economies combined. If it were a national economy, the north of England would rank as tenth largest in the EU (Eurostat 2015a).¹⁴
- In 2014, more than 1 million northern businesses employed 5 million people, achieved £556 billion in turnover, and generated £111 billion in gross operating surplus¹⁵ (ONS 2015a, 2014a).

Cities matter ...

- Cities make up the largest part of the northern economy. The economies of the five biggest cities¹⁶ together grew by 38.8 per cent in the 10 years to 2013 – exceeding both the northern average (36.5 per cent) and the UK outside London (38.3 per cent) (ONS 2015b).
- The biggest city-regional economies are Leeds City Region (21.0 per cent of northern output), Greater Manchester (19.5 per cent) and Merseyside (9.4 per cent) (ibid).
- The population of these five core cities grew by 569,400 (5.4 per cent) in the 10 years to 2014, which is more than live in the city of Manchester (ONS 2014b).¹⁷

The north has other assets too...

- There are 29 universities (of which 7 are members of the prestigious Russell Group), which together are educating 521,000 students (17.1 per cent from abroad) and produce 78,000 new graduates each year (HESA 2015).

¹³ GVA is similar to GDP at a regional level; data is for 2013 (presented in nominal terms as is standard).

¹⁴ Figures are for 2013.

¹⁵ 2013 figure; this is the sum of self-employment income, gross trading profits and surpluses, non-market capital consumption and rental income, less holding gains.

¹⁶ Leeds, Liverpool, Manchester, Newcastle and Sheffield.

¹⁷ Although not in the larger Greater Manchester city-region.

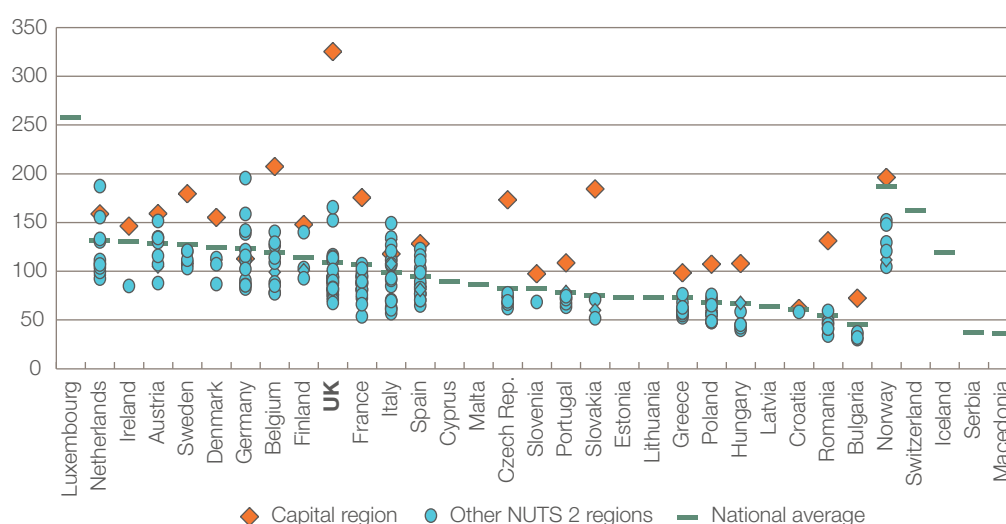
- Eight major ports – including Grimsby and Immingham, Tees and Hartlepool, Liverpool and Tyne – underpin the North's strong contribution to the national balance of trade in goods.
- International airport connectivity is good and improving, with 35 million passengers per year passing through northern airports. Manchester Airport caters for 22 million of these, making it the UK's third largest airport in terms of passenger numbers (CAA 2015).
- A strong tourism economy attracts 4.4 million visitors per year – more than a quarter of whom (26.9 per cent) visited Greater Manchester (Visit Britain 2015).
- The north has a strong base of natural assets. For example, 4.6 per cent of land is developed and vacant or derelict, compared to just 1.7 per cent in the South East (BIS 2011a), and the North generates 21.1 per cent of the UK's electricity from renewable sources (DECC 2014).

Critical challenge: productivity

- Productivity¹⁸ in the UK is roughly a quarter to a third (23–32 per cent) lower than in comparable countries such as Germany, France, the Netherlands and Belgium; and 17 per cent below where it would have been projected before the financial crash (Dolphin and Hatfield 2015).¹⁹
- Within the UK there is a stark disparity between the most productive and least productive areas, ranging from Inner London West, where GVA per hour worked is £44.10, to Powys in Wales, where the equivalent figure is just £18.67 (ONS 2015c).
- While it is common for capital or major cities within countries to outperform other regions, in the UK this imbalance is without parallel in Europe, as figure 2.1 shows (Eurostat 2015a).

Figure 2.1

The economic imbalance within the UK is unmatched anywhere else in Europe
Regional disparities in gross domestic product (GDP) per inhabitant, in purchasing power standard (PPS), by NUTS 2 regions, 2011



Source: Eurostat, 'Statistics explained: GDP at regional level' (Eurostat 2015a)

¹⁸ Understood in terms of output per hour worked.

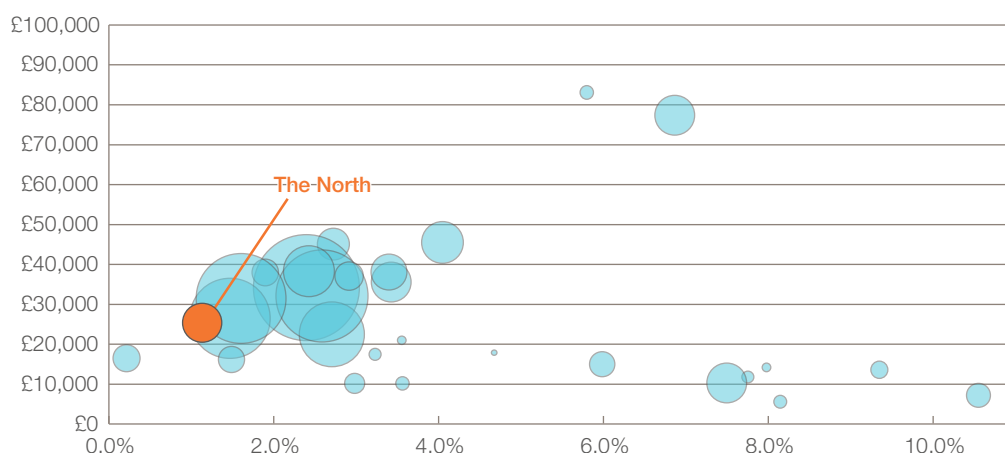
¹⁹ That is, below the level that would have been expected if productivity had continued to increase at the average rate for the 25 years up to 2007.

- In general, labour productivity is lower in the North, at £26.88 per hour compared to £30.05 per hour nationally (ONS 2015c).
- The north of England's economy (and that of the UK) has grown more slowly than all but one EU countries in the last 10 years, as figure 2.2 shows (Eurostat 2015b).

Figure 2.2

The northern economy has grown more slowly than most EU national economies, and is less productive than many

North of England's economy compared to European countries' economies (size = GDP in euros; X axis = 10-year annual growth rate; Y axis = productivity in euros per inhabitant)



Source: Eurostat, 'Gross domestic product (GDP) at current market prices by NUTS 2 regions' (Eurostat 2015b)

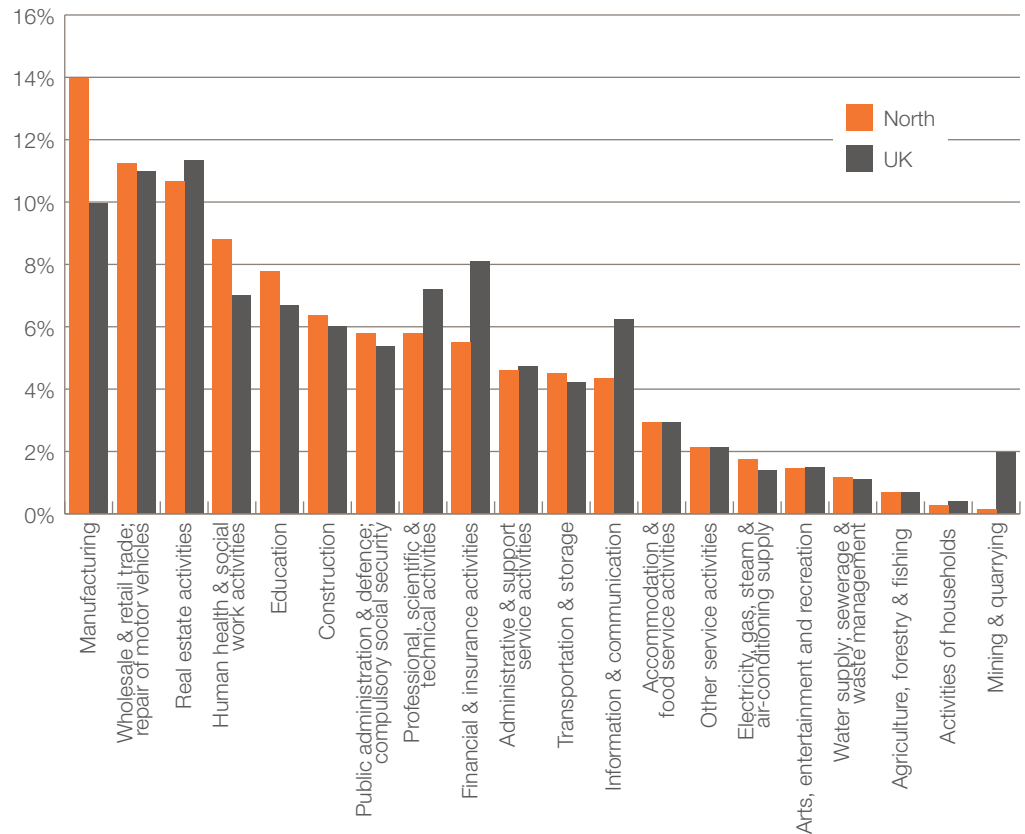
- Lower-than-average output growth is due in part to the northern economy's industrial composition, as well as the competitiveness of its companies (Orguz and Knight 2010). As figure 2.3 shows, the largest contributions to GVA are from manufacturing (14.0 per cent of GVA), wholesale and retail trade (11.2 per cent) and real estate activities (10.7 per cent) (ONS 2014a).
- If the North had matched the national increase in economic output per head since 2003 then its economy would be £5 billion (1.8 per cent) bigger today (authors' calculations using ONS2014a).
- If the North was able to halve the gap between its own output per head and the national level then its economy would be £34 billion (11.9 per cent) bigger (ibid).
- R&D can be an important factor in regional economic growth (see Westmore 2013). In an analysis spanning 2004–2011, collaborative research and development²⁰ was found to add £6.71 in GVA for every £1 spent (TSB 2011). However, the government focusses 37.1 per cent its R&D expenditure on the South East and 14.7 per cent on London, leaving only 7.0 per cent to be spent in the three northern regions put together. This is far less than is spent in the North by higher education institutions (18.1 per cent of national spending), business (14.8 per cent) and private non-for-profit organisations (11.8 per cent) (ONS 2015d). If the government matched the business sector's investment pattern and spent 14.8 per cent of its R&D budget in the North, then it would spend £179 million more in the region – more than twice as much as it does currently.

20 That is, R&D undertaken jointly between business and HE, often with the support of government.

Figure 2.3

The sectors which contribute most to northern economic growth are different from those that contribute most to the UK as a whole

GVA by industrial sector as a proportion of regional total, north versus UK



Source: Office for National Statistics, 'Regional GVA NUTS1, 1997–2013' (ONS 2014a)

Critical challenge: business connectivity

The north's economy is clearly connected with the rest of the world, and its overseas trade contributes significantly to the national economy. For northern businesses, global connectivity is crucial to extending markets and drawing in new investment.

Trade is one vital indicator of the North's connectivity.

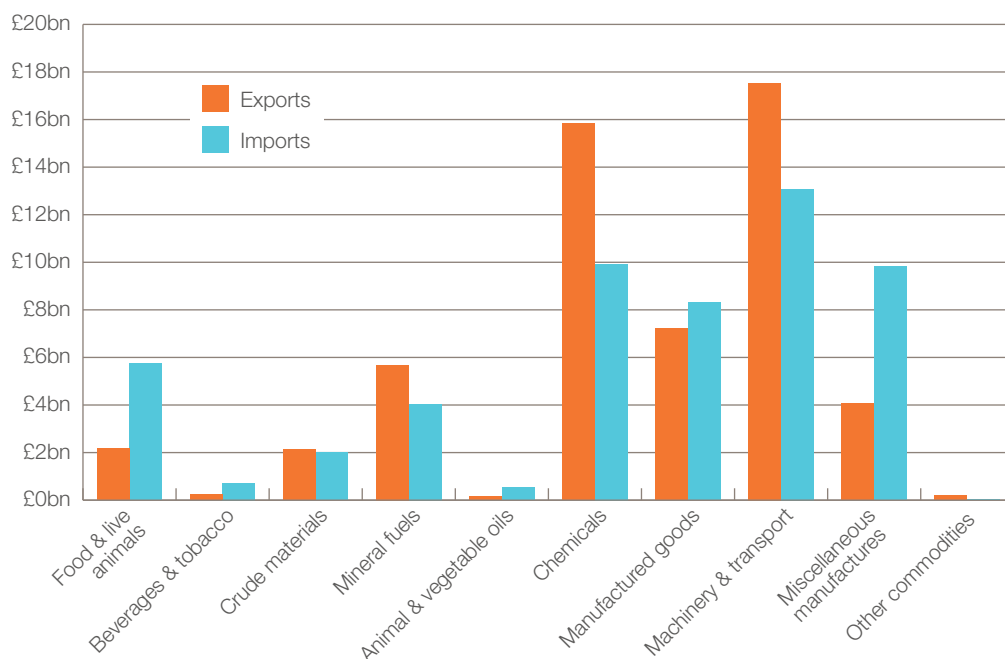
- In 2014, the North exported goods worth £55.2 billion in 2014 and imported goods worth £54.2 billion. This positive balance of trade is entirely thanks to the North East, which is the only English region²¹ that exported more than it imported (HMRC 2015).
- The north's primary exports by value were machinery and transport (£17.5 billion) and chemicals (£15.8 billion) (ibid), as figure 2.4 shows.
- The EU is far and away the North's largest trading partner, accounting for more than half of all imports (56.0 per cent) and exports (52.2 per cent). Asia and Oceania accounted for just over a quarter of imports (25.8 per cent), while North America was also a significant export market (15.9 per cent) (ibid).

²¹ Wales and Scotland also have net positive balances of trade.

- The north handles about a third of the UK's port business. Together the region's major ports²² imported 114 million tons (36.0 per cent of the UK total) and exported 55 million tons (31.8 per cent of the UK total) (DfT 2015a, 2015b).

Figure 2.4

Northern exports were led by the machinery and transport and chemicals sectors
Northern exports and imports by Standard International Trade Classification section, 2014 (£m)



Source: HM Revenue and Customs, 'UK Regional Trade' (HMRC 2015)

However, international business connectivity extends beyond trade.

- Although just 21,000 (4.5 per cent) of the business sites in the North are foreign-owned, they generate £48 billion (25.2 per cent) of GVA (ONS 2015e).
- The majority of foreign-owned business sites (61.3 per cent) are owned from elsewhere in Europe, followed by North and South America (30.4 per cent) and a small but growing proportion of Asian-owned sites (5.4 per cent) (ibid). This is in line with ownership patterns across the country.

In order for the North to capitalise on this international connectivity and function more effectively as a 'powerhouse' economy, more investment in northern infrastructure is required.

- The north has experienced underinvestment in transport for many years. Expenditure per head on transport capital in the North was £166 in 2013/14, which is half that in London (£332) and less than the average spend across UK regions (£189)²³ (HMT 2014).
- If per-capita spending in the North had equalled the UK regions' average over the past five years then an additional £2.5 billion would have been spent.

²² Grimsby and Immingham, Hull, Rivers Hull and Humber, Heysham, Tyne, Tees and Hartlepool, Liverpool, and Manchester.

²³ This includes only projects which are assigned to particular regions, excluding for example all England-wide projects.

- Transport infrastructure investment plans show that this gap is set to widen. From 2015/16, the national infrastructure pipeline has allocated £2,600 per capita on transport in London, compared to £380 per capita in the North, as figure 2.5 shows (for expenditure that includes public spending – either public or public/private) (HMT 2015a).
- For the North to match London in terms of per-capita transport infrastructure spending, an extra £33 billion would have to be allocated to the North.
- Concerning all forms of infrastructure investment, the national infrastructure pipeline shows that 18.4 per cent of all expenditure involving public funding is due to be spent in London, compared to 11.8 per cent in the North (ibid).

Figure 2.5

London will continue to attract the lion's share of transport investment

National infrastructure expenditure on transport per head in real terms from 2015/16



Source: HM Treasury, 'National Infrastructure Pipeline: July 15 update' (HMT 2015a)

There are many reasons for this disparity, but one of the principal causes is the value for money calculations which the Department for Transport (DfT) uses to appraise potential transport projects, which – because they're primarily based on narrow cost-benefit analyses – tend to benefit high-income, high-density areas (see Cox and Raikes 2015).

However, the right investments could have a real impact on the North's economy.

- Research has estimated that the number of commuter journeys between Leeds and Manchester is 40 per cent lower than it should be, given the physical proximity of these urban centres, and that a 20-minute reduction in the time that journey takes could increase wages by 1.06–2.7 per cent – nearly all of which is due to the impact this would have on the composition of the workforce. (Overman et al 2009).
- Productivity gains arising from the HS2 high-speed rail investment could be worth £2.1–3.2 billion per annum in the north of England by 2037 (KPMG 2013).

Recognising the shortage of funding, and the need for transport improvements to underpin economic growth, the northern cities together prepared the 'One North' proposition and, as a result, Transport for the North has now been formed.²⁴ It is through this new body that the 'northern powerhouse' concept is made manifest in a series of proposed infrastructure investments designed to reduce journey times and connect labour markets more efficiently, and in turn to drive up productivity (this is expanded upon in chapter 3 below). These proposals have received strong business support – for example, in a recent survey carried out by IPPR North, the devolution of transport and infrastructure funding and decision-making was the second most popular demand among northern business people (Cox and Hunter 2015).

Critical challenge: people, jobs and skills

One of the primary concerns for many northern businesses is their access to high-quality labour. Having a strong working-age population is key, but for most businesses this also means having an outstanding skills system. In IPPR North's recent survey of northern business people, devolution of the skills system was the number one demand (Cox and Hunter 2015).

Like all parts of the UK, the North experiences some degree of churn in its population.

- In 2013/14, 182,020 people moved into the North from other UK regions, while 190,830 people left (see figure 2.6). The most popular destinations for those moving into the North were Manchester, Leeds and Sheffield, while the most popular destinations for those leaving were London, Birmingham and Scotland (ONS 2015f).

The global movement of people and labour is one of the most significant economic and social changes of the last 10 years.

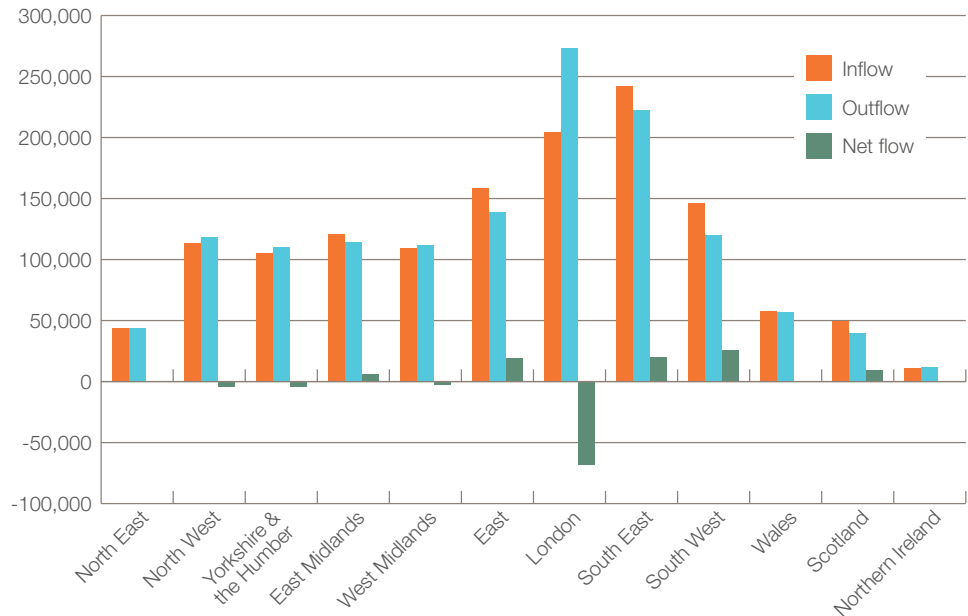
- The accession of new countries into the EU in 2004 had a notable impact on all parts of the UK but boosted the population of major cities in particular, in line with global trends (KPMG 2014, Dobbs et al 2011).
- Among northern subregions²⁵, the biggest absolute increases in non-UK-born population occurred in Greater Manchester and West Yorkshire, as figure 2.7 shows, but in proportional terms it was East Yorkshire and Northern Lincolnshire, South Yorkshire and Northumberland and Tyne and Wear which saw the biggest increases (Migration Observatory 2014). Significant inflows of foreign workers are often an indicator of the kind of vibrant modern economy the North aspires to be (KPMG 2014).

24 See: http://www.manchester.gov.uk/downloads/download/5969/one_north and <http://www.transportforthenorth.com/index.html> respectively.

25 That is, EU NUTS 2 regions.

Figure 2.6

In 2013/14 the North lost more internal migrants than it gained
Internal migration into and out of each region, 2013/14

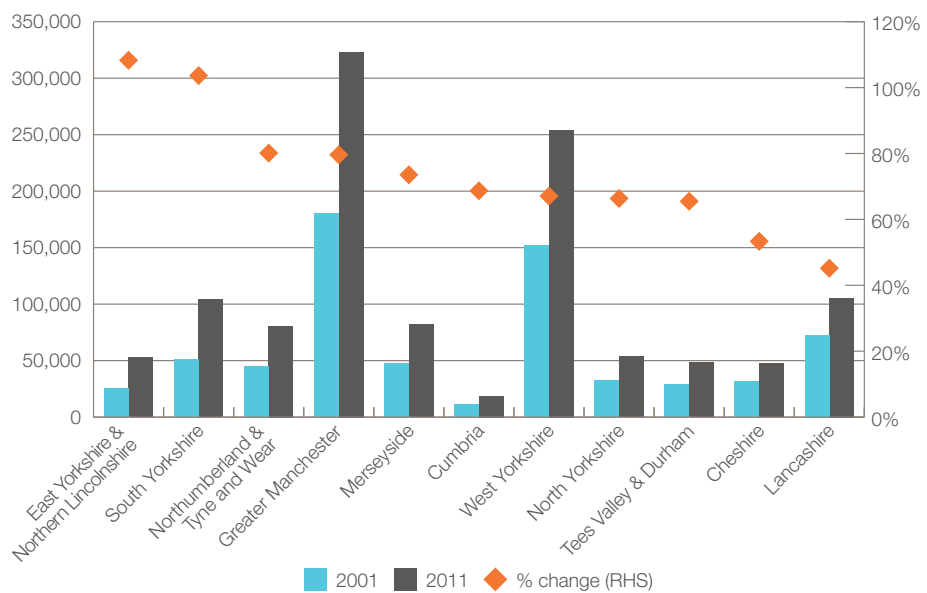


Source: Office for National Statistics, 'Matrices of Internal Migration Moves between Local Authorities and Regions (including the countries of Wales, Scotland and Northern Ireland), Year Ending June 2014' (ONS 2015f)

Figure 2.7

Some parts of the North have seen a significant increase in the number of residents born outside the UK

Changes in non-UK-born population in northern subregions in 2001 and 2011 (left = absolute, right = percentage change)*



Source: Migration Observatory, 'Non-UK born population increase: England & Wales 2001–2011' (Migration Observatory 2014)

* EU NUTS 2 regions.

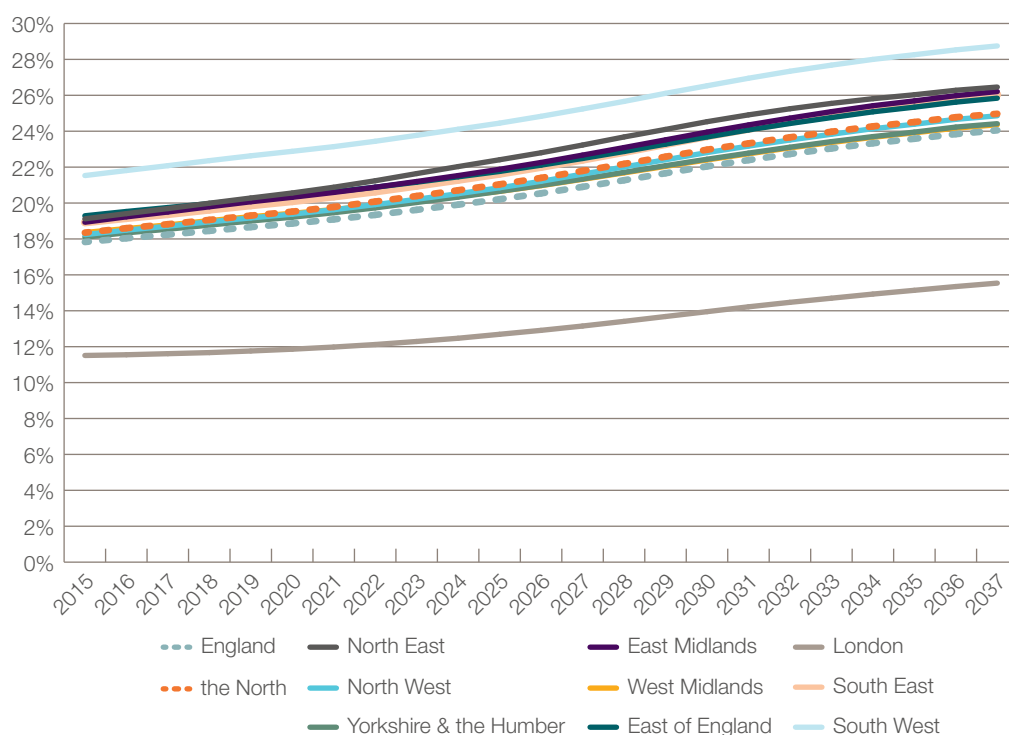
The age profile of the North is also changing, and will be a key dynamic in future policymaking.

- In England, the proportion of the population aged 65 or older is projected to rise from 17.8 per cent in 2015 to 23.6 per cent in 2035. The north is forecast to see a slightly bigger shift by comparison, rising from 18.3 per cent to 24.5 per cent (ONS 2014c) – see figure 2.8.
- While this will certainly increase pressures on public services, and highlights the need for a robust tax base, there are also economic opportunities – previous IPPR North research has highlighted the value that resides in this older age-group, whether through working or starting businesses, consuming goods and services, or investing in housing or other capital assets (Cox et al 2014b).

Figure 2.8

The population of England and English regions is set to age significantly over the next 20 years

Proportion of population aged 65 and older, England and by region, forecast 2015–2035 (%)



Source: Office for National Statistics, '2012-based Subnational Population Projections for Regions in England' (ONS 2014c)

However, if generating a better business environment and stronger economy, we have the potential to transform these dynamics.

- If the North could reverse its current level of net outflow of people to other regions then, by 2030, its population base would be 264,000 larger, or 1.6 per cent higher than forecast.²⁶

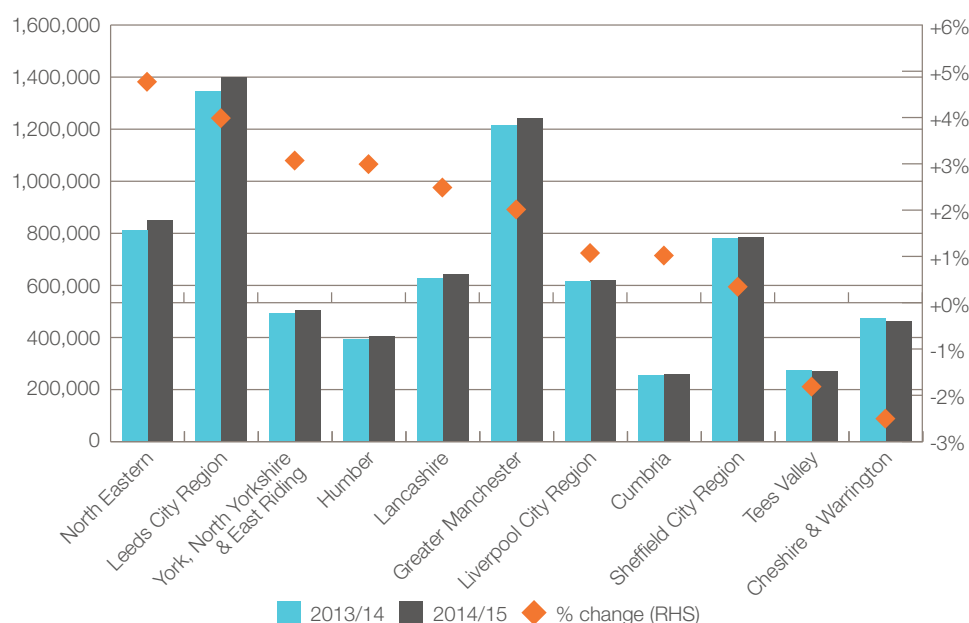
²⁶ Without factoring in births and deaths.

Employment in the North is recovering but structural challenges remain.

- In the year to March 2015, the rate of job creation in the North equalled the national average (1.9 per cent). However, there are some areas of the North where this rate has been particularly high, as figure 2.9 shows: North Eastern (4.8 per cent), Leeds City Region (4.0 per cent) and York, North Yorkshire and East Riding (3.1 per cent) all saw job creation rates well above the national average (ONS 2015g).
- If the North had matched the national rate of job creation for the whole period since the recession, there would be 193,000 more jobs in the region and (all other things being equal) the employment rate would be 58.1 per cent.
- Across the North as a whole, the unemployment rate is above the national average (7.0 per cent versus 6.0 per cent nationally) and the employment rate is below average (56.5 per cent versus 59.2 per cent). While nationally the number of workforce jobs has grown strongly since its low point in 2009, close to half (48.3 per cent) of the net change has occurred in London and the South East (ONS 2015h).

Figure 2.9

Some parts of the North have seen strong employment growth over the past 12 months
*Workplace employment change in northern LEP areas, 2013/14 versus 2014/15**
 (left = absolute, right = percentage change)



Source: Office for National Statistics, 'Annual population survey' (ONS 2015g)

* Survey years to March.

The link between skills and labour productivity is a key challenge for the whole of the UK, as it is for the North.

- As with most subregional economies outside London, the North's subregions tend to be less productive and lower skilled, as figure 2.10 shows (ONS 2015c).
- The skill base in the North is weaker: 52.4 per cent of the working-age population are qualified to level 3, compared to 56.5 per cent nationally (ONS 2015g).²⁷

²⁷ Skills survey data is not collected on the same timetable as the regular annual population survey. This data refers to the 12 months to December 2014.

Figure 2.10

Northern subregional economies tend to be clustered with other low-productivity, low-skill areas

GVA per hour (x-axis) and level 3 qualification rate (y-axis), by subregion*



Source: Office for National Statistics, 'SRPROD03, Subregional Productivity, August 2015' (ONS 2015c); 'Annual population survey' (ONS 2015g)

* Qualifications data is for the most recent available 12-month period, that is, the year to December 2014.

The north will need to improve education and skills provision to meet business demand. Research by the OECD (2012) identified improving the skills of the lowest skilled as a key economic priority for the North (see the boxed text at the end of this section for more on the 'low-skills equilibrium' challenge).

There is currently a mismatch between supply and demand for certain roles, and forecasts underline the potential social and economic cost of failing to meet this demand as the labour market changes.

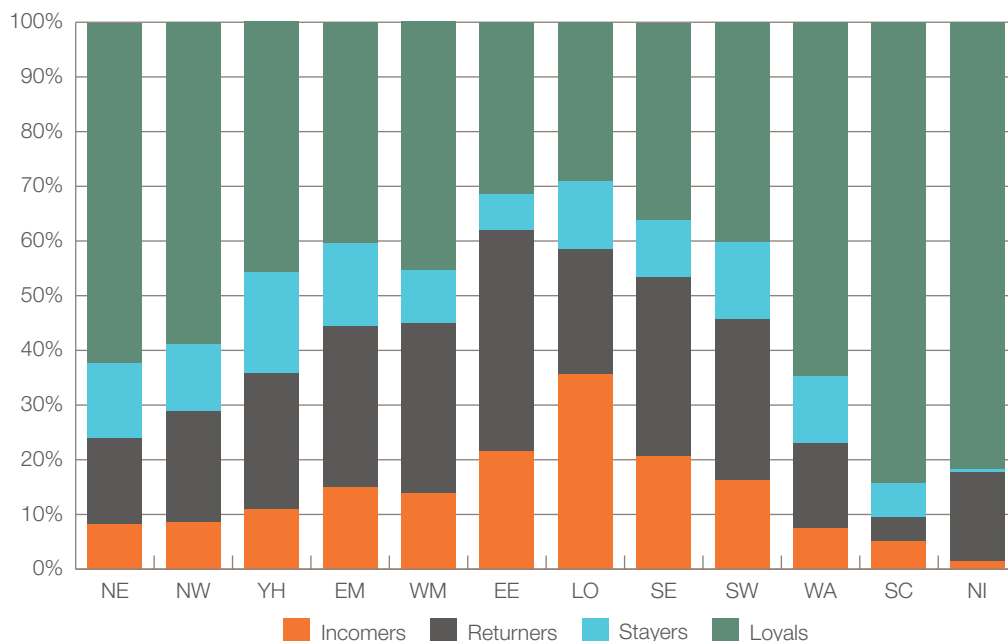
- Projections from the UK Commission for Employment and Skills (UKCES) suggest that in the 10 years to 2022 well over half of new jobs created in the North (57.9 per cent) will require a level 3 qualification or above, with only 5.9 per cent of new jobs requiring no qualifications at all (UKCES 2014).

The north's universities are an asset to its economy. Retention and loyalty to these institutions is relatively strong, but other regions tend to attract more people from outside to study or to work after graduating.

- As figure 2.11 shows, the North tends to retain more of its university graduates than other regions – especially those who were also previously from the region ('loyals'), but also those who came to study from elsewhere ('stayers') (Ball 2015).
- The north tends to underperform in terms of attracting back graduates who left the region to study – many of whom stay in the areas where they have graduated – and attracting new graduates who studied elsewhere (ibid).

Figure 2.11

Northern regions perform relatively well in terms of retaining graduates who studied in the North but less well in attracting graduates from universities in other regions
Graduate retention patterns, 2012/13 (% of graduates)



Source: Ball 2015

Note: Incomers – working in a region where they neither studied nor lived previously; returners – left for study but returned for work; stayers – came for study and stayed for work; loyals – studied and stayed for work in their home region.

The low-skills equilibrium

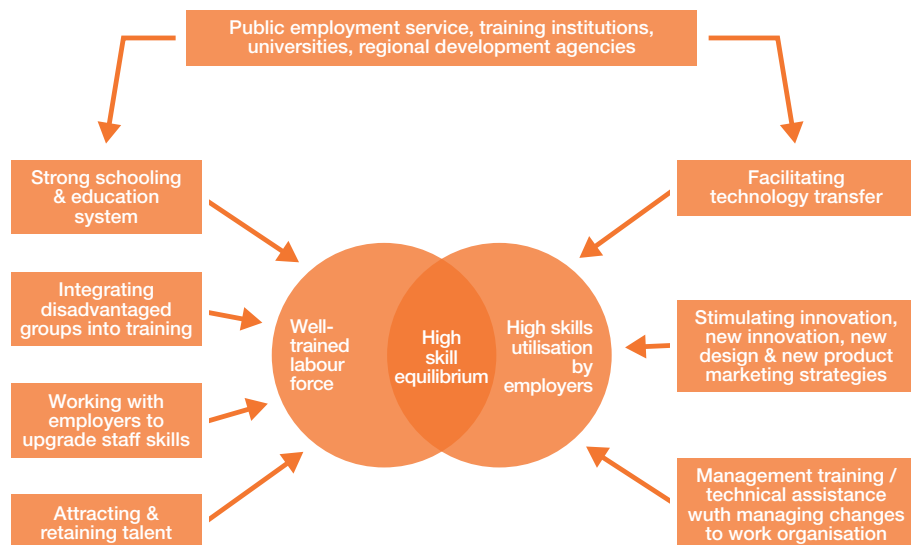
The north faces some distinctive skills challenges on both the supply and demand side. On the demand side, the proportion of employers lacking any sort of strategic approach to the skills of their workforce is higher than the national average in almost all parts of the North. On the supply side, a smaller proportion of the northern workforce has a degree and a larger proportion has no qualifications. In some areas this results in a vicious circle of low skills and low productivity: the 'low-skills equilibrium'.

Furthermore, a large number of people who have been detached from the labour market and claiming an incapacity benefit or employment support allowance will, in time, begin to actively seek work once again, as the government's welfare reforms are implemented. Many of these people are likely to need support to update their skills and increase their confidence in order to find work. Progress will require carefully coordinated activity: boosting demand without supply will result in employers being unable to fill vacancies; improving supply without demand will result in a brain drain. The OECD LEED programme (OECD 2008) has developed a useful model summarising the approaches that need to be deployed in local economies in order to achieve this long-term transition, focussed on both supply and demand.

CONTINUED ON THE NEXT PAGE

Figure 2.12

Supply and demand in skills policy and provision



Source: Reproduced from OECD 2008

Source: IPPR North and the NEFC 2012

Critical challenge: quality of life

One of the key measures of success in a modern economy is citizens' quality of life.

- Quality of life in the North appears to be close to the national average, though lagging in some respects. As figure 2.13 shows, wellbeing tends to be worse than the national average in the North East and North West, although it is a little better in Yorkshire and the Humber.²⁸ There are other regions, such as London and the West Midlands, that score much worse (ONS 2015i, 2015j, 2015k, 2015l).
- However, some parts of the North have the highest wellbeing in the country against some of these measures – these tend to be more rural areas, such as Ribbles Valley, Ryedale, Eden and Craven (ibid).

Related to this, the cost of living tends to be lower in the North.

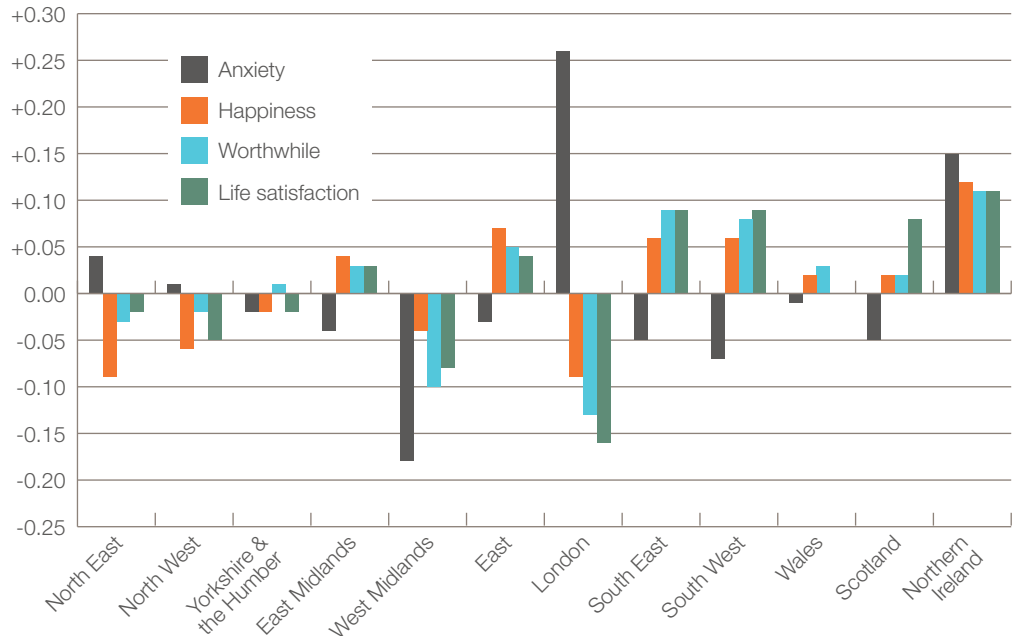
- In particular, housing is cheaper in the North. Median household expenditure on social rent is £3 per week less than the national average in the North West, £6 less in the North East and £9 less in Yorkshire and the Humber. Private rent is £14 per week less in the North West, £19 less in Yorkshire and the Humber and £23 less in the North East. Mortgage instalments are £25 less in both the North East and Yorkshire and the Humber, and £15 less in the North West (ONS 2015m).
- While incomes also tend to be lower, the relationship between income and house prices means that buying a home is relatively far more affordable in the North, as figure 2.14 shows (DCLG 2014).

²⁸ The Annual Population Survey asks four questions related to wellbeing: How anxious did you feel yesterday? How happy did you feel yesterday? To what extent do you feel the things you do in your life are worthwhile? How satisfied are you with your life?

Figure 2.13

On most measures of happiness and wellbeing, the northern regions rate close to the national average; the North East and North West score less well on happiness but better than London

Wellbeing measures – mean rating compared to national average, 2011–14



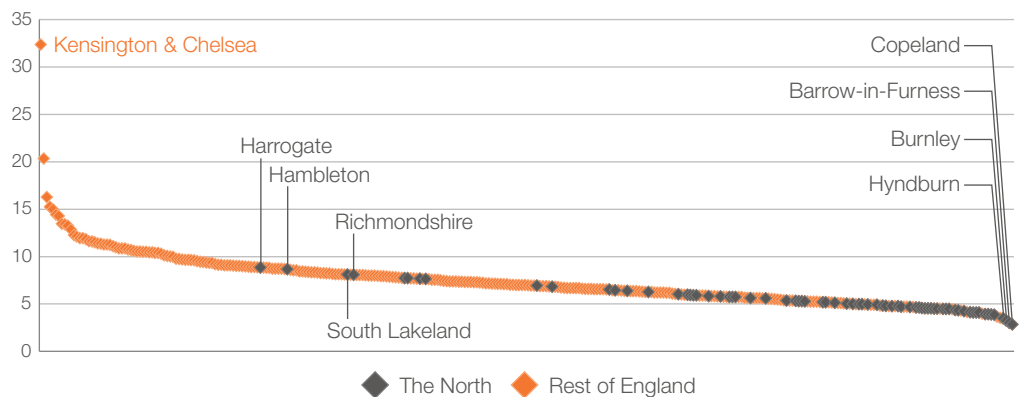
Source: Office for National Statistics, 'Annual Population Survey' (ONS 2015i, 2015j, 2015k, 2015l)

Note: The Annual Population Survey asks four questions related to wellbeing: How anxious did you feel yesterday? How happy did you feel yesterday? To what extent do you feel the things you do in your life are worthwhile? How satisfied are you with your life?

Figure 2.14

The ratio of house prices to income tends to be lower in the North, meaning housing is more affordable

Ratio between median pay and median house prices by local authority, 2011–13



Source: Department for Communities and Local Government, 'Ratio of median house price to median earnings by district' (DCLG 2014)

3.

DEVOLUTION AND DELIVERY

The historical economic underperformance of the north of England is not natural, nor is it inevitable. While the North's transition from its industrial past has been long and difficult, the case for investment in the region is not based on seeking to compensate for this change but on the potential for northern business to grow and prosper. This in turn will contribute more to the national economy and public finances, and create a virtuous cycle for northern businesses and citizens (see IPPR North and NEFC 2012).

Four drivers of growth

Together, raising productivity and boosting employment hold the key to driving northern prosperity – and in turn national prosperity.

The productivity gap between the North and the national average is significant. In its final report, the Northern Economic Futures Commission demonstrated that the historic causes of the disparity in economic performance are many and complex: deindustrialisation, outward migration and the overvaluation of sterling have all played a role (ibid). While various waves of 'regional policy' have attempted to turn back this tide, none has succeeded in doing more than slowing down the growth of this divide.

In more recent times, the double-dip recession, a lack of lending and investment, and the government's austerity measures all appear to have exacerbated these pre-existing maladies (Cox et al 2014c). Policies aimed at 'rebalancing' – the Regional Growth Fund, enterprise zones and city deals for example – appear only to have scratched the surface.

The OECD's extensive body of research has shown that growth is possible in all 'types' of region. Simple concentration of population is neither necessary nor sufficient for economic success, and in fact many rural areas have shown faster than average growth in recent times (OECD 2012). While 'major' global cities²⁹ account for a large share of total *output*, the bulk of economic *growth* occurs outside of these, and there is evidence to suggest that the UK's second- and third-tier cities hold the greatest potential for business growth and success (Parkinson et al 2012).

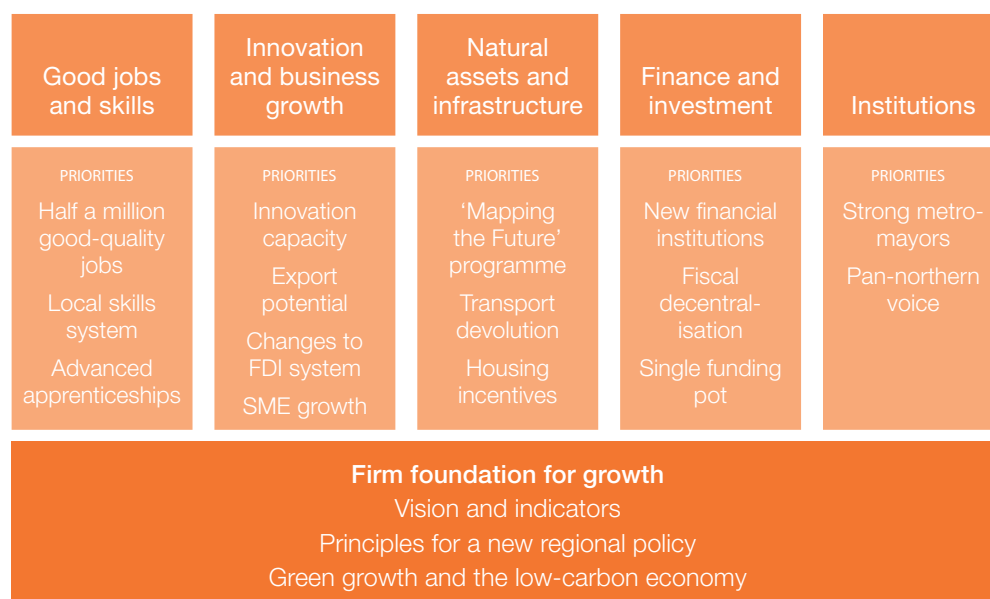
Certain drivers of productivity are crucial to business growth and prosperity. These were summarised by the Northern Economic Futures Commission in the following framework (see figure 3.1).

Coming out of the last recession, and in the wake of considerable institutional change, progress against these drivers of growth has been somewhat patchy and slow. However, the last year alone has seen unprecedented developments. The following sections address each of the drivers of growth in turn, and the actions that need to be taken to ensure positive changes are made and the economic potential of the North is realised.

29 In the UK only London qualifies.

Figure 3.1

Drivers of economic growth



Source: IPPR North and NEFC 2012

Driver 1: Invest in infrastructure and connectivity

Areas similar to the North that perform best tend to have better infrastructure and connectivity to global markets (see OECD 2012). The north's authorities – primarily its major cities – have long recognised the importance of transport connectivity within and between the different subregions, and to the rest of the UK and beyond.

Some significant progress has been made in terms of institutions overseeing transport investment. Rail North was formed in 2012 as a consortium of 30 local transport authorities (LTAs) from across the North. This body is involved in the tendering of the northern and trans-Pennine rail franchises, and will co-manage these franchises with DfT once they are tendered.

Significant progress has also been made towards securing major new infrastructure investments. First, the five major northern cities together with Hull and the Humber proposed 'One North', a £15 billion package of transport investments. These authorities then formed the Transport for the North partnership in order to bring forward more detailed plans and to work with the Department for Transport on a northern transport strategy. In the 2015 budget and related productivity plan, the chancellor committed £30 million for Transport for the North to develop its proposals, although this apparent progress came against the backdrop of fresh uncertainty about the future electrification of the trans-Pennine rail route.

In terms of bus services, the Greater Manchester agreement, the Cities and Local Government Devolution Bill and the Cornwall devolution deal all include provision for the re-regulation of bus services (see Raikes et al 2015). This will enable transport authorities to take on powers similar to Transport for London: to tender commercial bus routes, and therefore to spend fare revenue more strategically; to coordinate and align services and timetables; and to support the rollout of integrated smart ticketing.

In these ways, it is clear that the foundations have been laid for significant devolution and investment. Nevertheless, a significant gap between rhetoric and reality remains.

Transport for the North's infrastructure proposals will be significant if they materialise, but these are still being worked up and as yet remain largely unfunded. Recent indications have not been encouraging: the government has 'paused' the electrification of the trans-Pennine route, and recently resorted to reannouncing projects in order to demonstrate its commitment to the northern powerhouse (see for example DfT et al 2015). And even if the required level of funding is approved, it will take many years before these investments make a real difference.

Rail North is an important step toward local influence over the region's railways, but it has fallen far short of its initial ambitions to co-tender the franchise with the DfT. There is huge untapped potential in the new Transport for the North body which, given time, could develop much further than its current remit allows. IPPR North has previously argued that the body should incorporate all transport authorities (not just the major cities) and take charge of the franchising process, manage stations, hold its own capital budget, and even own and lease rolling stock (Cox and Raikes 2015).

Beyond this, there is the need for an even longer-term outlook – the North should be actively assessing its infrastructure needs for 2050 and beyond. In a recent future-gazing study, IPPR North considered the role of energy-recycling 'future roads', driverless vehicles, 'hyperloop' trains and new forms of energy generation and supply. We have consistently argued for a 'Great North Plan' to inspire and guide business investment and social transformation (IPPR North 2014).

Driver 2: Invest in human capital

Alongside connectivity, IPPR North and OECD research shows that human capital – the strength and skills of a workforce – is absolutely essential for business development: educational attainment and performance of the labour market are the biggest determinants of economic growth rates for the North (OECD 2012). Furthermore, the research suggests that, while it remains important to improve the skills of those who are already highly qualified, improving primary attainment and entry-level jobs would have a greater positive impact on growth.

Powers over skills and employment policy have featured in the several devolution initiatives from central government.

Under the Coalition government, city deals devolved some marginal powers over skills policy. However, this has been taken much further in Greater Manchester, which has been given substantive control over the adult skills budgets and a devolved apprenticeship grant for employers (AGE).³⁰ Greater Manchester is also taking more control over the Work Programme. Currently, it co-commissions support for those who have health conditions and have been unsuccessful in finding work via the centrally commissioned programme, but this approach is being expanded, and Greater Manchester aims to co-commission the whole of the Work Programme in its area from 2017. Most importantly, Greater Manchester is proposing to integrate more closely skills and employment support, which currently is delivered very separately by several government departments.

There is a risk, however, that these positive shifts in terms of devolution and integration are overshadowed by wider changes in the skills and education system. For example, the government's apprenticeship policy mistakenly prioritises volume of apprenticeships above all else, rather than their quality; fragmentation within the education system (especially in careers advice) threatens the future human capital

30 Some of which was devolved through the growth deal, as opposed to the Greater Manchester agreement.

of the workforce, by undermining the skills and work-readiness of new entrants into the labour market; and significant cuts to the adult skills budget will hamper increasingly important efforts to ensure adults can continue to learn as the economy evolves (Raikes 2015).

Combined authorities across the north of England need to follow in the footsteps of Greater Manchester and develop new approaches to education and skills designed to maximise the potential of their current and future inhabitants.

Businesses have an important part to play in developing human capital. Schools, colleges and universities may provide the education and skills directly, but these institutions can only do so much on their own. Vocational education is the main place where learning and working come together, but it is only a part of the solution. Research has shown that developing the links between employers and education – whether through vocational education or more broadly by building relationships with schools – improves the work-readiness and employment prospects of young people (Dolphin 2014, Thompson 2013). Beyond this, however, businesses need to continue to invest throughout adult working life. Employers in the UK tend to invest less in skills than international competitors, despite employers seeming to recognise the importance of training – this led to the Coalition government's 'Employer Ownership of Skills' pilots (Diamond et al 2015).

Driver 3: Stimulate innovation

Evidence shows that to drive up productivity regions like the North need to create a positive business environment in which innovation and entrepreneurship can flourish. The most successful regions also tend to have higher rates of patent applications and R&D expenditure (OECD 2012).

Innovation and R&D have featured significantly in government policy but have not been a major feature of the devolution agenda thus far. The Coalition government invested in 'catapult' centres to commercialise new technology, and these are likely to be developed further as part of the Conservative government's productivity plan (HM Treasury 2015b). However, policy in this area remains highly centralised and overwhelmingly concentrated in the south of England's 'golden triangle'.

Business support has also featured in the current and previous governments' devolution agendas. Various changes to business support were made by the city deals and the Greater Manchester agreement, which will see delegation of some powers, and transfer of some budgets, including for the Growth Accelerator, Manufacturing Advice Service and UK Trade and Investment (UKTI) Export Advice. While these changes are a step in the right direction, and will allow business support to be more responsive and coordinated in the areas that have taken on devolved powers, in reality there has been no large-scale transfer of powers to local government, and many businesses remain confused about where to turn for support.

Driver 4: Enhance and integrate economic policymaking and institutions

Economic success is often underpinned by integrated and coordinated economic policy. The OECD has shown that the most economically successful regions are able to align different economic development institutions, not only to avoid duplication but also to ensure that policies complement one another to maximum effect (OECD 2012). This research underlines the importance of the inter-relationship between the different drivers of growth and the need for each region to develop according to its current position and key assets.

The Coalition government took welcome strides in this direction, shifting the focus of economic development from regions to cities, abolishing RDAs and devolving on an asymmetrical, case-by-case basis to cities and – to a lesser extent – to the newly constituted LEPs. This process began with the city deals, first with the eight

core cities before later expansion, followed by growth deals with LEPs. These did not create major shifts in responsibility – indeed the abolition of RDAs meant that some policymaking was effectively ‘re-centralised’ during this period. Crucially, however, these changes did recognise the importance of cities, and responded to the different needs of different areas. The introduction of new combined authorities – first proposed by the Labour administration in 2009³¹ – have been particularly significant, in that they have laid the foundations for far greater devolution in the current parliament.

In November 2014 the Greater Manchester agreement marked a step change in the pace of devolution. This deal brought significant new economic development powers and called for the election of a directly elected Greater Manchester mayor. This has since been followed with the transfer to Greater Manchester of new powers over health in February 2015; the Cities and Local Government Devolution Bill, which will provide the legislative basis for Greater Manchester and other areas to take on these powers; and, in the 2015 budget, a devolution deal for Cornwall.

These changes in central government have been very positive, but it is local government that has shown the greatest ingenuity with regard to integration. The 10 constituent Greater Manchester authorities have combined economic development functions and cooperated closely for decades, and have built the essential foundations for the next phase of ‘horizontal’ integration – something which the OECD shows to be crucial to economic growth (OECD 2012). The wrong governance arrangements could easily have disrupted this environment, but instead the new governance arrangements are designed to enhance it. Instead of creating a new authority wholly separate from the 10 constituent local authorities, the mayor will be an 11th member of the combined authority. This will enable the functions of local authorities and the combined authority to be far better integrated with local authority policy than would otherwise be the case.

Once the Cities and Local Government Devolution Bill has passed through parliament, and as combined authorities and other relatively new economic development institutions bed in, there is every opportunity for the north of England to coordinate more effectively its control over the levers of economic growth.

Delivering on the promise of devolution: the role for business

Devolution has involved the private sector closely in new governance arrangements. Under the last Labour administration, business was integral to the RDAs, but the boundaries of those bodies failed to reflect functional economic areas. The LEPs that partially replaced the RDAs are business-led, and their boundaries are explicitly intended to cover functional economic areas – principally labour markets – so that economic policy can be coordinated more effectively.

The evolving relationship between city authorities and business is one of the key features of an increasingly urbanised global economy (see Moir and Clarke 2014). Greater Manchester stands out in this regard, and has long embedded business in its governance arrangements. Long before the advent of LEPs, the Business Leadership Council was formed to be the voice of the private sector in the city. Over the years, a series of reviews and strategies placed economic development policy at the heart of the city-region’s broader remit, and the economic potential of the city-region underpins its appeals for still more devolved powers.

For its part, business has consistently shown its support for devolution. Successive surveys have shown that, with some reservations about fiscal devolution, businesses support devolution of spending powers, and the major business groups

31 See the Local Democracy, Economic Development and Construction Act 2009: <http://www.legislation.gov.uk/ukpga/2009/20/contents>

have all shown support: including the Institute of Directors, Federation of Small Businesses, British Chambers of Commerce, and the Confederation of British Industry (Cox and Hunter 2015).

Nevertheless, the role of business in these new devolved structures is in need of further development. Few LEPs are constituted in such a way as to be able to take on the necessary powers or to integrate policymaking with their constituent authorities. Also, LEPs have tended to include representatives only of larger businesses, and have rarely shown a desire to 'reach out' (Cox et al 2014a). As a result, the focus at the subregional level is likely to remain on combined authorities and the different ways that they engage with businesses and business associations. These arrangements be distinct from place to place, but in general need to be made more explicit and transparent.

However, there is a further question as to how businesses can or should engage across the wider geography of the North, particularly in relation to issues of connectivity, infrastructure, innovation and inward investment, which often require strategic planning at a higher, 'mezzanine' level. At present there are very few bodies that exist at this pan-northern level – and none representing business.³²

In London, by contrast, businesses have been well represented by London First – a not-for-profit business membership organisation with a significant secretariat that represents the capital's leading employers in key sectors such as financial and business services, property, transport, ICT, creative industries, hospitality and retail. Its membership also includes higher education institutions and further education colleges, and it promotes policies in a wide range of fields, including transport, housing and planning, skills and even taxation.³³ There is plenty of scope for a similar body to exist in the north of England.

32 Although a few large businesses do have operational teams which span the north of England and many individual firms work primarily across the North.

33 See <http://londonfirst.co.uk/>

4. THE JOURNEY AHEAD

The north of England holds huge untapped potential for business growth and development. For the North to prosper does not mean seeking to match London's growth pound for pound – indeed, northern cities will want to avoid some of the downsides of the capital's apparent success, such as higher costs, higher inequality³⁴ and lower wellbeing. Simply to compete with its comparable European peers would represent a step change for business.

Nonetheless, the transformation of cities such as Leeds, Liverpool, Manchester, Newcastle and Sheffield has demonstrated that the transition away from an industrial past is possible and can be profitable. As many nations look to their mid-sized cities as the engines of future growth, so the potential of these key centres of employment and economic dynamism is yet to be fully exploited – and not least in their collective capacity to act as a northern powerhouse: to build 'one economy, one north'.

Northern businesses already have clear comparative advantages in sectors such as knowledge-based industries, advanced manufacturing, biohealth, renewable energy industries, and culture and tourism. It is in such areas that the North has consistently increased its share of UK exports over the past decade. With a burgeoning workforce and growing investment in innovation and skills, the North could play a vital part in boosting the nation's poor productivity levels.

And northern business holds the key to a more resilient national economy too. While the congested south-east of England continues to push up against the limits of growth, the North has land, water and energy sources in abundance. Such natural assets can only grow in value as their scarcity in the south increases and as businesses are increasingly attracted to invest in areas offering lower input costs and a higher quality of life.

All of this has finally been recognised by government and in the past year, galvanised by the idea of a northern powerhouse and bolstered by the chancellor's support, there has been a marked step-up in both rhetoric and policymaking. This has generated significant momentum across the public and private sectors, and indeed in wider civil society. Now, the realisation of the northern powerhouse rests on three key factors: **investment**, **leadership** and **urgency**.

First, great planning and policy-making must be followed up with confident investment. We have highlighted how a long-term lack of investment has inhibited economic prospects in the North, not least in the realm of transport infrastructure and the connectivity that would galvanise the combined weight of our city economies. We have seen in London and overseas how public investment can be the trigger for private investment in transport and other infrastructure schemes. This in turn generates business confidence and wider investment in skills, R&D and business growth. Our report shows that, once unleashed, this is a virtuous cycle that will generate widespread returns for business, government and citizens across the North. So far, there has been plenty of warm rhetoric and some modest funding for scheme appraisal, but more is required. **The forthcoming spending review needs to bring about a step-change commitment with large-scale government capital spending used to leverage even bigger private investment.**

34 See DWP 2015.

Current Transport for the North proposals suggest that anything up to £50 billion will be needed in the next 20 years; government must play its role in making that commitment, in the same way as it has done with Crossrail, and looks set to do with Crossrail 2, in London.

This kind of ‘pump-priming’ is not enough – confident investment also requires strong leadership. We have already seen city leaders step up to the plate – in a manner not dissimilar to the Victorian forefathers who originally put their cities on the global map. But business leadership has been critical alongside this public leadership. Business bodies – often through LEPs – are playing a growing role in northern city-regions, but there is wider demand too. **Scope exists for greater business leadership in strategic planning at a pan-northern level, particularly in areas such as transport connectivity.** For example, the emerging Transport for the North partnership should develop advisory boards to ensure businesses, alongside other stakeholders, are formally involved. Sooner or later, this partnership will need to take a wider view on the kind of economy that northern connectivity is trying to support.

The final driver of change is urgency. For too long the north of England has been presented as lagging. Policies to narrow regional disparities have largely failed, too often the victims of political caprice in an overcentralised nation. This government has opened a window of opportunity for devolution, and business must seize the chance. Unlike previous initiatives that pursued local economic development by turning on – and off – central government funding, devolution promises much greater levels of local autonomy and direct control over the drivers of change which, once seized, will be much harder for government to take back. **There is an urgent need for more detail and more action to support the new pan-northern vision – ‘one north, one economy’ – to ensure that business, public and civil sectors are galvanised to act now to sustain the momentum behind devolution and take advantage of this unprecedented window of opportunity.**

Investment, leadership and urgency: these are the key ingredients for turning northern powerhouse rhetoric into national economic prosperity. The momentum is building, the benefits are great – the opportunity is there to be seized.

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