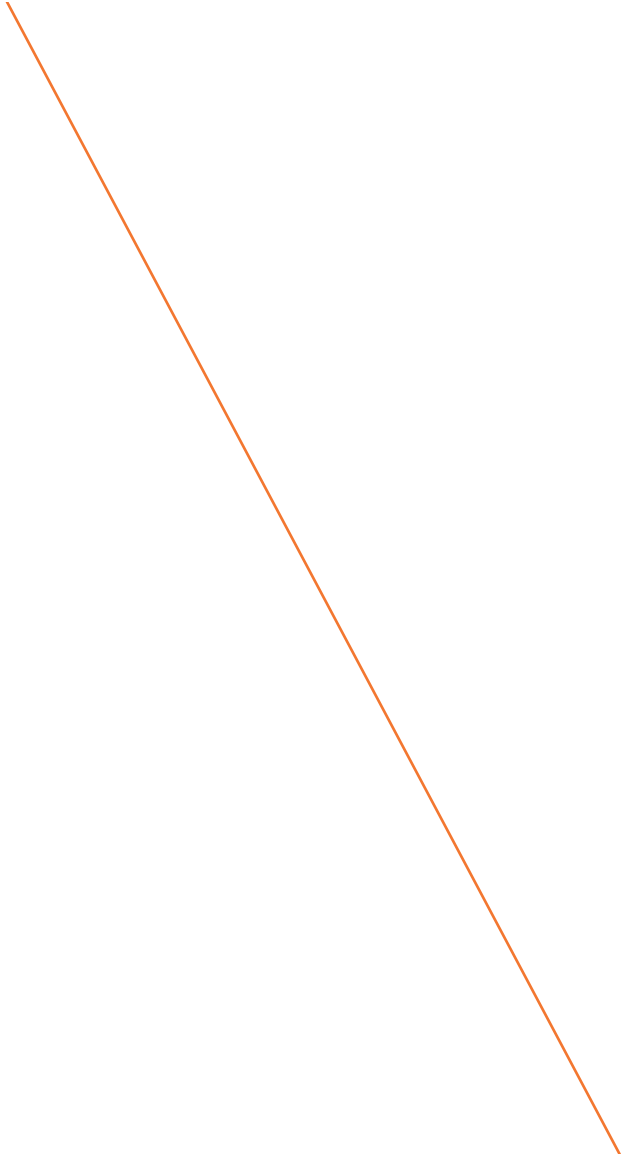


NORTHERN
ECONOMIC
FUTURES
CALL FOR EVIDENCE

IN PARTNERSHIP WITH



July 2011
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ABOUT IPPR NORTH

IPPR North is IPPR's dedicated thinktank for the North of England. With bases in Newcastle and Manchester, 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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NEW IDEAS
for CHANGE

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ABOUT THE NORTHERN ECONOMIC FUTURES COMMISSION

The Northern Economic Futures Commission has been established to spearhead an ambitious programme of research and activity over the next 18 months to look at the critical issues facing the economy of the North and set out a new approach to local and regional economic policy, driven by decision-makers in the North of England.

This call for evidence is aimed at **all businesses, organisations and individuals** who wish to contribute their research, analysis and policy ideas concerning the future of the economy in the North of England and be part of that process.

The aim of the Northern Economic Futures Commission is to articulate a 10-year strategy for economic growth across the North of England.

Its objectives are threefold:

- To articulate a strong vision for the kind of economy we are seeking to develop in the North of England, understanding its role within a national and global context
- To propose a coherent policy agenda and spatial framework within which national government and other players can take decisions about strategic investment
- To provide a clear evidence base for strategic planning and local decision-making within and between local enterprise partnerships.

The Commission is made up of 16 high-profile figures who bring expertise from a wide range of disciplines and interests. Commissioners include individuals with knowledge and experience of a wide range of business sectors as well as economic experts and civic leaders from across the North of England. The Commission also includes people with national and international roles, who bring additional experience and knowledge and the potential for expert input about the North from an external perspective.

Membership of the Commission is as follows:

- Geoff Muirhead CBE, former Chief Executive Officer, Manchester Airports Group (Chair)
- Ed Cox, Director, IPPR North (Deputy Chair)
- Bill Adams, Regional Secretary, Yorkshire & Humber TUC
- John Anderson, Regional Director, BT Yorkshire & Humber
- Rhiannon Bearne, Social Enterprise Executive, Business & Enterprise Group
- Paul Callaghan, Chairman, Leighton Group
- Adeeba Malik, Deputy Chief Executive, QED-UK
- Professor Philip McCann, Chair of Economic Geography, University of Groningen
- David McKeith, Chairman, Greater Manchester Chamber of Commerce
- Rodger McMillan, Therapy Area Head, AstraZeneca
- John Mothersole, Chief Executive, Sheffield City Council
- Peter Nears, Strategic Planning Director, Peel Holdings
- Ann Pittard, Large Business Development Lead, Leeds City Region

- Professor Philip Shapira, Professor of Innovation Management and Policy, Manchester Business School
- Bill Tompson, Head of Rural and Regional Development, OECD
- Julia Unwin, Chief Executive, Joseph Rowntree Foundation

The work of the Commission will be structured into a number of phases: the collection and assembling of existing evidence, the commissioning and generation of new research to fill knowledge gaps, and reporting. Commission meetings in July, October and December 2011 and February 2012 will operate as 'hearings', at which the Commission will take evidence from a range of sources with the aim to explore and synthesise thinking on its key themes. It will produce an interim report in spring 2012, after which it will hold further meetings in April, June and August to receive feedback from additional research it may have chosen to commission and to discuss emerging themes and issues. It will make its final report in autumn 2012.

Alongside this call for evidence, a series of regional roundtables will be held during September 2011. These will be open meetings where participants can debate key commission themes with groups of commissioners.

FOREWORD

There is a strong rationale for a new focus on the economies of the North of England. The prevailing narrative about the economic performance of the North contrasts the dominance of the prosperous and powerful Greater South East with the lagging regions of the North West, Yorkshire and Humber and the North East. This is not a recent phenomenon nor is it a simple picture. Despite more than a decade of sustained economic growth, the recession of 2008–09 bit hard and is now being followed by deep public sector cuts, which are likely to affect recovery in the North more severely than other regions.

While a shared history of unfinished industrial change binds the North and its territories, and underpins the rationale for the work of this Commission, there are also problems in the South. Some of these problems, driven by industrial change and spatial restructuring, are shared with the North but some are different, such as house price pressures, congestion and exaggerated inequality. For the UK economy to be firing on all cylinders there is a genuine need for a new sense of ‘rebalancing’.

This raises some immediate questions:

- Where will the jobs come from to replace those lost in the recession and the cuts?
- Where should the North focus its attention to promote economic growth and increase productivity?
- What are the priorities for innovation, infrastructure, investment and skills?

It also provides an opportunity to take stock and consider some of the more profound issues:

- Should the goal of growth centre on convergence with the South of England, or should we look further afield to assess local and regional competitiveness?
- What distinctive assets does the North of England hold – such as land, water and energy generation – that can build the economic resilience of the UK economy?
- What can the North learn from other European regional economies as it tries to respond to the global economic power shift to the East?
- And can the North take a lead in addressing some of our national economic challenges: developing a more environmentally sustainable, low-carbon economy, and dealing effectively with longer-term demographic trends, such as an ageing population, health challenges and growing concerns about immigration?

In recent years, significant research has been carried out and evidence generated on these points, under the auspices of the regional development agencies, within local authorities, at universities and other academic institutions, in government departments, and in other quasi-state organisations, such as the Northern Way. Some of these have been dismantled and a new set of instruments has been assembled in their place, centred around local enterprise partnerships, but there is a danger that under these new arrangements important lessons from the past will be lost.

This call for evidence seeks to bring together existing research alongside the valuable experiences of those doing business in the North of England, and to put these resources at the disposal of the Northern Economic Futures Commission.

WE WANT TO HEAR FROM YOU

Who is this call for evidence aimed at?

This call for evidence is aimed at **all businesses, organisations and individuals** who wish to contribute their research, analysis and policy ideas concerning the future of the economy in the North of England. Your experiences are invaluable and will be vital to the success of the Commission's work.

How long do I have to respond?

The call for evidence period begins on 20 July 2011 and runs until **14 October 2011**. It is hoped that the majority of responses will be submitted well ahead of the final deadline in order to allow the Commission Secretariat ample time to collate and consider their contents ahead of the Commission's hearings through the autumn and winter.

How do I respond?

Submissions by email are preferred (as attachments in Microsoft Word format) and should be emailed to Lewis Goodall at l.goodall@ippr.org. Submissions may also be posted to:

Northern Economic Futures Commission Secretariat
IPPR North
3rd Floor, 20 Collingwood Street
Newcastle, NE1 1JF

Submissions may be printed, circulated or posted on the internet by the Commission at any stage. Personal contact details supplied to the Commission will be removed before publication or dissemination. If you do not wish your submission to be made public, please state this clearly at the start of your submission. Witnesses may publicise their own written evidence but in doing so should indicate that it was prepared for the Commission.

How long should my submission be?

Evidence may be submitted on **one or more of the eight key questions** listed below. Submissions should be **no longer than 4000 words in length**. It would be appreciated if longer submissions included a short summary of key points at the beginning. Please make it clear which questions your submission is addressing.

The Commission welcomes the submission of existing reports but these must be accompanied by a covering submission highlighting how the report addresses one or more of the Commission's key questions.

The Commission will take a broad view of what constitutes evidence. It might include research evidence, personal or organisational experience, or views about the issues connected with one or more themes. It would be helpful, however, if you could indicate what sort of evidence you are submitting.

When responding, please ensure that you **include your name, position, organisation and email address**. Evidence should be attributed and dated. Please state whether you are responding as an individual or representing an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents and, where applicable, how the views of members were assembled.

We will acknowledge your response.

Please ensure your response reaches us by 14 October 2011.

Please do share this document with, or tell us about, anyone you think may want to be involved in providing evidence. On behalf of all the Commissioners, thank you!

Summary of key questions

The Commission is seeking evidence on the eight questions listed below. Further details of the themes highlighted by each question and the concerns driving the Commission's work can be found in subsequent sections of this call document. In each section we suggest several key questions the Commission might consider – these are intended as a guide and we would welcome further suggestions.

- 1. What can be learned from the past about the Northern economy and the ability of policymaking to shape it?**
- 2. What should a successful Northern economy look like?**
- 3. Where will economic growth come from?**
- 4. How will a new phase of economic growth be financed?**
- 5. How do we mobilise assets and capabilities for innovation and enterprise in the North of England?**
- 6. What are the priorities for employment and skills in Northern labour markets?**
- 7. What are the key priorities for transport, housing and other infrastructure challenges?**
- 8. Does the North of England have the structures and powers it needs to drive growth?**

1. WHAT CAN BE LEARNED FROM THE PAST ABOUT THE NORTHERN ECONOMY AND THE ABILITY OF POLICYMAKING TO SHAPE IT?

The prevailing narrative about the economic performance of the North contrasts the dominance of the prosperous and powerful Greater South East with the lagging regions of the North West, Yorkshire and Humber and North East. Economic underperformance in the North is evident when compared to the South, specifically London and the Greater South East, and also to the UK average.

This is not a recent phenomenon. Over the last 140 years, London's GVA (gross value added) has been higher than elsewhere in the UK. Regional imbalances reduced in the post-war period through until the 1970s but, since then, regional differences have increased. This reversal of fortunes coincides with intensified trade liberalisation internationally and within the UK.

These developments in the UK economy have been underpinned by the growth of the key service sectors – particularly as a result of the consolidation of London as a key global financial centre in the 1980s and the deregulation of the City of London – combined with a transition in the North away from its previous industrial economy. International comparisons with France, Germany, Italy and the United States suggest that, since 1985, the UK has had the highest rate of regional economic divergence – by contrast, between 1950 and 1985, it had the highest degree of convergence.

However, within the overarching story of a North/South divide there is genuine complexity. A closer examination reveals differences both between and within regions, with parts of the economy coming to the fore and others ebbing. Imbalance exists across the North as a region, as it does elsewhere in the UK.

Concerns about spatial economic imbalance are not unique to the UK, although the underlying economic imbalances within the UK are among the most pronounced within major developed economies. British concerns have parallels in international and academic discussions about sub-national economic development, territorial cohesion and the economic futures of places, including in current debates about the future priorities of the EU Cohesion Policy programme for 2014–2020.

During the 'long decade' of the previous government, a quasi-regional policy was pursued through regional development agencies (RDAs), working with a range of other organisations and agencies, aimed at narrowing the gap between the North and the South. Despite a determined programme of work and investments by RDAs and their partners, a gradual evolution of the institutional framework towards more decentralised arrangements, and a benign economic environment, the headline figures remained stubbornly fixed: between 2000 and 2008, the annual rate of growth in GVA in the Northern regions was a healthy 4.6 per cent, but this lagged behind the England and UK averages of 5.2 per cent.¹

Assessment of this performance is contested. For some, the story of the last decade is one of failure: the gap in performance barely shifted, and longstanding challenges persist. For others, however, the story is one of unfinished business.

Over this period, there was a significant turnaround in the economic fortunes of some of the North's major urban economies, around Manchester, Leeds, Newcastle, York and Sheffield. New industries are emerging. Distinctive sectors have been identified and have become a focus for investment: high technology industries in diamond based semi-

1 Martin 2009

conductors, advanced bio-incubation, low-carbon electricity generation, for example, are all setting up shop north of the Wash. City centres have been regenerated, and levels of growth and employment in some areas were among the best in the UK. As the recession hit, some parts of the North struggled, but there has remained considerable resilience in key economic centres, which are significantly better positioned for recovery than they were after previous downturns.

So, in order to plan for economic growth there is a need to first understand the strengths and weaknesses of the approaches taken in the past and, in particular, the role that regional and local economic policy has played within the wider macro-economic context.

The Commission will ask:

- What can be learned from the past about the Northern economy and the ability of policymaking to shape it?

This leads to a series of other questions:

- What is the recent story of economic growth and development in the North of England?
- What is the framework that should be used to understand economic performance in the North? How should we measure performance? How does the North compare with other places?
- What interventions have contributed to this performance over the past decade, and what may be required in the future?
- What economic, social, environmental or other factors should influence our framework for defining future success?

2. WHAT SHOULD A SUCCESSFUL NORTHERN ECONOMY LOOK LIKE?

Working from the principle that a successful economy is not an end in itself and that ultimately the economy exists to serve people, some clarity is required about the purposes of economic policymaking. A number of related objectives would seem pertinent here: full employment, rising living standards, a more sustainable, low-carbon economy, closing the productivity gap with the South of England. Identifying ambitions of this sort and their relative priority is crucial in determining the kind of policy framework that might be adopted.

This raises some fundamental questions about the nature of economic growth in the North of England.

- To what extent should the main driver for growth be the desire to drive competitive advantage to narrow the productivity gap with the South of England?
- Is there a balance to be struck between this objective and a greater emphasis on sustainable, shared growth aimed at building the resilience of the North – and the UK as a whole – within the global economy?
- Is there a trade-off between investment in innovation-led, low-employment, high-value-added sectors and investment in those sectors that may be lower value-added but will drive jobs, growth and productivity within existing industries?
- Do we seek to build the most competitive cities, accepting high levels of inequality, or a greater sharing of the proceeds of growth and a higher quality of life for all? Can we find ways to strike a good balance between the two?

Alongside these questions of principle and purpose, there is a series of questions about the global context which need to be taken into account.

- What are the implications of shifts of global economic power towards cities and towards the East and the BRIC countries?
- How has the global financial crisis started to change the macro-economic and regulatory environment within which the Northern economy operates?
- How will patterns of demographic change play out in Northern towns and cities?
- What impact will climate change have on Northern regions, both in terms of opportunities and also mitigation concerns?

While none of these issues is specific to the North of England, how business leaders and policymakers in the North address these high-level concerns will have a significant bearing on how they form views about more specific issues.

3. WHERE WILL ECONOMIC GROWTH COME FROM?

This is perhaps the central question for the future of the Northern economies. Typically, this question is approached from a sectoral perspective and a wide range of theories is put forward as to which industrial sectors are most likely to benefit economic development in the medium to long term. A number of these are explored briefly below.

Public sector

As identified in IPPR North's report *Well North of Fair*,² job losses in the public sector will have a larger proportional impact on the Celtic fringe and the North. The largest sector by employment in the North is public administration, education and health, which accounts for 31 per cent of total employment, compared to 29.4 per cent for England. In some places in the North, dependence on the public sector for employment has been particularly heavy. Cities like Liverpool and Newcastle, and smaller towns like Preston and Barnsley, have all been identified as having concentrations of public sector employment, while others such as Blackburn and Sheffield experienced both relatively large public sector employment and private sector job losses in the period 1998–2008. All three Northern regions are therefore particularly vulnerable to cuts in public sector spending.

Public sector job losses will also have a significant impact on those companies that depend on public sector contracts, producing 3.8 per cent of total jobs lost in the North, compared to 3.2 per cent in the South. In this, the smaller SME base of the Northern regions represents an absolute disadvantage. Cities with more diverse local economies such as Leeds and Manchester may, in time, be able to generate private sector jobs to absorb public sector losses, but weaker economies will struggle.

Manufacturing

The North still edges other regions in manufacturing as a proportion of GDP. While a range of views exists as to precisely which sectors hold the greatest potential for manufacturing growth, there does seem to be general consensus that the future lies with knowledge-intensive high-tech or advanced manufacturing, 'manu-services' and low-carbon industries.³ However, it is also accepted that these sectors will not necessarily deliver high-employment growth.

Service sectors

The service sector has a critical role to play in the Northern economy. Employment in retail, tourism and leisure is important in all the major urban centres, while there are significant financial and business services (FBS) sectors in both Leeds and Manchester, with smaller centres in Sheffield and Newcastle.

The service sector is seen as potentially the most significant source of new jobs in the future, particularly in sub-sectors such as care and FBS. However, the evidence also suggests that levels of productivity are much lower in some service sectors. The OECD's report into innovation in the North carried out in 2008 found that a very low GVA per worker figure in service industries in the North was due to both a greater concentration of employment in less knowledge-intensive services as well as lower productivity in those same service sector industries.⁴

The **financial and professional services** sector is especially important, with some analysts predicting that it will be the key determinant of jobs growth in the Northern economy in

2 Cox and Schmuecker 2010

3 See Nomis, Annual Detailed Workplace Analysis, 2009 at <https://www.nomisweb.co.uk/home/catalogue.asp>

4 OECD 2008

future years.⁵ The sector faces some significant challenges in relation to productivity: in ‘financial intermediation’ and other services, for example, GVA per employee in the North is about two-thirds of the UK average. The North of England has a rich tradition of innovation in banking and other financial services and should not be afraid of embracing this heritage.

Retail accounts for nearly 11 per cent of employees in the North (665,920), with half of those working in supermarkets. A number of significant retailers are headquartered in the North, such as Asda and Morrisons. However, a recent report suggested that retail in the UK lags behind the United States by more than 20 per cent (Nomis 2009). What factors might lie behind this: a limited number of large-format stores due to planning restrictions? The impact of motorway congestion on freight? Looking forward, the slowdown in consumer demand will certainly have an impact on employment prospects in the sector, while the continued growth of online shopping will inevitably and fundamentally change the shape of the sector and the nature of employment within it.

Creative industries contributed 5.6 per cent of the UK’s GVA in 2008. Exports of services by the creative industries totalled £17.3 billion in 2008, equalling 4.1 per cent of all goods and services exported.⁶ In the UK, this sector is currently growing at twice the rate of others, and so is a potential source of high-quality jobs in the North. And there is evidence that the UK’s creative industries support innovation and growth in other parts of the economy too. However, NESTA’s work on the geography of the creative industries has found that the Northern regions lag behind the South in the development of the sector, and suggests that this may be due to the high levels of homogeneity in the creative profiles of cities in the North. While cities in the South focus on their distinctive sources of competitive advantage, cities in the North, with the notable exception of Manchester, were found to focus on and compete in the same creative sectors.

The **care** sector is a significant employer in the Northern regions: in 2009, 14.2 per cent of all workers were employed in hospital and care-related jobs. While public sector employment in hospital and NHS roles accounts for a significant proportion of this, substantial numbers are employed in care-related businesses as well. The North East health and social care sector, for example, employs nearly 150,000 people, and this is expected to increase by six per cent over the period 2007–2017.⁷

These observations lead to some significant questions for the Commission to consider:

- To what extent should the North accept the received view, characterised by public sector dependency and private sector weakness, and seek to rebalance the sectoral make-up of its economy?
- How far is it possible to identify and promote comparative advantages within specific economic sectors, either for particular localities or for the North of England as a whole?
- If some form of ‘industrial policy’ is deemed useful, which sectors hold the greatest potential for the North, to what extent are they spatially dependent, and how can they be effectively promoted?
- How sustainable and equitable is a strategy that focuses on high-growth and knowledge-based economic development in driving competitiveness and productivity?

5 See Greater Manchester Forecast Model analysis by Oxford Economics for New Economy Manchester: http://neweconomymanchester.com/stories/1119-greater_manchester_forecasting_model

6 Ibid 1

7 Real Help North East 2009

4. HOW WILL A NEW PHASE OF ECONOMIC GROWTH BE FINANCED?

In 2009, Northern Way's Private Investment Commission looked at the barriers to increasing flows of private investment into the North. Its report pointed to the need for places to deliver a more conducive and integrated environment for business investment across skills, infrastructure, transport and the public realm. Looking specifically at the provision of long-term investment capital to SMEs, the report identified that the typical equity gap which occurs for all SMEs was intensified in the North by a lack of familiarity with and understanding of the Northern SME market among fund managers, who are largely based in the Greater South East.

In terms of regeneration investment, the era when private sector funding could be levered into schemes through the uplift in land values secured by public investment is clearly over. Despite initiatives such as the Green Investment Bank and Regional Growth Fund, government is now looking to a more limited approach using new public/private vehicles and tax increment financing within a National Infrastructure Plan which sets out plans to invest in the UK's infrastructure for transport, energy, water supply, waste, broadband, flood protection, and science and innovation.

Reduced investment from central government leaves significant questions for the Commission to consider as to how to address the equity gap in the North. It also raises issues about the level of fiscal autonomy at the local level. If the policies of the past 10 years can be characterised as geographically redistributive then the move to an approach that is based instead on 'rebalancing' needs to be backed up with greater incentives for the North to generate its own tax revenues from growth.

Thus, the premium will be on imagination. The Coalition's policy is centred on 'unlocking' third sector finance, be it via the Big Society Bank, charities reform proposals, increased venture philanthropy or some other way. Concerns have been raised that this agenda is in fact a 'disguise' to try to alleviate further stress on the public finances but careful moves towards expanding the social investment market could prove to be beneficial. As the example of Broadband Cumbria shows, communitarian economics and organisation has the potential to be a powerful engine for growth in austere times.⁸

The Commission will need to consider:

- Where might new sources of private finance come from?
- Can the North rebuild some of its own financial institutions and instruments?
- How can it become more effective and joined-up in attracting overseas investment?
- How far can greater fiscal federalism serve the North without further increasing inequalities?
- To what extent can third sector finance and organisations support significant economic development?

⁸ For more on Broadband Cumbria, see: <http://broadbandcumbria.com/>.

5. HOW DO WE MOBILISE ASSETS AND CAPABILITIES FOR INNOVATION AND ENTERPRISE IN THE NORTH OF ENGLAND?

Innovation

It is commonly held that innovation is the primary driver of economic development. Within this, universities play a central role in driving research and development in specific fields and working closely with the private sector. But how this ‘innovation system’ operates and how far government policy can and should intervene remain challenging questions.

The OECD report into innovation in the North found that the three Northern regions collectively were ‘below average’ in terms of investment in research and development (R&D), tertiary education and representation of high-skilled workers, with moderate ‘innovation assets’ and low gross and business expenditure on R&D. However, there are differences between the three Northern regions: for example, while business investment in R&D as a percentage of workplace-based GVA for the period 1999–2008 was roughly a third of the England average in Yorkshire and the Humber, and around a half in the North East, investment in the North West was consistently higher (perhaps due to the presence of more large corporates in that area).

Following on from the OECD report, work led by the Northern Way with RDAs and universities sought to highlight the North’s significant innovation assets. This identified large-scale private or private/public R&D concentrations at the Wilton complex in the Tees Valley, the Daresbury Science and Innovation Campus, and the AstraZeneca Laboratories in Cheshire, as well as ‘substantial city/place-based R&D-intensive concentrations’ (primarily public sector-led) at the Advanced Manufacturing Park in South Yorkshire, the Campus for Ageing and Health linked to Newcastle Science City, and NaREC (the New and Renewable Energy Centre) in Northumberland.⁹

While there are innovation strengths in the North, even acting together the three Northern regions cannot match the concentration of R&D innovation, both public and private, of London and the South East. Developing the North’s potential and building on its innovation assets will require well-targeted and coordinated action.

In the past, the three Northern RDAs have adopted different strategies on innovation. The Northern Way’s report saw NWDA’s approach as being primarily focussed on developing excellence in science, by increasing the share of public sector investment in that area, as well as driving innovation through the SME base. ONE North East’s approach placed innovation at the heart of their strategy to fundamentally transform the economy, prioritising the development of large-scale ‘transformational platforms’ to support new institutional capacity. Finally, Yorkshire Forward elected to focus on developing an innovation-led culture in its business base, most specifically through developing open innovation systems through its Centres of Collaborative Innovation programme.¹⁰

While all of the local enterprise partnerships (LEPs) have highlighted the importance of innovation to driving growth in their city-regions, it is too early to know what strategies they will adopt. And with the RDAs’ innovation responsibilities being transferred by government to the Technology Strategy Board at a national level, it remains to be seen what influence regional or Northern issues will have on national innovation policy and investment in the future.

9 SQW Consulting 2008

10 British Chambers of Commerce 2008

This raises important questions for the North of England about the role of its LEPs, its universities and its existing hubs of innovation:

- What can Northern LEPs do to develop comparative strengths in a more autonomous way and without significant public investment?
- What has been the legacy of the RDAs in relation to innovation?
- How strong is university–business collaboration? And how can the N8 alliance help to harness the power of Northern universities?
- With low productivity being a significant issue in the service sector, can universities and research centres also help to drive innovation and productivity improvements in that area?

Enterprise

Since industrial restructuring took hold in the 1980s, the North has traditionally experienced a lower level of business start-up activity than the rest of England. Whatever the cause, it is clear that despite concentrated efforts over the past 10 years by RDAs to boost start-up rates, there is still a significant gap to be closed. This will be key issue for LEPs to address, as business start-ups and SMEs will be an important source of new jobs.

Evidence suggests that many new private sector jobs come from a relatively small number of high-growth firms (which are highly concentrated around London). For example, recent research by the OECD found that, over a three-year period, high-growth firms were credited with creating around half of all net employment growth among established businesses, equivalent to 5–8 per cent of all private sector jobs. The challenge for LEPs and others will be to find ways of identifying and supporting high-growth firms in their area.

Social enterprises also play a significant role in the North. Nationally, they make a £24 billion contribution to the economy annually, equivalent to 1.5 per cent of GDP (based on the formal definition of social enterprise used in the Small Business Survey) and employ at least 800,000 people. While statistics are not available at a regional or Northern level, Yorkshire Forward looked at not-for-profit start-ups as a proxy and found that these made up 9.3 per cent of 31,710 new businesses across the region in 2008 and 9.8 per cent of 32,991 start-ups in 2009. This indicates the significance of the sector to the Northern economies – a significance which should only grow if the government's bid to deliver more public services through social enterprise and mutuals is successful.

The Commission will need to address:

- How far will the SME sector really be able to address the jobs gap generated by public sector job cuts?
- Can policies such as enterprise zones and other forms of tax relief stimulate small business development without the kind of business support that has been available in the past decade?
- Might entrepreneurship be a route into employment for many of those who are currently economically inactive?

6. WHAT ARE THE PRIORITIES FOR EMPLOYMENT AND SKILLS IN NORTHERN LABOUR MARKETS?

There is a strong argument that any progressive economy must strive to achieve full employment with a well-skilled and productive workforce where the benefits of individual prosperity are shared more fairly than is currently the case.

These three dimensions of the labour market are closely inter-related. A better-skilled workforce is essential to driving productivity, improving wages and enabling transition between jobs. And yet the North of England starts from a relatively low base.

Employment

During the decade of sustained economic growth to 2008, employment increased in all the three Northern regions. This was part of a more general trend: labour markets in most parts of the country performed relatively well in that period. And areas which previously had low employment rates experienced some of the largest improvements, reducing differences in employment rates across the country, including between the rate in the North and the England average.

However, private sector job growth has been unevenly distributed across the country and across the North. Some parts of the North did gain significant numbers of new private sector jobs – in places such as Manchester, Leeds and Newcastle – but in other areas, including Blackpool, Bradford, Burnley and Birkenhead, there were significant falls.¹¹

IPPR North has also looked at how changes in employment patterns resulting from the period of growth from 1998–2008 impacted on income levels in the North.¹² They found that levels of household income and pay inequality remained lower in the North but that pay inequality increased in line with wider UK trends. The polarisation of low and high paid people was found to be strongest in the Leeds, Tees Valley and Manchester city regions.

But this is not the whole story. Unemployment rates are presented as a percentage of the economically active population, but the North has higher than average levels of people classified as economically inactive. (The main economically inactive groups are students, people looking after family and home, long-term sick and disabled, temporarily sick and disabled, retired people and discouraged workers.) The latest figures from Nomis, for February–April 2011, show that all Northern regions have rates of economic activity that are higher than the national average, and that while the rate of economic inactivity has declined marginally across the UK since 1992, it has increased in two of the three Northern regions.

The impact of the recession and public sector cuts

During the most recent recession, unemployment increased most in Northern Ireland, West Midlands, the North East, and Yorkshire and the Humber. There is some evidence to suggest that the places that were worst hit have come back quickest, such as Hull and Doncaster, but that these gains were made in low-skilled employment (for example, low-skill occupations accounted for 87 per cent of the claimant count fall in Sunderland) and that long-term unemployment has increased.¹³

Taking into account the impact of public sector job losses on businesses reliant on public sector contracts and public sector employees' own expenditure, PricewaterhouseCoopers estimated total job losses of 943,000 – 233,000 of which would fall in the three Northern regions. It seems unlikely that the private sector will be able to make up for this level of job

11 Webber and Swinney 2010

12 See Schmuecker and Viitanen 2011

13 Larkin 2009

losses. Moreover, as public sector jobs disappear, so too may a valuable source of lower-skill jobs, meaning that the bridge between low- and higher-skilled jobs may weaken further.

There could be disproportionate impacts for graduate employment too. A recent report has shown that dependence on public sector for employment over the last decade has strengthened graduate retention in many towns and cities in the North and Midlands, and that young graduates in these regions have been disproportionately employed in the public sector. The expectation is that public sector cuts will further impact on the ability of Northern towns and cities to retain young graduates.¹⁴

Skills

Skills levels in the three Northern regions are lower than the England average and despite some recent improvements this is a persistent trend. For example, in 2009, the percentage of the working age population with no qualifications was higher than the England average in all three Northern regions, while the percentages qualified to NVQ 2 or higher were below the England average. The percentages of young people qualified to NVQ 2, 3 or 4 were also below the England average. A key challenge therefore, is how to raise the basic 'floor level' to at least NVQ Level 2.¹⁵

Nonetheless, there is an important debate to be had on the relevance of the 'qualifications culture' in strengthening economic growth, in the North or further afield. There is no absolute proof that links skills (or qualifications) and labour productivity, and bad information is rife in the labour market, for both employers and employees.

Recent research has indicated that there are many occupational areas where demand for skills is not being met, either through large over- or under-supply. This imbalance has a debilitating effect on both employer and employee, leaving the latter ill-equipped to succeed in a gruelling labour market and the former frustrated with the inappropriate skills-base of potential new recruits.

It is also alleged that the state is providing much of the 'deadweight training'. Evidence exists that the UK continues to operate in a 'low-skilled equilibrium', where businesses persist with low-skill, low-cost models.¹⁶ A key question therefore concerns the extent to which government can provide the long-term skills training employers require and whether in fact a more flexible, progressive approach is required from employers and the HR sector.¹⁷

The Commission will consider:

- How should the North specifically address the problem of economic inactivity?
- Should Northern skills policy be different to that of the rest of England?
- If so, how should such policy be executed and by whom?
- How should Northern workforce's skills base be improved?
- Can the Northern regions do more to attract and maintain young graduates?
- Has the emphasis of successive governments on a 'qualification culture' been damaging to the skills base?

14 Wright 2011

15 Holden 2010

16 Ibid

17 Ibid

7. WHAT ARE THE KEY PRIORITIES FOR TRANSPORT, HOUSING AND OTHER INFRASTRUCTURE CHALLENGES?

Transport

Improving transport provision is a major objective for local authorities and LEPs in the North. Many partners believe that there has been significant under-investment in transport in the three Northern regions and that this is a significant constraint on growth.

The work of the Northern Way has been influential in establishing the critical importance of improved connectivity for the economies of the North. In March 2007, it published the Strategic Direction for Transport,¹⁸ which contained analysis and proposals all firmly rooted in evidence of how transport supports economic growth. It set out the interventions needed to maximise growth and at the same time minimise the impact on the environment, looking 20–30 years into the future. The key priorities it has identified are focussed on the connectivity between the North's city regions and key business destinations, particularly capacity issues affecting road (motorways) and rail.

For rail, this includes tackling constraints around Manchester (the Northern Hub) to improve reliability and journey times and to increase the number of trains that can run across the North, as well as rail gauge enhancements for maritime container traffic across the Pennines, securing more rolling stock, and supporting High Speed Two (HS2), alongside improvements to the 'classic' service.

For roads, this includes keeping the strategic road network moving, particularly the M62 corridor, through the 'managed motorway' programme and supporting key schemes, but also looking at behavioural changes, pan-Northern smart ticketing and strategic use of park and ride facilities.

However, new questions and challenges are emerging on, for example, the role of ports, the significance of Air Passenger Duty, and on local transport planning issues.

This raises a series of questions:

- How much progress has been made against the 'strategic direction' set in 2009?
- With diminishing public sector funding for transport investment on the scale seen to date, how do we determine a new sense of priority and focus, not least for local transport investment?
- Will the enhanced connectivity of HS2 lead to economic rebalancing or to further spread of the London super-agglomeration, or both? How should HS2 be weighed against more local and trans-Pennine improvements?
- To what extent can infrastructural improvements address the challenges of environmental sustainability?

Housing

Similar challenges exist with regards to future investment in housing. IPPR is currently conducting a fundamental review of housing challenges in the UK¹⁹ but an initial analysis of housing demand in the next 15 years shows some significant regional variation, closely associated with different economic scenarios.²⁰ Government policy is focused on changes to the planning regime and incentives to drive house-building, as well as initiatives to increase household mobility. However, critics are sceptical about the likelihood of their being successful, and there is clearly a need for more locally focused approaches tailored to the operation of housing markets as they relate to sub-regional labour markets – an

18 See <http://www.thenorthernway.co.uk/document.asp?id=433>

19 See <http://www.ippr.org/research-projects/44/7132/housing-policy-a-fundamental-review>

20 See Schmuecker 2011

issue that was found to be key in linking areas of deprivation with economic opportunity. Again, both LEPs and their partners will need to play a vital role in determining priorities.

In relation to housing the Commission will need to address:

- How do Northern housing planners and practitioners engage with an emerging framework for national housing policy to ensure that it can address price pressures in the South, protect valuable natural resources and support improved competitiveness of northern housing markets?
- How far can more locally focused approaches to housing demand and supply be tailored to the operation of housing markets as they relate to sub-regional labour markets?
- How can private investment in housing be mobilised to drive economic prosperity?

Broadband and hi-tech infrastructure

Areas outside of the city hubs in the North are often poorly served by broadband networks. Research indicates that of 68 towns and cities with 'high' broadband penetration only three lie north of the Wash. Of 60 locations with low penetration, only six were south of that line.²¹

However, the picture is not entirely a gloomy one. In terms of speed, the Northern city hubs outclass the rest of the UK: eight out of the top 10 towns and cities with the fastest broadband lie in the North. Some of the fastest average connections in the country are to be found in Huddersfield (15.73 Mbps), Leeds (11.08 Mbps), Bradford (120.51 Mbps) and Manchester (9.24 Mbps).²² On this measure, all perform better than London, which ranks a mere seventh.

- How can all parts of the North guarantee a telecommunications network fit for 21st-century growth?

The Commission will need to take a view on the likely success of existing infrastructure plans as well as bringing forward other plans and priorities to support a long-term vision of growth.

21 Lambert 2010

22 Ibid

8. DOES THE NORTH OF ENGLAND HAVE THE STRUCTURES AND POWERS IT NEEDS TO DRIVE GROWTH?

Finally, many of the issues noted above have strong spatial manifestations. Debates about the nature and benefits of agglomeration form an important narrative, and one with which the Commission must engage. Equally, with the rise of the devolved institutions in Scotland, Wales, Northern Ireland and London raise questions as to whether the English regions can continue to be competitive while remaining as the only areas of the UK without devolved powers in key aspects of planning, taxation, transport and so on.

The past decade has seen the Manchester–Leeds axis come to the fore as a hub for agglomeration in the North, but this raises significant questions for other core cities, such as Liverpool, Sheffield and Newcastle, for smaller successful cities such as Preston, Durham and York, for peripheral towns, which have borne the brunt of successive recessions, and for rural areas, which retain a significant role in the Northern economy. The spatial nature of economic development leads to significant issues about the ‘governance’ of economic policymaking and the structures through which economic strategy is developed.

LEPs will play a key role in this regard, as the basic building blocks for economic planning for the foreseeable future. Eleven LEPs are being formed across the North of England, although questions have been asked as to their readiness and accountability. Such issues were regularly raised to question the legitimacy of RDA decisions and although they will have much less responsibility for public investment it is only a matter of time until there will be calls for greater accountability for LEP decision-making. Developing stable and successful governance structures has been shown to be a fundamental requisite for economic success in other European regions and so these lessons need to be learned and adapted for the North.²³

Alongside governance, other issues are emerging about the inter-relationship between LEPs and about their ability to join up around issues that are of strategic significance across two or more areas. It is already the case that large corporates and other significant investors are struggling to know quite how to engage with what they perceive to be relatively small LEPs, and it is also the case that competition between LEPs (or relying on UK Trade and Investment) is likely to be in the best interests of securing inward investment. In the absence of any ‘supra-LEP’ structure or a coherent ‘voice’ for the North of England, this raises some significant issues about the ‘architecture’ of pan-Northern economic strategy and planning going forward.

These issues raise a number of important questions:

- Given their initial composition and delineation, can and should LEPs be representative of and accountable to their geographical areas?
- How will LEPs join up around issues of strategic significance across two or more areas?
- How can the North of England garner the kinds of powers that are currently available to – or being negotiated for – the UK’s devolved administrations and the Mayor of London?

²³ Lodge and Schmuecker 2010

CONCLUSION

The eight questions set out in this call for evidence demonstrate the breadth and depth of the challenges facing economic development in the North of England. Each question is inter-related and several raise some quite profound questions as to the type of economic growth that befits the Northern regions in the context of a 21st-century global economy.

Answers to the eight questions will inevitably be partial and provisional, but such is the nature of economic leadership that there are moments when risk must be embraced and – drawing upon the best evidence that can be gathered – directions and ambitions must be set. LEPs are approaching precisely this juncture but, in the context of both the national and global economy, there needs to be a higher level of coordination of activity and connectivity for their efforts to have maximum impact.

In addressing the questions from a pan-Northern perspective, it is hoped that IPPR North's Northern Economic Futures Commission can provide something of a strategy and framework within which LEPs and their local partners might develop their own strategies. The Commission will depend upon evidence, insight and analysis from a wide range of partners, many of whom will have very specific contributions to make on just one element of the broad picture set out in this paper, but it is through such collaboration and mutual endeavour that the most successful economies are nurtured. We welcome your insight and experience – without which we could not operate – and look forward to receiving your submissions.

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