NORTHERN
ECONOMIC FUTURES
COMMISSION

IPPR NORTH

NORTHERN PROSPERITY IS NATIONAL PROSPERITY

NEFC INTERIM REPORT

IN PARTNERSHIP WITH

JOSEPH ROWNTREE FOUNDATION

NetworkRail

PORT of TYNE

IPPR North and
the Northern Economic
Futures Commission

April 2012

Institute for Public Policy Research

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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FOREWORD

GEOFF MUIRHEAD, CHAIR, NORTHERN ECONOMIC FUTURES COMMISSION

When the Northern Economic Futures Commission was formed, we accepted a challenge to develop a medium-term strategy for long-term and sustainable economic development in the North of England, based on a detailed understanding of the northern economy in its national and international context.

In naming our interim report *Northern Prosperity is National Prosperity* we have decided to set out a strong challenge both to ourselves and to the rest of the UK. Having looked carefully at economic evidence from a wide range of sources, from leading international bodies and reputable economists and researchers, we have a strong and united belief that the national economy of the UK can only be a success if the North succeeds.

There are several good reasons why the achievement of northern prosperity is in the national interest. The North of England is home to nearly a quarter of our working age population. It hosts a quarter of all businesses and contributes a quarter of England's economic output. It is twice the size of the Scottish economy and, if it were a country in its own right, it would be the eighth largest in Europe. With so much of our capacity stored up in the North, as a nation we can ill afford to ignore its critical path.

But sheer quantum only paints part of the picture. With a national economy so desperate for growth, and with justified concern about our long-term balance and resilience, the North offers vital potential which is both unique and untapped. Consider the key drivers for growth: the skills of our young people match the national average, we produce a quarter of all the UK's university graduates and, despite receiving far less funding for research and development, our universities develop more patents than their southern counterparts.

But while we aspire to competitiveness, this is not about competition with other regions of the UK. The distinctiveness of the North has the potential to offer sustainability, diversity and resilience, which is in all of our interests. Given global challenges, our land and coastal assets provide new opportunities in areas such as energy generation, food security and water. The quality of our environment offers further potential in areas like tourism and as an attractive residential location around our core cities and historic towns. Our manufacturing base and export strengths have the potential to make real the vision for a rebalanced UK economy.

We are also clear about our challenges. The North of England is only part way through its journey of recovery from devastating deindustrialisation. Core cities like Manchester, Leeds, Sheffield and Newcastle have done well in tapping their potential for growth, and smaller places like York and Preston are developing as recognised centres for business and innovation. But they are still behind similar cities in Europe, and too many towns, villages and neighbourhoods have not kept pace. The recent recession has entrenched long-standing structural problems. Too many people are out of work and too many businesses struggle to find investment.

Our weaknesses are compounded by constraints. National policymaking has not served the North well. While City Deals and a renewed focus on local enterprise offer some recent scope for change, those responsible for critical economic development decisions have failed to recognise the difference between places and persisted with one-size-fits-all and spatially blind policies. And it will not help secure the much-needed rebalancing of the economy if an unintended consequence of austerity and public spending reductions is the delivery of a further shift of investment and economic capacity from the North to the south.

In this interim report, we make the case for a much clearer focus on the North in economic policymaking. We argue that the long-standing structural challenges facing the North of England are entrenched by systemic factors that inhibit our long-term growth potential. We contend that it is not in the long-term interests of the UK as a whole for this lack of focus to persist, in favour of short-term gains in a congested and increasingly inefficient south east, or the political gains found in giving special attention to Scotland. We set out a vision for a northern economy of the future and we are realistic about the key factors that must be addressed in order to realise it. These will be the subject of further intensive research in the months ahead.

Our case is neither anti-south, anti-Scotland, nor a simplistic plea for fairness. On the contrary, the rationale for a clearer northern focus is an economic and not a social one, a national and not a parochial one. It is one of opportunity, which we believe can enhance the quality of life for both North and south. With our sights trained on a final report in the autumn that will speak to a diverse audience of businesses, investors, public agencies, local and central government, our intention is to be leading not pleading. In the meantime, we look forward to a robust debate about the issues we set out in this interim report.

Geoff Muirhead
Chair, Northern Economic Futures Commission

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EXECUTIVE SUMMARY

The Northern Economic Futures Commission was established in July 2011 to spearhead an ambitious programme of activity and research to look at the critical issues facing northern economies and set out a medium-term strategy for economic growth, driven by decision-makers in the North of England.

The interim report has been produced to:

- provide feedback to those who have contributed to our evidence gathering so far, reviewing what we have heard and our current thinking
- set out a group of core propositions about the past, present and future of the economy in the North of England on which we are inviting further response
- set out our plans for future research ahead of our final report, which will be published in the autumn, and invite partner engagement.

The goal of growth

Any growth strategy needs an overarching vision. The commission asserts that:

> **The overall goal of economic development in the North of England should be to nurture open, sustainable and resilient economies in the North which make an enhanced contribution to the wider global and national economy, which accelerate economic transition, and which foster prosperity, opportunity and quality of life for its diverse people.**

This is underpinned by a number of policy objectives and a series of short- and long-term indicators which include, but extend beyond, conventional measures of economic productivity.

Five propositions about northern economic futures

To achieve this vision, the commission proposes that we need 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, and learns from our experience of the economic crisis. Our rationale is an economic and not just a social one, a national and not a parochial one, and one based on equal opportunity as well as fairness. It is based upon five propositions.

- **Northern prosperity is national prosperity:** With a quarter of the population contributing to a quarter of economic output, the northern economy is more than twice the size of Scotland and, if it were a state, it would rank the eighth largest in the EU ahead of Sweden, Denmark and Belgium. Northern growth would be good for everyone. If the northern unemployment rate were reduced to the average in the other English regions of 7.9 per cent, then an extra 147,642 people would be employed across the North. Presently, there exists an output gap between the aggregate gross value added (GVA) of the northern regions and that of the other English regions of £5,549 per head. Halving this gap would increase national economic output by over £41 billion. Currently, the northern economy plays a critical role in relation to national economic resilience and has the potential to do more through its significant natural assets, its broad sectoral spread and export orientation. In these respects it acts as a significant counterweight to our increasingly overheated and congested capital city.
- **Northern potential for growth:** There is a growing body of evidence that mid-sized cities and their hinterlands offer the greatest potential for rapid growth. Such potential rests on releasing key indigenous drivers of growth. These drivers would include greater investment in human capital; retaining the relatively high number of graduates educated at northern universities; capitalising on upward trends in innovation

investment and entrepreneurship; and reversing the shocking underinvestment in transport infrastructure.

- **Structural challenges are inhibiting growth:** To unlock this untapped potential, a number of structural issues need to be acknowledged and addressed. The North is part-way through a transition from the heavy industrial economy of the past, and private sector weaknesses have been exacerbated by a hollowing out of the labour market; problems accessing a financial sector which is increasingly concentrated in London; and spatially-blind policymaking which has taken a narrow view on returns to investment. Addressing these issues over the medium term to enable the North to complete its transition will promote long-term economic rebalancing.
- **The North must be seen as an interconnected metro-region:** There is no single geography of economic growth and northern economies are increasingly interconnected with different local economic centres playing diverse economic roles. Manchester and Leeds exert a strong economic influence across the North, while Sheffield, Newcastle and Liverpool make distinctive contributions as hubs of growth and employment, and as gateways to the wider economy. York, Preston, Chester and Warrington have key assets as dynamic and independent cities, while parts of the rural economy have experienced rapid and significant growth in key sectors. However, to maximise growth opportunities there needs to be much greater connectivity, coherence and coordination across and between economic centres.
- **Northern economic development needs bolder leadership and autonomy:** The dominance of the economy of London and the south east has been supported by an overly centralised approach to economic and social policy in Whitehall. The current government has made much of its desire to decentralise and has taken some small steps in this direction, but this process needs to be quicker and deeper, and the North must produce a quality of leadership and governance that is ready to meet the challenge.

A framework for future research

As an organising framework for our future work, the commission will focus on five ‘pillars’ which support economic development. For each pillar, the commission has identified some key learning points to take together with a number of areas for future research and analysis. These are set out in the table on the following pages.

Engaging with the commission

The commission is keen to receive further feedback on its thinking to date on the goal, objectives and indicators for the northern economy, its five propositions about northern economic futures, and its principles for new regional policy. It is keen to receive further evidence relating to any of its issues for future focus. It would like also to identify partners to collaborate on a small number of research projects that can help to further deepen its evidence base. This report includes detail of how to engage with these opportunities.

Table ES1
Five 'pillars' to support economic development

Pillar 1: Innovation and business growth	
Key learning points	**Issues for future focus**
• The North has a good number of sectoral strengths and specialisms – particularly those with export potential – but more of these need to be 'jobs rich' and more needs to be done to drive northern innovation opportunities. • There is growing evidence of the value of some new principles as regards regional policy, 'smart specialisation' and the development of growth 'clusters'. • The North has a relatively weak SME sector both in terms of its density and startup rate which is hampered primarily by access to finance and the management culture within many SMEs.	• Analysis of overseas demand and northern export potential • The development of a small number of growth cluster case studies • The potential for a northern innovation agenda • The notion of 'innovation clusters' as a new form of enterprise zone • Factors that influence SME management culture particularly in relation to business growth and skills development.

Pillar 2: Human capital	
Key learning points	**Issues for future focus**
• Employment projections suggest that the North will not return to 2008 levels until 2018 in the North West, 2019 in Yorkshire and The Humber, and some time after 2020 in the North East. • Levels of economic inactivity are over 25 per cent in over half of the North's LEP areas. • In-work poverty and job quality is a significant problem for too many in employment in the North. • The proportions of people with no qualifications and with level 4 qualifications in the North are both worse than the England average. • There appears to be a lack of progression routes out of low-paid employment.	• The future of low-skilled employment and its relationship with in-work poverty: how to deepen employment opportunities and encourage skills progression • Developing a more localised approach to the skills system which can match to employer need, and retain and utilise skills.

Pillar 3: Infrastructure	
Key learning points	**Issues for future focus**
• Transport and connectivity are key drivers of growth for the North but infrastructure is patchy and characterised by long-term underinvestment, overcentralised decision-making and lack of coordination. • There are a small number of key rail priorities which could bring immediate economic benefit to the North. • Northern ports, airports and logistics represent significant opportunities to address capacity issues nationally. • The North faces significant problems with housing supply and its residential offer, and needs significant creativity to incentivise new development.	• Analysis of the future of transport funding for the North • The potential for Transport for the North, a collaborative body for strategic planning across northern integrated transport authorities (ITAs) • A growth cluster case study on northern logistics • Further analysis of the potential of northern airports for driving growth • Further work on the residential offer in the North and the concept of housing enterprise zones.

Pillar 4: Investment	
Key learning points	**Issues for future focus**
• The North has suffered from a long-standing 'equity gap' due to demand and supply-side issues. • Government investment has been historically skewed towards London and the south east and this has been exacerbated by the recent deficit reduction programme. • Foreign direct investment (FDI) and European structural funds represent both opportunities and threats to future investment in the North. • There is a strong case for much further fiscal devolution in England and for new financial instruments that could stimulate investment and growth.	• A commission statement on the future of European Union funding • A study on how the North can grow its share of FDI • Further analysis about the opportunities for wider fiscal devolution in England • A study of new financial instruments and the potential for a northern investment bank or fund.

Pillar 5: Institutions	
Key learning points	**Issues for future focus**
• Stable, transparent institutions and strong, accountable leadership are key factors for economic development, but in England these have been characterised by instability and fragmentation. • Local enterprise partnerships (LEPs) largely represent meaningful economic units but need greater capacity, accountability and coordination. • There is a significant case for greater pan-northern collaboration on a number of strategic economic issues.	• Further analysis of emerging models for subregional and city-regional governance • A study on the appetite and potential for greater pan-northern collaboration and voice • Further analysis of dynamic approaches to transformational leadership in the North.

1. THE WORK OF THE NORTHERN ECONOMIC FUTURES COMMISSION SO FAR

1.1 The Northern Economic Futures Commission

The Northern Economic Futures Commission was established in July 2011 to spearhead an ambitious programme of activity and research to look at the critical issues facing the economy of the North and to articulate a 10-year strategy for long-term and sustainable economic growth across the North of England.

Its objectives are:

- 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 LEP areas
- to develop a clear implementation plan to translate ideas into action.

Our call for evidence offered eight research themes around which the commission's work is based and these have informed the structure of our meetings and evidence gathering. Using submitted evidence and additional research carried out by the secretariat, briefing papers on each theme have been prepared to inform commissioners during their work and are available for download on the IPPR North website. More details about commission meetings, evidence and expert witnesses are set out in annexes A–C.

1.2 The purpose of an interim report

This interim report is an opportunity to provide some feedback to those who have contributed to our process of evidence gathering so far and to set out some of the plans and questions we have for the second phase of our work ahead of our final report and recommendations.

Through your evidence and our deliberations we have begun to build up an understanding of the economies of the North of England which establishes their critical importance to the wider national economy; which explains the on-going problems facing many places in the North as they continue their long transition from a heavy industrial economy of the past; and which identifies some of the current challenges and opportunities looking to the future.

The report sets out a vision for economic development in the North of England and a series of objectives that might drive local and national economic policymaking which we are keen to get further views about. It also sets out five propositions about the northern economy with a view to developing a new paradigm for thinking about regional and local economic policy.

The rest of the report is dedicated to setting out some more specific issues and questions that are emerging as the key planks for a medium- to long-term strategy for economic prosperity in the North of England. These issues are not to pre-empt the final report, nor are they intended to circumscribe our future work, but they will shape the debates we have in the coming months.

We are seeking further views and ideas on all parts of this interim report. We would be very pleased to hear from you.

2. A VISION FOR ECONOMIC DEVELOPMENT IN THE NORTH OF ENGLAND

A strategy needs to be clear about what it is seeking to achieve. The commission has undertaken to set out a clear aim for economic development in the North of England, supported by a series of objectives for policymakers.

The overall goal of economic development in the North of England should be to nurture open, sustainable and resilient economies in the North which make an enhanced contribution to the wider global and national economy, which accelerate economic transition, and which foster prosperity, opportunity and quality of life for its diverse people.

In this context, key objectives for policy should include:

- **Advancing prosperity through northern enterprise and employment:** supporting businesses to survive, prosper and to innovate, and enabling people of all ages and backgrounds to secure good quality work and remain economically active.
- **Promoting higher skills and adaptable workers:** ensuring that businesses and investors are attracted to the North by the talent they require, and that individuals can engage in good quality work and adapt to economic change on a continual basis encouraged by employer demand.
- **Fostering successful cities in an interconnected North:** promoting successful, resilient and outward-looking city region economies in the North of England, capable of attracting investment, supporting business creation and innovation, and generating employment, all through a strong civic environment and an infrastructure connecting opportunities and resources.
- **Going for green growth:** promoting a high quality, low-carbon environment for business and people, reducing emissions, promoting sustainable cities and other critical infrastructure, and protecting biodiversity and environmental assets.
- **Celebrating a distinctive quality of life:** recognising quality of life as a distinctive and authentic asset for the towns and cities in the North of England, and reinforcing it through a balanced strategy promoting economic opportunities, inclusive communities and a modern living environment.

In order to assess progress towards this aim and objectives, the commission has begun work on a series of indicators against which places in the North could measure their performance. These indicators, detailed in annex D, are divided into short-term and longer-term sets enabling us to compare against appropriate national benchmarks along with a series of international comparators on a range of key measures.

Alongside traditional measures of sustainable economic growth, they also address environmental and social objectives. They include:

- economic performance – competitiveness, investment, productivity, innovation, employment
- resilience – economic diversity, dynamism, connectivity and demographics
- role – distinctiveness, linkages and accessibility
- environmental performance – carbon emissions, protection of landscapes and biodiversity
- quality of life and wellbeing – economic equality and inequality, skills and education, community cohesion and health.

3. FIVE PROPOSITIONS ABOUT NORTHERN ECONOMIC FUTURES

Over the nine months since the commission started its work, we have absorbed ourselves in developing a shared understanding of the economy in the North of England, its strengths, weaknesses, assets and deficits. We have considered economic relationships, internally and externally. We have considered its role in the UK, in Europe and in the world.

On the basis of this analysis, we propose a paradigm shift in national economic thinking that recognises the significance of the North of England in relation to national economic interest. We propose national economic resilience, secured through a drive for diversification and the realisation of all of our assets. We argue that the rationale for a northern focus is an economic and not a social one, a national and not a parochial one, and one of both opportunity and fairness. We propose that quality of life for people in *every* part of the UK is contingent on the success of the North.

In so doing we aim to be clear and open about the challenges facing the North, its diversity, complex issues of identity and scale, and the 'unfinished business' of its transition from a heavy industrial past. We are also clear about the need for leadership and improved governance. Addressing these issues should be a national endeavour, in the national interest, led and driven from the North.

3.1 Proposition 1: Northern prosperity is national prosperity

Strong and sustainable economic performance in the North of England is essential to both the wellbeing of the people of the North but also to the economic, social and environmental success of the UK as a whole. Without northern economic success, the nation cannot prosper.

In terms of sheer scale, the North cannot be ignored and yet in comparison to the devolved nations, for example, its economic stature is frequently overlooked. Twenty-seven per cent of England's working age[1] population lives in the North contributing 23 per cent of national economic output.[2] This makes the northern economy more than twice the size than that of Scotland and larger than the economies of Scotland, Wales and Northern Ireland combined. If the North was a country then it would rank as the eighth-biggest economy in the EU, just behind Poland and above countries like Sweden, Norway and Denmark (see figure 3.1 over).

In business terms, there are over 450,000 active enterprises in the North representing 23 per cent of England's business base. This is more than three times the number of active businesses in Scotland (ONS 2011).

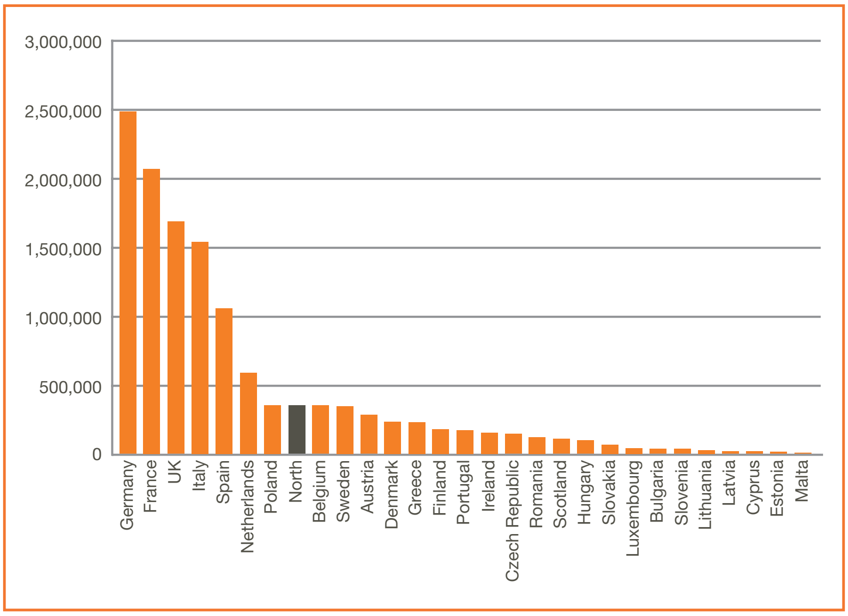
But prosperity should not be measured in quantum alone.

Northern prosperity is about sustainable prosperity for the UK as a whole. It is now a national priority to rebalance the economy to balance growth in the service economy with growth in manufacturing. There is a shared goal to produce more, to export more, and to spread our risks in the global economy through diversification of both our economic activity and our trade partners.

1 The notion of the working age population refers to all of those within the age range of school-leaving age to state retirement age.

2 The three northern regions make up 27 per cent of England or 23 per cent of UK workforce, and produce 23 per cent of England or 20 per cent of UK national output (ONS GVA statistics 2010 figures).

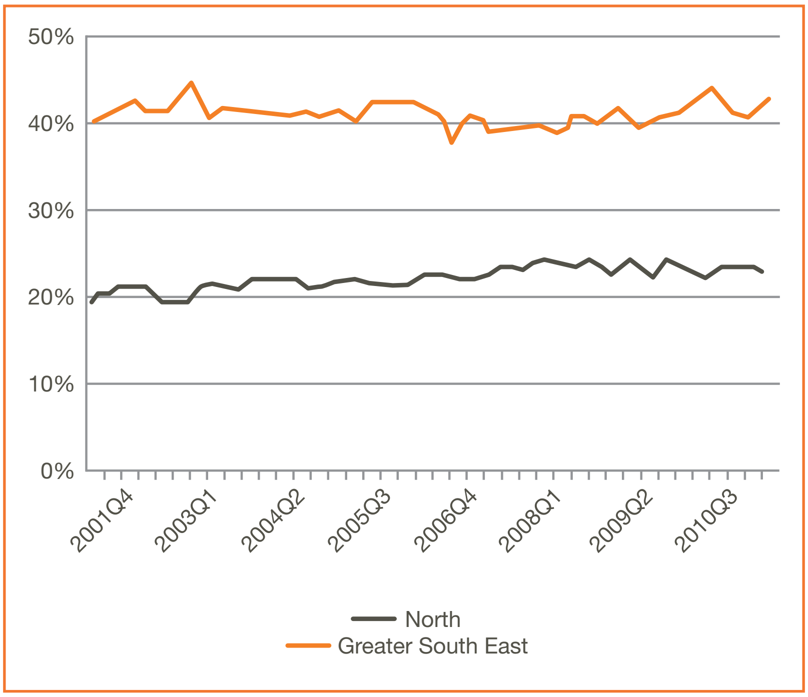
Figure 3.1
The size of the North of England economy in relation to EU nations (GDP, €m)



Source: Eurostat

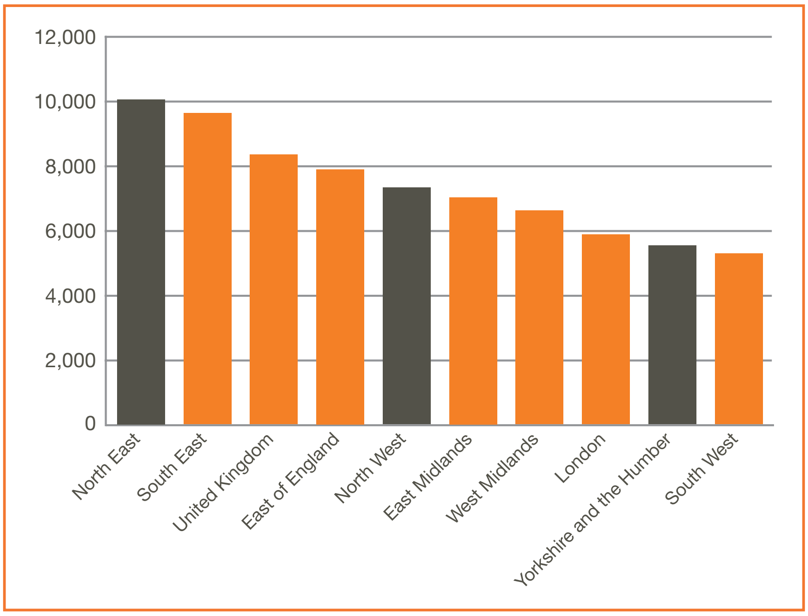
This national priority plays to the North's historic strengths and its continuing capacity. Currently, the North produces 27 per cent of the UK's manufacturing output and accounts for a quarter of the UK's exports of goods, a half of which are exported to countries outside of the EU (BIS 2011). As a proportion of total UK exports, the share generated by the North continues to grow (see figure 3.2). In terms of export goods per workforce job, the North East outstrips every other region (see figure 3.3 over).

Figure 3.2
The North's growing share of UK exports (% of UK export goods value)



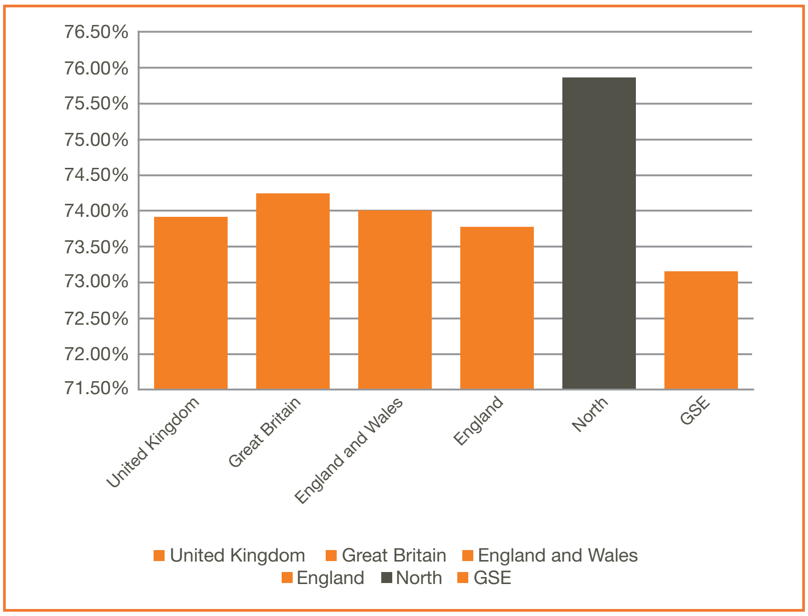
Northern prosperity is also about ensuring national resilience through both the current economic turbulence and future economic shock. This has been a central tenet of the rebalancing argument and recent OECD research shows that broader-based economies have fared better during the recession (OECD 2012). Corporation tax receipts are a key contributor to government spending and the sustainability of the business base is crucial to ongoing jobs and growth. During the most recent downturn, corporation tax receipts in the financial sector (of which the Greater South East generates 60 per cent of all profits made) have collapsed by 42 per cent since 2008, whereas receipts from all other sectors have fallen by just three per cent; receipts from the manufacturing sector (of which the North generates 26 per cent of all profits made) are actually 22 per cent up on 2008 receipts (BIS 2011). Furthermore, during the recession, the survival rates of new businesses in the North of England have been higher than in the Greater South East (see figure 3.4).

Figure 3.3
Value of export goods per workforce job, 2010 (£)



Source: BIS 2011

Figure 3.4
Survival rates in the UK of businesses started in 2008



Source: ONS 2011

Northern prosperity also underpins infrastructure for business. The North is well positioned in terms of physical assets. Given global challenges, its land and coastal assets provide new opportunities in areas such as energy generation, food security and water, and the quality of its environment offers ongoing potential and future opportunity in sectors like tourism, and as an attractive living environment around core urban economies which can attract investment and business growth in the North.

Availability of land is not just in rural areas: the proportion of previously developed land that is vacant or derelict is 4.6 per cent for the North compared to just 1.7 per cent in the south east where the pressures on land use are much greater; by area there is twice as much of vacant previously developed land available in the North than in the Greater South East (BIS 2011).

Northern prosperity has the potential to address another national problem: our overheating capital city. There remains considerable debate about the capacity for efficient growth in cities. At what point do the benefits of scale tip over into inefficiencies created by congestion and price pressures? What trade-offs should we tolerate between growth, quality of life and inequality? At what point does the price of managing growth become too high?

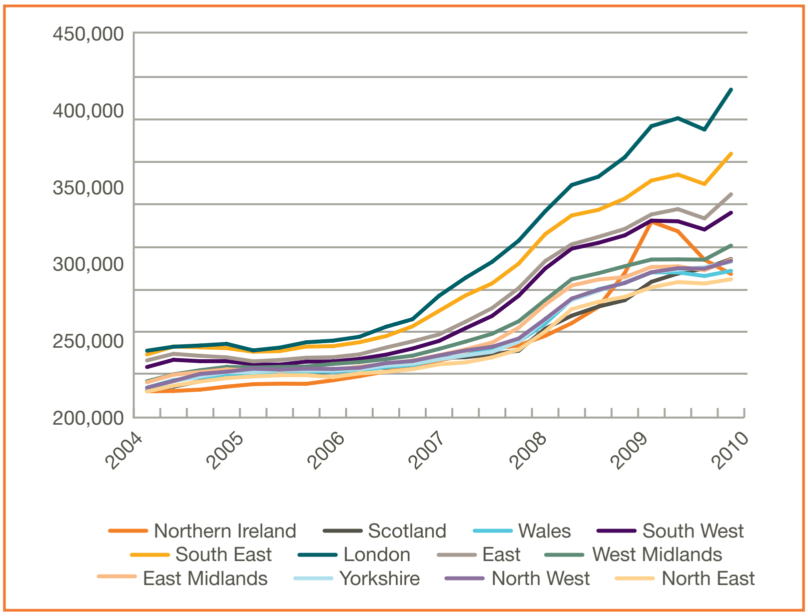
The OECD has recognised that the benefits of agglomeration are not linear and that there is evidence that growth at scale exacts a price:

> **'There is a positive correlation between metro-regions' size and income, especially when they concentrate over 20 per cent of national GDP but this correlation becomes negative at around six to seven million, suggesting diseconomies of agglomeration due to congestion and other related costs … The growth capacity of metro-regions should not be overestimated as metro-regions are not always synonymous with success'**
> OECD 2006

As the population of Greater London pushes nearly eight million,[3] the evidence that London is reaching a tipping point is increasingly clear, with the benefits of agglomeration[4] increasingly outweighed by the disbenefits of congestion and its associated costs.

For example, the divergence in house price inflation represents a national problem but is of the greatest concern to many of those living in the south for whom housing has become unaffordable. In addition, constrained south eastern housing markets and high house prices impose constraints on interest rates and monetary policy with wider macroeconomic effects.

Figure 3.5
House price inflation in the UK



Source: CLG Live Housing Market tables

Congestion in the south east also leads to political decisions regarding planned infrastructure spending that do little to foster rebalancing and bring marginal returns on investment. IPPR North has calculated that the cost of additional transport infrastructure investment in London and the south east in the years to 2015 is £2,371 per person, compared with just £5 per person in the North East, £184 in the North West and £220 in Yorkshire and the Humber (IPPR North 2011).

3 The GLA estimated the population of Greater London to be 7.83 million in June 2011 (GLA 2011).

4 Agglomeration, through firms locating near each other and creating dense urban areas, provides a number of economic benefits including network effects, economies of scale, larger labour market pools, more scope for specialisation of labour processes and competing multiple suppliers. There can even be benefits for competing firms with them being able to attract more customers as a cluster than separately.

Table 3.1
Managing congestion: transport infrastructure investment in England

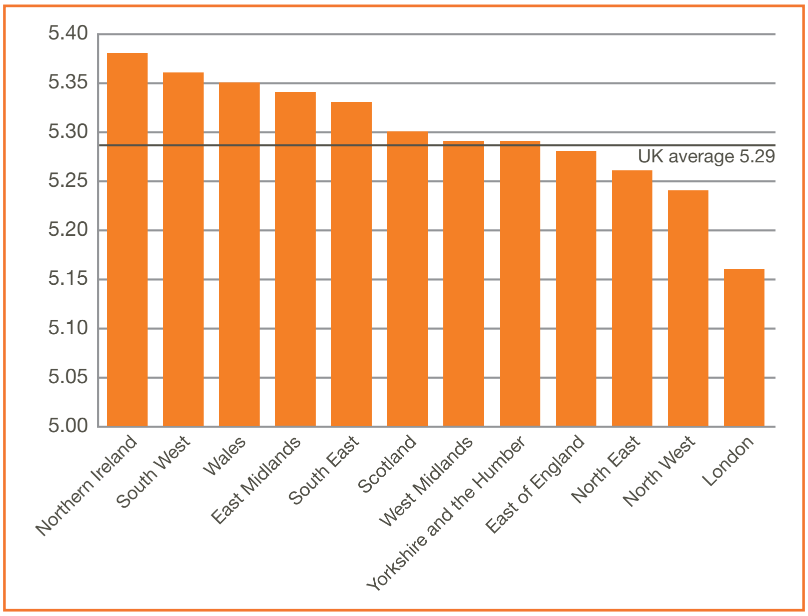
Region	Total anticipated capital expenditure on transport (£m)	Percentage of spend on regional projects
London	27,324	67.2
South East	7,696	18.9
West Midlands	1,534	3.8
East Midlands	1,394	3.4
Yorkshire and the Humber	1,065	2.6
North West	942	2.3
East of England	378	0.9
South West	294	0.7
North East	13	0.03
Total	**40,640**	**100.0**
In summary		
North	2,020	5.0
London & South East	35,020	86.0

Source: HM Treasury 2011

As a result of this imbalance, the London School of Economics has found that commuter travel between Manchester and Leeds is around 40 per cent lower than expected given the relative characteristics and proximity of the two places (LSE/SERC 2009) clearly impacting on economic growth.

Finally, Londoners themselves are increasingly concerned about their quality of life (see figure 3.6) at a time when levels of income inequality are wider than anywhere else and growing.

Figure 3.6
Satisfaction with quality of life



Source: Smart 2011

Failure to invest in the northern economy costs the whole country . IPPR North has calculated that the output gap between the three northern regions and the rest of the country equates to £1,728 for every worker in England. Presently the average GVA per head of the three northern regions is £16,359. This compares to an average in the other English regions of £21,908. If northern GVA could be increased to even half this figure then the northern economy would be better off to the tune of over £40 billion. If we accept

London is an outlier, then halving the productivity gap with other English regions would yield considerable benefit, an aggregate gain of over £16.5 billion or the equivalent of £722 per English worker.

This range of evidence considered by the commission leads it to believe that in terms of its scale, sustainability and resilience, the achievement of northern prosperity is crucial to the securing of long-term national economic interest.

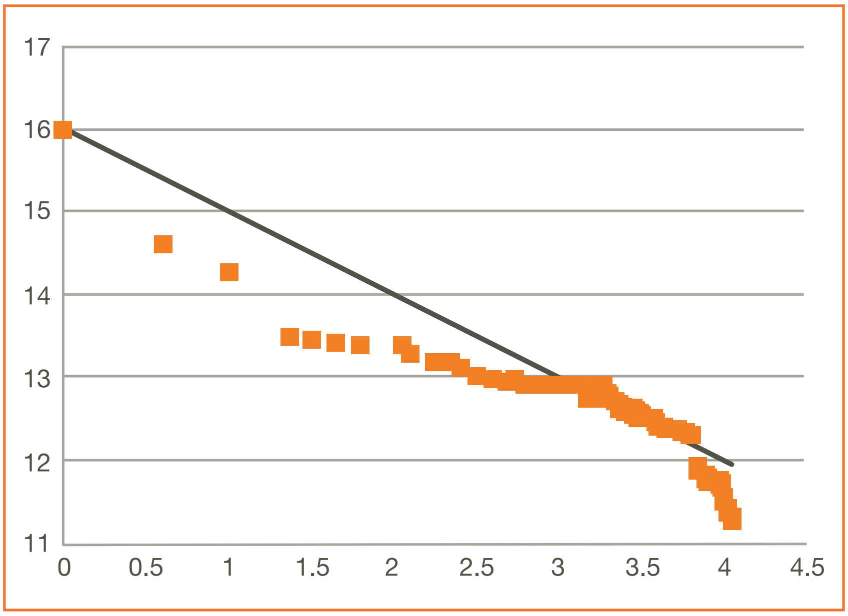
3.2 Proposition 2: The North of England holds huge potential for growth

Over the past two decades there have been strong success stories across the North, with the development of diversified local economies in and around the main core cities and in a number of other key centres, and the emergence and growth of new assets and sectors. New knowledge sectors, cultural industries, a wide range of services and advanced manufacturing industries have all offered new and diverse sources of economic growth and employment.

The commission believes that the northern economy is both primed for growth and has unrealised potential that needs to be tapped.

It is now recognised that cities are key engines for growth in the modern economy. Economic evidence suggests that genuine potential for growth can be seen in the relative size of key northern cities that are currently smaller than would be statistically expected. As the following Zipf plot in figure 3.7 shows, comparing northern cities in the UK with 'second tier' cities in other developed nations shows that while they make a strong contribution to the aggregate performance of the UK, they are undersized with significant scope to grow.

Figure 3.7
Zipf plot for English cities showing England's 'second-tier' cities are undersized



Source: Overman and Rice 2008
Note: The figure plots mid-year 2005 populations of English cities against their rank in the urban hierarchy. The fact that the second tier of English cities appear to be smaller than we would expect can be seen from observing that they lie below the zipf line (which roughly summarises the relationship beween the size and rank of cities that holds across many different countries). In contrast, note that medium-sized cities sit roughly on the zipf line.

These findings are reinforced by analysis undertaken by the OECD that has considered the contribution to net aggregate growth made by 'leading' and 'intermediate' regions during the period 1995 to 2007 (Garcilazo 2011). This data shows that on average, intermediate regions contributed around 43 per cent of growth during the period 1995–2007, compared with 57 per cent from leading regions. In the UK, however, this figure is reversed with intermediate regions (which in the OECD taxonomy would include the North East, North West, and Yorkshire and the Humber regions) accounting for no less than 57 per cent of UK economic growth while London, the South East and East of

England account for just 43 per cent. These figures demonstrate the particularly important contribution made by intermediate regions to overall output.

This combination of evidence shows that the intermediate parts of the economy are key to overall aggregate economic performance, and that there is more that the second tier cities can contribute. The commission believes that it is crucial, therefore, to identify current economic strengths and areas of potential. Within the context of the widely recognised framework of productivity drivers (HM Treasury and DTI 2000), it believes that the North has clear strengths in relation to three.

3.2.1 Driver 1: Human capital

Excluding the North, the English unemployment rate is 7.9 per cent, this contrasts with a northern unemployment rate of 9.9 per cent. If the northern unemployment rate were reduced to the average in the other English regions of 7.9 per cent then an extra 147,642 people would be employed across the North. Using the Freud Report of 2007 as a base, the net benefit to the Exchequer of moving someone off JSA into work over a year is £8,100, thus a reduction of 2.4 per cent to 7.9 per cent unemployment in the North would yield a benefit of nearly £1.2 billion to the Exchequer.

It is normally assumed that the North of England has a skills deficit in relation to other areas. This is not true of its young people: there is little difference between the North and other UK regions in terms of proportion of the 19 year-old population with level 2 skills, and northern universities educate 28 per cent of university students in England (HESA 2011).

However, the North also sees the subsequent out-migration of graduates and skilled workers in their early careers, meaning that the proportion of the overall workforce with degree-level qualifications is five percentage points behind the rest of the UK and 12 percentage points behind the Greater South East (BIS 2011).

3.2.2 Driver 2: Innovation

The North also performs strongly on innovation indicators. The percentage of the northern workforce employed in high and medium technology sectors is 3.8 per cent, exceeding the 2.9 per cent level of the rest of the UK. In more general terms, new sectors like health technologies, renewable energy and digital, media and cultural industries have emerged alongside established and modernised manufacturing sectors, growing centres for financial and business services, and retail. The prosperity of these sectors is critical for rebalancing the economy and diversifying the UK's export base. Detailed supply chain assessments have suggested that, if they can be better exploited, these developments offer not only opportunities for economic growth, but also opportunities for wider employment growth in the supply chains in a number of key sectors (Dalton Research Institute, Manchester Business School and Nuclear AMRC 2011).

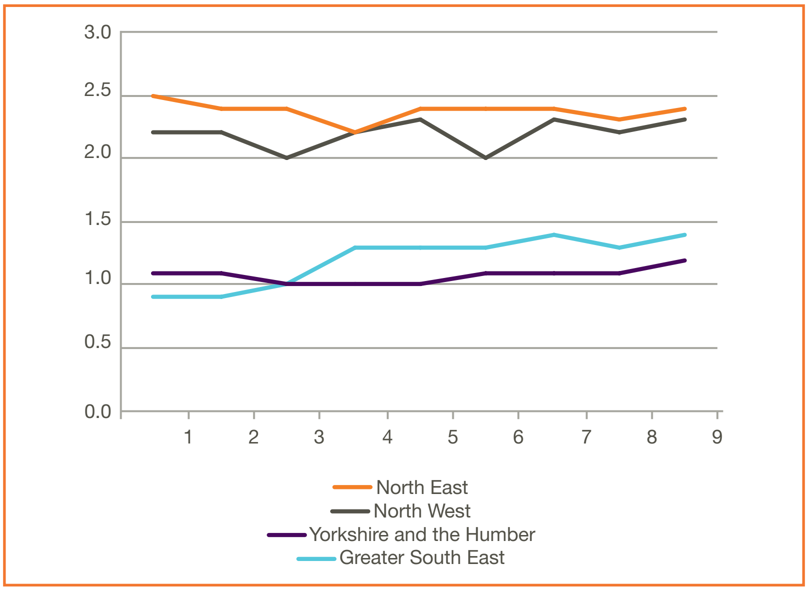
In terms of innovation investment, in 2010 northern business spent £3 billion on research and development (R&D) and, in measures of R&D intensity, the North West in particular comes out as the third top region in the UK, with 13 per cent of all UK business R&D expenditure spent in this region. Over the period from 2000–2010, when R&D intensity in the Greater South East declined, in the North it increased (BIS 2011)(see figure 3.8 over).

The North also has a disproportionate amount of university-led innovation with just under a third of patents granted to UK universities in the period 2006–10 going to northern universities despite receiving significantly less public R&D expenditure (IPO 2011).

3.2.3 Driver 3: Entrepreneurship

Despite the barriers of lower local demand and capital constraints, the northern economy shows signs of a growing entrepreneurial culture. Measures of the proportion of adults involved in entrepreneurial activity and the proportion of adults expecting to start up a business in the next three years, shows that the North is on course to overtake the Greater South East as the UK's centre for enterprise in the coming five years. This trend appeared to remain resilient in the early years of the recession: the number of people that are self-employed in the North has seen growth of 24 per cent since the start of the recession, compared with a seven per cent growth in the rest of the country (BIS 2011).

Figure 3.8
R&D intensity (R&D expenditure as a percentage of GVA)



Source: BIS 2011

Figure 3.9
Percentage of adult population involved in entrepreneurial activity

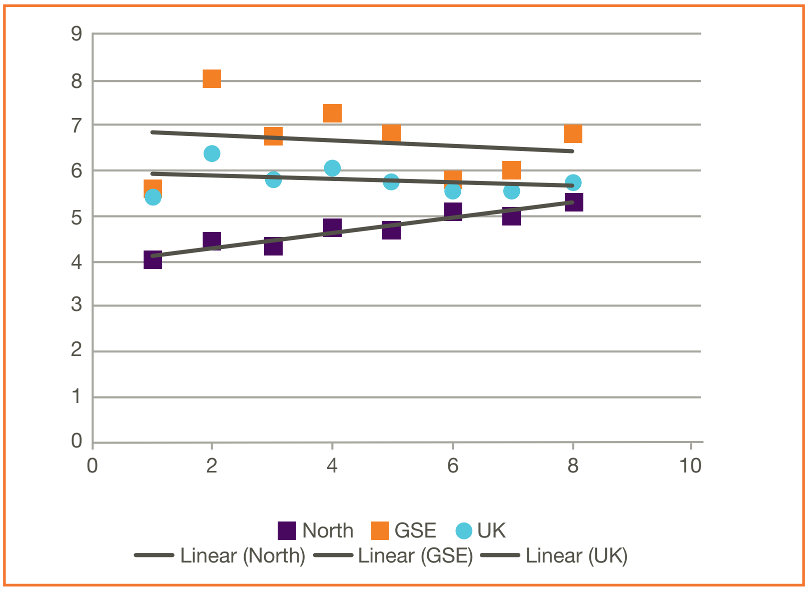
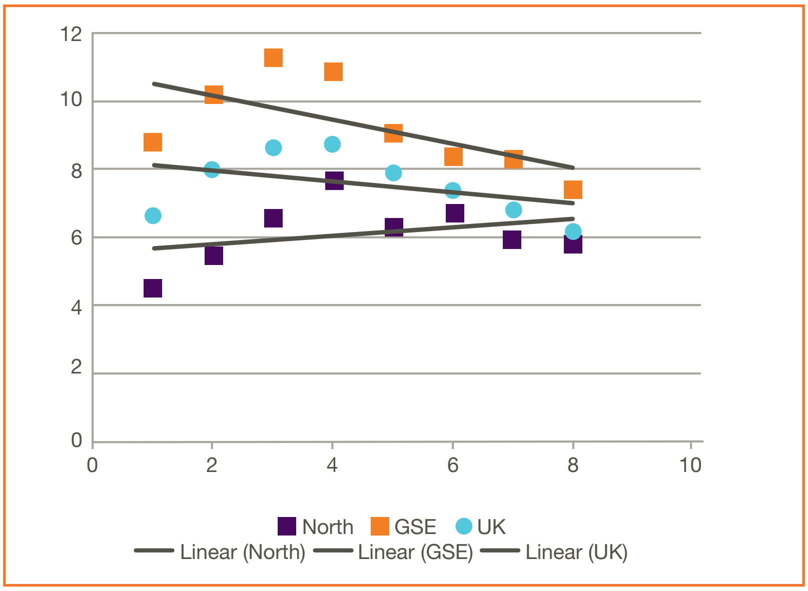


Figure 3.10
Percentage of adult population expecting to start a business in the next three years (2002–2009)



Source: BIS 2011

But there are a number of factors that are limiting progress.

3.3 Proposition 3: There are structural challenges facing the North

The process of economic change for the North is long term and dynamic and, while the progress made over the past two decades is both positive and significant, the transition from the heavy industrial economy of the past is still far from complete. Many parts of the urban and rural North are still to develop a clear niche as the economy changes and some places have continued to decline, even during the recent decade of growth and development.

Across the North, many people living in these places, and in pockets of disadvantage within the core cities, experience difficult economic prospects, poor housing and a depleted quality of life. Furthermore, the most recent global economic crisis has exposed weaknesses. While the core economies have remained largely resilient and continue to prosper, many places have experienced significant difficulties as the national and international economic environment has moved through recession and slow growth, with marginal businesses closing and trends in employment reversing. The already weak private sector in many parts of the North has been unable to respond as people have left their employment in the public sector when spending reductions have been implemented. In many towns and less successful cities, recovery has yet to set in or has stalled, and the future of some places within the North remain unclear. For some there is the risk of continuing long-term unsustainability.

There is also a concern about the long-term shape of the labour market. Levels of employment have continued to decline across key sectors and parts of the labour market are hollowing out. Alongside higher levels of aggregate unemployment, there is evidence of polarisation in the labour market with opportunities for quality jobs for those with intermediate skills declining and low-paid, low-skilled jobs trapping those without good skills in working poverty.

And the challenges from global trends remain. Demographic change is resulting in population ageing and decline, with increasing population diversity required to maintain the capacity of the labour market. Access to finance as the private sector retrenches and public sector capacity declines, will require new sources of capital and innovation in financing. International shifts in the structure of the global economy will create challenges to the North's capacity to continue to absorb and retain skilled people.

Although the most recent recession has made things immediately worse and could appear to have stalled the North's long-term recovery from deindustrialisation, the commission believes that this picture is more nuanced. The nature of the challenges facing many parts of the North of England are structural and long term, and the North is part-way through a process of structural transformation. The principal context into which the commission is contributing is one of several decades of 'unfinished business'.

The commission is clear that policy focused on the North needs to concentrate on these systemic factors to address the issue of the weakness of the private sector, to support the growth of employment, particularly in the mid-skilled part of the labour market and to develop further clarity on the economic futures and roles of struggling places. A crucial factor is to secure access to finance for investment in the business base and the infrastructure that can support growth, and this will require skills and capacity in the North, as well as a more vibrant supply of investment sources.

3.4 Proposition 4: The North must be seen as an interconnected metro-region

There is an important and vibrant debate about the appropriate scale for economic development thinking, but what has become clear from the evidence we have seen is that there is no single geography of economic growth and that from the local to the global, different markets are overlapping and interconnected in myriad and changing ways. The commission believes that it is better then to understand the processes of economic activity and development, of agglomeration, innovation and connectivity rather than to define their geographies. And then to put into place systems of governance and coordination which can be a good fit, but with the scale, powers and flexibility to work with the grain of economic dynamism.

Across the North, local economic centres are of different scale and play diverse economic roles in a wider 'polycentric' system. Manchester and Leeds exert strong economic influence across their wider urban area and benefit from increasing density of both business stock and labour force. Many of the surrounding towns and cities have benefited from their growth and the two cities and their hinterlands are developing vibrant, complementary economies, supported and shaped by local policy decisions on infrastructure, housing supply and the environment for business.

The core cities of Sheffield, Newcastle and Liverpool have also made good progress, and while they are less economically powerful, they make distinctive and important contributions as hubs of growth and employment, and as gateways to the wider economy. Performance prior to recession would suggest they have significant headroom for growth.

A group of dynamic, independent cities including York, Preston, Chester and Warrington have strong economic assets and distinctive roles, alongside their wider linkages to the core cities and beyond. They exhibit the potential to both move forward and remain resilient in the face of economic turbulence.

Figure 3.11 (over) presents a schematic of the different urban centres of the North and shows how commuting patterns spread from the key centres in their urban cores to cross a wide range of local authority areas.

Different parts of the rural economy have experienced different patterns of development. Some have benefited from their proximity to economic success in the core cities and others have sustainable land-based economies in farming and forestry. A further group have developed strong tourism and visitor economies. The North possesses much of England's sparse rural assets, offering assets for tourism, but also for land-based industries and sectors requiring high levels of natural resources. Indeed evidence we have seen suggests that, in an era of environmental concern, the North's rural assets have the potential to be crucial to long-term national sustainability. And few parts of the North are distant from the core urban centres. As the OECD has commented,

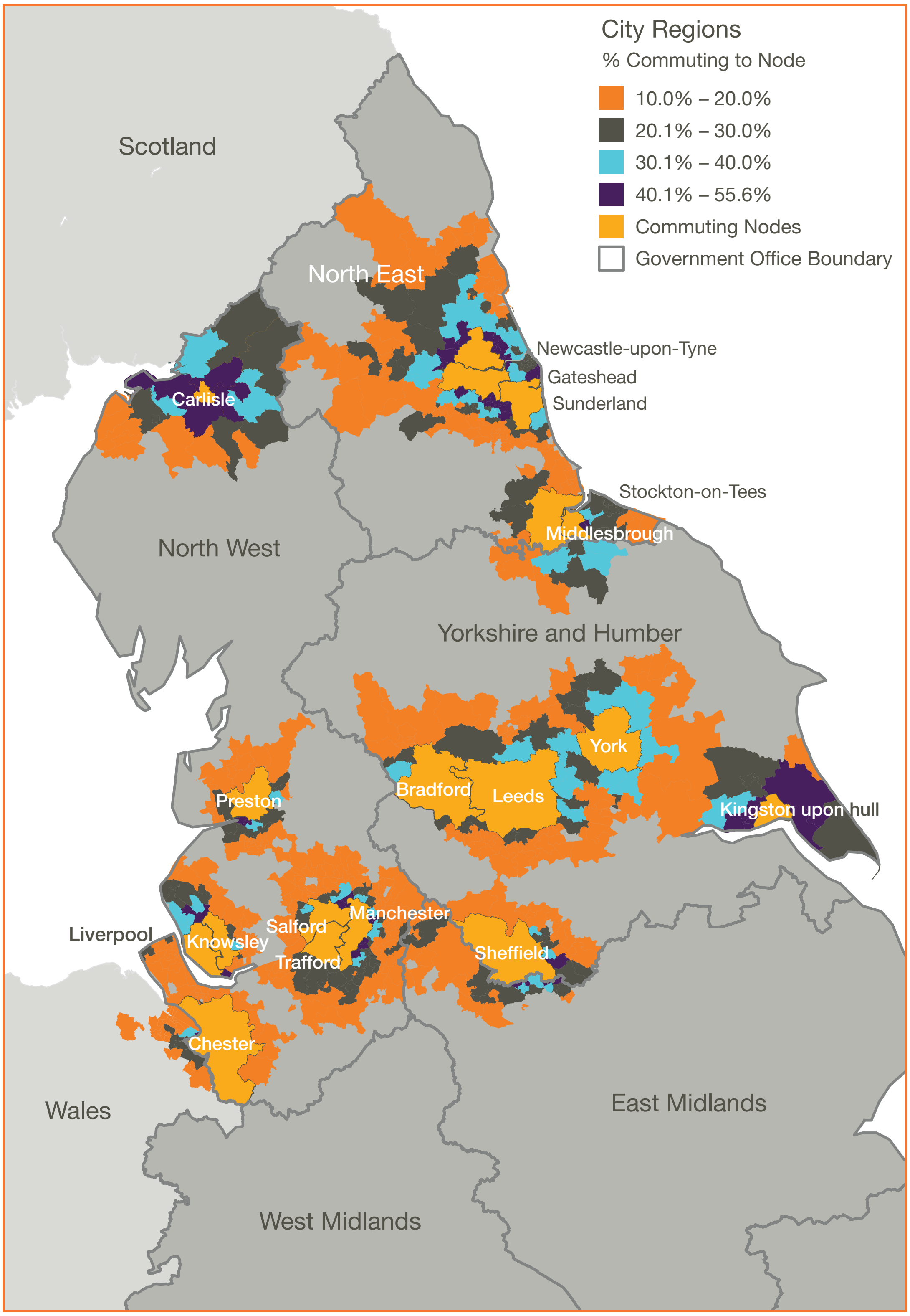
> **'[England] … is unique among OECD regions, in that it is geographically compact, with rural inhabitants generally no more than a half hour's drive from an urban area. There is thus a vast amount of interaction between rural and urban populations in England'**
> OECD 2011b

While rapid growth and productivity is likely to come from the core cities, all types of place have an important role to play in maximising northern prosperity. And just as northern prosperity is national prosperity, so the fortunes of Burnley and Blackburn, Hull and Hartlepool, need to be interwoven with those of Manchester, Leeds and Newcastle.

However, to play its part, each place needs to understand its wider role in a multi-polar economy, and maximise its connectivity to areas of opportunity and its own comparative advantages. There are also significant opportunities for working at a wider scale within the North to achieve growth and development. For example, research shows that investment to reduce the travel times between Leeds and Manchester by 20 minutes has the potential to induce economic benefits of some £6.7 billion spread across the whole of the North of England (LSE/SERC 2009).

This evidence base suggests that there needs to be coherence and coordination around the identification and prioritisation of policy and investment both *within* local functional economic areas and *between* functional economic areas, to ensure that the most strategic decisions are made to secure local and wider economic benefits.

Figure 3.11
Commuting patterns in the North of England



Source: IPEG/CUPS 2008

3.5 Proposition 5: Northern economic development needs bolder northern leadership and autonomy

For decades, economic policymaking in the UK has been dominated by the maximisation of the performance of London and the south east, underpinned by a belief that our national economic future can be built on the back of our global leadership in the financial and legal services sector: the goose that lays the golden egg. This has driven a wide range of policy approaches of successive governments ranging across competition regimes and regulation to key infrastructure choices in areas like transport, planning, innovation and inward investment.

Despite the work of regional development agencies (RDAs), there has been inadequate focus in many central government departments on designing policies that provide scope for regional diversification or local variation. Those initiatives that have been developed have not been sufficiently stable over time to enable them to become embedded with businesses, investors, or indeed with local political leaderships and communities.

The net effect of these trends has been disproportionate investment in London and the south east, combined with inadequate focus on the wider systemic issues set out above.

It is a regularly aired critique that the policymaking process is dominated by those who live in London without sufficient perspective on the challenges and opportunities that exist outside of their immediate context. Even when there have been significant numbers of northern MPs in key government positions, it has appeared that local representative interests fail to gain traction on a culture which has conflated the needs of the capital city with the 'national economic interest'. This culture is reinforced by inertia within the civil service, and the dominance of London in the experience and location of key opinion formers, such as those in the media and business.

The Coalition government has begun a process of City Deals whereby cities – and where relevant the wider LEP area – negotiate with Whitehall to draw down powers and flexibilities to enable them to maximise economic competitiveness and unlock growth. Directly elected city mayors are also being introduced, subject to referendums. They may be able to exert soft power and lever further powers out of Whitehall. These are welcome steps, but we need to go further and tackle the very frameworks within which many decisions are made centrally.

From an analytical perspective there are fundamental problems with accounting and appraisal methodologies. These are exemplified by the approach to funding major transport infrastructure projects where the main criterion for cost benefit analysis privileges high levels of population density as opposed to consideration of wider economic benefits, even though international evidence has served to question the direct relationship between density and growth (OECD 2012).

The commission recognises the strongly held view of many within the North of England on these issues and also recognises significant concerns about the potential impact of more recent policies such as the New Homes Bonus and Business Rate Retention, both of which have the potential to redistribute capital from north to south at a time when investment is required to secure the national economic benefits of the North's economic development.

But while it recognises these propositions, the commission is approaching its proposals on questions of governance of economic development on a strong evidence base about the measures most likely to secure northern prosperity and maximise its contribution to the UK as a whole. Across the world, thinking on these issues has seen a paradigm shift about the focus of regional policy, away from an approach based on compensatory redistribution of resources from successful to lagging places, to one based on the building of competitiveness and the maximisation of the contribution of all places (Garcilazo 2011).

We believe that the effective implementation of this approach in the UK can provide the mechanism for the North to take advantage of the opportunities and assets we have identified above, in the national economic interest.

For this approach to be delivered requires clarity and action on a number of aspects of economic governance which are tentatively emerging within the current policy agenda of city mayors and city deals, but which need to be followed through boldly and enhanced.

Table 3.2
Paradigm shifts in regional planning

	Traditional regional policies	New paradigm
Objectives	Balancing economic performances by temporarily compensating for disparities	Tapping underutilised regional potential for competitiveness
Strategies	Sectoral approach	Integrated development projects
Tools	Subsidies and state aid	Soft and hard infrastructures
Actors	Central government	Different levels of government
Unit of analysis	Administrative regions	Functional regions
→	Redistributing from leading to lagging regions	Building competitive regions to bring together actors and targeting key local assets

Source: Garcilazo 2011

Underlying this paradigm is the principle that is recognised within the current government's policy agenda: there are opportunities for growth and economic development across the UK that can and should be realised.

Successful realisation needs economic partners from different backgrounds: public, private, academic and third sector, to come together over a sustained period to put into place and utilise the soft and hard infrastructure which can build strong and effective economies within and across functional economic areas. Different partners and actors have different roles and contributions, and these need to be orchestrated and supported. The paradigm also recognises that there is not only one level of economic functionality and that there is a need for coordination at different levels.

The commission believes that to maximise northern growth potential, the government needs to follow through on its current direction of policy and create the environment in which the conditions implicit within this paradigm can be realised. It needs to be bold in recognising the factors which are key to the success of the local business environment, and decentralise these to the local level, while also recognising that there are other levels of economic functionality: transport connections, supply chains, shared natural resources and so on, which need to be animated at intermediate scales.

Furthermore, in order to ensure central government is prepared to let go, the North of England needs a calibre of leadership in which ministers and civil servants and, more importantly, northern businesses and communities can trust. In large part, such leadership will be exercised locally by local politicians and business leaders, but there is a compelling case for a much more visible and vocal pan-northern leadership to ensure that matters of strategic importance are brought forward with all the passion and coherence that can be observed in London or in Scotland.

Whatever its inherent strengths and opportunities, only when this paradigm is fully realised will northern prosperity become national prosperity. In our final report later this year we will show how, through practical policy making at different levels, we can make this vision a reality.

Table 3.3
The strengths, weaknesses, opportunities and threats facing northern economies

Strengths	Weaknesses
• Knowledge-led sectors such as higher and secondary education, and legal services • Infrastructure connecting northern towns and cities to the national economy • Ports and airports connecting the North to the global economy • Strong export base and tradition • Growing entrepreneurial culture • University-led innovation • Twenty-eight per cent of English university students educated in the North • Comparable skill levels to the rest of the UK for young people • Quality of environment: natural landscapes, and places of historic and cultural interest • Availability of land in both rural and urban areas • Vibrant cities and quality of life.	• High unemployment, particularly among the young, and high incidence of long-term unemployment • Low levels of economic activity • High concentration of workforce in lower occupations • Poor performing construction and manufacturing sectors • Lack of skilled labour to exploit sectoral opportunities • Pockets of low skills, enterprise and residential quality • Weak private sector in many areas • Transport bottlenecks, reducing connectivity and economies of scale • Historically low levels of business creation and very low levels of female entrepreneurship • Overall access to capital relative to south with acute difficulties for SMEs • Poor access to broadband in many areas and absence of a pan-northern approach.
Opportunities	**Threats**
• High and medium technology sectors such as advanced manufacturing, health technologies, digital, media and cultural industries • Financial and professional services • Tourism • Activities benefiting from land and coastal assets such as energy generation • Growth potential in core cities such as Manchester, Leeds and Newcastle and smaller centres such as York and Preston • Established high-growth businesses • Social businesses, with particular potential relating to changes in government policy regarding public services • Expansion of existing export base • University-led innovation • Retention of graduates and skilled workers • City Deals • Possible EU funding for transitional regions • Increased FDI • Greater freedom from central government over local control of finance, eg business rates, local taxes, municipal bonds, block grants, etc • New financial instruments, such as a regional investment bank.	• Vulnerability due to dependence on public sector and manufacturing employment • Austerity and public spending measures constrain investment • Polarisation of employment growth, with low-skilled jobs trapping those without good skills in working poverty • Continuing failure of national economic policy to address systemic weakness • Immigration policy inhibits international graduate recruitment • Bias in government investment appraisal prejudices investment in infrastructure projects • Low proportion of workforce with qualifications at degree level or above inhibits shift towards a knowledge economy • Fragmentation of innovation capacity with the advent of LEPs • Absence of matching finance (previously provided by RDAs) prevents access to EU regional development funding • High business rates inhibit business growth.

4. FIVE PILLARS FOR ECONOMIC GROWTH: NEXT STEPS FOR THE COMMISSION

In the commission's call for evidence published in July 2011, we solicited responses to eight big questions. Much of the evidence we received and analysis of the key issues is contained within a series of nine briefing papers which are being published on the IPPR North website and cannot be rehearsed in full here.

This final section of the interim report attempts to summarise some of the key findings concerning these questions and themes, and elaborates some of the ideas and concerns that the commissioners now wish to explore in more depth and detail. None of these should necessarily be assumed to be a commission position or recommendation, nor at this stage should the issues raised here appear to exclude others, but they are intended to provide a shape and direction to the second phase of the commission's work.

As an organising framework for our future work priorities, we have decided to concentrate on five 'pillars' which support economic development.[5] These pillars are built upon the foundations set out in this interim report: the vision, objectives, indicators and the principles for 21st century regional economic development which are set out in chapter 2, above. It is important to note that, according to the evidence set out by the recent OECD study, no single pillar is sufficient to drive growth alone. However, human capital, innovation and infrastructure pillars would appear to be most important for intermediate regions like the North East, North West, and Yorkshire and the Humber (OECD 2012).

Table 4.1
Northern economic futures: five pillars of economic development

1	2	3	4	5
Innovation	**Human capital**	**Infrastructure**	**Investment**	**Institutions**
Priorities:	*Priorities:*	*Priorities:*	*Priorities:*	*Priorities:*
Overseas demand and export potential Northern innovation agenda Growth cluster case studies	Deepening the workforce Local skills systems	Northern connectivity strategy Maximising natural assets (Northern Rail Priorities Statement)	FDI New financial instruments and institutions (including fiscal devolution) Investment appraisal methodologies (2014–2020 EU funding)	Models of subregional governance Pan-northern collaboration and voice
Firm foundations for growth Vision, objectives and indicators Principles for new regional policy Green growth and the low-carbon economy				

5 They are similar to HM Treasury's drivers of productivity but additional justification for their use comes from the very recently published OECD study into promoting growth in all types of regions (OECD 2012).

4.1 Pillar 1: Innovation and business growth

4.1.1 Key learning points

One of the critical questions facing the commission from the outset was where economic growth is most likely to come from and whether particular focus and investment should be placed in key sectors or in key places.

To this end, the commission asked Oxford Economics to carry out forecasting for the North of England around a range of economic variables. Their analysis raised the following issues.

- According to a carefully designed 'economic recovery index' there are wide variations between areas in the North and their potential for economic growth. Urban areas demonstrate the strongest potential while those areas at the bottom of the ranking are characterised by poor skills, low levels of enterprise and low residential desirability.
- The North has a good number of sectoral strengths and specialisms including a number of places and sectors with strong export potential but there is a significant danger that such strengths are in relatively marginal activities that create few jobs. It also has key strengths in knowledge-intensive sectors such as higher education, secondary education and legal services, but here there is a danger that there is a lack of skilled labour available locally to maximise this potential.
- Those sectors worst affected by the recession have been construction and manufacturing and this will be true right through to 2022. Financial, business and other professional services provide the greatest potential in terms of job numbers going forward. Of those seeking work, more than half are seeking elementary jobs and jobs in sales, customer service and personal services.

4.1.2 International competitiveness and export potential

One of the emerging strengths of the northern economy is its export potential. While there are some important manufacturing subsectors in the North, our initial analysis has revealed that overall education, healthcare and financial services show the greatest potential for future development, jobs growth and export potential.

Building on this work, the commission is now keen to carry out a more detailed study comparing northern strengths and capabilities with predicted overseas demand and export potential. We will explore three questions in this regard:

- *to what extent can we predict with any accuracy future levels of demand for goods and services in terms of key sectors, themes and technologies?*
- *can we identify which countries and regions that demand is going to come from?*
- *how far is the northern economy configured – or has the potential to be configured – to meet such demands and access those markets?*

4.1.3 New industrial policy and growth clusters

The commission received significant evidence about the recent renaissance of industrial policy and how debate has been reframed away from overly-prescriptive government intervention and 'picking winners' towards public-private partnerships seeking to remove barriers to growth and enabling the consolidation and diversification of key sectors and clusters to drive economic opportunity. The commission received evidence about cluster and supply chain development, smart specialisation and innovation hubs. There was a strong emphasis on opportunities to drive 'green growth'.

Drawing upon this evidence, the commission has identified a series of lessons or principles that must underpin any new approach to regional policy (see box 4.1 over).

These principles are offered to local enterprise partnerships (LEPs) and other national, local and regional actors as the basis upon which economic policymaking should be made, but the commission would like to receive more feedback as to how they might be further developed, promoted and operationalized.

The commission is also keen to identify a small number of case studies where further analysis can be undertaken to explore how particular growth clusters might be developed.

Box 4.1 Principles that should be applied to any new approach to regional policy

- Identifying sectoral – or subsectoral – strengths is important in trying to build upon and develop local and regional comparative advantages. This requires a robust evidence base, clear linkages between demand for goods and services, and the supply of labour market skills, clear timeframes over which different actions can happen, and innovative policymaking.
- It is more important to build upon existing strengths and to leverage existing and emerging networks and clusters rather than focus on specific sectors or subsectors that may hold notional potential but in reality show weak development in a locality. However, there are opportunities to link existing capacity to emerging demands through strong analysis and collaboration.
- Local institutions, public-private partnerships and infrastructure investments are crucial to maximising cluster and supply chain development but need to be highly motivated and closely coordinated.
- Skills policies need to focus on how technologies are spread and diversified. They need to build upon locally embedded economic activities to enable smart specialisation and cluster development, and encourage the inflow of knowledge and learning rather than the outflow of knowledge and skills.
- There should be a healthy disregard for institutional boundaries and a strong emphasis on connectivity in order to maximise opportunities for cluster and supply chain development.

Such clusters could be sectoral or spatial, large or small. We would like to develop these plans in partnership with businesses, LEPs and other players, both to maximise key areas of economic opportunity as well as provide some exemplar plans for subregional cluster development.

4.1.4 Innovation

The commission has given particular attention to the importance of innovation. Research about the relationship between innovation, economic growth and employment provides an explanatory rationale for a policy focus on it. NESTA suggest that 'a small number of high-growth businesses hold the key to job creation and prosperity' (NESTA 2009). The characteristic these organisations hold in common is that they are disproportionately innovative, compared with other businesses, but they are spatially and sectorally spread.

The commission also received evidence that most innovative products and processes depend upon a wider 'innovation system' which ensures that mechanisms for diffusing new knowledge and processes are locked on to mechanisms to translate these innovations into commercial or organisational outputs. As highlighted above, innovation systems rely upon a range of horizontal and vertical linkages in clusters or networks in which key players possess high levels of trust, social capital and learning. Networks of active, non-market organisations often play a key role in the success of these systems. For example, public sector bodies responsible for encouraging, supporting or fostering clustering, planning, investment or boundary spanning activities can be crucial to their successful evolution (briefing paper 7).

Drawing upon the OECD's Territorial Innovation Review, the commission learned that the three northern regions were collectively 'below average' on a range of measures of innovation and that there are significant variations in performance between different places (OECD 2006). The commission considered the different strategies adopted by each of the former RDAs and the extent to which these had led to such variations.

One of the most important findings was the OECD view that more embedded capacity was needed at a number of different levels – at pan-regional, regional and local scale – in order to enhance innovation with stronger and more effective coordination between these levels, as well as the need to provide greater certainty and stability to provide a basis for longer-term innovation investment. The commission learned of important attempts to address this concern, led by the Northern Way, and the formation of the N8 Research Partnership as a university response to pan-northern coordination amongst the eight most research-intensive universities in the North. However, it heard also that with the advent of LEPs, the risks of further fragmentation of innovation capacity remain very high.

Finally, the commission received evidence about government and European Union initiatives to build innovation capacity including investment in technology and innovation centres (TICs), the UK Innovation Investment Funds and EU Innovation Partnerships. Much of the focus of these initiatives is on the commercialisation of science and technology, and more emphasis needs to be placed on the importance of fostering a wider innovation culture across all aspects of the economy.

Alongside work on growth clusters set out above, the commission proposes to explore two further issues in relation to innovation.

First, whether or not there is a need for a northern innovation agenda, highlighting the key issues that need urgent attention (supply chain reports, specific innovation cluster opportunities, EU and other finance opportunities) and the need for a clearer sense of partners (N8 Universities, TICs, the Technology Strategy Board [TSB], LEPs etc) who would need to come together to develop a more coordinated and coherent approach to building innovation capacity.

Second, the notion of an 'innovation cluster' which might operate much in the same way as an enterprise zone with preferential investment, tax and regulatory regimes but without necessarily being spatially bounded, instead focused on key assets, processes or technologies.

4.1.5 Enterprise

Throughout the past year small and medium-sized enterprises – often know as SMEs – have been heralded by many people, including the prime minister, as the key to recovery for the UK economy. The commission considered evidence that showed the importance of the sector in terms of its scale: at the start of 2011, the 4.5 million UK private sector SMEs employed an estimated 13.8 million people and had a combined turnover of £1,500 billion (BIS 2011b). It also recognised how rapidly SMEs had grown under the previous government: between 2002 and 2007, the number of SMEs increased by over two million, the number of large enterprises by only 2,000 (BIS 2011b). However, the number of SMEs, their density and the startup rate were all lower in the North of England in comparison to the rest of the country.

Three findings start to explain this relatively weaker performance in the North.

- One of the most significant barriers to northern growth is long-term access to capital vis-a-vis the wealthier south. Venture capital and hereditary wealth have always been less widely available in the North compared to other parts of England and over time through market processes, many of the indigenous sources of capital such as the regional and local banks, have been absorbed into national and international institutions denuding the North of access to capital. In 2007, the Greater South East, home to 32 per cent of the UK's business base, secured 69 per cent of all UK venture capital investment (Northern Way 2009). With over 70 per cent of fund managers located in London, it is clear that private venture capital investment reflects the location of venture capital firms themselves. (This will be considered in further detail in respect of pillar 4, investment, below).
- While there is very little evidence to suggest that northerners are per se less entrepreneurial than southerners, the North does have a deficit in quality of skilled workers, which can deter large enterprise and arguably makes small scale entrepreneurialism more difficult. The same can be said of the quality of northern infrastructure, which makes connectivity difficult and prevents northern business from capitalising on some of the economies of scale and density of business networks that their counterparts elsewhere are able to do. Again, these issues are addressed in sections below.

- Third, CBI research has shown that the North has seen the erosion of the middle tier of the economy. This has highlighted a challenge to ensure that established businesses in more mature sectors survive and prosper providing more sustainability in this part of the economy, which is crucial for the local supply chain and in providing a more balanced labour market, as is the case in Germany, Sweden and Switzerland (CBI 2011).

The commission received evidence about the diversity of the SME sector and the importance of understanding the specific needs of different parts of the sector overall.

- Evidence from the CBI supports the observation about the particular importance of 'mid-sized firms', particularly in relation to both economic productivity and jobs growth. Identifying and supporting the so-called 'gazelles' and those firms which provided more depth to the labour market could be more important than a blanket approach to SME support, as nearly three-quarters of SMEs don't possess a single employee.
- Social enterprises represent a growing subsector with some relatively strong growth in the North West, and Yorkshire and the Humber, and with particular potential in relation to changes in government policy on public services, but widely misunderstood by traditional investors.
- There is an important, and crosscutting opportunity, through ethnic minority-led businesses which are playing an increasingly important role in the northern economy at low, middle and increasingly at higher levels. They are often crucial in particular places and subregional areas, but would appear to suffer from particular difficulties in accessing mainstream finance and business support.
- Also, female entrepreneurship is considerably lower in the UK than in comparator countries and women are half as likely to start a new business than men.

The commission also considered evidence about the potential barriers to enterprise and drew the findings below.

- Access to finance would appear to be the biggest concern for all SMEs. This is considered in more detail under pillar 4.
- Business rates are presenting a particular problem for many small businesses, particularly retailers, and the ability to offer business rate discounts is unlikely to be a significant draw for businesses to enterprise zones. A more widespread application could hold out significant potential for larger areas in the North.
- There is little more than anecdotal evidence about the problems of 'red tape'. While the government is right to explore where there is scope for simplification of bureaucracy, the main problem reported to the commission would appear to be that constant rhetoric about red tape undermines business confidence and inhibits growth.

Two areas of SME potential would appear to be underdeveloped in current thinking. First, there is evidence that spin-outs from mature businesses have higher levels of success than startups. And second, foreign entrepreneurs have been shown to be a key driver of innovation and growth in this country and overseas, and yet while the US Council on Economic Growth is advocating quadrupling the number of green cards issued to foreign students, UK immigration policy currently jeopardises international graduate recruitment.

A major barrier to growth would appear to be an apparent 'conservatism' within the SME sector and attitudes to risk amongst SME managers in particular. This affects all aspects of SME development but there is evidence to show it explains much of the UK's underperformance in SME exports. SME management culture is heavily affected by the external environment, not least political rhetoric, but also points to the need for more effective business support. It would appear to be the case that such support is most effective when delivered very locally through business-to-business mentoring.

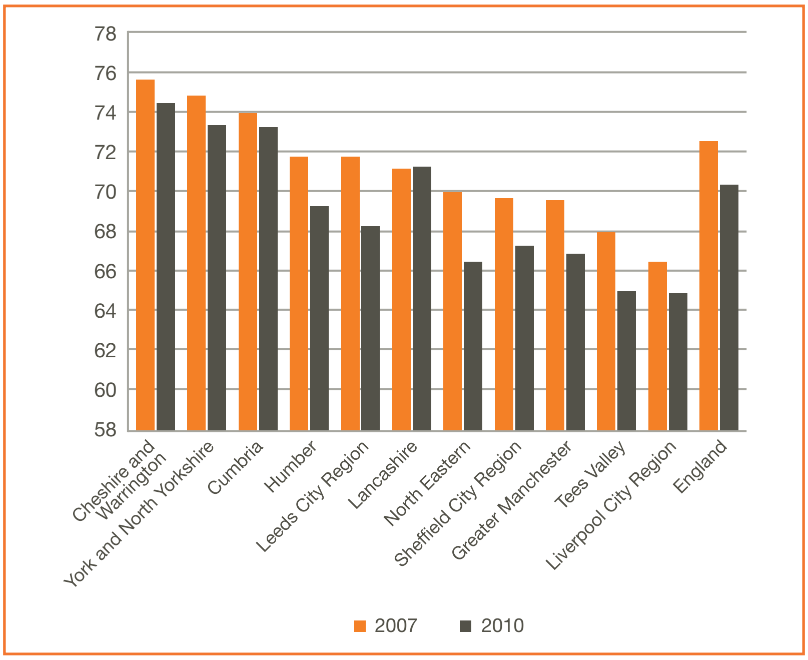
In its second phase, the commission is keen to explore in greater depth the diverse roles that SMEs play both in terms of deepening the labour market and also in terms of their contribution to wider growth clusters. It will also look at the extent to which SME management culture is the key determinant of change in these areas.

4.2 Pillar 2: Human capital

4.2.1 Key learning points

The North of England has lost over 250,000 jobs since the start of the recession in 2008, equivalent to a 3.6 per cent fall in total employment. In the North East, the fall in total employment has been 7.3 per cent (NOMIS database). Regaining lost jobs will be slow, projections suggest that total employment will not return to 2008 levels until 2018 in the North West, 2019 in Yorkshire and the Humber, and not until some time after 2020 in the North East (Gibson 2011). The following chart shows that employment rates have fallen significantly in all but one LEP area in the North, and only three out of 11 areas have employment rates that exceed the England average.

Figure 4.1
Employment rates (working age) in the North of England, 2007 and 2010



Source: Nomis

Those in work in the North are, in general, less likely to be employed in higher occupations such as managers and senior officials or professional occupations, and more likely to be employed in lower occupations such as process, plant and machine operatives or elementary occupations. And the northern labour market is still marked out by the size of the public sector and manufacturing as employers, relative to the English average, making it more vulnerable to job losses in the current context.

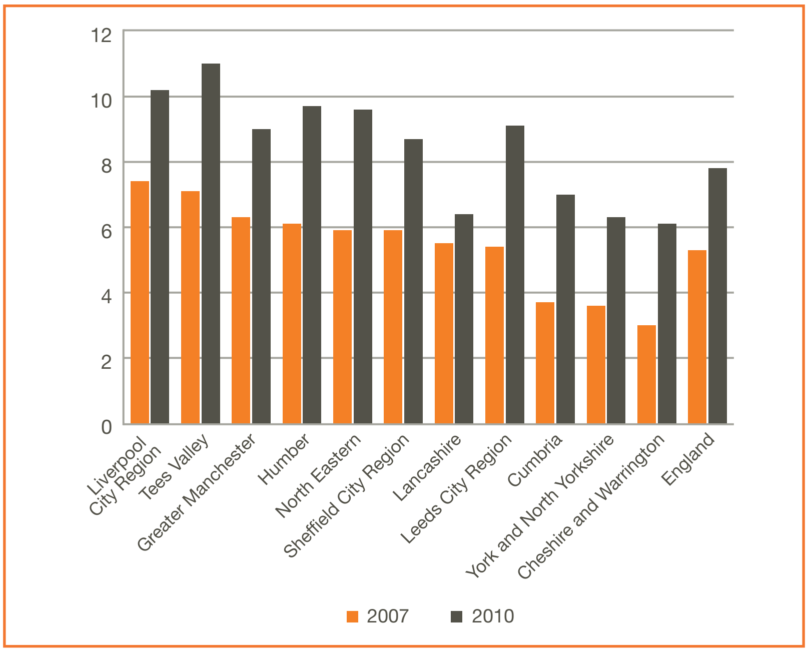
Unemployment has risen to its highest levels since 1998. The unemployment rate will remain high not least due to the fact that it is projected that as many as 700,000 people currently economically inactive may choose or be forced onto the labour market in the next few years as a result of changes to the welfare system. Some of the largest increases in unemployment have been seen in the Tees Valley, North Eastern, Leeds City Region and Humber LEP areas.

IPPR North analysis of the latest workforce jobs figures indicates that over the last year the North has seen a large reduction in the number of public sector jobs, and almost no increase in the number of private sector jobs (Cook 2011). So far, the private sector has not been able to step into the jobs gap being left by the public sector.

These labour market conditions are perhaps most challenging for young people. The unemployment rate for people aged 16–24 from 2004/05 to 2010/11 shows a sharp increase in youth unemployment across northern LEP areas and England as a whole. Another emerging labour market challenge is the increasing number of people out of work for 12 months or more. Northern LEPs had a higher proportion of long-term unemployed people among their populations and all areas saw an increase in long-term unemployment from 2008.

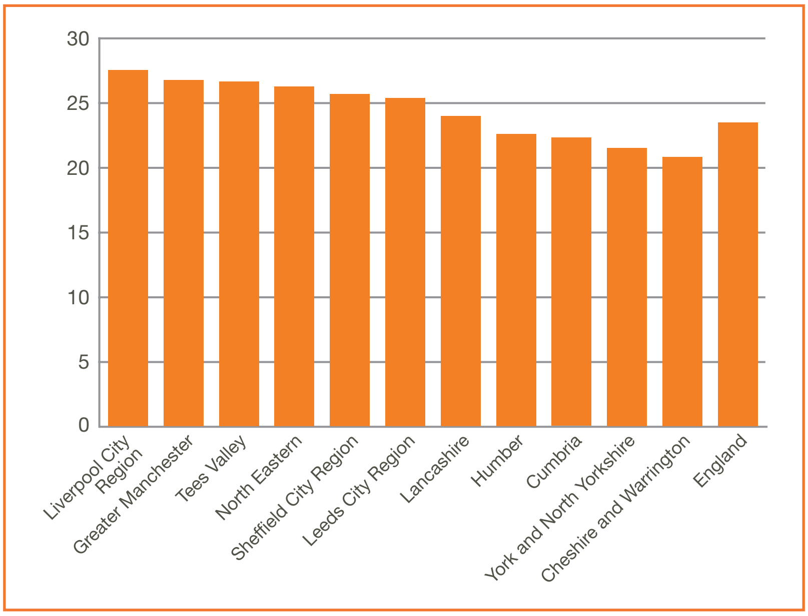
Half of the North's LEP areas have levels of economic inactivity (those that are neither in work nor looking for work) that are above the England average . In the North Eastern, Tees Valley, Greater Manchester and Liverpool City Region LEP areas, over a quarter of the working age population are economically inactive.

Figure 4.2
Unemployment rates (working age) in the North of England, 2007 and 2010



Source: Nomis

Figure 4.3
Economic inactivity rates (working age population) for the North of England, 2010/11



Source: Nomis

The weaker labour market performance in parts of the North creates a particularly challenging context for those that are out of work and seeking a job. The ratio of JSA claimants to each job vacancy is worse in seven of the 11 northern LEP areas, and in the Tees Valley City Region LEP the ratio is nearly twice the English average.

There is a problem with in-work poverty. In 2008/09 an estimated 61 per cent of poor children lived in a household where at least one parent was working (Gottfried and Lawton 2010). Those working in low-skilled, low-paid, insecure jobs with few opportunities for progression are most at risk of in-work poverty. A goal for the northern labour markets could be to reduce incidence of in-work poverty, improve job quality and median earnings in order to combat damaging economic inequality.

A further notable feature of the northern labour markets is the difference in skill levels among the workforce. In the northern regions a lower proportion of the population have qualifications at degree level or above (level 4), and while the number of people with no formal qualifications has been falling in recent years, the proportion of the population of the North with no formal qualifications remains higher than the English average. This was the only group where unemployment was increasing during the economic boom years, a fact that demonstrates the premium placed on skills in the 21st century labour market.

Recent analysis of the British Household Panel Survey found the risk of getting stuck in low-paid work is particularly high for people with no formal qualifications, suggesting a lack of progression routes out of low-paid employment (Sissons 2011). Employers also have a key role to play in upskilling the workforce, through their demand for and investment in skills. A goal for the northern labour markets could be to reduce the number of people with no formal qualifications, and increase employer demand for (and investment in) skills, providing progression routes for employees.

Finally, over recent years the direction of welfare-to-work policy has been towards greater conditionality and personalisation in welfare-to-work services, moving away from offering standardised support to job seekers on the basis of their reason for claiming (such as single parent, disability, unemployment), and towards tailoring support to their individual needs. There are, however, a number of concerns about the implementation of the Work Programme including whether, in practice, the temptation will be to 'cream off' those that are easiest to help, and 'park' those that are difficult to help. The role of voluntary/community organisations and social enterprises has been lauded as a key part of Work Programme delivery, as subcontractors to private sector prime contractors. These organisations certainly have a substantial contribution to make to helping people into employment (Cook and Schmuecker 2011), but there is concern about how the contracts are being implemented.

4.2.2 Areas for future work

A more balanced economy with opportunities for progression

There is a great and emerging danger that with employment growth likely to take place predominantly in high-skilled and low-skilled sectors, increasing levels of unemployment among those with no skills, and low levels of productivity, pay and job security for those in low-skilled employment, the North is facing an unprecedented two-tier employment economy with far-reaching social and economic consequences.

Within the innovation and enterprise pillar we will look at job creation and in particular, the importance of growth and innovation clusters, enterprise and business support, and overseas demand and export potential. In this context, *the commission believes that further attention needs to be given to the potential of these priority areas to create semi-skilled jobs and progression routes for those in low-skilled work.*

Furthermore, the commission needs to explore the future of low-skilled employment, particularly in service sectors such as retail and social care, and where there may be opportunities to improve productivity and pay in these sectors to avoid growing levels of in-work poverty and provide progression routes into semi-skilled jobs.

Developing a more localised skills and welfare-to-work system

Much of the evidence considered by the commission has highlighted the challenges and weaknesses of historical attempts to improve skills and assist people into work.

The commission is keen to explore how a more localised approach to the skills system and welfare-to-work programmes might benefit northern economic development. It will consider how a more integrated approach could be developed within functional economic areas ensuring that it is both more responsive to employer demand and provides individuals with the transferable skills and confidence which can enable them to fully utilise their talents in paid work and in enterprise. It will also look at how LEPs can work closely with the range of skills and welfare-to-work providers, in planning, financing and delivering *more effective provision. It will also investigate what powers and freedoms need to be granted by central government to enable such a system to operate.*

4.3 Pillar 3: Infrastructure

Infrastructure is widely understood to be a critical factor in enabling and stimulating economic growth. The commission has considered two key dimensions in this regard: transport and connectivity, and housing and planning.

4.3.1 Transport and connectivity

The commission received significant evidence about the importance of connectivity in driving growth. The vast majority of cities derive a significant proportion of their prosperity from their accessibility and connectedness. Research carried out by IPEG and CUPS (2008) shows a consistent correlation between areas that experienced the strongest productivity growth during the past decade and their degrees of connectivity.

However, while transport and connectivity are necessary for growth, they are not sufficient. Research by the Work Foundation (Hutton 2008) shows that the relationship between connectivity and skills is key: labour connections are the strongest indicator of complementary links between places, and these links depend not only on good transport, broadband etc, but also on high concentrations of productive firms, higher skills and good housing stock.

In many respects, the North of England does operate as a dense and highly interconnected polycentric urban area. However, connections are patchy and many locations are not as well connected as their geographical proximity would suggest they should be. For example, there are numerous towns lying within each of the urban centres that have relatively isolated local economies. Furthermore, one significant study has shown that commuter travel between Manchester and Leeds is around 40 per cent lower than expected given the relative characteristics and proximity of the two places (LSE/SERC 2009). A number of factors can account for these issues, but the commission received significant evidence that the most significant problems relate to a long-tem underinvestment in vital rail and road infrastructure – as cited by the chancellor in his recent budget speech – and the lack of devolved powers and funding for effective coordination.

TRANSPORT COORDINATION

One of the key issues raised with the commission is the need for greater coordination and strategic planning in relation to pan-northern transport issues. While integrated transport authorities (ITAs), working with LEP areas, have a key role to play in local and intra-regional transport management, there are a range of wider issues that would benefit from some kind of partnership between ITAs and private sector transport providers.

To this end, the commission is keen to explore the potential for Transport for the North – an entity similar to Transport for London – that could *coordinate service delivery and plan investment across the North of England. This work will explore the role and functions of such a body, but also the devolved powers and funds it might need in order to be effective.*

TRANSPORT INVESTMENT

The commission has identified the fact that HM Treasury Green Book rules and the new approach to appraisal (NATA) for major transport projects is a key factor behind underinvestment in northern transport infrastructure projects. The NATA methodology does not take sufficient account of wider economic benefits or the social and distributional effects of transport investments. To this end benefit cost ratios are heavily skewed towards those projects in areas of high population density and higher wages resulting in a situation where over 80 per cent of major transport infrastructure spending in the current National Infrastructure Plan is earmarked for London and the south east compared to just six per cent earmarked for the North (Cox and Schmuecker 2011).

The commission also received evidence about subsidies relating to rail service provision. The farebox recovery ratio[6] in the North of England is lower than the UK average reflecting the North's lower wages and costs of living. The government's aspirations for fares to provide a higher proportion of railway funding therefore provides a particularly acute challenge for the North. Not only are fares lower but a set percentage increase of fares will obviously not go as far as the same percentage increase applied to an area with higher fares. This raises significant issues for service provision, particularly for the most heavily subsidised routes.

For this reason, the commission will carry out further research about transport investment. It will consider:

- *how the transport appraisal process should be amended to better focus on wider economic benefits*
- *how foreign investment might be mobilised most effectively to support transport infrastructure projects in the North*
- *how to ensure the government's intention for fares to provide the majority of funding for the railway doesn't disadvantage the North by virtue of its lower baseline and wages*
- *how much the role of the ITAs should be expanded and how to mitigate the risks of further devolution.*

RAIL PRIORITIES

The commission took evidence on a range of rail issues including the opportunities and threat posed by HS2; concerns around capacity and congestion with demand between Leeds and Manchester, for example, predicted to increase by 40 per cent by 2019 (Network Rail 2011); and with the poor quality of rolling stock.

Owing to the timing of the current government spending decisions for control period 5, the commission has moved quickly to publish a statement about northern rail priorities (IPPR North and NEFC 2012). In this statement, it identified five key priorities (see box 4.2).

Box 4.2 Five key priorities for rail in the North

- Northern Hub: a series of improvements which will enable faster, more frequent services between Liverpool, Manchester, Leeds, Sheffield and Newcastle and increases capacity at Manchester Piccadilly at a cost of £560 million (£215 million already approved).
- HS2–Midland Mainline Connection: a short connection from the HS2 hub near Birmingham to the Midland Mainline route which will enable immediate benefit from HS2 Phase 1 to the East Midlands, East Yorkshire and North East and reduces travel times between Newcastle, Sheffield, Derby at a cost of £30 million. Existing HS2 benefits increased by 20–25 per cent.
- Extending Trans-Pennine electrification to Middlesbrough, Scarborough and Hull which would maximise the benefit of the existing plans for electrification between Manchester and York and reduce travel times between Newcastle–Manchester Airport, Hull–London plus reduce congestion on M62. This would cost between £85–110 million but could pay for itself over a 60-year period.
- Improve rolling stock to enhance capacity and customer experience; increase cost efficiency and lower carbon emissions while maximising the benefit of Trans-Pennine electrification and creating jobs associated with vehicle manufacture.
- Station improvements in Liverpool, Leeds and Sheffield to increase capacity at all stations, both in terms of passenger numbers and train journeys.

6 The farebox recovery ratio is the proportion of revenue generated by a transport authority through fares by its paying customers as compared to the cost of its total operating expenses.

In total these priorities would cost £810 million – of which £215 million has already been approved – which is just 2.5 per cent of the cost of the HS2 proposals and would bring significant enhancements to the northern economy some 15 years ahead of the planned dates for Phase 2 of HS2 to be realised.

ROADS, PORTS AND AIRPORTS

The commission received evidence on a range of other transport issues concerning roads, ports and airports, summarised below.

- Major road infrastructure investment suffers from the investment issues highlighted above leading to significant issues of congestion, not least on particular routes such as the A1 in Tyneside. Perhaps the greatest priority for road investment though is the need to improve road access to some of the North's most important national and international gateways: its airports and ports, and London.
- Northern ports represent significant national and regional assets and potential drivers of export potential. The port complex at Grimsby and Immingham on the Humber caters for more freight than any other port in the country, and collectively the North's ports handle around a third of UK port traffic with £10 billion of goods handled at the Port of Tyne alone (Port of Tyne 2011). However, port development is constrained by the lack of physical capability of the rail network to cater for the latest generation of maritime containers. Gauge clearance work on the railways would not only benefit northern ports but would also enhance the connectivity of inland distribution networks.

To this end, the commission proposes making northern logistics one of its growth cluster case studies (see pillar 1 above) with a view to further exploring the opportunities and barriers that exist to build upon its existing port, road, rail and airport assets.

Manchester Airport is the largest airport in the UK outside the south east and serves as a major international gateway for the North of England, accounting for around 8.6 per cent of all air passenger traffic (CAA Statistics 2010). Liverpool John Lennon, Newcastle and Leeds–Bradford airports account for around six per cent of passenger traffic combined. A key issue for northern airports is their lack of direct flights with emerging markets such as Beijing and Shanghai. The problem is exacerbated by Heathrow – UK's main international hub – running over capacity and squeezing out domestic flights. One solution suggested to the commission is to reduce taxation – not least airport passenger duty – in airports outside London to support economic growth.

The commission is keen to consider further evidence about how northern airports can maximise their role in driving international trade; alleviate capacity issues at Heathrow and other south eastern airports; and operate as a catalyst for wider private sector investment.

BROADBAND

Faster broadband is a crucial component of the physical infrastructure required to drive economic growth. Currently, the UK lags behind many of its global competitors in terms of broadband speeds. Therefore the commission welcomes the government's recent announcements to provide Bradford, Leeds, Manchester and Newcastle with ultrafast broadband speeds and additional broadband funding for smaller cities.

Ultrafast broadband is defined by the Department of Culture, Media and Sport as between 80Mbits/sec and 100Mbits/sec. This vast increase on current speeds has the stated aim of ensuring that the UK has Europe's best broadband network by 2015. With few of the UK's competitors standing still we will monitor the situation closely to ensure that the government will follow through on this commendable ambition.

4.3.2 Housing and planning

Housing and the wider 'residential offer' are key to creating a competitive economy even if they are not drivers of economic growth in themselves (Tribal 2009). Housing markets are critical to patterns of household wealth and consumption that have significant effects on local and regional economies. The construction sector is also often identified as a barometer of economic health in a local economy with significant multiplier effects within the wider economy.

The biggest challenge facing the North in particular, but the UK as a whole, is lack of housing supply. Although housing supply issues are most acute in London and the south east, they appear particularly intractable in the North as the economic viability of housing development is weak, and government initiatives to stimulate housebuilding such as the New Homes Bonus are not sufficient to lever private investment into northern schemes.

The North also suffers significant problems with housing quality and affordability. With the squeeze on supply and many prospective home owners unable to afford mortgages, there is growing demand within the privately rented sector (PRS). The number of housing benefit recipients in the PRS doubled from around 700,000 in 2002 to 1,500,000 in 2011. Parts of the PRS are notoriously poor quality and poorly regulated with some 40 per cent of privately rented homes considered to be 'non-decent' and – given so much is pre-1919 stock – with particular challenges concerning energy efficiency (Pendleton and Viitanen 2011).

With significantly reduced public and institutional investment, many of these housing issues appear largely intractable within the current economic context. Opening up the planning system, as proposed by the current government, may well provide some stimulus or new development but it is unlikely to enable the step change that is needed. The government's Growing Places and Get Britain Building funds are helpful but both are relatively small and expect some kind of return on investment. Investment issues will be addressed in more detail under pillar 4 below.

Finally, the North of England also has significant areas of housing where there is very low demand. Typically these exist in small pockets within urban areas but also in more peripheral towns and in some rural areas. Very often such areas are associated with multiple deprivation and require a range of interventions including addressing issues of connectivity with the nearest urban centres. *The commission will carry out further work on different 'types of place' and bring forward recommendations in its final report.*

In order to take these issues forward, the commission would like to receive further evidence about how to improve the residential offer in the North of England. In particular it would like to explore the following issues:

- *whether the concept of a 'housing enterprise zone' – with incentive structures around tenure mix, energy, connectivity and construction innovation – might be a way to stimulate local development, drawing upon case studies of particularly forward-looking developments in the UK and further afield*
- *the opportunities created by the City Deals programme and whether policy ideas to localise and adapt council tax benefit and housing benefit could be applied at scale*
- *whether there is scope for a collaborative commitment by house builders, housing providers (including private sector landlords), councils and other agencies to promote a distinctive residential offer either locally or through a 'northern housing promise' to attract people to move to the North.*

4.4 Pillar 4: Investment

The commission began its analysis of economic development finance with a presumption that the era when private sector funding could be levered into schemes through the uplift in land values secured by public investment was over and that the strictures of 'deficit reduction', together with the wider global downturn, would severely constrain the levels of investment seen in the previous decade. The questions then were where new sources of finance might come from and what financial institutions and instruments might now be needed to stimulate economic growth.

4.4.1 Sources of funding

Banks and private sector finance

The Northern Way Private Finance Commission (Northern Way 2009) noted the persistence of the 'equity gap', which describes the shortage of investment funds available for small and medium-sized enterprises in the UK and which predates even the industrial revolution. This has been a problem since the 19th century and it remains to this day: in 2007, businesses in the Greater South East attracted 41 per cent of all investment, despite only making up 32 per cent of the total number of businesses in the country as a whole. London alone attracted £5.7 billion of investment for a mere 334 companies. By contrast, the North received 23 per cent of total investments, equating to 10 per cent of investment value (Northern Way 2008).

This can be explained by two factors:

- **Demand-side explanation:** Essentially the view that northern businesses are different from those in London and elsewhere. They are more adverse to growth and less enterprising. The 'equity gap' reflects this.
- **Supply-side explanation:** Our financial institutions in the south east are far too remote to fulfil full northern potential. They seem insufficiently aware of potential northern opportunities.

Venture capital funds represent a case in point. It is often suggested that venture capital is willing to take more risks and thus support the most innovative companies and projects. In fact, venture capital funds tend to be concentrated in areas of high potential growth, low technological complexity and low capital investment since the latter raises the cost significantly (Martin 1995). Though many venture capital funds are structured to have a life of around a decade, as a result of the management fees and the bonuses earned for high returns, venture capital funds tend to prefer to exit much earlier than 10 years (Mazzucato 2011).

Evidence presented to the commission on 'enterprise' has already highlighted some key issues around access to finance and a lack of lending to small and medium-sized businesses since the 2008 global financial crisis. The government has subsequently made a number of attempts to alleviate this problem from quantitative easing to Project Merlin, to the most recent announcements for 'credit-easing'. As banks focus on rebuilding their balance sheets it appears to date that bank lending is still a significant problem.

The Independent Commission on Banking (ICB) report recommended that a new 'challenger bank' should be created out of further divestitures from Lloyds Banking Group (ICB 2011). Having won the contract it is hoped that the Co-operative Bank, based in the North, will initiate a step-change in SME lending, mortgage provision and personal account holding.

GOVERNMENT FUNDING

While deficit reduction has seen a significant diminishing of public sector funding a number of significant funds do still exist, including:

- the Regional Growth Fund (£2.4 billion)
- the Green Investment Bank (£3 billion)
- the Growing Places Fund (£500 million)
- the Growth and Innovation Fund (£34 million)

The government also invests indirectly through departmental capital budgets on transport infrastructure, science and technology, housing funding, broadband etc. Analysis of these indirect funds reveals a significant skew towards investment in London and the south east.

And the government invests through its significant spending on health, education, and social care. It is increasingly clear that the commissioning and procurement practices of public agencies can have greater or lesser effects on the local economy. It is also clear from the current austerity programme that reductions in public expenditure have wide ranging effects in the private sector economy. Current discussions about varying regional pay are particularly important in this context and present serious risks for local demand.

EUROPEAN UNION FUNDING

The European Union makes a major contribution to UK regional development. Around £2 billion in the current EU spending round still comes to the UK to promote regional growth, and most of this money is targeted at less prosperous areas (IPPR North 2012).

However in the current spending round, which runs to December 2013, there is a significant problem matching the European funding that is on offer. Approaching £1 billion of EU funding for the English regions is presently uncommitted with up to £200 million in the North West alone. If this money isn't drawn down, two-thirds of the underspend will automatically revert back to the Treasury.

Negotiations are now beginning for the 2014–2020 EU funding period. The European Commission wants to introduce a number of changes to the current regime that will open funding to much wider competition from more competitive regions such as London and the south east. It is also proposing though a new category of aid for what it calls 'transitional regions' – those that are not the very poorest in the EU but still rank well behind the EU average. Around a dozen UK areas (including for example Tees Valley and Durham, South Yorkshire, and Merseyside) would benefit from this proposal.

In light of this, the commission will bring forward, as a matter of urgency and ahead of its final report, a statement about the fast approaching 2014–2020 European Union funding round. In this it will seek to articulate what interventions might be made to ensure the North of England maximises spending in the present round and then ensuring the North adopts a coordinated approach towards negotiations for post-2013 funding.

Foreign direct investment (FDI) and sovereign wealth funds

As of 2011, the UK is the most favoured destination for FDI in Europe and third worldwide. According to the United Nations Conference on Trade and Development (UNCTAD), the stock of FDI in the UK is US$1,086 billion, an increase on the previous year. The UK has outperformed competitor economies in Europe: the UK's share of FDI stock increased while the overall stock of FDI in Europe declined to US$7,614 billion. UNCTAD suggest that the UK has benefited from increasing investment in manufacturing, electronics and IT. However, once again, FDI stock in London is greater than the whole of the rest of the UK put together. This is balanced to a small degree by some strong recent growth in the North East, but FDI employment creation is highest in Scotland, as a result of the concerted approach to attracting investment taken by Scottish Development International.

The commission is aware that following the demise of the RDAs many international trade and investment relationships have been recentralised to UK Trade and Investment (UKTI) in London. Once again, it is keen to consider how the North of England might collaborate effectively to increase its share of FDI investment in the UK from the European Union which accounts for 44 per cent of all global outflows (Eurostat 2011), from China, Indonesia and India where FDI investment is growing rapidly, and from sovereign wealth funds.

4.4.2 Fiscal devolution

Beyond exploring and maximising the potential of the different sources of funding identified above, the commission has considered the potential of different forms of fiscal devolution to drive economic growth.

In recent times, the government has already begun this process with the development of a relatively elaborate scheme for local authorities to retain any growth they can achieve in business rates (NNDR). On the face of it, such a scheme appears to provide a good incentive for many local authorities to focus efforts to drive local economic performance. However, there is significant concern – not least in some of the poorer northern local authority areas – that such a scheme is unfair on those places with less growth potential.

Alongside business rate retention, tax increment financing (TIF) has also been mooted by the government as a means by which local authorities can borrow against future tax revenues. Once again, this presents an interesting opportunity for a few local authorities and Manchester has recently secured an Earnback scheme as part of its City Deal. But it may not be appropriate everywhere and many fear that such a mechanism might simply add to already high levels of public sector debt. Municipal bonds and local authority pension schemes also represent significant opportunities to enable borrowing and investment but once again, there is significant reluctance on the part of HM Treasury to sanction such initiatives for fear of local authorities overreaching their ability to service their debts.

But many would go considerably further. With the proportion of revenues raised locally at around 25 per cent, it is argued that the UK should alter its balance of funding to bring it more into line with other OECD nations. In Sweden for example, one of the most progressive European economies, 70 per cent of revenues are raised at the local level; even France, historically considered to be a very centralised state, raises 50 per cent of its revenues at the local level. And even if there is little appetite for local tax raising, much greater consideration should be given to further reducing ringfenced funding in favour of significant block grants to local authorities or even LEP areas.

All of the above initiatives demonstrate just how much central control exists over local finance, and how little local authorities and their partners are trusted to raise and spend revenue locally. The commission is interested in exploring a range of much greater freedoms in relation to local finance including:

- *greater freedoms for local authorities or LEP areas to set and raise business rates and other local taxes and charges according to local opportunities and needs*
- *greater freedoms for local authorities or LEP areas to issue municipal bonds and explore different types of borrowing within a carefully regulated framework*
- *the possibility of LEP areas receiving some form of 'block grant' in respect of a wide range of different aspects of economic development (infrastructure spending, transport commissioning, housing, welfare to work, skills funding etc) in order to drive forward a more comprehensive and localised economic development strategy*
- *the constraints that currently exist in relation to local commissioning and procurement practices around public service provision and the extent to which greater local freedoms could enable better local economic impact.*

The commission is also interested to consider the kinds of accountability and regulation that might need to exist in order to enable such fiscal devolution.

4.4.3 New financial institutions

In light of the lack of investment funds and the constraints on local fiscal autonomy set out above, the commission also received evidence about the potential for the North of England to resurrect its proud regional and municipal financial institutions and invest in itself.

One specific idea that was explored was the notion of a regional investment bank. There are several international examples of such institutions including the Regional Investment Company of Wallonia (Belgium), the Spanish 'Cajas', the German Lander Bank and some limited examples of US state investment banks. Each of these varies significantly in terms of its scope and remit but each makes an important contribution to local economic development.

The commission would like to explore the viability of a northern investment bank. Such an exploration would need to include:

- *the purpose of an investment bank and a range of options for how it might best operate*
- *the potential options as to how such an institution could be funded, and what political, legal and structural issues would need to be addressed*
- *the appropriate scale for such a bank and where existing activity in this field might offer potential for further development*
- *a 'routemap' that sets out the steps that would need to be undertaken for such a bank to be established.*

The commission is also interested to hear about other ideas for financial instruments and institutions that could bring greater autonomy and investment to the North of England.

4.5 Pillar 5: Institutions

Institutions play a vital role in enabling economic development. Proposition 5 in chapter 3 above makes a powerful case for strong and bold leadership in the North of England. Governance and policymaking provide a context for investment and the delivery of programmes designed to encourage economic growth.

An OECD study (2009) identified four key factors that support the good governance of economic development.

- Regional policy needs to be coordinated by an identifiable single gatekeeper at the national level.
- An effective use of knowledge in the policymaking process requires appropriate mechanisms for dialogue and coordination within and across levels of government, as well as across public and private spheres.
- Unified, co-financed and multi-year funding for regional policy helps to ensure the credibility and effectiveness of public investment.
- Monitoring and evaluation mechanisms need to be strengthened to ensure policy learning.

Drawing on an extensive analysis of 23 case study regions, very recent OECD research (OECD 2012) identifies 'institutional' and 'policy' factors as critical to growing intermediate regions, highlighting the factors outlined in box 4.3 as needing to be present to drive economic growth.

Box 4.3 Factors needed to drive economic growth

INSTITUTIONAL FACTORS

- The ability to mobilise key actors from across sectors – public, private and civil society – to play an active role in economic development.
- The existence of a clear vision for growth and the ability of different actors to articulate a consistent, common voice and concern about the region.
- The continuity of economic institutions, programmes and decision-making processes.
- The existence of clear governance structures at different spatial scales and their ability to inter-relate vertically.

POLICY FACTORS

- A changed mentality away from notions of subsidy and external intervention and towards growth potential and existence of endogenous factors.
- A focus on inter- and intra-regional linkages rather than core-periphery concerns.
- A concern to ensure there are spillover benefits from economic development interventions.

Institutional governance also matters because it is the route through which transparency and accountability for decision-making can be achieved. This is particularly important when attempting to coordinate decision-making across several local authority areas.

4.5.1 Institutional change in the UK

In the UK context, the institutional context has changed quite considerably in recent years, with the creation and abolition of RDAs, regional plans and numerous changes to quangos responsible for areas like housing and skills.

The current government has abolished all regional agencies (other than the London Development Agency) and created more local, voluntary partnerships between local authorities, businesses and other local players at a subregional level in the form of LEPs.

At the local level, the Localism Act 2011 restored a power of general competence to local authorities, and included a mechanism that allows local authorities to make the case for being given new powers to promote economic growth and set their own distinctive policies to suit the needs of their local area. The government has stated a particular commitment to empowering local authorities in cities. To this end they have developed the City Deals process. This is a bespoke deal, negotiated between an individual local authority and central government. The idea is that local authorities – preferably in collaboration with their private sector partners, and where relevant the wider LEP area – will be able to exercise greater influence over decisions that affect their economic competitiveness and develop projects that will help to unlock growth (CLG 2011).

Following referendums in May, some of England's major cities may soon also have directly elected mayors able to exert soft power in Whitehall and in the national debate. However, these mayors will only have jurisdiction over the city, and not the wider city region, although they will engage in city regional activities through existing mechanisms like LEPs.

The commission received considerable evidence about the advantages and disadvantages of changes to the institutional environment. This included a clear message about the benefits of working across functional economic areas and with greater degrees of local flexibility and less prescription from the centre. But it also raised significant concerns about the disruption caused by the abolition of RDAs, the lack of capacity within most LEPs, the centralisation of some very significant RDA functions such as business support, innovation and inward investment and the subsequent fragmentation of economic development responsibilities across multiple government departments.

4.5.2 Emerging models of governance in the North

LEPs are still relatively new in their development and it is clear that to become the strong institutions necessary to drive economic growth they need both time to embed but also greater levels of accountability, legitimacy and coordination. The government itself has made clear that the devolution of substantial new powers or funding mechanisms to cities or city-regions will require clear lines of accountability and visible leadership.

To this end, the commission has begun to explore a number of different models of subregional governance that would appear to be emerging from within partnerships in the North of England and to compare them with international examples of city-regional governance. In short, three broad models emerge.

- **Deeper partnership:** The Greater Manchester Combined Authority has gained statutory status and replaced several single-purpose quangos and joint boards with a formal administrative partnership between the 10 local authorities.
- **Delegated leadership:** Under this scenario a delegated leader, selected by a partnership or assembly-style body, acts like an indirectly elected mayor and is invested with executive powers but accountable back to the body from which s/he is selected. This is similar to the model that operates in Barcelona.
- **Metro mayors:** This model sees a single individual directly elected across a city-region area but subject to some form of scrutiny through a directly elected assembly or representatives of constituent local authorities. The London Mayoralty operates on this kind of model.

The commission is keen to explore with LEP areas, the extent to which these, or other models of subregional governance, might develop and enhance the institutional environment for economic development across the North of England.

4.5.3 Making connections across the North of England

The commission has also taken an active interest in the growing concerns that localities and subregions in the North should be more collaborative. Evidence has been cited to suggest that the only way in which the North of England will really maximise its economic potential is by utilising its scale as a multi-polar, elongated metro-region, and that at present LEP areas are at risk of being 'divided-and-ruled' by Whitehall. But perhaps most significantly, this interim report has itself identified a number of dimensions of economic development where pan-northern collaboration might enable significant advantages across northern economies: for example, around transport infrastructure and connectivity, science and innovation, branding and inward investment, and around new financial instruments.

However, achieving this pan-northern approach is not straightforward as giving institutional form to a set of relationships which have historically been contested and sometimes tense, and requires imagination and trust. Recent ideas such as a Council for the North have generated mixed responses and even relatively benign attempts to support collaboration between city regions such as the Northern Way have not received unanimous support.

To this end, the commission is keen to explore the appetite amongst LEP areas for some form of institution, governance structure or partnership body to facilitate pan-northern collaboration and voice. As part of this exploration it will consider:

- *the primary purpose for which it might be created and the balance between developing a 'research and policy capacity' versus a 'mandate for northern voice and leadership'*
- *the principles around which it might operate*
- *the key strategic issues which best need to be dealt with at the pan-northern level, and those issues with which it should not interfere*
- *its composition and the process by which it might carry out its functions.*

4.5.4 Leadership

Finally, the commission received evidence about the importance of strong leadership to drive economic development and the need in many parts of the North for strong and proactive leadership in many areas of economic life, from business and the third sector to culture and the arts, as well as the strong political leadership necessary to balance competing demands.

Perhaps the strongest message the commission has received about leadership is the importance of leading and not pleading. While many witnesses have been clear that problems and inequalities must be acknowledged where they exist, the strong emphasis from most quarters has been that the North of England needs to focus more on its assets and collaborative potential, and that we need to do more to cultivate a cohort of transformational leaders in the North of England who can promote the North on a national and global stage.

To this end, the commission is keen to receive further evidence about dynamic approaches to leadership development in the North of England and, in particular, to explore the opportunities to integrate collaborative and pan-northern dimensions within existing programmes.

5. SUMMARY OF FUTURE COMMISSION WORK

Firm foundations

The commission would like to receive feedback on the following:

- its aim, objectives and indicators
- the five propositions for northern prosperity (chapter 3)
- its principles for a new regional policy (pillar 1).

It will carry out further work in relation to ensuring the whole strategy support more green and sustainable approaches to economic development including consideration of the potential of northern natural assets. This includes further work on 'types of place' and maximising the use of natural assets.

Human capital and skills

- The future of low-skilled employment and its relationship with in-work poverty: how to deepen employment opportunities and encourage skill progression
- Developing a more localised approach to the skills system.

Innovation and business growth

- Analysis of overseas demand and northern export potential
- The development of a small number of growth cluster case studies
- The potential for a northern innovation agenda
- The notion of 'innovation clusters' as a new form of enterprise zone
- SME management culture particularly in relation to business growth and skills development.

Infrastructure

- The potential for Transport for the North – a collaborative body for strategic planning across northern ITAs
- Analysis of the future of transport funding for the North
- A growth cluster case study on northern logistics
- Further analysis of the potential of northern airports
- Further work on the residential offer in the North and the concept of housing enterprise zones.

Investment

- A commission statement on the future of European Union funding
- A study on how the North can grow its share of FDI
- Further analysis about the opportunities for wider fiscal devolution in England
- A study of new financial instruments and the potential for a northern investment bank or fund.

Institutions

- Further analysis of emerging models for subregional and city-regional governance
- A study on the appetite and potential for greater pan-northern collaboration and voice
- Further analysis of dynamic approaches to transformational leadership in the North.

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ANNEX A: COMMISSIONERS

The commission is made up of 16 high-profile figures bringing expertise from a wide range of disciplines and interests. Commissioners draw together knowledge and experience of a wide range of business sectors, economic experts and other civic leaders from across the North of England.

- Geoff Muirhead CBE, former chief executive, Manchester Airports Group (chair)
- Ed Cox, director, IPPR North (deputy chair)
- Bill Adams, regional secretary, Yorkshire and Humber TUC
- John Anderson, regional director, BT Yorkshire and Humber
- Rhiannon Bearne, group assistant director – policy, The Cyrenians
- 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
- Roger McMillan, former 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

ANNEX B: COMMISSION EVIDENCE

The commission has been busy since it first met in July 2011. Joined by cities minister Greg Clark, we launched our call for evidence and received over 70 submissions of commentary or evidence throughout the evidence gathering period from the following individuals and organisations:

- Arts Council
- Blackburn with Darwin Council
- Bradford City Council
- Campaign for National Parks
- Campaign to Protect Rural England
- Centre for Enterprise and Economic Development Research, Middlesex University
- City of York Council
- Commission for the New Economy, Greater Manchester
- Cumbria County Council
- CURDS, University of Newcastle
- Doncaster Council/Doncaster Chamber of Commerce
- Federation of Small Businesses
- Future Shaping Ltd
- Gateshead City Council
- Gradcore
- Involve, Yorkshire and Humber
- John Brown (individual)
- Leeds Business School
- Leeds LEP/City Council
- Liberalato Engines
- Michael Knowles (individual)
- Middlesbrough Council
- N8 Research Partnership
- North East Chamber of Commerce
- North East Councils
- North East Farmers Market
- North Eastern Third Sector Focus Group on Skills and Performance
- North Yorkshire Council
- Northern Rock Foundation
- Northumberland Council
- Paula Macormack Ltd
- Preston City Council
- Robin Beveridge
- Sheffield LEP
- Stockton Council
- Town and Country Planning Association
- Transition Training and Consulting
- University Alliance
- Wakefield City Council

The commission also held three roundtable events held in September 2011, where commissioners and secretariat used the opportunity to discuss the commission's work and call for evidence. Nearly 200 people attended the events in Newcastle, Leeds and Manchester and shared their thoughts on the commission's work and the future of the northern economies.

ANNEX C: COMMISSION MEETINGS AND BRIEFINGS

The commission has met five times and engaged in two teleconferences. At four of its meetings, the commission invited witnesses to present on a subject of their expertise as follows:

July 2011, Leeds

- Professor Alan Harding, Manchester University
- Les Newby, Yorkshire Forward
- Bill Tompson, OECD (commissioner)
- Richard Baker, associate fellow, IPPR North

October 2011, Manchester

- Martin McTague and colleagues, Federation of Small Businesses
- Emma Wild, Confederation of British Industry
- James Farr, Manchester Commission for the New Economy
- Mariana Mazzucato, Demos/Open University
- Neil Gibson, Oxford Economics
- Philip McCann, University of Groningen
- David Massey, UKCES

December 2011, Newcastle

- Hugh Morgan Williams, North East Access to Finance
- Zach Wilcox, Centre for Cities
- Daria Kuznetsova, New Local Government Network
- Helen Lawton-Smith, Oxford University
- Philip Shapira, Manchester University
- Yannis Pierrakis, NESTA

January 2012, York

- No witnesses – discussion of interim report

February 2012, Sheffield

- Jim Steer, Steer Davis Gleave
- Matt Brunt, Passenger Transport Executive Group
- Ann Pittard, NEFC commissioner
- Jo Boaden, Northern Housing Consortium
- John Tomaney, CURDS, Newcastle University
- John Mothersole, NEFC commissioner

Since the launch of the commission, the NEFC secretariat has written a number of briefing papers for commissioners. Corresponding to our research themes they have aimed to bring commissioners up to date on the latest policy developments in the North of England as well as providing prompts for discussion and further thought.

Papers are listed below – some have been published already, and all will be in due course:

- *Briefing paper 1: What can we learn from the past?* Jenni Viitanen and Richard Baker[7]
- *Briefing paper 2: Employment and skills in the North of England*, Katie Schmuecker[8]
- Briefing paper 3: Where will economic growth come from? Ed Cox
- Briefing paper 4: Enterprise in the North, Lewis Goodall
- Briefing paper 5: Finance in the North, Lewis Goodall
- Briefing paper 6: Transport in the North, Lewis Goodall and Graeme Henderson
- Briefing paper 7: Innovation in the North, Richard Baker
- Briefing paper 8: Governance and leadership, Katie Schmuecker
- Briefing paper 9: Housing, Jenni Viitanen

7 http://www.ippr.org/publications/55/8132/learning-from-the-past-nefc-briefing-paper-no-1

8 http://www.ippr.org/publications/55/8291/employment-and-skills-in-the-north-of-england-nefc-briefing-paper-no-2

ANNEX D: PROPOSED INDICATORS

Set 1: Annual basket of indicators, UK regions comparable[9]

1a. Economic performance: agglomeration, competitiveness, investment, productivity, innovation, employment

Indicator	Measure	Source	Publication details	Comparability
Unemployment	ILO unemployment rate	Labour Force Survey	Six weeks delay	All EU regions
Earnings/wage distribution	Median wage	ASHE	Six months delay	UK regions
Competitiveness/innovation	Births and deaths of enterprises as a percentage of stock of enterprises	Business demography	One year delay	UK regions

1b. Environmental performance: carbon emissions, protection of landscapes and biodiversity

Indicator	Measure	Source	Publication details	Comparability
Waste	Municipal waste	ONS	One year delay	UK regions
CO_2 emissions	$kgCO_2$ emitted	DECC	One year delay*	UK regions

*Not currently published

1c. Quality of life and wellbeing: economic equality and inequality, skills and education, community cohesion and health

Indicator	Measure	Source	Publication details	Comparability
Subjective wellbeing	(Proposed ONS measure)	ONS	Six months delay (?)	UK regions
Crime rate	BCS crime rate	ONS	Three months delay	UK regions
Mental wellbeing	Number of prescriptions of antidepressants	NHS	Two months delay	UK regions
High skills	Percentage of workforce NVQ4 qualified	Labour Force Survey	Six months delay	UK regions

1d. Resilience: economic diversity, dynamism, connectivity and demographics

Indicator	Measure	Source	Publication details	Comparability
Demographic balance	Support ratio (number of working people per retired person)	ONS	One year delay (?)	UK regions

1e. Role: distinctiveness, linkages and accessibility

Indicator	Measure	Source	Publication details	Comparability
Geographical connectedness	Number of intercity rail journeys/air journeys	DfT	One year delay	UK regions
Online connectedness	Households with internet access	ONS	Three months delay	UK regions

9 The OECD is currently leading a project for many of these to be measured on a functional scale rather than the administrative regions.

Set 2: Longer-term indicators, internationally comparable

2a. Economic performance: agglomeration, competitiveness, investment, productivity, innovation, employment

Indicator	Measure	Source	Publication details	Comparability
Unemployment	ILO unemployment rate	LFS	Six weeks delay	OECD regions
Household income	Household income per capita	OECD	>4 years delay	OECD regions

2b. Environmental performance: carbon emissions, protection of landscapes and biodiversity

Indicator	Measure	Source	Publication details	Comparability
Carbon intensity	GDP to CO2 ratio	OECD	>5 years delay	OECD regions
Green space	Percentage of land covered by forest	OECD	>2 years delay	OECD regions
Waste	Municipal waste per capita	OECD	>2 years delay	OECD regions

2c. Quality of life and wellbeing: economic equality and inequality, skills and education, community cohesion and health

Indicator	Measure	Source	Publication details	Comparability
Low skills	Percentage of workforce with only basic education	OECD	>2 years delay	OECD regions
Life expectancy	Life expectancy	Eurostat	>3 years delay	EU regions

2d. Resilience: economic diversity, dynamism, connectivity and demographics

Indicator	Measure	Source	Publication details	Comparability
Innovation	Patent applications per million inhabitants	European Patent Office	>2 years delay	All EU regions
Ageing population	Elderly population as a percentage of the total population	Eurostat	>2 years delay	OECD regions
Research and development intensity	R&D expenditure as a percentage of GDP	OECD	>3 years delay	OECD regions
Economic dynamism	Employment in high tech sectors	Eurostat	>2 years delay	EU regions

2e. Role: distinctiveness, linkages and accessibility

Indicator	Measure	Source	Publication details	Comparability
Geographical connectivity	Number of air passengers	Eurostat	>1 year delay	EU regions
Online connectivity	Percentage of households with broadband	Eurostat	>1 year delay	EU regions