

Institute for Public Policy Research



# › STATE OF THE NORTH 2018

## REPRIORITISING THE NORTHERN POWERHOUSE

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# SUMMARY

The north of England has rarely faced such threat and opportunity. Brexit looms; budgets in essential NHS and council services are at breaking point. The world's major, long-term challenges – globalisation, climate change, AI, automation and an ageing population – continue to test the North's energy and innovation.

There are opportunities: new infrastructure – long promised – could soon be brought forward; industrial strategy could support the North's world-leading frontier industries to innovate and advance; new and established mayors can consolidate city-region leadership across the North. These opportunities need to be taken but many more need to be created in the years ahead.

## THE NORTHERN POWERHOUSE: PROGRESS TO DATE

For almost five years the Northern Powerhouse agenda has been the driving force behind economic policy in the North. It has defied any clear definition: famously introduced by George Osborne in 2014 it has become a widely-recognised brand for many initiatives that should have happened anyway: connecting Manchester and Leeds with faster trains; supporting ground-breaking new technologies developed in northern universities; marketing the North to overseas investors; and devolving power to mayoral combined authorities.

Despite its strengths, the original Northern Powerhouse agenda had many limitations. For some proponents, its primary objective was to build a new 'London-style megaregion' around Manchester, and so the agenda often side-lined the other places and assets that the North needs to thrive. It overlooked the people of the North, and their need for quality jobs, better health and wellbeing, and it was severely undercut by a programme of self-defeating austerity. The devolution deals themselves were rather partial and piecemeal and the negotiation process lacked transparency. Moreover, this was a top-down agenda dominated by central government: done *to* the North, not *by* and often not even *with* the North.

## THE NEXT PHASE OF THE NORTHERN POWERHOUSE

In this year's State of the North report we recommend northern leaders move the Northern Powerhouse agenda into a new phase. We argue that to succeed the Northern Powerhouse of the future must evolve into a comprehensive agenda for the long-term, sustainable economic development of the North. While we acknowledge that this evolution is already happening, we propose a clear break between what the original Northern Powerhouse was, and what it now needs to become.

We draw on a wide range of evidence in order to set out five priorities and make 25 recommendations to develop this next phase of the Northern Powerhouse. We argue that for this agenda to be successful: it must improve the North's health, education and skills levels – its social infrastructure – not just its trains; it must capitalise on the whole of the North's economy – its towns and rural areas, not just its cities; it should ensure the North's economy benefits people directly, through the work they do, their pay, conditions, health, wellbeing and environmental sustainability – not just generate higher economic output; and it must support the 'everyday economy' sectors where many northerners work – not just invest in the niche, high-growth industries. Most importantly it cannot be dominated by central government: the Northern Powerhouse agenda must be *of* the North, *by* the North and *for* the North.



## **1. COMMIT TO A 'WHOLE NORTH' APPROACH**

*The original Northern Powerhouse agenda focused almost entirely on the major city regions of the North.* Policymakers proposed that improving travel time between the major cities would generate higher productivity through the benefits of agglomeration.

*In the next phase, the Northern Powerhouse agenda must draw on all assets and focus on a diverse range of places – including towns, cities, rural areas and natural assets.* The North has a diverse geography and each place can each contribute something different to the region's economy if they are enabled to do so.

- The North is home to 15 million people living in many different types of places: it includes five major city regions, 265 towns, almost 1,000 villages and smaller communities; it has 29 Universities, eight major ports, and the UK's largest airport outside of the South East.
- Northern growth won't be driven by growing its cities in isolation: modelling indicates that a UK city with twice the population will only be 1.6 per cent more productive and scale is not associated with greater productivity in the UK outside of London.
- The North's leading energy, advanced manufacturing and health innovation sectors are concentrated outside of cities and tend not to benefit from the economies of agglomeration in the way that is often assumed.

We recommend that northern leaders work together to develop a northern industrial strategy; use local industrial strategies and transport powers to develop all types of places; and learn from regional development in other countries.

## **2. INTERVENE IN PRIORITY SECTORS ACROSS THE WHOLE ECONOMY**

*The original Northern Powerhouse agenda focused on supporting technologies and some frontier industries.* There were some small-scale interventions to support new innovations in leading sectors.

*In the next phase, the Northern Powerhouse agenda must improve productivity and economic justice across all priority sectors.* The North's frontier industries – health innovation, advanced manufacturing, energy and digital – need significant investment; but the rest of the economy also needs intervention: professional services enable the frontier sectors to thrive, while 'everyday economy' businesses – shops, hotels and restaurants – are vital too.

- The prime sectors of digital, energy, advanced manufacturing and health innovation will rise in productivity but are expected to shrink by 75,000 jobs.
- Productivity and pay are both lower in 'everyday economy' sectors like retail and hospitality in the North than national averages.
- These everyday economy sectors employ the most people and working conditions can be poor: 1.6 million people in the North – 22.3 per cent of the workforce – work in sectors such as accommodation and food service activities or wholesale and retail, where many jobs pay below the real living wage.

We recommend that northern leaders prioritise real specialisms in frontier industries, but that they also develop productivity and inclusion in the everyday economy sectors, and work to embed resilience and sustainability in their local economies.

### 3. INVEST IN BOTH INFRASTRUCTURE AND PEOPLE

*The original Northern Powerhouse agenda was focused on transport infrastructure. Initially it was mainly concerned with improving links between the North's major city regions – especially Manchester and Leeds – whilst vital social infrastructure has been severely cut back.*

*In the next phase, the Northern Powerhouse agenda must continue to prioritise transport investment, but also improve the skills and social infrastructure of the North. All the North's people, resources and assets must be brought to bear if the economy is to develop.*

- The North received £289 per head on transport, while London received £708 per head on average; and £4,155 transport spending per capita is planned on London, compared to just £1,600 per capita planned on the North – 2.6 times more per capita spent on London compared to the North.
- The North has been severely hit by austerity: since 2009/10 total public spending in the North has fallen by £6.3 billion in real terms – more than any other region, while the south east and south west together received a £3.2 billion rise in public spending during this period.
- There are 930,000 volunteers working with third sector organisations alone, doing work which, if paid, would be worth up to £800 million a year to the North's economy.

We recommend that northern leaders focus on the lowest skilled; develop invest-to-save models of employment support; and incorporate the contribution of public services, unpaid work and arts and culture in local economic policy.

### 4. DELIVER ECONOMIC JUSTICE

*The original Northern Powerhouse agenda focused on productivity and saw every new investment or upward tick in output as a sign of success. Policy makers often expected that the people would automatically benefit from the economy in terms of jobs, pay, health and wellbeing.*

*In the next phase, the Northern Powerhouse agenda should focus on economic justice. The evidence shows that a fairer North is a stronger North.*

- Productivity in the North is 12.6 per cent below the national average, although there is some variation and areas like Cheshire and Warrington are especially productive, but many areas have lower productivity than East Germany.
- 2 million working-age people and 1 million children live in households below the poverty line in the North; a quarter of northern workers – 1.6 million people – are paid below the real living wage; and weekly pay has fallen by £21 (3.8 per cent) since 2008 in real terms – more than nationally (3.3 per cent).
- Health is a major problem and many of the neighbourhoods with the lowest life expectancy are found within the North's city regions – in parts of Salford, Bradford, Sefton and Sunderland – although the neighbourhood with the lowest male life expectancy in England is in Blackpool: 68.

We recommend that northern leaders use their powers over commissioning and employment charters to deliver economic justice in their area; that they monitor their success by measuring the things that matter to local people, such as health and wellbeing; and that they embed inclusive growth, health and wellbeing comprehensively within economic strategies and economic policy governance structures.

## 5. LEAD FROM THE NORTH

*The original Northern Powerhouse agenda was led by the chancellor and delivered by central government agencies. George Osborne raised the profile of the North, and corralled government departments into devolving power.*

*The next phase of the Northern Powerhouse agenda must be led by the North. New pan-northern organisations are evolving – such as the NP11 and the Convention of the North – but the government needs to reboot devolution so that they can do so more effectively, and there needs to be new opportunities for people to engage with local policy makers and the devolution agenda.*

- The UK is highly centralised – only 1 per cent of UK GDP is spent on economic affairs outside of central government, compared to the OECD median of 1.6 per cent, 2.2 per cent in France and 2.5 per cent in Germany.
- Up until 2016 the UK was becoming more centralised in terms of devolved expenditure, while remaining essentially the same in terms of tax revenue.
- 41.7 per cent of the North's population and 40.1 per cent of its economy is currently governed by a new metro mayor.

We recommend that northern leaders focus on fiscal devolution 'quick wins', but also demand UK-wide coherence to devolution; and use devolution to democratise economic policy – through mechanisms like citizens' assemblies, participatory budgeting and citizen panels.





# INTRODUCTION

2018 has brought significant change to the north of England. But while this change has come for some people, it has passed many others by. New skyscrapers rise to match the major cities' relentless ambition, but many people see little change in their neighbourhoods and towns. Even within city centres, newly-built flats look down on ever-increasing numbers of rough sleepers. Major plans to upgrade northern infrastructure move forward; but roads remain congested, while buses and trains are still expensive, late and cancelled. High-level professional jobs are being generated, but many northerners are stuck in low-pay, poor-quality employment, and others remain without work at all.

Unlike similar regions overseas, the North hasn't had the power to improve its situation. For 100 years almost all the policies affecting the daily lives of northern citizens have been directed from Whitehall. But since 2014 this situation has started – very slowly – to change. The year ahead could see it change further.

## THE NORTHERN POWERHOUSE

When the Northern Powerhouse agenda emerged in 2014, it was greeted by many as a fresh opportunity to 'rebalance' the economy. George Osborne's Northern Powerhouse vision proposed that the combined strengths of the major city regions – especially Greater Manchester and Leeds City Region – could be consolidated to rival the economic strength of London.

But when George Osborne first spoke the words 'Northern Powerhouse' at Manchester's Museum of Science and Industry he didn't invent something entirely new: he re-branded, unified and reinvigorated policies, ideas and organisations that were already in place (Osborne 2014). The agenda was especially reliant on the Northern Way collaboration of 2004 and it relied heavily on legislation which pre-dated the Coalition Government. It also drew on the ideas of northern think tanks and universities, helping to establish a new consensus that 'northern prosperity is national prosperity' (IPPR North and the NEFC 2012). As initially conceived the Northern Powerhouse was driven by central government; it was more of a brand than a coherent economic development strategy, and it had several strands.

- 1. Transport connectivity.** Perhaps the most prominent component of the Northern Powerhouse agenda was its emphasis on using improvements in transport to connect the cities of the North – especially Leeds and Manchester – to maximise the 'agglomeration' benefits. This built on the work of the Northern Way Transport Compact of 2004, the 'northern hub' infrastructure programme, Rail North and ideas put forward by IPPR North in 2012 (built on in 2015) (IPPR North and the NEFC 2012; Cox and Raikes 2015). One North set out an infrastructure prospectus (led by the city regions) and Transport for the North (TfN) was then founded in 2014, accountable to all the North's transport authorities, with a pan-northern remit to bring forward an investment programme. TfN received statutory status in 2018 as the country's first subnational transport body.
- 2. Devolution to city regions.** Devolved responsibility over the key economic powers, such as transport and skills, is an essential component of the Northern Powerhouse agenda. The legislation allowing combined authorities to form

was a product of the last Labour government; and city deals, regional growth fund and combined authorities preceded the 2014 speech. But the government wanted to enhance the powers of combined authorities further, enable the election of metro mayors and allow subnational transport bodies to form – this required new legislation (passed in 2016<sup>1</sup> and 2017<sup>2</sup>). As of elections in 2017 and 2018, metro mayors are now elected in Greater Manchester, Liverpool City Region, Sheffield City Region and Tees Valley. The North of Tyne is likely to elect a mayor in 2019. Leeds City Region found its path blocked by local MPs, and there is now extremely strong support for the ‘One Yorkshire’ devolution proposal.

3. **Place branding for inward investment.** The use of the Northern Powerhouse brand to sell the North to investors and visitors overseas has been a crucial and very tangible element of the Northern Powerhouse agenda. The Northern Powerhouse brand has been very prominent in the activity of the Department for International Trade (DIT) and partners abroad.<sup>3</sup> The scale of the geography and the strength of government backing has been particularly important when marketing the North to China: there have been numerous trade delegations in both directions, and even a visit from the president of China to Manchester. Chinese investment has been forthcoming – especially in property and infrastructure – and tourism and student numbers have soared, helped by the establishment of a new direct Manchester-Beijing flight (MCF et al 2018).
4. **Science and innovation.** The Northern Powerhouse term has also been widely used to help brand the North’s strengths in science and innovation. There were already organisations and initiatives in place: the N8 Research Partnership which was established in 2008 by the 8 most research intensive universities across the North, and this was joined in 2011 by the NHS which brings together these universities with the eight largest research hospitals and AHSNs.<sup>4</sup> Private sector organisations such as Bionow have long represented life science businesses at the northern scale. Centralised agencies such as Innovate UK and Tech North (now Tech Nation) have worked at the northern footprint. In practice the additional benefit of the Northern Powerhouse may well be positive but is unclear: while new investments have been branded with the term Northern Powerhouse, it is impossible to know how much of this would have happened anyway (Lee 2017).

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1 Cities and local government devolution Act 2016: <http://www.legislation.gov.uk/ukpga/2016/1/notes/division/3/index.htm>

2 Bus Services Act 2017: <http://www.legislation.gov.uk/ukpga/2017/21/contents/enacted>

3 See: <https://www.eventbrite.co.uk/o/northern-powerhouse-missions-14504816923>

4 Academic Health Science Networks

## The Northern Powerhouse at a glance

The Northern Powerhouse is a term used to define the North of England, commonly understood as three previous government office regions of the North East, North West and Yorkshire and the Humber. The Northern Powerhouse is described as the ‘government’s ambition for the North of England and Wales to become a powerhouse for the UK economy’ – although Wales is not the geography many include within their definition of the North – and in this report we refer only to the three English regions listed above.

Central government’s Northern Powerhouse agenda is overseen by the **Cities and Local Growth Unit** which is a collaboration between the Department of Business, Energy and Industrial Strategy (BEIS) and the Ministry of Housing, Communities and Local Government (MHCLG). The Northern Powerhouse Strategy describes how central government aims to

increase productivity in the North and is due to be refreshed in 2019.

**The People’s Powerhouse** is a movement which aims to shape the debate around the Northern powerhouse to ensure that the voices of Northern people are heard by policymakers.

The Northern Powerhouse is also sometimes associated with the **Northern Powerhouse Partnership**. This is an independent company which works closely with the mainstream business community in the north of England and is chaired by George Osborne.

In this report we use the phrase ‘northern powerhouse agenda’ as a collective term to refer to the range of policies and initiatives that relate to the North’s economy, including as a strategy, as a geographical understanding of the North, as a brand and as a movement.

The Northern Powerhouse agenda has clearly made something of an impact. It appears to have boosted inward investment and business confidence – most notably into Manchester and Leeds. The language of the Northern Powerhouse (alongside the ‘Midlands Engine’ that followed) has also provided a new lexicon for central government, businesses, and civil society; a new way to talk about regions outside of London without defining them on the wrong side of a ‘North-South divide’. It is astonishing that, as early as 2015, the term ‘Northern Powerhouse’ was recognised by 56 per cent of northerners – for a government initiative this appears to be strikingly high (BBC and ComRes 2015).

For leaders in the North, it has provided the basis of a regional policy architecture in which to develop new institutions and new forms of devolution and governance as well as a means to hold central government to account. But perhaps most significantly, it has provided the space for new city-region leadership to emerge, and, through Transport for the North, may enable up to £27 billion new investment from central government in the North’s creaking transport network.

## THE NORTHERN POWERHOUSE EVOLVES

Despite its strengths, the original Northern Powerhouse agenda had many limitations. For some proponents, its primary objective was to build a new ‘London-style’ megaregion around Manchester, and in doing so the agenda often sidelined the places and assets that the North needs to thrive. It implicitly overlooked the people of the North, and their need for quality jobs, better health and wellbeing, and it was severely undercut by a programme of self-defeating austerity. The devolution deals themselves were rather partial and piecemeal and the negotiation process lacked transparency (Hunter 2017). Moreover, this was a top-down agenda dominated by central government: done *to* the North, not *by* and often not even *with* the North.



From 2016 central government has been less interested in the Northern Powerhouse – not least due to the challenges of the UK leaving the EU. The Northern Powerhouse Strategy was published in the first few months of the May government in 2016. But it was focused exclusively on increasing productivity, underpinned by basic ‘drivers of growth’ and therefore jarred with an agenda which was already evolving to become a more comprehensive vision of the North’s economic future. The first May administration introduced the industrial strategy white paper which had a focus on all areas of the country, not just the North. The conceptual alignment of industrial strategy and Northern Powerhouse was to come – partially – in the industrial strategy white paper of 2017 which stated:

***“We have already encouraged collaboration to address shared challenges over regional corridors in the Northern Powerhouse and Midlands Engine. Such regional approaches can help to deepen pools of skilled labour, drive competition, and increase market access. There are also policy benefits to working at scale, including logistics and the promotion of the UK on the world stage.”***

(BEIS 2017a).

### **WHERE NEXT FOR THE NORTHERN POWERHOUSE?**

In 2018, the challenges faced by the country require an urgent evolution of this agenda. Almost five years on from George Osborne’s speech in Manchester, the North faces a fundamentally different set of circumstances. Ten years on from the financial crisis, the North has still not recovered. Eight years into a deeply-damaging austerity programme, the North is approaching a critical point.

Brexit looms: northern businesses – from farmers to manufacturers, multinationals to sole traders – rely on the markets and supply chains spanning EU borders; the North is twice as exposed to Brexit as London (Chen et al 2017). Moreover, while most people living in northern cities voted to remain in the EU, many people voted to leave, and there is growing evidence that this was borne out of many people’s anger at the negative impacts associated with globalisation: this is especially true of the people and places which have experienced its severe downsides – present across the country but concentrated in some of the North’s towns (Jennings and Stoker 2017; Jennings et al 2018; Cox et al 2014). As the country faces a number of challenges – accelerating globalisation, an ageing society, automation changing the nature of jobs, and the threat of climate change – the Northern Powerhouse is needed now more than ever.

Where next for the Northern Powerhouse? Since its inception the Northern Powerhouse has been evolving, but it is now visibly maturing into a strategy for the whole of the North, and there is a growing sense that the Northern Powerhouse of the future must be more comprehensive and inclusive. As the Northern Powerhouse minister Jake Berry recently stated:

***“Northern Powerhouse 2.0 has to be about more than our great cities, it has to be a whole-North approach.”***

(Berry 2018)

But the most important shift is that northern leaders have begun to take ownership of the Northern Powerhouse concept, using their strengthened profile to continue the momentum and build new collaboration. Initial cynicism has been replaced with pragmatism: in September 2018 the first Convention of the North met to join forces across political and geographical divides. The NP11 is now meeting regularly to embed collaboration between the North’s 11 Local Enterprise Partnerships (LEPs). The northern voice is becoming louder, more articulate and more unified. When visiting Westminster to demand more power

from central government, the mayor of Greater Manchester Andy Burnham said of the government’s Northern Powerhouse agenda:

***“The exciting thing is that the changes you initiated with the Northern Powerhouse have unlocked a new energy that needs to be captured.”***

(Burnham 2018)

2019 promises many opportunities to capture this new energy: Transport for the North will publish its Strategic Transport Plan, which will set out the case for up to £27 billion more investment in northern transport infrastructure; local industrial strategies will be drawn up by LEPs and combined authorities across the North; metro mayors will start to draw up manifestos for the 2020 elections. In the 2018 budget, the chancellor announced that there will be a Northern Powerhouse Strategy refresh – an opportunity for the government to work with northern leaders to set out a more comprehensive plan than the first iteration – and the 2019 Spending Review could be an opportunity for fairer funding or more fiscal devolution.

There are some who might regard this broader focus as detracting from the Northern Powerhouse’s value: it has already suggested that the Northern Powerhouse minister’s ‘whole North’ approach is not ‘theoretically informed’ – in contrast to how the initial agenda was presented by Osborne (Lee 2018a). But the evidence we set out in this report shows otherwise: that a much more comprehensive ‘whole North’ approach is essential if the Northern Powerhouse is to be a success.

This is IPPR North’s fifth annual State of the North report. As the Northern Powerhouse takes on new life but faces unprecedented challenges, we set out five priorities for northern leaders to take this important agenda into a new phase.



- 1. COMMIT TO A ‘WHOLE NORTH’ APPROACH**
- 2. SUPPORT JOB CREATION AND PRODUCTIVITY IN HIGH-GROWTH AND LARGE-EMPLOYMENT SECTORS OF THE ECONOMY**
- 3. INVEST IN BOTH INFRASTRUCTURE AND PEOPLE**
- 4. DELIVER ECONOMIC JUSTICE**
- 5. LEAD FROM THE NORTH**

# 1. COMMIT TO A 'WHOLE NORTH' APPROACH

*The original Northern Powerhouse focused almost entirely on the major city regions of the North.*

*In the next phase, the Northern Powerhouse agenda must draw on all assets and focus on a diverse range of places – including towns, cities, rural areas and natural assets.*

## 1.1 THE ORIGINAL NORTHERN POWERHOUSE: FOCUSED ON CITY REGIONS

The idea that city regions are drivers of the economy is a part of what has become known as the 'new conventional wisdom' for regional and national policy (Buck et al 2005). This helps to explain the importance placed on city regions within the Northern Powerhouse and this has been reinforced by the emphasis placed upon the economies of 'agglomeration' that policymakers hope they can generate: agglomeration is based on the idea that by concentrating people and capital in cities, you can generate greater additional economic growth and productivity (Cox and Longlands 2016). This is because of the positive 'spillovers' that theoretically accrue due to "thick labour markets of educated and skilled labour, spill-overs of innovations and knowledge, market size effects, and linkages amongst associated goods and services activities" (Pike 2018). For some this therefore means policy should focus on connecting the northern cities like Manchester and Leeds so that they work more as a single economic entity. This was a guiding principle of George Osborne's vision for the Northern Powerhouse which he articulated in 2014:

***"Economic evidence shows there is a powerful correlation between city size and the productivity of its inhabitants. The top 600 cities in the world contain just 20 per cent of the global population but contribute 60 per cent to global GDP.***

***"Within 40 miles of Manchester, you have Leeds, Sheffield and Liverpool, Lancashire, Cheshire and Yorkshire – a belt of cities and towns that contains 10 million people – more than Tokyo, New York or London."***

(Osborne 2015)

City regions are extremely important for regional economic development and agglomeration is a useful concept with which to try to understand the impact that cities can have. But like any theoretical position, agglomeration also has its limitations, and in particular the impact of density and scale is more limited and nuanced than is often presented. Much of the academic literature does in fact note the caveats and complexities of the relationship between cities and growth, but these are sometimes lost in translation with policymakers.<sup>5</sup> It is important therefore to address some of the limitations of the agglomeration concept – internationally, across the UK and within the North specifically:

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<sup>5</sup> A notable exception is the report written by Frontier Economics for Transport for the North in 2016 which acknowledged the methodological issues with agglomeration in their report *Assessing the productivity benefits of improving inter-city connectivity in Northern England (2016)*.

- **Internationally: scale is not closely associated with growth and productivity increases in many EU or OECD countries.** Cities can grow faster and can be more productive in some developed countries but this is far from uniform: across the EU15 countries, larger cities grew only slightly faster than smaller cities between 1996 and 2001 and grew at the same rate between 2001 and 2006; the recession also appears to have hit cities harder than intermediate areas and those close to cities (Dijkstra et al 2013; Dijkstra et al 2015). In OECD countries, predominantly rural regions grew at a higher rate than predominantly urban regions between 1996 and 2007, and national economic growth has often been driven by previously-lagging intermediate or rural regions (OECD 2009; OECD 2012). City growth is also highly dependent on context – variables such as country size, infrastructure, industrial structure and the presence of strong institutions have a major influence (Frick and Rodríguez -Pose 2017). There are also methodological and empirical issues related to the scale and definition of what constitutes a city and the ‘under-bounding’ of many city borders in analysis. In addition, while *positive* agglomerative ‘spillovers’ are widely accepted, there is very little account taken as to the *negative* spillover effects that agglomeration can generate, such as congestion and poor air quality. These limitations are discussed further in Cox and Longlands (2016).
- **Within the UK: the relationship between agglomeration and productivity is particularly unclear.** One comprehensive study of the UK’s regional growth challenges found that only seven of the UK’s 35 largest cities had worker productivity levels that are higher than the UK or EU average (McCann 2016). Another analysis has shown that only in the south of England is there any relationship between urbanisation and productivity, and that this is entirely accounted for by the different concentrations of high-productivity finance and low-productivity agriculture for all areas outside of London (ONS 2017a). Indeed, rural local authorities grew more than urban areas across England over the last 10 years of data (author’s analysis of ONS 2017b and DEFRA 2014a). Modelling indicates that a UK city with double the population of another comparable UK city will only be 1.6 per cent more productive – far less than in many similar countries (Ahrend et al 2014).

The relationship between agglomeration and productivity is particularly weak in the North. As figure 1.1 shows, when the productivity of rural and urban economies is analysed separately within each region, there is little productivity benefit to agglomeration in the North East and Yorkshire and the Humber, while in the North West rural areas are significantly more productive than urban areas (ONS 2017a).



**FIGURE 1.1: ONLY URBAN AREAS IN THE SOUTH APPEAR TO BENEFIT FROM ECONOMIES OF AGGLOMERATION**

Average gross value added per worker of rural and urban districts by region for the business economy, 2014 (GB=100)\*



Source: ONS 2017a

Note: \*as defined by DEFRA (2014a)

## 1.2 THE NEXT PHASE OF THE NORTHERN POWERHOUSE: A DIVERSE REGION OF INTERCONNECTED PLACES AND ECONOMIC ASSETS

The North's economic future will not be realised *simply* by increasing the density of its cities and improving the travel times between them but by also working with strengths of the many different cities, towns and rural areas. Cities do not exist in isolation from their wider regions: city regions like Greater Manchester are themselves often formed of several towns; the flows between areas are a vital consideration often missed by policy makers; and the productivity of a city is often highly dependent on the fates of the surrounding towns and the industries based in them. Clearly this is not to say that cities aren't important or that spending should be spread around in an inefficient way: cities are vital – but have a strong co-dependency with one-another, and with the towns and economic assets found outside of their borders. The evidence supporting this conception is far more compelling – coming from developed countries, across the UK and from the North itself.

- **Internationally: City regions have important relationships with other cities and towns.**

Across the developed world, major cities act as regional centres, and undertake a vital but interdependent role within a wider economic geography (Dijkstra et al 2015; McCann 2016). Industries and their supply chains often stretch across these regions, and there is a great deal of 'trade' between cities and their surrounding areas – and often between advanced producer services based in urban cores and industries based outside of the metropolitan areas (Pain and Hall 2007; Thissen et al 2013). Exposure to interregional knowledge flows is also linked to patent intensity (Rodríguez-Pose and Wilkie 2018).



Different areas have different specialisms and contributions to make – and these often exist at different spatial scales – regions, city regions and even areas within cities develop differently (BEIS 2017b; Ahlfeldt and Wendland 2013). In order to be successful, economic development often takes a ‘smart specialisation’ or ‘smart diversification’ approach, which pays particular attention to local context and the ‘ecosystem’ in which innovation and economic growth take place (McCann and Ortega-Argilés 2011; Eurofound 2017).

The scale of economic geography in other countries is also important to consider as we develop our own regional economies: China, India and the US are increasingly developing at the far larger, often polycentric, ‘mega-region’ geographies which dwarf the North’s city regions – with upwards of 50 million people living in them.

Policy that is focused exclusively on the density and scale of the primary urban area in the abstract fails to account for these important dynamics and relationships, often results in a ‘one-size-fits-all’ approach to the economic development of places and therefore fails to maximise their potential.

- **Within the UK: The regional geography is important, and smaller cities and towns are connected with one another.**

Across the UK, towns and cities are often co-dependent, and their prosperity is related to the region in which they are located (Swinney et al 2018; Centre for Cities 2015). The UK’s clusters exist across various spatial scales depending on their sector: broadcasting and movies sectors tend to work within city regions; automotive, robotics and pharma clusters tend to work at larger regional geographies (BEIS 2017b).

Town economies are particularly important to the national economy but are often overlooked. While some towns are in economic decline or stagnation, the evidence shows that these areas can actually be the ones to drive national economic growth with the right interventions – and in the UK many non-urban or rural areas outpace the growth of major city regions (OECD 2012). This also highlights the need to accurately understand the diverse challenges and opportunities different towns experience – rather than regarding them all as simply ‘left behind’ (Centre for Towns 2017).

This view is becoming widely accepted within the policy community, for example, the recent report by Core Cities and Centre for Cities recognises the close links between towns and city regions (Swinney et al 2018).

- **In the North: The economy is much more than the major city regions.**

There is clearly far more to the North’s economy than the density and scale of its city regions: it has several different economic centres and non-metropolitan assets, as figure 1.2 shows. The north of England is home to 15 million people, living across a strikingly diverse geography: it includes five major city regions, 265 towns and almost 1,000 villages and smaller communities (CfT 2018).<sup>6</sup> The North has 29 universities, eight major ports, and the UK’s largest airport outside of the South East. It has world-leading businesses and an economy larger than that of Wales, Scotland and Northern Ireland put together; if it were a country it would be the eighth largest in the EU (Eurostat 2018). It has four national parks, six areas of outstanding natural beauty and more than 60 National Nature Reserves.

The North has the ‘morphology’ of a polycentric region – ie it doesn’t have one major centre (as London is to the greater South East) but has several economic concentrations, none of which dominate (IPPR North and the NEFC 2012; Cox and Longlands 2016; Seymour 2017). There is also evidence that the

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<sup>6</sup> Geographically the North includes the three northern government office regions of the North East, North West and Yorkshire and the Humber – although the transport geography used by Transport for the North also includes small parts of the midlands and north east Wales.

North has become slightly more polycentric in the way that it functions over time (Champion and Coombes 2012).

The relationships between cities and towns is one of the most important dynamics within the North, where people, goods and services often transfer between sub-regions (Jones et al 2009; Transport for the North 2018). And in the North, recent productivity growth has been driven by non-metropolitan areas – Lancashire, Cumbria and Tees Valley (see chapter 4).

The North’s supply chains and clusters often operate at larger geographies than those of city regions: the North’s ‘prime capabilities’ – energy, advanced manufacturing, health innovation and digital – and other clusters have multiple and complementary specialisms in several sub-regions (BEIS 2017b; SQW and TFN 2016). And many of these prime capabilities are *not* those which have shown agglomeration benefits – of the North’s four prime capabilities, only the digital sector appears to benefit from this effect (Gibbons et al 2009 via Frontier Economics 2016).

There is a significant flow of goods and services between the sub-regions in the North, and supply chains often work across this larger geography: for example, Greater Manchester exports an estimated €250 million to Lancashire and €180 million to Merseyside in financial and business services alone; biopharma and medtech sectors supply chains have very different geographies; and enabling professional services concentrated in urban cores are essential for prime capabilities often based outside of them (Thissen et al 2013; OLS 2018; Raikes and Cox 2016).

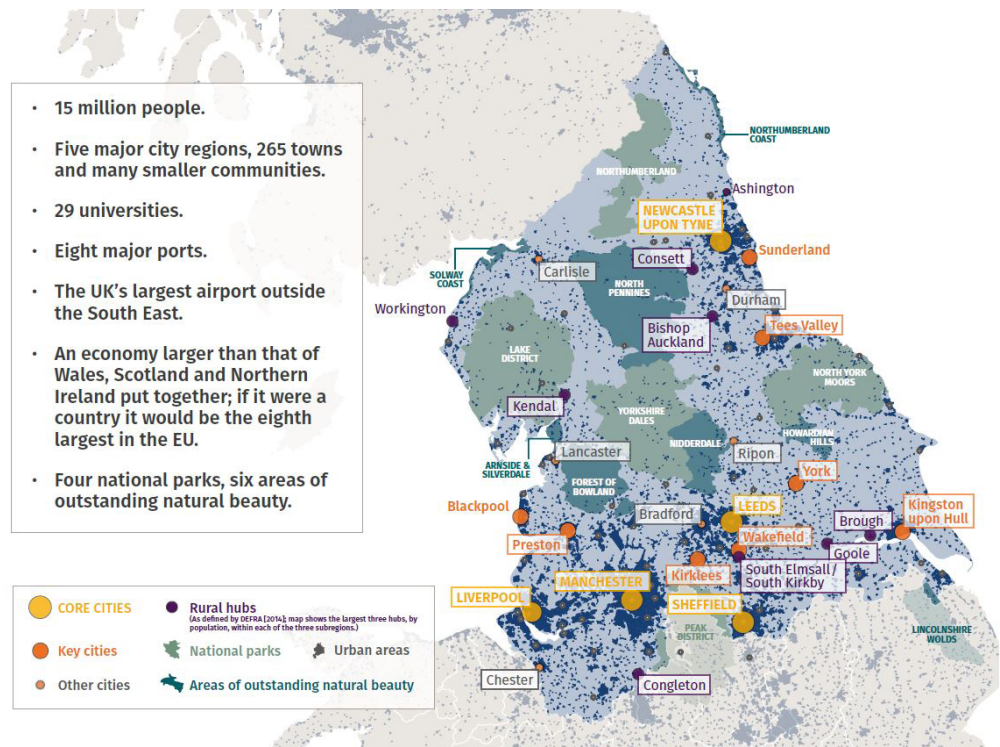
The Northern Powertowns movement is a recognition of the importance of small and medium towns and cities across the North as is the work of the Key Cities group and Centre for Towns.

Conceptually, therefore, it is not so much that the North needs to generate a ‘virtual’ density or scale by connecting major cities together into one homogenous urban mass as Osborne’s language implied: these places have distinctive strengths that need to be developed, and the flows between them need to be supported.



**FIGURE 1.2: THE NORTH HAS A DIVERSE GEOGRAPHY WITH CITIES, TOWNS AND OTHER ASSETS WIDELY DISTRIBUTED**

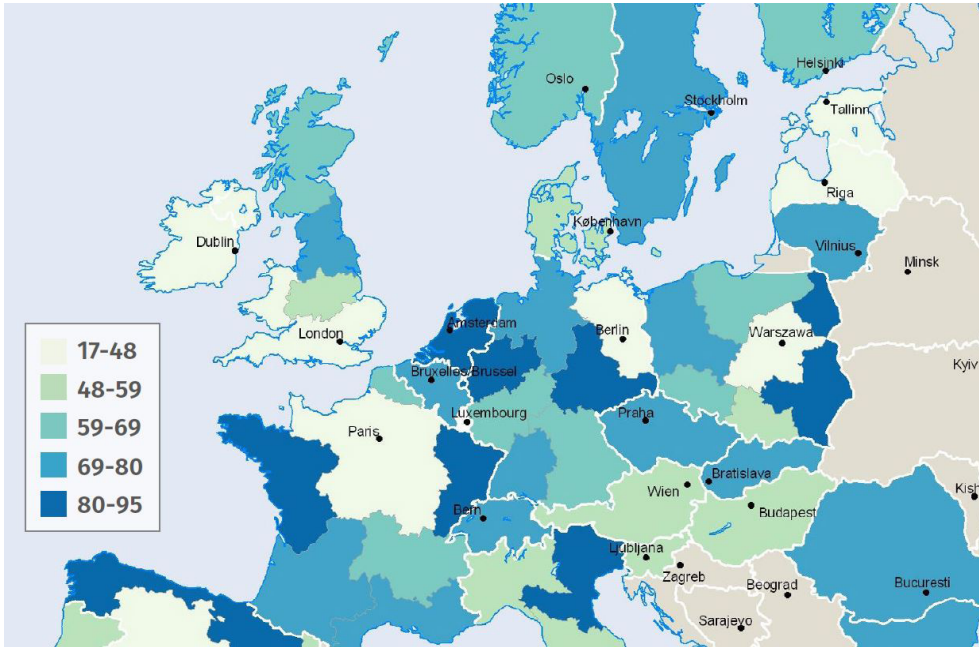
The economic geography of the North



Source: Defra 2014b

### FIGURE 1.3: THE NORTH HAS THE POTENTIAL TO WORK MORE EFFICIENTLY AS A POLYCENTRIC REGION

Indicator of morphological polycentricity – by region



Source: IGEAT et al 2007

There could also be significant social and environmental benefits by working to develop the North's natural polycentricity. There are many theoretical arguments in favour of polycentricity as opposed to monocentric geographies, although by their nature they have proven challenging to substantiate with evidence (Veneri and Burgalassi 2012 via Sat 2017). They can exhibit greater spatial equality because jobs are concentrated in a more diverse range of places (Hall and Pain 2007). It is often suggested that polycentric regions enable a better use of land: that they can prevent urban sprawl, enable more open spaces and green areas and allow for more effective transport networks (Sat 2017). It is also suggested that there are productivity benefits due to the competition and complementarity between the different centres (Seymour 2017). The European Union has sought to develop polycentric regions for many years, on the grounds that these tend to be more competitive, sustainable and socially cohesive (EC 1999, Sat 2017). Polycentric regions do introduce their own challenges: radial travel can result in congestion, and policymakers in the Randstad region highlight the need to improve transport connectivity for polycentric regions to develop (Hall and Pain 2007).

In the future, it is important that the Northern Powerhouse values places in a diverse way which goes beyond their economic contribution. The North's towns and smaller cities have many important strengths which often go unacknowledged in the Northern Powerhouse debate including the following.

- **Land supply:** the availability of land for residential and employment land use.
- **Natural assets:** including National Parks, Areas of Outstanding Natural Beauty (AONB), water, capacity for energy generation and biodiversity.
- **Historical and cultural assets:** including historical and archaeological sites which often provide a strong sense of place identity and support the visitor economy.

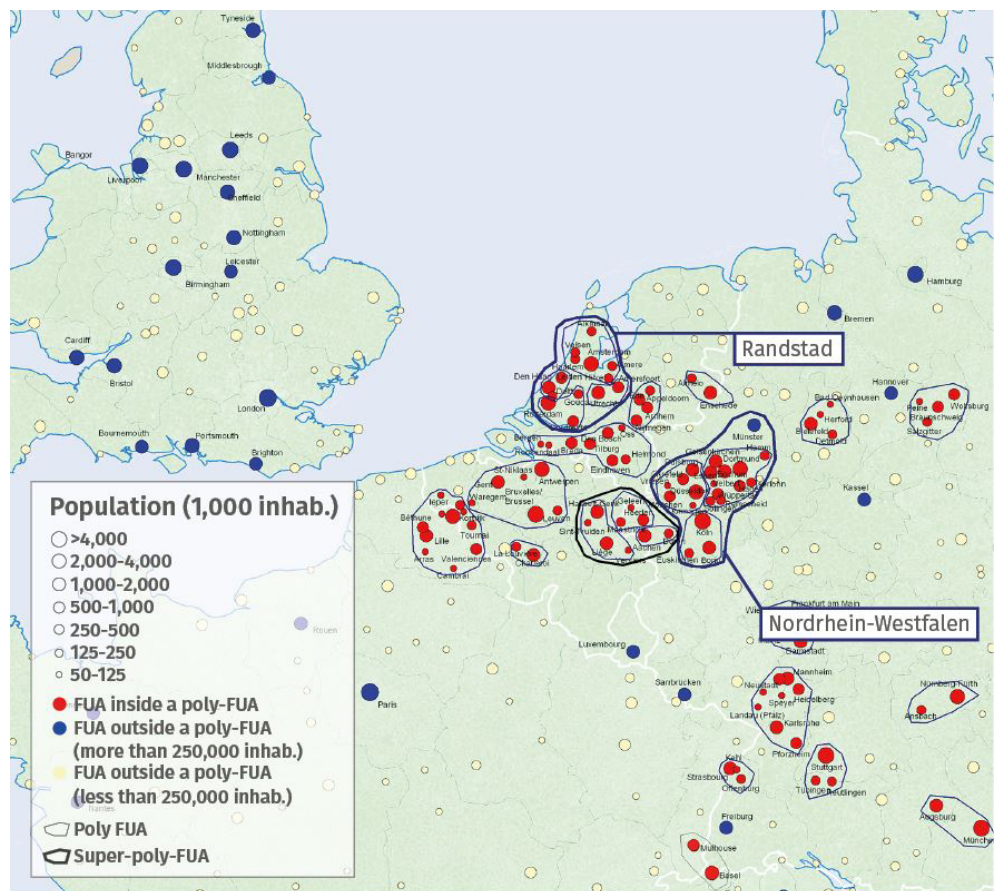
- **Arts and cultural venues:** including galleries, music and theatre which support local high streets, education and skills, place identity and the visitor economy.
- **Public and community assets:** including public parks, community centres, schools, utility companies and university campuses which can act as anchor institutions to support the local economy and civic action.

**Learning from regions in other countries**

The North should look to similar countries in Europe as it develops its economic strategy. As figure 1.4 shows, polycentric regions function more effectively in some of the most productive regions of Germany, France, the Netherlands and Belgium. The Rhine-Ruhr region of Nordrhein-Westfalen (North-Rhine Westphalia) is a particularly useful case study: it is a region of similar size to the north of England and has a similar industrial history. This is a region often compared to the North by Transport for the North and other organisations (HMG and TFN 2015). While it shares some of the North’s challenges, it is also more productive, it has a higher employment rate and is made up of a diverse range of thriving towns and cities with different industrial specialisms (ONS 2018). The Randstad region in the Netherlands is also often compared to the North and has a similar polycentricity (HMG and TFN 2015).

**FIGURE 1.4: OTHER PLACES IN EUROPE THAT ARE SIMILAR TO THE NORTH WORK MORE EFFECTIVELY AS POLYCENTRIC REGIONS**

Functional urban area (FUA) distribution inside and outside the poly-FUA



Source: IGEAT et al 2017

## BOX 1: GLOBALISATION

Globalisation has proven particularly challenging for the North. Successive governments have encouraged both a pace and scale of deindustrialisation that few other countries have experienced – and in 2018 the North still experiences these consequences. One of the consequences of these changes is that the North’s position in global value chains is less optimal: figure 1.5 shows the extent to which UK regions’ output is attributable to value added outside the country: it shows that many areas in the North have a high proportion of final output generated overseas – Cumbria, Cheshire and Lancashire for example have 16 per cent of their output generated in other countries, compared to 13 per cent nationally and 9 per cent in Inner London (Wannicke 2018).

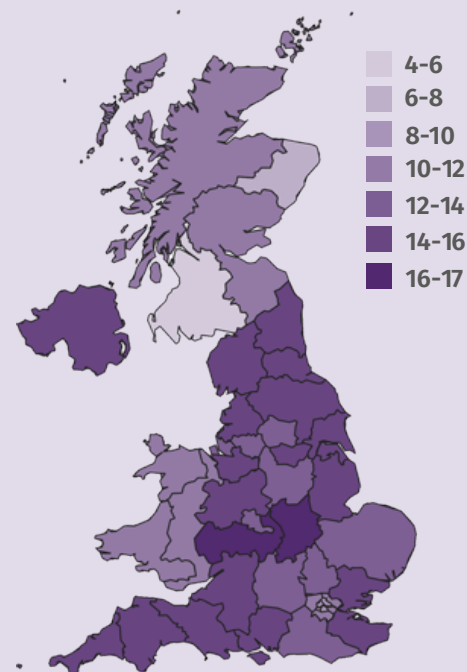
Foreign direct investment is also low compared with other UK regions: there were 2.2 times as many FDI Projects in London from 2017 to 2018 than in the three Northern Regions together (DIT 2018). The number of FDI Projects in the North West and the North East has decreased over the last two years and decreased since last year in Yorkshire and the Humber (ibid).

The role of these global forces in local economic development is hotly debated. Local policymakers very often see FDI as a vital source of capital for the regeneration of the North, and with little of their own or central government investment, they work to increase the flow of foreign money into northern projects. But others raise some concerns: they suggest these developments aren’t truly embedded in

their local economies or contend that economic development should prioritise *local* investment flows, community wealth building and ‘anchor institutions’ – which are rooted in the social and economic success of the places where they are located (Sassen 2017; Jackson and McInroy 2015). This is likely to become even more of an issue as globalisation intensifies – especially within the North’s city centres.

**FIGURE 1.5: THE NORTH IS IN A PRECARIOUS POSITION IN GLOBAL VALUE CHAINS**

Foreign value added share in UK regions in 2010



Source: Wannicke 2018

## 1.3 RECOMMENDATIONS

*The original Northern Powerhouse focused almost entirely on the major city regions of the North. Policymakers hoped that improving travel time between the major cities would generate higher productivity through the benefits of agglomeration.*

*In the next phase, the Northern Powerhouse agenda must draw on all assets and focus on a diverse range of places – including towns, cities, rural areas and natural assets. The North has a diverse geography and each place can each contribute something different to the region’s economy if they are enabled to do so. There is some evidence that policy is recognising this reality. This move is especially prominent in TfN’s draft Strategic Transport Plan and some of the new northern mayors have made the towns within their conurbations a priority (TfN 2018; BBC 2017).*



But this hasn't yet gone far enough: towns and rural areas are still often regarded as an afterthought and their inclusion can be tokenistic, when they should be seen as an integral component of regional and city regional economies (Cox and Longlands 2016).

Northern mayors, leaders and local enterprise partnerships should:

1. **develop a northern industrial strategy** – northern political leaders, LEPs, businesses, trade unions and civil society should work together to develop an industrial strategy that complements local industrial strategies and enables collaboration on key policy areas, such as transport, innovation and trade
2. **align local industrial strategies with a more diverse range of economic geography in the North** – by accounting for the strengths – economic and non-economic – of all types of places within these strategies, and aligning them with housing and town centre strategies
3. **connect towns with one-another as well as the urban core** – by using bus franchising powers, investing in new trams, bus rapid transits or guided busways, and influencing rail franchises, and support rollout of high speed broadband to provide greater digital connectivity
4. **learn from regions across the developed world** – by comparing northern economic performance and regional industrial strategies with similar places in other countries such as Germany, France and the Netherlands.

## 2. SUPPORT JOB CREATION AND PRODUCTIVITY IN HIGH-GROWTH AND LARGE-EMPLOYMENT SECTORS OF THE ECONOMY

*The original Northern Powerhouse focused on supporting technologies and some frontier industries.*

*In the next phase, the Northern Powerhouse agenda must improve productivity and economic justice across all priority sectors.*

### 2.1 THE ORIGINAL NORTHERN POWERHOUSE: THE FRONTIER INDUSTRIES

The North's specialist sectors and the assets which support them can be grouped into four 'prime capabilities' or 'frontier sectors': energy, health innovation, digital, and advanced manufacturing (SQW and TFN 2016). Analysis has shown that these are areas where the North can be said to demonstrate significant advantages: they are forecast to grow significantly in terms of output and productivity, and they are vital if the North is to maintain a competitive regional economy in an extremely challenging global context. However, it is important to note that these aren't major job-creation sectors: they are expected to make up only 16 per cent of jobs in 2030, and digital is the only prime capability expected to generate a significant increase in employment by that time (author's analysis of Cambridge Econometrics 2016).

Finer-detail analysis of economic output (GVA) reveals which sectors are performing well in particular places at the current time. Many of the North's sub-regions appear to specialise in particular sectors as revealed by the disproportionate concentration of particular industries, or their above-trend economic growth. Figure 2.1 shows where sector output is becoming more concentrated or growing at a rate above trend for the sector at the national level. This shows that:

- services to buildings and landscaping activities is becoming increasingly concentrated in Cheshire, while the manufacture of motor vehicles is also increasing in concentration in Merseyside; while Cheshire's manufacture of petroleum, chemicals and pharmaceuticals accounts for a large share of output and is also becoming increasingly specialised<sup>7</sup>
- there has been disproportionate growth in the manufacture of food products in North Yorkshire, wholesale trade in Lancashire; computer programming and consultancy in Merseyside, and manufacture of food products in Lancashire<sup>8</sup>

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7 Determined by location quotients analysis

8 Determined by shift-share analysis

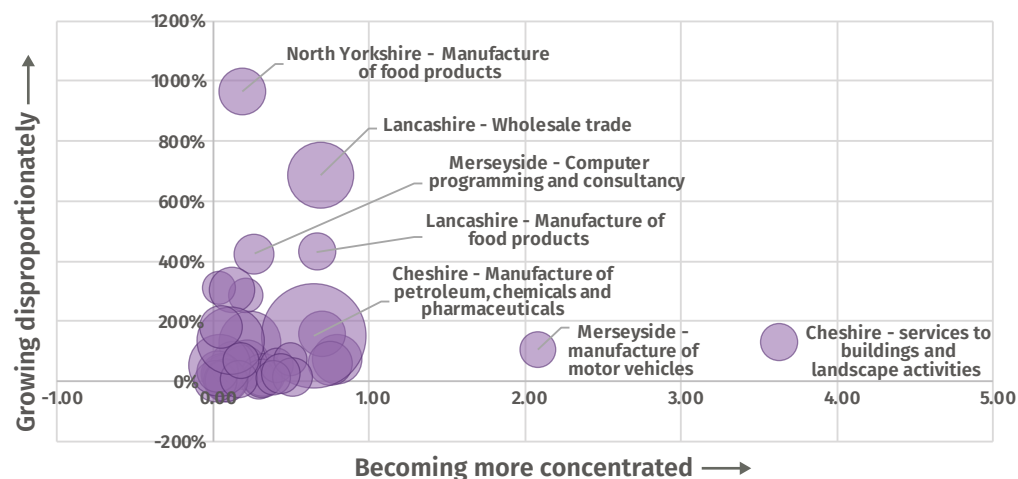
- but it is important to note that diversity is also an asset – and Greater Manchester and West Yorkshire are both among the most diverse city regions in the country.<sup>9</sup>

(Author's analysis of ONS 2018b; 2018c)



**FIGURE 2.1: DIFFERENT AREAS HAVE DIFFERENT SPECIALISMS IN THE NORTH**

Shift change in location quotient (x axis) and share regional shift (y axis) 2006-2016 – selected sector-sub-region combinations (area=total output in 2016)



Source: Author's analysis of ONS 2018b

The North's leading or 'frontier' sectors are supported by a range of 'enabling' industries: logistics, financial and professional services and higher education (SQW and TFN 2016). The different prospects of the North's prime and enabling capabilities are presented in figure 2.2 below. These enabling sectors are an important focus for policy for a number of reasons:

- they help the frontier industries (and wider economy) to thrive – for example, there are 34,000 people employed in biopharma and medtech in the North, but a further 16,000 employed in their supply chain – logistics and marketing companies for example (OLS 2018)
- they generate jobs in larger number than the frontier sector – 41.8 per cent of the North's jobs growth between 2018 and 2030 is expected to be in its three 'enabling sectors' (author's analysis of Cambridge Econometrics 2016)
- the different geography of these sectors has important implications for transport policy and economic development: the financial and professional services sector is increasingly concentrated in the North's major cities, but these services are needed by frontier industries which are often based outside of these cities (Raikes and Cox 2016; Raikes 2016).

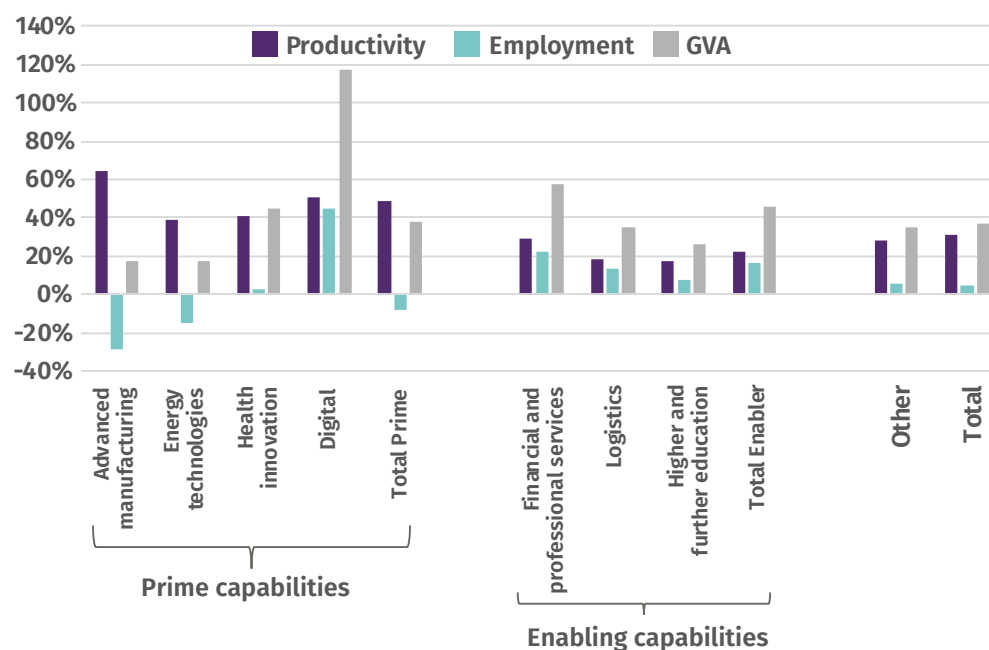
9 According to Krugman and Herfindahl Hirschman specialization indices





**FIGURE 2.2: PRODUCTIVITY IS EXPECTED TO RISE IN THE NORTH'S PRIME CAPABILITIES, BUT A GREAT DEAL OF JOBS GROWTH IS LIKELY TO BE CONCENTRATED IN ITS ENABLING AND OTHER SECTORS**

Growth in productivity, employment and output 2017-2030



Source: Author's analysis of Cambridge Econometric 2016

Knowledge-intensive business services and high-tech manufacturing are particularly important sector groupings and have different economic geographies within the North. These two sector groupings are believed to demonstrate the best prospects for growth internationally (Bakhshi et al 2015; Chapain et al 2010). Within the North:

- Greater Manchester, Cheshire and Warrington and Leeds City Region have relatively high concentrations of employment in knowledge-intensive business services (59.1 per cent of the North's total employment in this sector), and employment in these sectors is growing disproportionately in Greater Manchester and Cheshire and Warrington (author's analysis of ONS 2018d)
- high-tech manufacturing is concentrated in Tees Valley, Cumbria, Lancashire and the North East,<sup>10</sup> while disproportionate employment growth has been observed in Tees Valley and in Greater Manchester (author's analysis of ONS 2018d).

But it is important to note that the North's frontier industries are not supported by central government in the same way as in other regions. For example, government spend on R&D is overwhelmingly concentrated in the golden triangle: 58.9 per cent of government R&D spend is concentrated in London, the East and South East (ONS 2018e). Almost a third of R&D spend is concentrated in three sub-regions alone: the areas around Oxford and Cambridge, combined with western inner London together receive 31 per cent of all UK R&D funding (Jones 2018). Private investment follows public investment in these crucial industries, and London and the South East benefit far more from venture capital and equity investment than the rest of the country (HM Treasury 2017a).

10 The North East LEP area

## BOX 2: BREXIT

Globalisation means different things to different people living in different places, and as should be expected there is a relationship between places' experience of globalisation and their attitudes toward it: areas that have suffered due to globalisation are more likely to feel negatively toward it and to have voted leave in the referendum on leaving the EU (Jennings et al 2018; Wannicke 2018). This dynamic is not unique to the UK: the 'revenge of the places that "don't matter"' has seen a surge of populism in places that don't easily fit in with the geography of globalisation – which tends to favour large metropolises over smaller urban areas and towns (Rodríguez-Pose 2017).

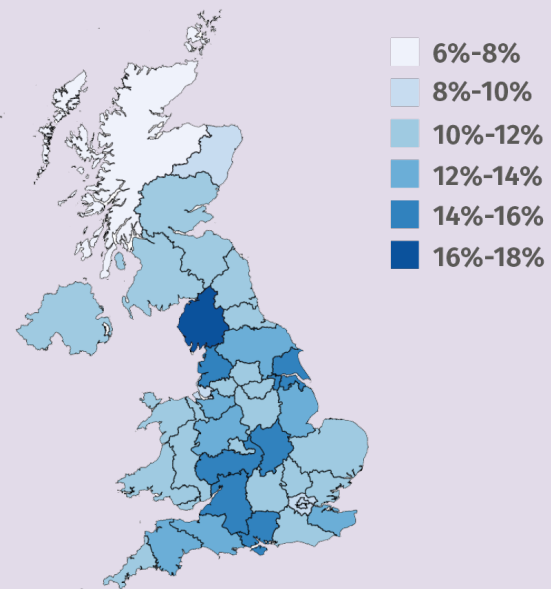
Many of these places are also likely to experience the most severe consequences of the UK leaving the EU because of their close integration in its supply chains (Chen et al 2017). It is impossible to know what the impact of Brexit will be – in large part because at the time of publication we still don't know what type of Brexit the UK will experience. However, using the information that we have it appears that the North is not well positioned. The government's recently-published analysis of the potential impact of Brexit estimated that the North East and North West would be among the worst-hit regions of a 'no deal' or free trade agreement scenarios (HM Government 2018). This is in line with other research published over the last year, which also showed regions outside of London are set to fare badly (see Cambridge Econometrics 2018; Chen et al 2017; Levell and Keiller 2018). In one analysis it was estimated that the North's economy is twice as exposed to Brexit as London's (Chen et al 2017). This will have an impact on living standards too: as figure 2.3 shows, Cumbria and Lancashire are most exposed because of the high level of integration with EU value chains (ibid).

EU funding has also benefited many parts of the North and has leveraged in other funding too. Merseyside, Cumbria, and the North East have especially benefited. It is also one of the few funding streams which has been devolved to areas with combined authorities, and has therefore enabled innovation, for example in back-to-work schemes like Greater Manchester's Working Well (GMCA 2018). This makes the government's proposed 'shared prosperity fund' extremely important for these areas (Tinker 2018).

But Brexit is already having an impact on the North: between 2015/16 and 2016/17, international migration *into* the North fell by 12.1 per cent; while international migration *out* rose by 17.0 per cent (ONS 2018f).

**FIGURE 2.3: SOME NORTHERN SUB-REGIONS ARE VERY EXPOSED TO BREXIT, WHILE OTHERS ARE RELATIVELY SHELTERED**

Shares of regional labour income exposed to Brexit (UK regions)



Source: Chen et al 2017

## 2.2 THE NEXT PHASE OF THE NORTHERN POWERHOUSE: PRIORITY SECTORS ACROSS THE WHOLE ECONOMY

The frontier and enabling sectors are important but most people in the North are employed in the ‘everyday economy’ sectors such as retail, hospitality and social care. As discussed above, the North’s prime capabilities may be the most productive but are expected to shrink in employment; the enabling capabilities will generate proportionately more jobs, and will support the frontier and wider economy, but they still won’t be large employers in their own right. In total, the frontier and enabling sectors are expected to make up only 29 per cent of jobs in 2030 (author’s analysis of Cambridge Econometrics 2016). The remaining 71 per cent will work in ‘everyday economy’ sectors – such as retail, hospitality and social care – that produce ‘unexceptional’ goods and services that aren’t usually traded overseas – are often overlooked by policymakers (Jacobs et al 2017). These sectors are important for two broad reasons.

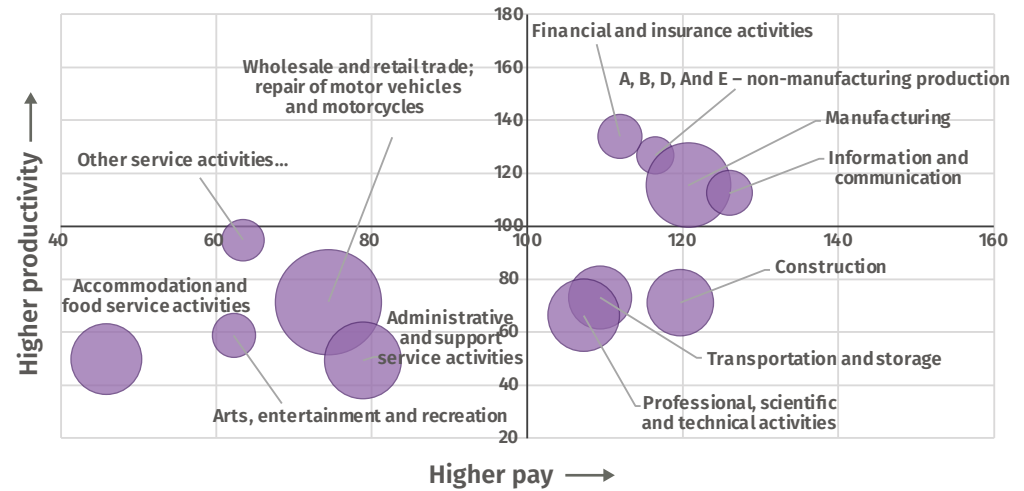
- **Productivity.** Internationally, the global slowdown in productivity is likely due to the divergence between frontier firms and the ‘laggards’ (Andrews et al 2016). And likewise, the UK’s productivity problem appears not to be due to its frontier sectors – which are in fact competitive with those in other countries. Instead the problems are in the ‘long tail’ of low productivity firms where ‘everyday economy’ sectors are concentrated – these tend to have the lowest productivity in the UK and are less productive than similar sectors overseas (Thompson et al 2016; Jacobs et al 2017). The UK has relatively high productivity in some of these sectors (such as textile and clothing manufacture, and retail), but is relatively weak in others (such as agriculture, and arts, entertainment and recreation) (Forth and Aznar 2018). Research from the OECD recently concluded that wholesale and retail trade (alongside other services sectors) should be the focus of government interventions to drive up productivity (Kierzenkowski et al 2017). The productivity problem isn’t isolated to this group of sectors however – some evidence has shown that the frontier economy is also lagging (Schneider 2018). Supporting productivity in these sectors through the enabling capabilities, particularly digital, is crucial to help address the productivity gap.
- **Economic justice.** Economic justice is a concept closely related to ‘inclusive growth’ and prioritises quality employment among other considerations (see chapter 4). It is relevant to industrial strategy for a number of reasons. In simple terms, these sectors employ the most people: for example, 1.6 million people in the North – 22.3 per cent of the workforce – work in sectors such as accommodation and food service activities or wholesale and retail, where many jobs pay below the real living wage (ONS 2018g; D’Arcy 2018). These sectors also have a high concentration of those ‘gig economy’ jobs that tend to produce more problems with poor working conditions (Lepanjuuri et al 2018).

As figure 2.4 shows, there is a group of sectors in the North where many people work, which are low-paid and low in productivity: wholesale and retail trade; repair of motor vehicles and motorcycles; administrative and support services activities and accommodation and food service activities. These are clearly sectors that need the attention of policy makers.



**FIGURE 2.4: THE NORTH'S 'EVERYDAY ECONOMY' SECTORS ARE LARGE EMPLOYERS BUT ARE LOW PAID AND LOW IN PRODUCTIVITY**

Productivity, employment and wages for selected sectors in the North compared to the UK all-industry average (marked by axes)



Source: ONS 2018g; 2018h



### 2.3 RECOMMENDATIONS

*The original Northern Powerhouse focused on supporting technologies and some frontier industries.*

*In the next phase, the Northern Powerhouse agenda must improve productivity and economic justice across all priority sectors. The North's frontier industries – health innovation, advanced manufacturing, energy and digital – need significant investment; but the rest of the economy also needs intervention: professional services enable the frontier sectors to thrive, while 'everyday economy' businesses – shops, hotels and restaurants – are vital too. In some parts of the North frontier sectors are already being prioritised. Industrial specialisms are coming into focus – building on strategic economic plans, TfN's Independent Economic Review in 2016, science and innovation audits and emerging local industrial strategies.*

But the focus remains too narrow. Industrial strategy must break out of the conventional focus on frontier industries for both productivity and economic justice to follow.

Northern mayors, leaders and local enterprise partnerships should:

5. **prioritise real specialisms and support their enabling sectors and infrastructure** – local industrial strategies should set out how local, regional and central government can work together to improve the position of both established and emerging frontier sectors and their supply chains
6. **use local industrial strategies to improve productivity and economic justice in the 'everyday economy'** – by using the devolved adult skills budget to up-skill employees in these sectors, and using Growth Hubs to improve skills utilisation amongst SMEs and new business start-ups
7. **use local authority commissioning powers to provide opportunities for people working in the health and social care system to up-skill, progress and retrain as necessary** – for example, requiring contractors to pay the real living wage.

# 3.

## INVEST IN PEOPLE AND INFRASTRUCTURE

*The original Northern Powerhouse was focused on transport infrastructure.*

*In the next phase, the Northern Powerhouse agenda must continue to prioritise transport investment, but also improve the social infrastructure of the North.*

### 3.1 THE ORIGINAL NORTHERN POWERHOUSE: TRANSPORT INFRASTRUCTURE

Transport has been at the heart of the Northern Powerhouse agenda. Transport connectivity is seen as the way to connect up the North's major cities so that they are "greater than the sum of their parts" (Osborne 2014). A transport network underpins any regional economy, and alongside the other fundamentals helps it to thrive (OECD 2012; Laird and Mackie 2010; Frontier Economics 2016) such as education, skills and healthcare.

Improvements in transport have a key role to play in the North – where cities, towns and economic assets are distributed across a diverse geography but are poorly connected with one another (ibid; TfN 2018). This poor connectivity results from a long history of underinvestment which, despite the Northern Powerhouse agenda, has actually got worse in recent years.

- Over the last 10 years, the North received £289 per head on transport, while London received £708 per head on average; central government spend in London more than doubled since 2012/13 in real terms, rising more than in any other region, and more than double the rate of increase in the North (author's analysis of HM Treasury 2017b and ONS 2018i).
- Since the Northern Powerhouse was first mentioned in 2014, spending per head in London has increased by twice as much as spending in the North: the capital has seen a £326 per person increase in public spending, the North has seen an increase less than half the size – just £146. Transport spending per person remains approximately twice as high in London as in the North – as it has been for the past decade (IPPR North 2018).
- The government's pipeline indicates that this situation is not likely to substantially improve in the future: £4,155 transport spending per capita is planned on London, compared to just £1,600 per capita planned on the North – 2.6 times more per capita spend on London than in the North, and five times more per capita spending than in the North East or Yorkshire and the Humber (Raikes 2018).

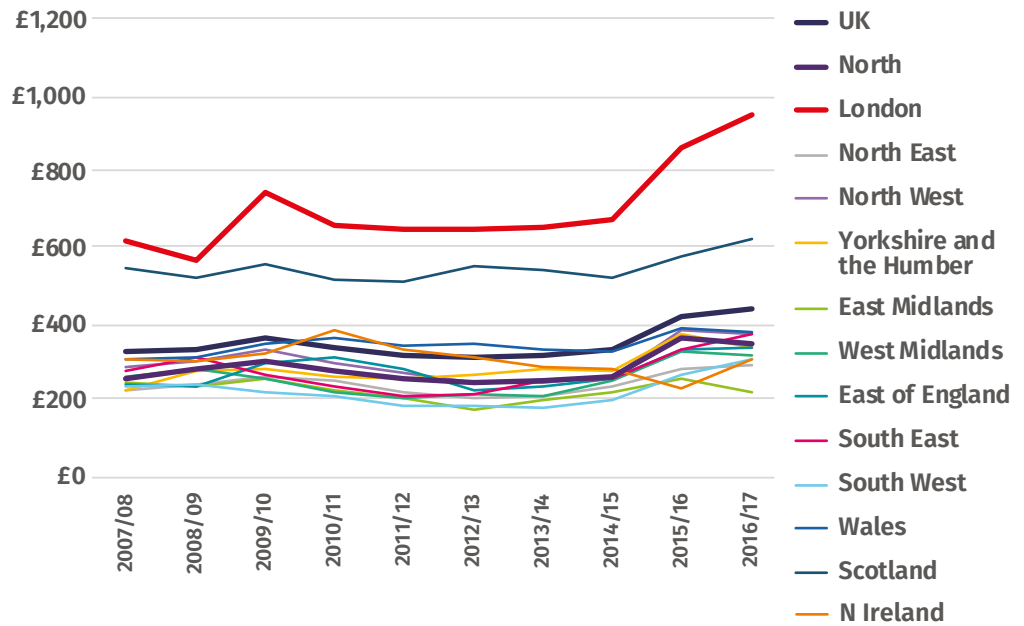
The government hasn't yet followed through on its promises to invest in the North but may do so in the years ahead as the projects and programmes are brought forward for their decision. One of the most significant elements of the Northern Powerhouse agenda to date was the creation of Transport for the North, which has been undertaking the foundational work needed to bring forward a programme of infrastructure. TfN will publish its final Strategic Transport Plan in early 2019 and estimates that up to £27 billion of additional investment will be needed by 2050, and in the recent budget the government provided the £37 million necessary for them to do so (TfN 2018; HM Treasury and Hammond 2018). Two major projects

stand out from the North’s perspective, although they are at very different stages of development: HS2 – which is expected to connect Manchester, Leeds (and potentially Liverpool) with London by 2033; and Northern Powerhouse Rail, which will link the major city regions of the North and is currently being developed. Clearly it will be important that these two major projects are aligned in the best possible way – and that new connections to London are integrated with new connections between the North’s major cities as efficiently as possible for passengers.



**FIGURE 3.1: LONDON HAS RECEIVED TWICE AS MUCH TRANSPORT SPENDING PER CAPITA THAN THE UK AVERAGE OR THE NORTH OVER THE PAST 10 YEARS**

Historic transport spending per capita in UK nations and regions, current prices



Source: ONS 2018i

### 3.2 THE NEXT PHASE OF THE NORTHERN POWERHOUSE: TRANSPORT AND SOCIAL INFRASTRUCTURE

While the North’s transport infrastructure is vital, so too is its ‘social infrastructure’. This provides vital public services on which the rest of the economy depends and contributes significantly to peoples’ quality of life. Indeed, there is strong body of evidence from the academic literature which demonstrates the foundational importance of social infrastructure, for example, the work of heterodox economists such as Amartya Sen have highlighted how foundational health and education support is in helping to provide the conditions for a flourishing economy (Sen 1999). It has an important relationship with transport infrastructure – which links people to work, learning and social participation (Round 2018). And it is a particularly valuable component of the economic base in places that don’t have a thriving private sector – and perhaps never will. But these are also enablers of growth and productivity across the economy, and two areas of policy are particularly important.

- **Health and social care.** These sectors' economic contribution is significant: taken together they make up a large share of employment and output; but public health in particular has a second, wider economic impact by improving the health and wellbeing of the workforce (Stuckler et al 2017; Schünemann et al 2018; ISC 2017; Raikes 2016). Research has found that investing in social care can lead to increases in productivity because it frees up people – especially women – to participate in the rest of the economy (ESRC 2018). And the North has many severe health challenges which need to be addressed – not just because they are important in their own right, but because they directly support wider economic prosperity (see chapter 4.2) and research undertaken by the NHS, showed that tackling North's health could generate an additional £13.2bn a year (NHS 2018).
- **Early years provision, education and skills.** Investment in education throughout the lifecourse is a crucial ingredient for a successful Northern Powerhouse. Without it, the investment in physical infrastructure, such as transport, may mean that many people do not benefit from the jobs and investment that is created. There is economic as well as social value to the skills, knowledge and experience of a population, which is therefore enabled by public services ranging from early years provision, through to schools, colleges, universities and other training providers throughout a person's life (ONS 2018j; Di Cataldo and Rodrigues-Pose 2016; Clifton et al 2016). Evidence shows that investing in people's education and skills, particularly the most disadvantaged, can have the greatest economic and fiscal impact and there is evidence that investing in childcare can lead to increases in productivity as it frees up people – again, particularly women – to participate in the rest of the economy (Raikes and Davies 2016; ESRC 2018).

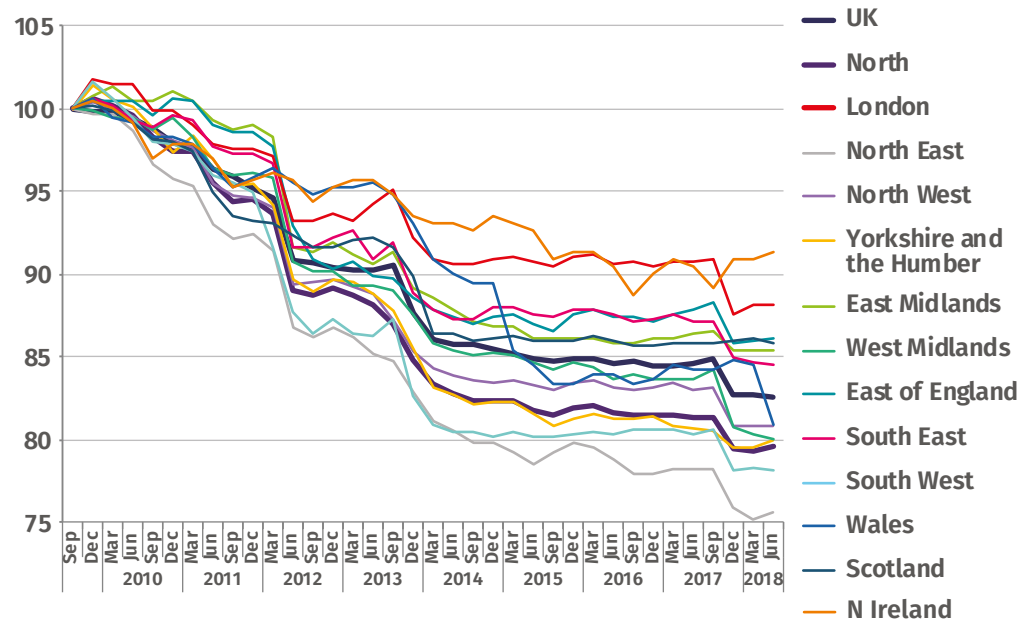
### *The impact of austerity*

But despite the importance of social infrastructure, it has been cut severely by central government. As figure 3.2 shows, public sector employment in the North has shrunk by 20.9 per cent and 300,000 people since its peak in 2009; eight of the 10 worst-hit police authorities are in the North; and between 2009/10 and 2016/17 total public spending in the North fell by £6.3 billion in real terms – more than any other public region, while the South East and South West together received a £3.2 billion rise in public spending during this period (ONS 2018k; NAO 2018; ONS 2018i; ONS 2018l). Significant parts of the third sector in the North have been affected by cuts in government funding, and those working in the most deprived areas have been affected most of all (Chapman and Hunter 2017). The architect of the Northern Powerhouse, George Osborne, was also an advocate of the post-recession contraction of public expenditure, particularly for local government.



**FIGURE 3.2: PUBLIC SECTOR EMPLOYMENT HAS FALLEN MORE IN THE NORTH THAN MOST OTHER REGIONS, AND THE NORTH EAST HAD THE MOST ACUTE PUBLIC SECTOR JOBS CUTS OF ANY REGION OR NATION**

Public sector employment (headcount) by region



Source: ONS 2018j

### BOX 3: AUTOMATION

Automation and AI will change the way we work, but these trends are unlikely to replace jobs on the scale some have feared. Automation isn't a new challenge and predictions are often subject to misinterpretation or exaggeration (Brooks 2017). Furthermore, the analysis on which many were basing their estimates (Frey and Osborne 2013) relied on occupation-level analysis which miss some of the detail: more recent analysis by Arntz et al (2016) analyses work with more granular data and produces quite different – and more modest – results. It is important to note that these trends will also generate new opportunities if harnessed effectively: AI can provide opportunities to increase

productivity across all sectors of industry in the North.

There is clearly a challenge and an opportunity for the North. Compared to regions in other countries the North appears to be relatively protected but there are areas of concern: the OECD has found that the jobs being created in the North aren't at high risk of automation, as they have tended to be managerial or professional (OECD 2018a).

But this is no reason to be complacent, as the North does retain a relatively high concentration of lower-skilled individuals and people working in some of the occupation groups that are most at risk.



### **Social infrastructure: the role of civil society**

Social infrastructure is also created and sustained by civil society as well as the state. Civil society includes not only registered charities, social enterprises, trade unions and housing associations, but also 'community', 'grassroots' or 'below the radar' groups that may not have formal legal status, such as neighbourhood associations, or sports clubs, community choirs and parent-teacher associations. The combined contribution of these groups to the foundational economy is substantial, but it is often overlooked in discussions about the economy. Although civil society as a whole has proven itself to be resilient, it should not be taken for granted. In particular, the compound impact of the government's austerity agenda has disproportionately affected those working in the most deprived areas, at a time when local authorities have also withdrawn neighbourhood-based interventions because of budget constraints (Chapman and Hunter 2017).

Unpaid and domestic work is also crucial and often overlooked. This includes voluntary work, or caring for children and older relatives and is sometimes described as the 'core economy'. It is a major contributor to the wider economy and forms a large part of people's everyday lives - in particular women's. However, it is almost always excluded from calculations of economic output.

- 15 billion hours of unpaid work are done by northerners every year.
- If this were paid work, then it would be worth £146 billion in total.
- There are 930,000 volunteers working with third sector organisations alone, providing 67 million hours of activity every year which, if paid, would be worth up to £800 million a year to the North's economy.<sup>11</sup>

(Author's analysis of ONS 2018h and ONS 2018m; Chapman and Hunter 2018).

The scale of this work and its contribution to society need to factor in to policy decisions – for example around transport connectivity, where the focus is often on commuting (to do paid work), or in industrial strategy, where the focus is currently on a narrow section of the private sector economy.

The role of culture is becoming more prominent in the Northern Powerhouse agenda. Culture is vital for both economic growth and quality of life: for every pound spent in the North, £2 in output is generated; and for every one job directly created, another follows as a result – and these in-region multiplier effects are higher in the North West and Yorkshire and the Humber than they are in London (OECD 2017; CEBR 2017), but the role of culture goes beyond its direct economic contribution. The arts and culture plays a crucial enabling role particularly in the development of new digital capacity. Indeed, as Longlands et al (2018) argued, jobs in the creative sector will probably be more resilient to automation because of their complexity and inherently 'human' characteristics. One of the most significant recent decisions for the North was the BBC's move to Salford – the decision to do so precedes the Northern Powerhouse agenda by 10 years. Since 2014, some investments in the arts have been branded under the Northern Powerhouse – most notably the Factory investment in Manchester and the 2018 Great Exhibition of the North. Nonetheless, the arts remain severely underfunded in the North (and elsewhere outside of London): the capital received 41.1 per cent of all Arts Council England national portfolio grant funding in the 2018-22 programme (IPPR North analysis of ACE 2017).

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11 This figure doesn't capture the contribution that unpaid workers make to the NHS, police and other public services.



### 3.3 RECOMMENDATIONS

*The original Northern Powerhouse agenda was focused on transport infrastructure. Initially it was mainly concerned with improving links between the North's major city regions – especially Manchester and Leeds – while vital social infrastructure has been severely cut back.*

*In the next phase, the Northern Powerhouse agenda must continue to prioritise transport investment, but also improve the social infrastructure of the North. Education, skills and health are all fundamental for the North's economy.*

Skills have become more of a focus and have featured in devolution deals, and many local authorities are often using scarce resources as efficiently as they can under the circumstances. The recent news that Channel 4 is moving to Leeds is another step in the right direction for culture in the North. New developments like this can be used to maximise opportunities for up-skilling – with particular links to increasing digital capability – something Leeds City Council and the LEP is already working hard to achieve.

But the North's social infrastructure is in crisis: health and social care is severely underfunded, skills funding has been cut, the economy is too often seen as separate from the public sector, the contribution of unpaid work is rarely considered in economic development and the North doesn't get enough support from central government to invest in culture.

Northern mayors, leaders and local enterprise partnerships should:

- 8. use new powers to join up skills with employment support and focus on up-skilling those who currently have the poorest qualifications** – not only is it right to prioritise those currently excluded, but the evidence shows that this is where the economic and fiscal dividend is highest
- 9. embed a 'lifecourse' approach to skills policies** – by establishing 'lifecourse work centres' and undertaking skills and health interventions throughout an individual's life so that they reach older age in better health and with career options<sup>12</sup>
- 10. push for further reform to infrastructure appraisal and evaluation** – major infrastructure projects should be evaluated based on well-evidenced non-economic outcomes such as improved health, and gateway assessments should be reformed to account for employment and health and wellbeing outcomes
- 11. develop targeted 'invest to save' models of public service delivery** – building on initiatives already in place to reap the cashable savings that can result from the right interventions
- 12. recognise and harness the contribution of public service and unpaid work** – by accounting for them in local industrial strategies and transport plans
- 13. support arts and culture institutions to get a better share of central government funding** – by campaigning with a diverse range of local arts stakeholders for larger shares of central government investment in the arts.

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<sup>12</sup> See Round 2017

# 4.

## DELIVER ECONOMIC JUSTICE

*The original Northern Powerhouse focused on productivity and saw every new investment or upward tick in output as a sign of success.*

*In the next phase, the Northern Powerhouse agenda should focus on economic justice.*

### **4.1 THE ORIGINAL NORTHERN POWERHOUSE: OUTPUT AND PRODUCTIVITY**

The focus of the Northern Powerhouse agenda to date has been on productivity indicators – and on the degree to which the North lags national performance. These productivity indicators are not a proxy for economic justice and don't reflect people's real-life experiences of the economy – they should only be used alongside other more meaningful indicators. However, they do remain an important starting point for assessing a region's economic performance: the capacity of a place to 'add value' efficiently remains necessary for economic development.

The North is 12.6 per cent less productive than the national average, but there are two clear phases in the North's recent economic history: the pre-recession period, when many northern city regions outpaced national productivity growth; and the post-recession period when growth across the board has been slower, but other areas such as Lancashire, Cumbria and Tees Valley have outperformed the national average, as figure 4.1 shows (ONS 2018n).



**FIGURE 4.1: IN MANY PARTS OF THE NORTH PRODUCTIVITY CAUGHT UP BEFORE THE RECESSION BUT HAS FALLEN BEHIND SINCE**

Nominal annual productivity growth, pre-recession (2004–2007) and post-recession (2013–2016)



Source: ONS 2018n

The North’s relatively low productivity has a mix of causes, but economic analysis can help identify how the industrial structure and the other characteristics of regions affect their output. Industrial structure (ie the mix of industries within an area) can help or hinder the growth of a particular place – if these industries are growing nationally (or globally), and they are highly concentrated in a particular area, then this area will tend to fare well- and vice-versa. Parts of the North have seen their industrial structure affect their output.

- Pre-recession (2002–2007) the most positive effects of industrial structure were experienced by the major city regions in the North: Greater Manchester, Merseyside and Northumberland, Tyne and Wear; South Yorkshire and West Yorkshire; Cumbria and East Yorkshire experienced the negative effects.
- Post-recession (2011–2016) the picture is different: industrial structure had the most positive effect in Tees Valley, North Yorkshire and Cheshire (the major city regions continued to benefit); while a negative effect was again experienced in Cumbria, East Yorkshire and northern Lincolnshire.

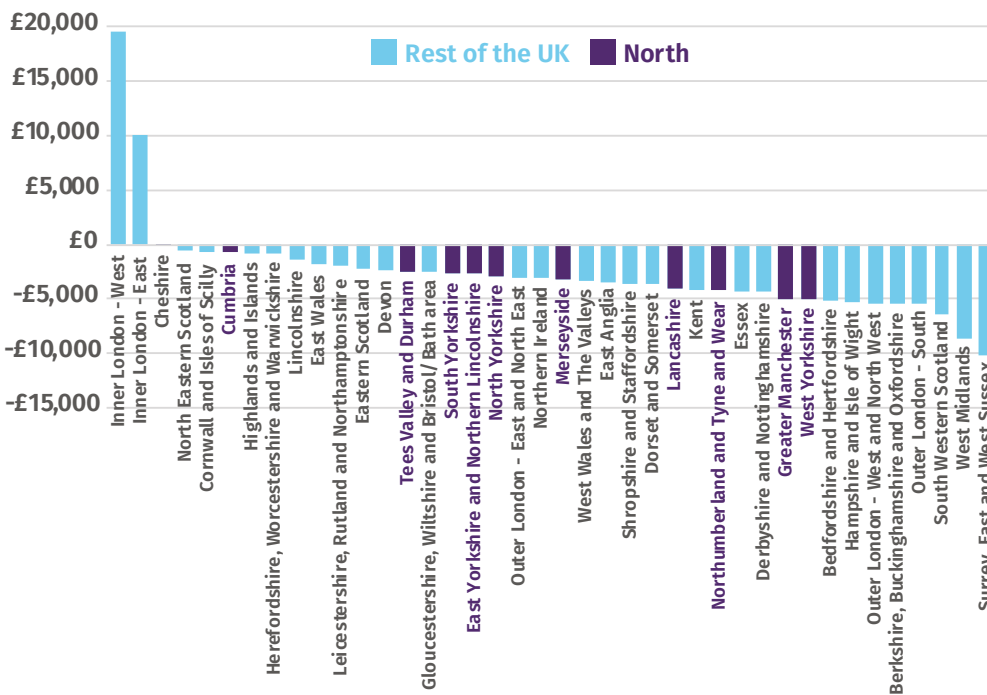
(Author’s analysis of ONS 2018o)

The effect of local economic conditions is particularly important for policy. All regions outside inner London have experienced a negative ‘region effect’ over the last 10 years – the calculation is relative, and inner London’s runaway growth skews the calculations. But some areas in the North have a strong region effect relative to the rest of the country: Cheshire and Cumbria are especially strong performers according to this measure, as they have the third and sixth

strongest region effects (of 40 areas).<sup>13</sup> The northern areas with the worst region effects were the major metropolitan areas of Greater Manchester and West Yorkshire – this is because they have (broadly) similar industrial structures to London and yet underperform significantly. Nonetheless there are some areas with worse region effects which may be surprising – many are in the South East, which indicates that these areas owe their relatively high output growth to the industrial structure they have, rather than what the place itself can offer.

**FIGURE 4.2: ACCOUNTING FOR INDUSTRIAL STRUCTURE SHOWS THAT PARTS OF THE NORTH HAVE A NEGATIVE ‘REGION EFFECT’ ON PRODUCTIVITY, ALTHOUGH IN SOME CASES THEY FARE CONSIDERABLY BETTER THAN PARTS OF THE SOUTH**

Cumulative growth in nominal GVA (£ million): Region Effect



Source: ONS 2018o

### The North’s economy in an international context

The North has many attributes that compare quite favourably with regions overseas. The EU’s regional competitiveness index measures “the ability of a region to offer an attractive and sustainable environment for firms and residents to live and work” (Annoni et al 2017). London and the South East dominate compared to other EU regions, but some northern regions like Greater Manchester, Cheshire and North Yorkshire sit alongside reasonably-positioned areas in Germany, Scandinavia and the Benelux regions (ibid).

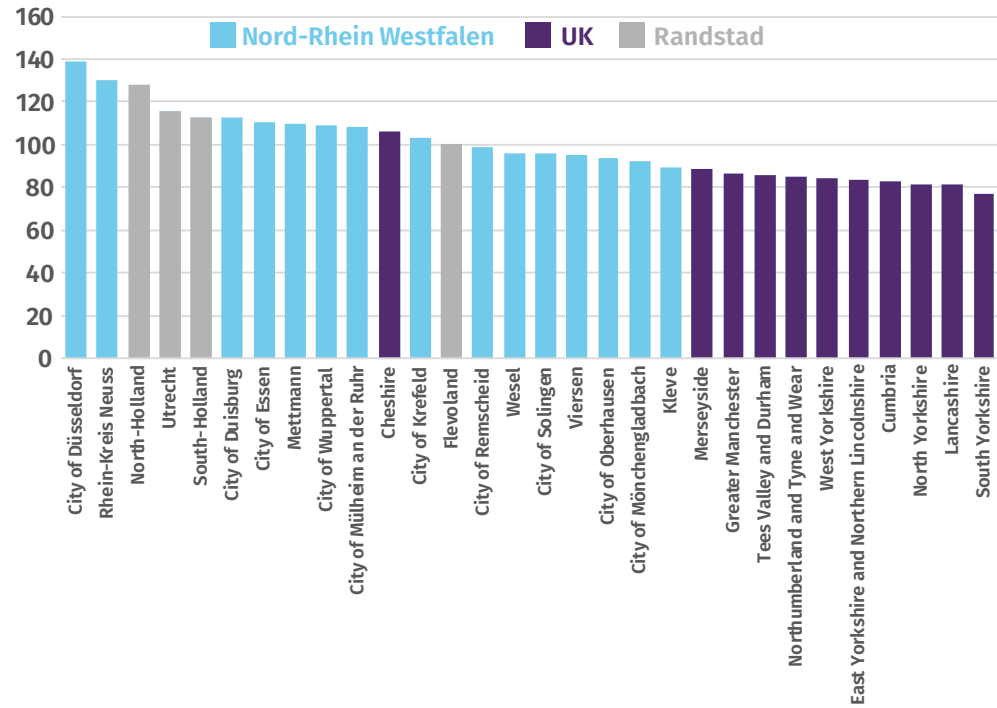
But these abilities aren’t reflected in the North’s productivity relative to similar regions such as the Randstad in the Netherlands, and Nord-Rhein Westfalen in Germany. As figure 4.3 shows, the North underperforms significantly when compared to these areas. In fact, northern sub-regions struggle to compete with East German sub-regions – a striking fact considering the economic history of East Germany (ONS 2018a).

13 NUTS 2 sub-regions



**FIGURE 4.3: NORTHERN SUB-REGIONS ARE FAR LESS PRODUCTIVE THAN THE SUB-REGIONS OF NORDRHEIN-WESTFALEN IN GERMANY OR THE RANDSTAD IN THE NETHERLANDS**

Productivity relative to the UK average (=100)



Source: ONS 2018a

## 4.2 THE NEXT PHASE OF THE NORTHERN POWERHOUSE: ECONOMIC JUSTICE

### *Inclusive growth and economic justice*

Many policymakers have recently come to accept that growth in output (ie GDP or GVA) is not resulting in a reduction in poverty and inequality – (although this has rarely translated into policy).

GDP measures the total quantity of goods and services in a country and for some has essentially become a convenient proxy for measuring human welfare within a society (ONS 2018p). But in recent years, there has been growing concern about the inadequacy of GDP as a measure of human welfare because of the apparent disconnect between a growth in GDP and better outcomes for people living in an area (Stiglitz et al 2009; Abdallah et al 2012; Colebrook 2018). The international evidence shows that developed countries have become wealthier on aggregate, and that developing countries are catching up (IPPR 2017). But, within developed countries, progress has slowed, and new problems are being generated which have led to a disconnect between growth and inclusion. There is a broad consensus that this issue is a priority: organisations such as the IMF and the OECD have stated that growth needs to be more inclusive (Lagarde 2013; OECD 2016a; OECD 2016b). While inclusion is seen as a policy objective in its own right, policymakers are also concerned that inequality is holding back national economic output growth (Cingano 2014).

But whilst the term ‘inclusive growth’ is a relatively recent phenomenon, the debate on the degree to which growth delivers benefits in an inclusive way, is not. In the 1970s, Myrdal (1974) argued for greater emphasis of policymakers

on the “movement upward of the entire social system” which needed to include both economic and non-economic factors. A critical concern for most commentators is the is the assumption that higher levels of aggregate growth will automatically ‘trickle down’ to people and places - when the academic evidence for any ‘trickle-down’ effect is extremely partial and most recently critiqued by Piketty (2014).

The inclusive growth debate is closely associated with local and regional development and is therefore very important to the Northern Powerhouse agenda (IGC 2017; Lupton and Hughes 2017). The local and regional dimension of inclusive growth is important for three reasons.

- First, it recognises inequalities *within* places – especially within cities which tend to demonstrate both high growth and acute poverty simultaneously, and there is some emerging evidence that inequality within regions holds back regional economic growth and leaves regions vulnerable to economic shocks (Royuela et al 2014).
- Second, the agenda recognises inequalities *between* places which have different rates or types of growth – especially between cities and towns (as noted in chapter 1).
- Third, there is a recognition that local government has an important role to play in resolving these inequalities – both within and between places (IGC 2017).

Like many public policy concepts ‘inclusive growth’ can be criticised as being a ‘fuzzy’ term, but it is nonetheless useful as a bridging concept which helps to broker a conversation about how economic growth can more effectively improve human welfare rather than as an end in itself (Lee 2018b).

Based on the work of IPPR’s Commission on Economic Justice, IPPR North recommend that the term ‘economic justice’ is used. This is more comprehensive in its scope and believes in the premise that ‘a fair economy is a strong economy’ (CEJ 2018). Economic Justice is defined as:

1. no-one living in absolute poverty
2. everyone should be treated with dignity in their economic life
3. no group in society should be systematically or institutionally excluded from economic reward
4. narrowing inequalities of wealth, income and power over time
5. no places should be left behind.

(CEJ 2018)

### ***The challenge of delivering economic justice in the North***

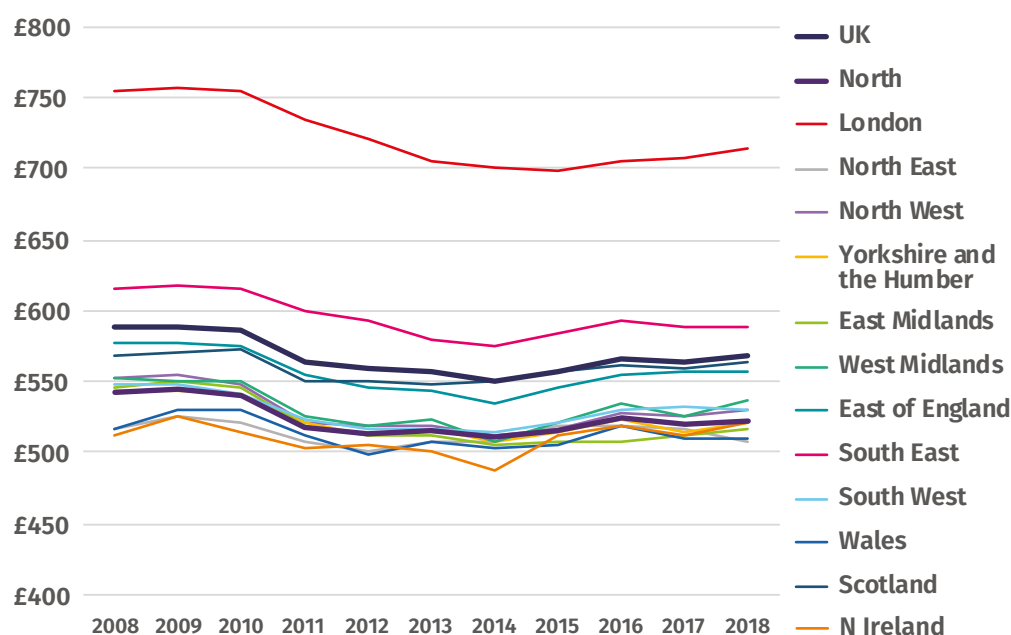
The economic justice agenda implies that poverty and inequality should be prominent considerations of economic policy in their own right – and not assumed to result naturally from economic growth. The North has significant problems with income, inequality, pay and work.

- Two million working-age adults and one million children live in poor households in the North – this disproportionately affects women and those from an ethnic minority background (ONS 2018q).
- The number of rough sleepers rose by 32 per cent in 2017 – the largest proportional rise in the country, although numbers remain higher in the South (Fitzpatrick et al 2018).

- Real weekly pay has fallen by £21 (3.8 per cent) in the North since 2008 – by £41 for males and £3 for females. 1.6 million jobs in the North are paid less than the living wage (25.9 per cent of jobs) (author’s analysis of ONS 2018h and ONS 2018r; D’Arcy 2018).
- 800,000 working-age northerners are either unemployed, or inactive but want to work – and many women are outside of the labour market altogether, with more 28.0 per cent of females economically inactive, compared to 18.9 per cent of males (ONS 2018s).



**FIGURE 4.4: REAL PAY HAS DECREASED IN THE NORTH – AS IN ALL REGIONS – SINCE 2007**  
Median gross weekly pay accounting for CPIH deflation



Source: ONS 2018h; 2018r

There is less wealth in the North, but the inequality of wealth within the North is also a problem.<sup>14</sup>

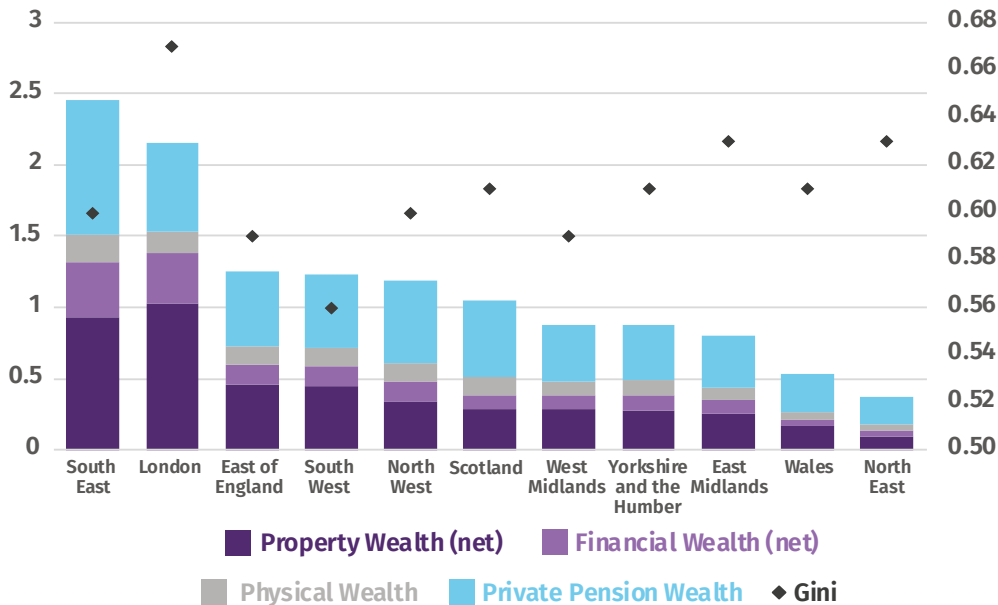
- Average household wealth is higher in all of the southern regions than the North, and more than twice as high in the South East compared to the North East (ONS 2018t).
- Wealth is growing more slowly in the North than it is in other regions: between 2006–08 and 2014–16 the North’s wealth rose by 49.5 per cent (driven by increases in pension wealth) – half the rate of increase in London where wealth doubled, increasing by 101.8 per cent (driven by increases in property wealth) – recent monetary policy has favoured already-wealthy regions, and therefore exacerbated this regional divide (ibid; Bunn et al 2018).
- In terms of wealth London is the most unequal region overall (due to its inequality in physical wealth) but the North East is the second most unequal, as it has the highest financial wealth inequality (ONS 2018u).

<sup>14</sup> For more information about the definitions of wealth, see: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/wealthinngreatbritainwave5/2014to2016>



**FIGURE 4.5: WEALTH IS OVERWHELMINGLY CONCENTRATED IN THE SOUTH, BUT PARTS OF THE NORTH ALSO HAVE HIGH WEALTH INEQUALITY**

Total wealth (£tn) and distributional inequality of wealth within regions (Gini coefficient)<sup>15</sup>



Source: ONS 2018t; ONS 2018u

### Health, wellbeing and the North's economy

The North's economy also often works in a way that is detrimental to people's health and wellbeing. Public Health England note the strong links between the health and the employment of people and communities (PHE and UCL IHE 2015). The groups which tend to suffer from poor health associated with employment are disproportionately from more disadvantaged socioeconomic groups, ethnic minorities and those who have a disability. Crucially, health is not just related to whether people are in employment or not, but also the nature of their employment throughout their working lives. Certain types of occupation are especially vulnerable to particular conditions because of the nature of the tasks involved: for example, physically demanding jobs are associated with musculoskeletal problems, while rates of accidents and of stress are also higher in specific sectors. Working conditions and levels of job control also have an impact on health. (Round 2017). The factors contributing to poor job quality include long hours, shift work, low pay and poor job security which are often found in the 'everyday economy' and social infrastructure sectors such as health, retail, waitressing, residential care and elementary occupations (Benach et al 2013).

<sup>15</sup> The Gini coefficient is a measure of inequality, where 0 expresses no inequality income and 1 expresses maximal inequality.

- **Net property wealth:** self-valuation of any property owned, both their main residence plus any other land or property owned in the UK or abroad; less the outstanding value of any loans or mortgages secured on these properties.
- **Net financial wealth:** The values of any financial assets held, both formal investments such as bank or building society current or saving accounts, investment vehicles such as Individual Savings Accounts (ISAs), endowments, stocks and shares, and informal savings (money under the bed or loaned to family or friends) and children's assets; less any financial liabilities such as outstanding balances on credit cards, arrears on household bills, loans (including student loans) from formal or informal sources.
- **Private pension wealth:** The value of any pension pots already accrued that are not state basic retirement or state earning related. This includes occupational pensions, personal pensions, retained rights in previous pensions and pensions in payment.
- **Physical wealth:** The (self-evaluated) value of household contents, possessions and valuables owned.

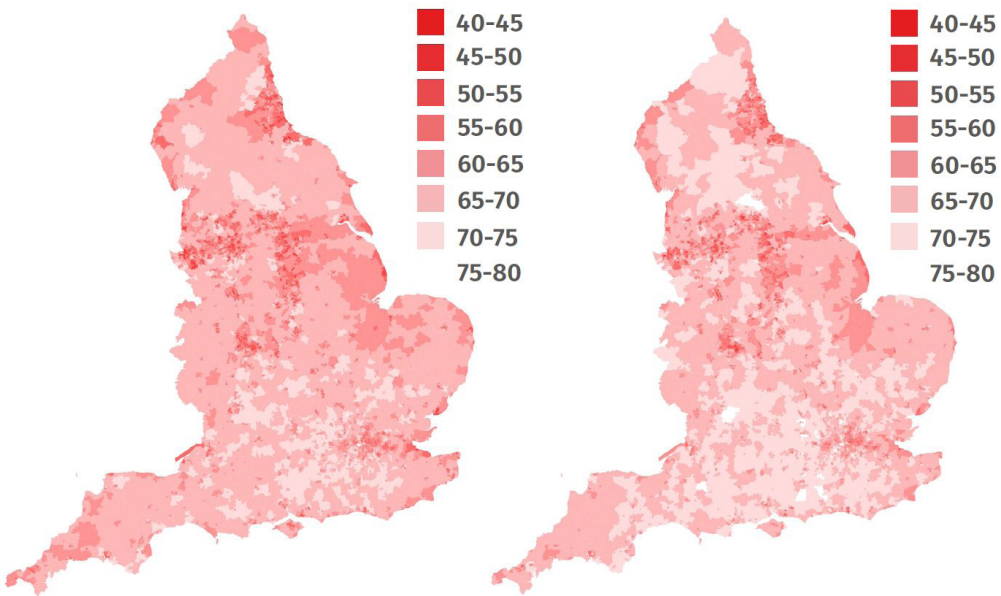
The health of northerners is a major concern due to a range of factors – many of which are related to the economy.

- England has some of the most extreme regional health inequalities in Europe; **life expectancy** at birth is 78 for men in the North compared to 79.8 for the rest of England; and it is 81.9 for women in the North, compared to 83.6 for the rest of England; mortality rates in the North have been consistently poorer than in the South (Bambra et al 2014; Kontopantelis et al 2018).
- There are areas where life expectancy is a particularly extreme problem. Male life expectancy at birth in the most deprived neighbourhoods is nine years lower than in the least deprived; female life expectancy is seven years lower (ONS 2015). Many of the neighbourhoods with the lowest life expectancy are found within the city regions – in parts of Salford, Bradford, Sefton and Sunderland – although the neighbourhood with the lowest male life expectancy in England is in Blackpool: 68 (ibid).
- People tend to experience poor health at an earlier age in the North: age means something very different in terms of health, wealth and lifestyle for different people and places: as figure 4.6 shows, in some neighbourhoods the average age a person becomes unhealthy is under 50 – parts of Blackpool, Bradford, the Wirral, and Sunderland for example – although the lowest **healthy life expectancy** in England is in a neighbourhood in Salford (Round 2017; ONS 2015).
- **Serious diseases** are much more prevalent in certain areas: liver cancer is strikingly prevalent in Merseyside, Cheshire, Greater Manchester and Northumberland Tyne and Wear; chronic liver disease is prevalent in all the North's major city regions; and lung cancer is more prevalent in the North's cities and especially in the North East (PHE and NHS RC 2017). Rates of obesity are also especially high in the North East – Sunderland has a rate of admissions with an obesity diagnosis six times higher than the national average (NHS Digital 2018).
- **Childhood health indicators** are particularly striking: the North has outcomes which are worse than the English average on infant and child mortality; low birth weight; childhood obesity; childhood hospitalisations due to injuries or asthma; and children's dental health. Infant mortality is 6.3 per 1,000 in Oldham and 3.1 in Trafford (it's 2.4 in North Tyneside).
- The high level of **air pollution** in the North's major cities is a public health crisis: recent IPPR North research drew on King's College London (KCL) analysis which estimated that poor air quality will cost Greater Manchester 1.6 million life years in the coming century and costing £1 billion a year to the economy (Cox and Goggins 2018; Dajnak et al 2018). Greater Manchester has the highest rates of emergency admissions to hospital for asthma in the whole country (Cox and Goggins 2018).
- **Regional health inequality** is rising as progress slows and in some cases health problems have become worse: the North-South divide in life expectancy has risen; progress in tackling major diseases has slowed; and mortality amongst 25-44 year olds has even increased since the mid-1990s while falling in the South (Steel et al 2018; Kontopantelis et al 2018).

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**FIGURE 4.6: HEALTHY LIFE EXPECTANCY IS EXTREMELY POOR IN MANY NORTHERN NEIGHBOURHOODS**

Healthy life expectancy for males (left) and females (right) (MSOA level)



Source: ONS 2015

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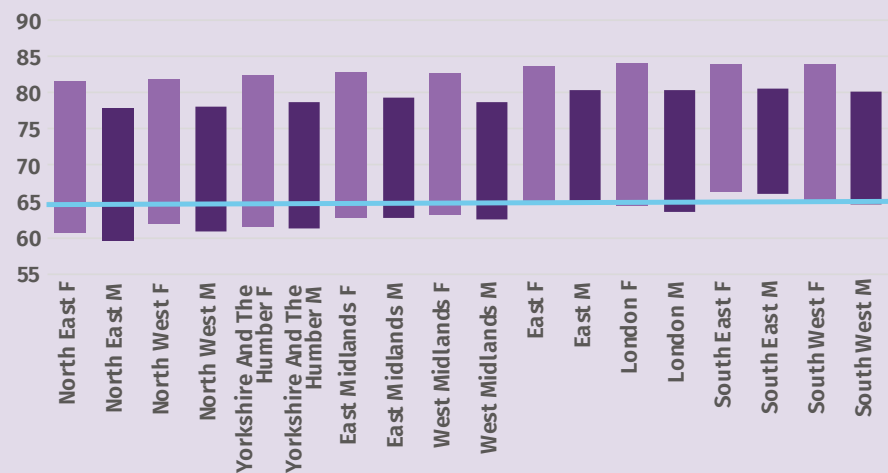
#### BOX 4: THE DEMOGRAPHIC CHALLENGE

Demographic change will be a major challenge for the North, and the government identified an ageing society as one of its grand challenges for industrial strategy. The North’s population is growing, urbanising and becoming more diverse (Raikes 2017). Young people are tending to move into the major cities, while the towns they leave behind are ageing (Warren 2018). While people will live for longer that means they will spend a more time with health problems: as figure 4.7 shows, the average northerner is already in poor health by the time they retire. Meanwhile the ratio between the working-age population and those 65 and older is expected to fall dramatically from 3.31 in 2018 to 2.65 in 2030 (author’s analysis of ONS 2018v). In order to maintain the same ratio between the working-age population and those aged 65 or over, in 2030 there would need to be 2.4 million more ‘working-age’ northerners in 2030 (ibid).<sup>16</sup>

This highlights the importance of health to the North’s economy and of ensuring people reach older age in good health and with career prospects (Round 2017). People who are out of work and aged between 50 and retirement age face a particular set of challenges that need to be addressed: a large proportion of this group were pushed out of the labour market by its changing structure, the recent recession or the local economy’s ongoing stagnation; others were forced out of work by ill health or caring responsibilities (CAB 2017). Many have long-standing health conditions or lack the skills required by the labour market; and policy is not sufficiently well-resourced to move them into work (ibid).

**FIGURE 4.7: IN NORTHERN REGIONS, THE AGE AT WHICH PEOPLE BECOME UNHEALTHY IS LOWER THAN THE STATE PENSION AGE**

Healthy life expectancy by sex



Source: ONS 2017c



<sup>16</sup> Defined here as 16-64

Wellbeing is also integral to the North’s economy: it is an important objective of economic policy in its own right and helps to attract the high-skilled labour force the North needs. The OECD have worked for many years to find measurements that are relevant to people and have developed a framework for measuring and comparing countries and regions across the developed world (OECD 2018b). Figure 4.8 compares the three northern regions to those with similar incomes and finds that they score poorly in terms of health and civic engagement (here defined simply as voter turnout) but compare well in terms of housing and accessibility to services.

**FIGURE 4.8: COMPARING NORTHERN REGIONS WITH SIMILAR OECD REGIONS HIGHLIGHTS THEIR STRENGTHS AND WEAKNESSES**

Northern regions compared to the median of other OECD regions scored similarly on income



Source: OECD 2018b



### BOX 5: CLIMATE CHANGE

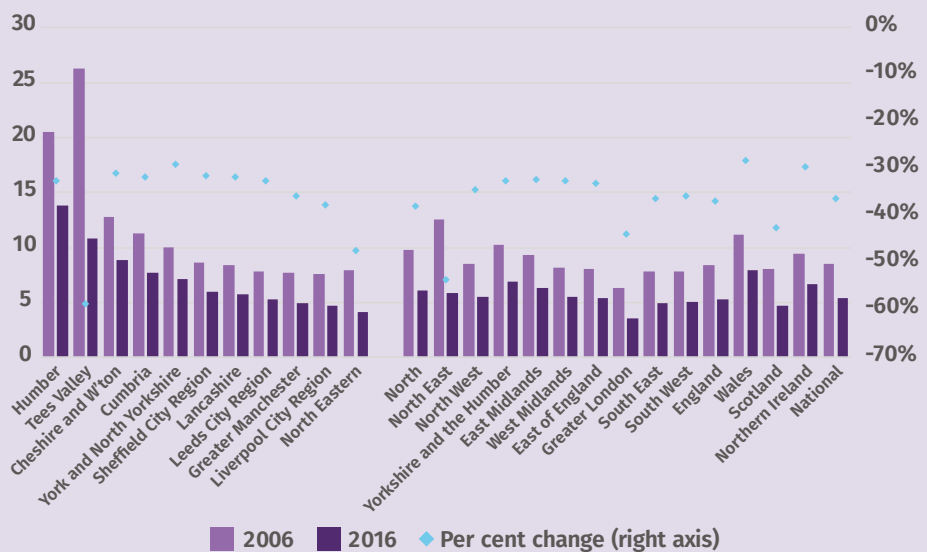
The North must make its contribution toward reducing CO2 emissions and has made significant progress. The government has rightly identified ‘clean growth’ as one of the grand challenges for industrial strategy (BEIS 2017a).

Historically the North has been a big polluter due to its industrial base – especially in the north east. But as figure 4.9 shows this has now come down dramatically to below national levels: the North cut CO2 emissions per capita by 37.9 per cent over the last decade – a greater reduction than nationally (36.4 per cent). Notably in the Tees Valley CO2 emissions per capita fell by 58.7 and in the North Eastern LEP area they fell by 47.2 per cent.

But the North also offers a substantial contribution to renewable energy: 31.3 per cent of UK renewable energy<sup>17</sup> is generated in the North, and there are major off-shore windfarms on each of the coasts: IPPR North’s northern energy taskforce has set out a northern energy strategy to show how the country can benefit from the North’s energy assets (BEIS 2018a; Baxter and Cox 2017).



**FIGURE 4.9: PARTS OF THE NORTH HAVE REDUCED CO2 EMISSIONS SIGNIFICANTLY**  
Per capita CO2 emissions and per cent change (2006-2016)



Source: BEIS 2018b

17 Including biomass

### 4.3 RECOMMENDATIONS

*The original Northern Powerhouse focused on productivity and saw every new investment or upward tick in output as a sign of success.* Policymakers often expected that people would automatically benefit from the economy in terms of jobs, pay, health and wellbeing.

*In the next phase, the Northern Powerhouse agenda should focus on delivering economic justice.* The evidence shows that a fairer North is a stronger North.

There has already been some progress: ‘inclusive growth’ is already a stated objective of many northern areas and of Transport for the North itself, mayors are developing employer charters and local policymakers are using their procurement powers to improve the quality of work (SCR 2018; SQW and TFN 2016).

But this work needs to be upscaled and supported by central government. Northern leaders lack many of the tools they need to solve these problems, but they aren’t completely powerless and, in some areas, can do more than they currently are.

Northern mayors, leaders and local enterprise partnerships should:

- 14. take local action to improve job quality and support community wealth building** – by using procurement and employment charters to embed good work requirements among all contractors
- 15. embed economic justice comprehensively within local industrial strategies as they are developed** – ensure that ‘inclusive growth’ isn’t an afterthought but instead underpins their local industrial strategy
- 16. embed a ‘health in all policies’ approach** – by ensuring local industrial strategies and other plans consider the health inputs and outcomes of the local economy, and by bringing public health representatives onto LEP boards
- 17. measure what matters to people** – work together across the North to develop a broad range of social, environmental, wellbeing and economic indicators that measure success and assess the value of cities and towns within the North’s economy.
- 18. build collaborative partnerships across business and other anchor organisations** – to encourage and support firms to invest in their workforce and the wider area, including supply chains and skills system, and to adopt responsible business practices.



## 5. LEAD FROM THE NORTH

*The original Northern Powerhouse was led by the chancellor and delivered by central government agencies.*

*The next phase of the Northern Powerhouse agenda must be led by the North.*

### **5.1 THE ORIGINAL NORTHERN POWERHOUSE: CENTRAL GOVERNMENT DEVOLVES BUT STILL LEADS**

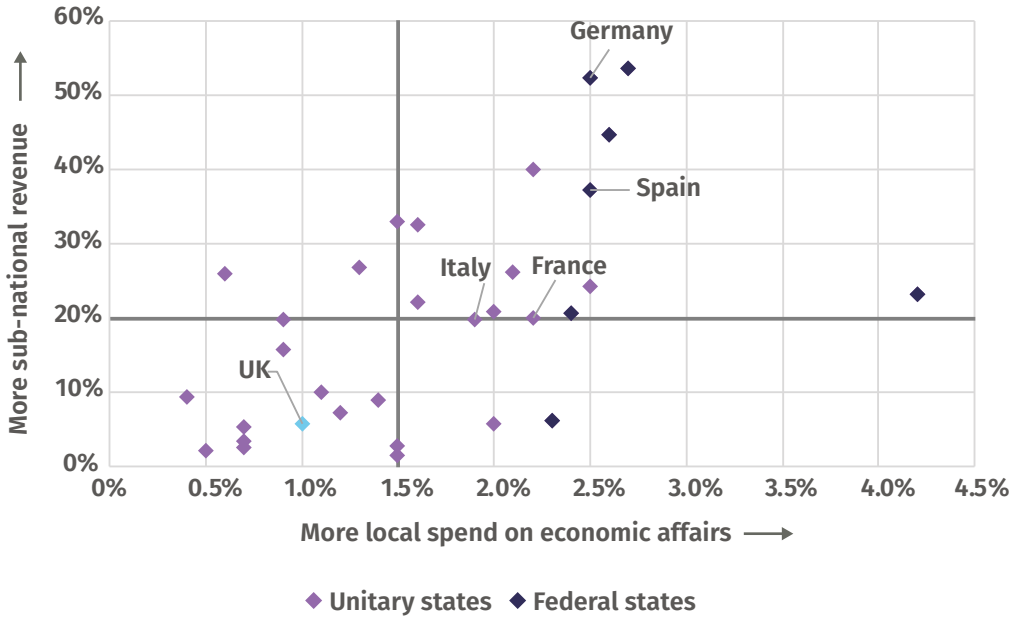
The Northern Powerhouse began as an agenda led and dominated by central government. In the absence of any regional or sub-regional authority, this had to be the case. It did build upon initiatives already in place and northern leaders were involved, but central government was in control. As well as introducing the agenda in 2014 and following it up with high-profile initiatives and announcements, the government set out a Northern Powerhouse Strategy and Northern Powerhouse Schools Strategy in 2016. They have also set up the official Northern Powerhouse 'partnership programme' which organisations in the North can affiliate to. With the introduction of the industrial strategy white paper, they raised the prospect of aligning the Northern Powerhouse with their industrial strategy (BEIS 2017a). There have also been three Northern Powerhouse ministers who have taken responsibility for this agenda in central government.

But perhaps the most important and enduring aspect of the Northern Powerhouse agenda was the devolution of some powers to the North. UK governance is far more centralised than other developed countries: only 1 per cent of GDP is spent on economic affairs outside of central government, compared to the OECD median of 1.6 per cent, 2.2 per cent in France and 2.5 per cent in Germany (OECD 2018c). And only 5.8 per cent of tax is raised outside of central government, compared to the OECD median of 20.0 per cent, 20.1 per cent in France and 52.2 per cent in Germany (ibid). The majority of revenue is allocated to fulfilling duties with local authorities are legally required to deliver. The extent to which the UK is an outlier is presented in figure 5.1, and figure 5.2 shows that up until 2016 the UK was becoming more centralised in terms of expenditure, while remaining essentially the same in terms of tax revenue (OECD 2018d; 2018e).



**FIGURE 5.1: THE UK IS HIGHLY CENTRALISED – VERY LITTLE POWER OVER TAX AND SPEND IS DEVOLVED**

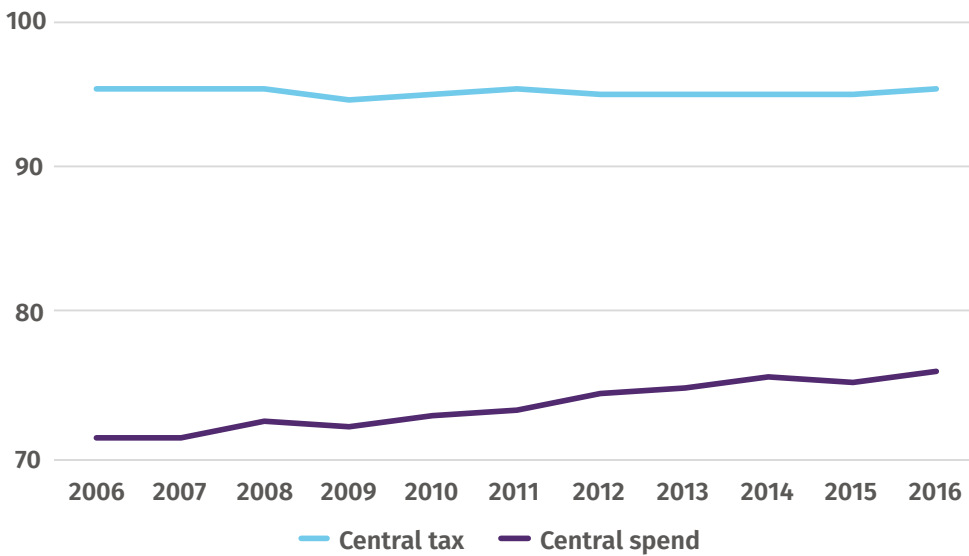
Sub-central tax revenue as a proportion of total (X axis) and local spending on economic affairs as a per cent of GDP (Y axis); axes mark OECD 28 median



Source: OECD 2018c

**FIGURE 5.2: THE UK HAS BECOME MORE CENTRALISED IN RECENT YEARS**

Percentage of tax revenue and expenditure undertaken by central government as a proportion of total



Source: OECD 2018d, 2018e

### *The case for devolution to the North*

In other countries, many regions, cities and towns have proven they can build more prosperous economies if they have the power to do so themselves. The evidence shows that countries with greater devolution of tax and spend experience more progressive policies and better outcomes: there tends to be a positive relationship between devolution and more investment in education and infrastructure; public services tend to be more efficient and innovative; there tends to be greater equality, improved wellbeing, better education outcomes and improved social welfare; GDP per capita tends to be higher and regions tend to converge in more devolved countries (Goerl and Seiferling 2014; Bartolini et al 2016; Blöchliger et al 2013; Jeffrey 2011).

The right form of devolution is essential if these positive impacts are to be felt. The positive impact of devolution should not be assumed to follow automatically: there is some evidence that devolution doesn't have an impact on local economic growth, and where evidence shows a positive impact it is often dependent on particular conditions being met: local governance and institutions must be of high quality, and devolution must be comprehensive – including both revenue-raising and spending powers (Rodriguez-Pose and Ezcurra 2010; Ketterer and Rodriguez-Pose 2018; Goerl and Seiferling 2014).

Fiscal devolution is fundamentally important but often raises the fear that poorer regions will be left without the funding they need – and in the UK this fear is currently justified, given that business rate retention has resulted in a £240 million boost to spending in London in 2018/19 alone (TfL 2017). But in other countries, where devolution is better developed, redistribution of tax revenue remains essential – even federal countries such as Germany, have mechanisms in place to ensure no region is left behind (Blöchliger et al 2007).

The Northern Powerhouse has positioned the North at the cutting edge of devolution. Greater Manchester was the first combined authority and has the most comprehensive devolution deal to date. But other areas aren't far behind: as figure 5.3 shows 41.7 per cent of the North's population and 40.1 per cent of its economy is currently governed by a new metro mayor; while 69.6 per cent of its population and 51.6 per cent of its economy is governed by a combined authority (ONS 2018w; ONS 2018x). The mayoral combined authorities have varying packages of powers, as presented in table 5.1 (which includes North of Tyne, although they have yet to elect a mayor). There is a common core of powers over skills and employment and mayoral development corporations – which all areas in the North either have or will have soon. And four of the five areas have a devolved, consolidated transport budget and the power to franchise buses (perhaps the most significant power of all those currently under discussion). Four of the five are intermediate bodies for EU structural funds (that is, they have the legal status that enables them to spend ESF and ERDF money).

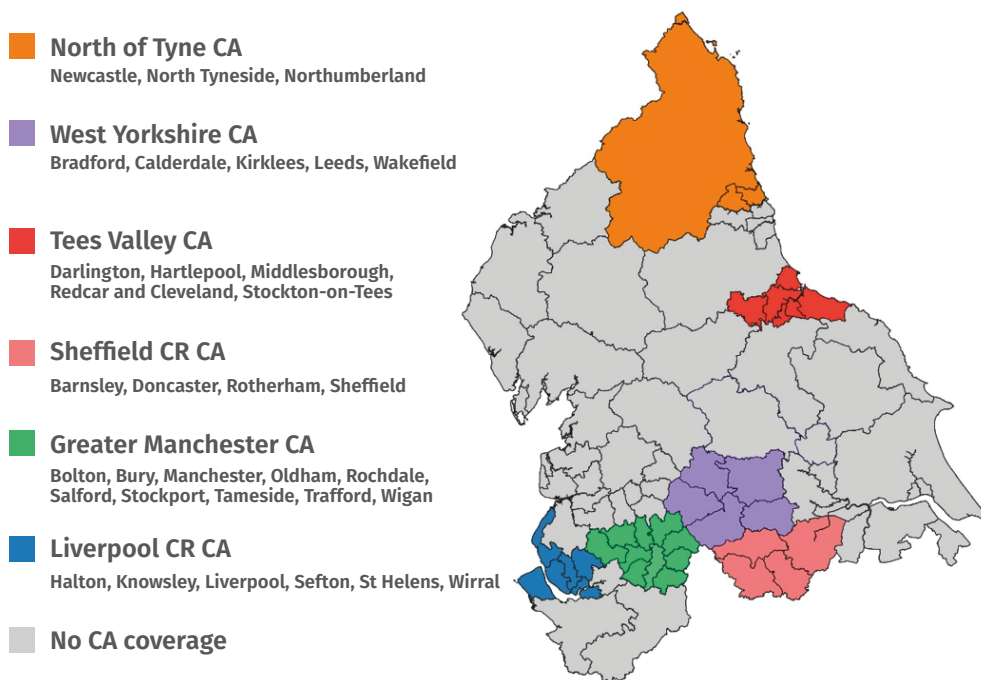
Central government has also supported some pan-regional initiatives.

- Transport for the North formed in 2014 and in 2018 gained statutory status as the UK's first sub-national transport body. It remains an advisory body – it doesn't yet have the power to deliver, coordinate or properly oversee the North's transport networks. But it is currently drawing up its strategic transport plan and developing infrastructure packages to support seven 'strategic development corridors' within the North (TfN 2018). Rail North – which co-manages the North's franchises – has been subsumed into the governance and structures of Transport for the North.
- More recently the NP11 was formed – this is government-funded board of the 11 LEP chairs.

But to date, the powers that have been devolved to mayoral combined authorities are almost entirely limited to the allocation of funds – the size of which is determined by central government – or to the management of public functions. Fiscal devolution, which would give local and combined authorities the ability to share in the proceeds of economic growth, and to raise taxes to invest in local priorities, has been limited to business rates retention and a limited ability to raise a mayoral precept on council taxes. To this extent, devolution has been more akin to delegation, rather than a wholesale shift in power towards what we see in other countries (Slack 2017).

**FIGURE 5.3: THE NORTH IS AT THE CUTTING EDGE OF DEVOLUTION, BUT THERE IS MUCH WORK TO BE DONE**

**Coverage of the North by combined authorities**



Source: Sandford 2018





**TABLE 5.1: DEVOLUTION TO NORTHERN MAYORAL COMBINED AUTHORITIES**

		Greater Manchester	Sheffield CR	Tees Valley	Liverpool CR	North of Tyne
Transport	Devolved, consolidated transport budget					
	Bus franchising					
	Joint working with Highways England and Network					
	Local roads network					
	Smart ticketing					
Skills, employment and health	Joint working with UKTI					
	Business support services					
	Adult Skills funding					
	Work and Health					
Land and housing	Public land commission/ joint assets board					
	Housing Loan Fund					
	Compulsory purchase orders					
	Mayoral Development Corporations					
	Planning call-in powers					
	Consultation on strategic planning applications					
	Housing grant fund					
Public services	Spatial strategy					
	Health and social care integration					
	Children's services					
	Offender management, probation, prison estate					
	Troubled Families / Working Well					
	Police and Crime Commissioner					
Finance	Fire service					
	Intermediate body for EU Structural Funds*					
	Investment fund (per year)	£30m	£30m	£15m	£30m	£20m
	Pilot retention of 100% business rates revenue					
	Mayor business rates supplement*					
	Community Infrastructure Levy					

Source: Sandford 2018

Note: \*EU structural funds: A number of areas were to become 'intermediate bodies', which means that they, instead of the government, would have taken decisions about which public and private bodies to give EU structural funds to. It is not clear whether devolved areas will have any role in the 'Shared Prosperity Fund' that has been mooted to replace structural funds post-Brexit; powers over business rate supplements are unlikely to be available in the short term due to the falling of the Local Government Finance Bill 2016-17.

## 5.2 THE NEXT PHASE OF THE NORTHERN POWERHOUSE: OF THE NORTH, BY THE NORTH AND FOR THE NORTH

Perhaps the most important feature of the Northern Powerhouse's evolution is the leadership coming from the North itself. The risks of depending on central government have been highlighted on several occasions: first, when George Osborne moved out of government and cast the future of the agenda in doubt; and now as Brexit consumes almost all central government's energy, effectively putting their plans for devolution and northern economic growth on hold.

### *Northern leadership evolves*

Devolution has enabled northern leadership to sustain momentum through this period. The Northern Powerhouse agenda was never purely a central government initiative, but local leaders and the new directly-elected metro mayors have now taken a significant stake in the project. This has also meant that the agenda has become far more inclusive, with many non-metropolitan areas becoming integral and embedded within crucial governance structures (such as TfN). Several recent developments highlight this new pan-northern northern cohesion.

- **Transport issues.** In 2017 the government delayed TransPennine electrification and seemed to imply it may not go ahead at all. This prompted a backlash from leaders across the North in the form of the northern transport summit. 2018 brought more collaboration across the North on this issue: the delays and chaos on northern railways last year highlighted not only decades of underinvestment, but the effectiveness of the North's new political representatives in holding Network Rail, the train operators and the government to account. This has led to increasing demands for devolution so that the North can take on responsibility (Blake 2018).
- **Wider collaboration and development of northern economic policy.** The Convention of the North met for the first time in September 2018 and set out three priorities for pan-northern collaboration: Brexit, transport and skills; the northern core cities group meets regularly; and a pan-northern collaboration on trade and investment is being developed with DIT.
- **'Unofficial' pan-northern initiatives.** The Northern Powerhouse agenda has helped stimulate and focus the latent energy that has long existed in the North: the People's Powerhouse has set out to ensure the agenda delivers a range of inclusive objectives for the people of the North; the Northern Powerhouse Partnership has been set up as a business-led organisation; Northern Powerwomen has been set up to raise the profile of leading women in the north of England; and Business North represents major northern businesses and organisations such as the KPMG and the CBI. The Great North Plan has developed from the work of IPPR North and the RTPI into a pan-northern structure to support greater collaboration and co-ordination of policy and research across the north, including stakeholders from planning, transport, the economy and natural assets. A Youth Council of the North is emerging following last year's State of the North launch event.

Local enterprise partnerships (LEPs) also continue to evolve within the North. LEPs are the government's preferred sub-national economic development structures. There are 11 in the North, and they are currently being reviewed at the national level – including plans to strengthen their governance and accountability, as well as to resolve overlaps between different LEP areas. LEPs are also at various stages of developing local industrial strategies to build on the Strategic Economic Plans they drew up in 2014.

### **Strengthening accountability**

Despite the North taking a lead with new forms of devolved democracy, the model is far from perfect: it isn't particularly inclusive or representative of diversity; all of the metro majors to date are men; and there has been little democratic innovation or citizen inclusion to date.

The Northern Powerhouse will only succeed if it builds strong, democratic institutions. Research has shown that the quality of institutions can even be more important than the 'first-nature' inherited economic geography of regions (Ketterer and Rodriguez-Pose 2018). There is also evidence that inclusive growth is particularly dependent on the quality of institutions – when regional public institutions are of high quality, low-skilled employment tends to grow, and labour market exclusion tends to reduce (Ketterer and Rodriguez-Pose 2018; Di Cataldo and Rodriguez-Pose 2016).

This introduces a further challenge for the Northern Powerhouse as it evolves. There can be little doubt that devolving economic policy to directly-elected metro mayors and combined authorities is a significant improvement – compared to a system whereby it is exercised exclusively by remote central government ministers, Whitehall civil servants – or worse, national arms-length quangos such as the ESFA and Network Rail.

However, devolution also needs to be supported by new forms of accountability: it has the potential to create new opportunities for greater participation within the decision-making process, for example using citizen panels, participatory budgeting and citizen assemblies.

It should also mean introducing checks and balances within the governance structures to ensure decisions are robust (such as well-resourced scrutiny committees); involving a plurality of voices in policy debates (by bringing trade unions and civil society onto LEP boards).

### **5.3 RECOMMENDATIONS**

*The original Northern Powerhouse was led by the chancellor and delivered by central government agencies. George Osborne raised the profile of the North, and corralled government departments into devolving power.*

*The next phase of the Northern Powerhouse agenda must be led by the North. New pan-northern organisations are evolving – such as the NP11 and the Convention of the North – but the government needs to reboot devolution so that they can do so more effectively, and there needs to be new opportunities for people to engage with local policymakers and the devolution agenda..*

The Northern Powerhouse can no longer be a top-down agenda done *to* the North, it must be an agenda *of* the North, *by* the North and *for* the North if it is to succeed.

It is incumbent on the government to follow through and devolve more power to the North; but the North must also use this power effectively and inclusively.



Northern mayors, leaders and local enterprise partnerships should:

19. **focus on fiscal devolution quick wins** – prioritise short-term and relatively simple fiscal powers such as workplace parking levies, the business rate supplement and devolution of the Shared Prosperity Fund
20. **democratise local governance** – give combined authority scrutiny committees the necessary powers and resources; improve gender representation within local authorities, combined authorities and LEPs; set up citizens’ assemblies; and set aside a fund for participatory budgeting
21. **support a Youth Council of the North** – provide support to young people so that they can work together at the regional tier
22. **support a Civil Society Partnership Programme attached to the government’s Northern Powerhouse partnership programme** – to ensure that important stakeholders, such as those of the ‘people’s powerhouse’ are included
23. **demand greater UK-wide coherence to devolution** – push for the devolution framework to be published and for guidance on the regional and sub-regional tiers in the context of devolved nations
24. **develop and formalise the regional tier** – push for more powers for Transport for the North; bring forward proposals for pan-northern collaboration on innovation; develop the current collaboration on trade and investment
25. **introduce greater accountability to the regional tier** – as regional initiatives like TfN and the NP11 develop, they will need to be more accountable, more inclusive and subject to meaningful scrutiny and challenge.

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