



Northern Powerhouse Partnership: First Report

January 2017



What Is The Northern Powerhouse Partnership (NPP)?

- The Northern Powerhouse Partnership exists to increase the impact and contribution of the North of England to the UK economy by bringing the individual cities and counties closer together, so that the whole of the North has a greater economic input than its separate parts.
- The NPP has a **business-led board**, including representatives from key companies operating across the North including Manchester Airports Group, Mace, Barclays, Associated British Ports, Siemens, HSBC, EY, Addleshaw Goddard, Arcadis, Drax, Arup, and Bruntwood. These organisations are expected to play an important role in providing insight and evidence to drive the Partnership forward. We will also play close attention to the views of small and medium-sized businesses.
- Prominent **city leaders** across the North of England are represented on the Board, in addition to Lord Jim O'Neill, former Commercial Secretary to the Treasury, John Cridland, Chair of Transport for the North (TfN) and Dame Nancy Rothwell, President of the University of Manchester, to ensure that the NPP maintains a cross-party approach.
- The NPP will **engage** with communities right across the North to develop consensus amongst business, civic leaders, and others on the issues that will enable the NPP to drive transformational change throughout the Northern economy.
- The NPP will focus on those priority issues which can make the biggest difference to growth across the North, putting in place the **evidence base** needed to support action.
- The NPP will take forward the work of the Northern Powerhouse Independent Economic Review (NPIER).
- The NPP will be a **thought leader** - producing original research, promoting innovative thinking and driving specific initiatives.
- The NPP will help promote the North to **central government and international investors** and encourage new policy ideas which will improve the North's quality of life and economy.
- The NPP will be **collaborative** in its relationships with business and the public sector – working across sectors and party political lines. It will add value, not duplicate the work of others.
- The NPP will track the delivery of **Northern Powerhouse commitments** made to date – for example Transport and Devolution commitments, and work with Government to ensure the needs of the North are fully reflected in future strategies – such as the proposed Industrial Strategy.

FOREWORD



The Northern Powerhouse Partnership has been established to increase the impact and contribution of the North of England to the UK economy, ensuring that the future of the North is created, developed and delivered in the North. The prize is a big one. If we get this right,

the Northern economy has the potential to be 100 billion pounds larger over the next three decades than it otherwise would have been. That doesn't just mean an additional 850,000 more jobs for people - it means higher living standards, a bigger contribution to our country's future and a greater sense that the system is working for people here. Central to that future is the understanding that our cities and regions - each with its own proud identity - can work together to build an economy that is bigger than its individual parts. We can build a Northern Powerhouse that works in tandem with the global success of London, and rebalance our national economy.

Since we proposed the idea of the Partnership last autumn, businesses, civic leaders and other organisations have been working together to make the idea a reality. I am grateful for the faith - and the time and resource - they have all already put into this project. Everyone involved agrees the key is to make the North of England more productive by ensuring the whole is larger than its constituent parts. This idea was given the name a 'Northern Powerhouse' in a speech I gave in the Power Hall in the Museum of Science and Industry in Manchester in the summer of 2014. None of the initiatives that I have been involved in over recent years has caught the imagination in the way that this has. It seems at times as if every business conference and every government agency report about life in England north of Birmingham is now branded 'Northern Powerhouse'. Encouragingly, the concept is also gaining wider international resonance.

I am, of course, delighted that we've received such a positive response. But there is a danger that the slogan becomes so ubiquitous that we lose sight of the original, hard-headed economic theory that underlines the idea of the Northern Powerhouse. That theory was developed by the world-class economist Jim O'Neill and the Cities Commission that he chaired for the Royal Society of Arts. This said that there are clear agglomeration effects taking place in the global economy. Large city regions are increasingly becoming the places where business, investment, skills and innovation come together in ever larger concentrations. London is one such city that is joined together by infrastructure to make it as one. The cities of the North - great as they are - currently stand isolated from each other economically and lack the

scale to compete at a global level, and achieve these full agglomeration effects. They are, however, sufficiently close to each other geographically that they have the potential to become a unified global force, provided the transport links were significantly enhanced, the decision making was more local and the collective effort greater.

This is the Northern Powerhouse Partnership's first report. It seeks to define clearly what the Northern Powerhouse is, and what it could be. It identifies what we think are the key ingredients to its success, and sets us all the challenge to make it so. We need a sustained effort to raise school standards, improve skills, make more of our brilliant universities, promote science and culture, upgrade infrastructure, increase civic power, make a success of the new mayors and devolve more decision making to the North. These are all realistic goals - and if we achieve them, then the private sector will invest even further, and create even more wealth.

What makes this report exciting and different is that it is developed in the North, for the North. The findings in this report are based on the input of our members: some of the largest employers in the North; civic leaders from across the political spectrum; and Northern leaders in education, transport and economics. They are ideas that came out of the series of meetings I chaired across the North of England in the autumn, where business (large and small), universities, councillors, colleges, and many others took part and spoke candidly about what the Northern Powerhouse means to them and how it can better support them in contributing to the future economic health of the region. These experiences have proved invaluable, not just in terms of influencing the Partnership's thinking but also in demonstrating that an idea that is nearly three years old is now more relevant than ever. This report is the basis for the work the Partnership will now conduct over the coming year as we identify concrete policies and actions that national and local government, the business community and other organisations can take.

It is time for the North to raise its collective ambition and drive forward the Northern Powerhouse. This is will be particularly important in contributing to the Government's Industrial Strategy, and in helping the North define the key issues and actions that we need to focus on in order to play a full part in the global economy.

**Rt Hon George Osborne CH MP,
Chair, Northern Powerhouse Partnership**

SUMMARY OF RECOMMENDATIONS

The North of England has significant assets and a huge potential to increase its economic contribution to the UK economy, by acting collectively. Individually the cities and places of the North are strong, but together they can be world-beating and achieve a lot more - a Northern Powerhouse. The Northern Powerhouse Partnership has been established in order to help maximise this potential. Drawing on the North's own Independent Economic Review, and based on the conversations we have had, we believe there is potential for the Northern economy to be 100 billion pounds larger over the next three decades than it would otherwise be. That would bring 850,000 extra jobs – and significantly more resources for the region to invest in local services, as devolution allows communities to keep more of the wealth they generate, and to decide how best to use it. Much has already been achieved in terms of analysis and key investments, including work by Transport for the North. However, conversations with the private sector, civil society and local/national government have led NPP to conclude that there is an ambition to do more and, in particular, there are four areas where the North should focus to achieve its potential and address the key challenge of productivity.

1. EDUCATION AND SKILLS

PRIORITY: It must be a priority for the North to improve educational attainment at age 16, and develop the technical and higher level skills employers need to compete. In order to achieve this, the NPP will commission a group of leading employers and education experts to come together to draw on the latest evidence and thinking to examine a number of key issues.

AMBITION: The North should aim to:

- Eliminate the gap with the rest of the UK in the percentage of good and outstanding secondary schools – building on the approach of the Wilshaw report;
- Raise attainment at age 16 in English and Maths in the North to be at least the national average, and for the North to be regarded as a leading European region in digital skills at age 16;
- Be a net importer of graduates, particularly in science and technology skills to support growth in the prime capabilities; and
- Ensure employers can access the skills they need to grow by co-investment, and that local people can see the way to develop adaptable skills for the future to achieve their potential.

2. INFRASTRUCTURE AND ASSETS

PRIORITY: It must be a priority for the North to invest in the critical infrastructure to drive growth - including East-West connectivity between the major economic centres of the North. In order to achieve this, the NPP will bring together the different parts of the North, and use the best evidence, to deliver an agreed plan and clear priorities for infrastructure.

AMBITION: The North should aim to

- Speed up journey times, capacities and reliabilities between major Northern cities in line with TfN aspirations;
- Develop the sustainable energy and water infrastructure to attract major companies to the North;
- Be a leading European region in ultra-fast fibre to the premises broadband – so we can be a leading digital economy;
- Be a world leading 'testbed at scale' for new technologies that make better use of existing infrastructure and support low-carbon living; and
- To have at least four major pan Northern centres of science excellence (linked to each of our prime capabilities identified in the NPIER - like the Sir Henry Royce Institute), grow the number of science and technology graduates, and attract major companies and inward investment based on these strengths.

3. INTERNATIONAL COMPETITIVENESS

PRIORITY: It must be a priority for the North to drive higher levels of productivity, innovation and enterprise across the Northern economy. We can do that by capitalising on the collective Northern strengths in each prime capability (Health Innovation; Energy; Advanced Manufacturing/Materials; and Digital). In order to achieve this, the NPP will bring employers and civic leaders together to develop a Productivity and Innovation Strategy. This should build on the Government's Northern Powerhouse Strategy (published at the 2016 Autumn Statement), and contribute to the Government's Industrial Strategy. This plan should analyse what needs to be done at each spatial level to drive productivity.

AMBITION: The North should aim to:

- Be one of the easiest and best places in Europe to start up, develop and grow a high productivity business;
- Have start up and productivity rates at least equivalent to the UK average;
- Have innovation and exporting rates at least equivalent to the European average;
- Set a bold ambition for what our prime capabilities could become globally, for example, the world leading area in:
 - **Energy:** Developing new technologies for energy security, production, distribution, storage, carbon capture, decommissioning and grid management – especially in relation to offshore wind, nuclear and hydrogen;
 - **Health Innovation:** Pioneering Clinical Research and Trials particularly in relation to cancer and ageing, integrating health and social care, new diagnostics and medical devices;
 - **Advanced Manufacturing Processes and Advanced Materials:** Driving high productivity, automated and digital manufacturing techniques and processes, capitalising on the North's industrial heritage and strengths in advanced materials; and
 - **Digital:** Linking our digital capabilities in areas such as cognitive computation, simulation/modelling, financial technology and cyber security, to drive digital developments in key sectors across the economy.

4. LEADERSHIP AND LEARNING

PRIORITY: It must be a priority for the North to develop the places in the North where people want to live, work, invest and visit. In order to achieve this, the NPP will develop a plan for greater devolution and decision-making in the North of England.

AMBITION: The North should aim to

- Be a magnet for people looking to invest, grow a business and achieve an excellent quality of life;
- Be a place at the forefront of devolution and innovation, where people can take the decisions that affect their area with new devolved powers; and
- Be a place where people compete to invest, driving regeneration and benefiting all communities.

The NPP intends to produce a detailed report taking forward the issues outlined above under each priority, and making specific recommendations for actions which can be pursued in the short, medium and long term. The NPP will be active in helping to implement those actions, with your support.



1. THE ECONOMIC CASE FOR THE NORTHERN POWERHOUSE

- 1.1 There had been many previous attempts to stimulate growth in the North when the Chancellor of the Exchequer, George Osborne, set out the vision for a Northern Powerhouse in 2014. This subsequently became the basis for policy adopted by the Government. Four key priority areas were initially identified to help realise the vision: transport, science and innovation, creating creative clusters, and devolving power to local areas.

"I'm here to talk to you today about what we can do to make the cities of the North a powerhouse for our economy again - with new transport and science and powerful city governance. The cities of the North are individually strong, but collectively not strong enough. The whole is less than the sum of its parts. So the powerhouse of London dominates more and more. And that's not healthy for our economy. It's not good for our country. We need a Northern Powerhouse too."

Speech given by Rt Hon George Osborne MP in the Power Hall, Museum of Science and Industry (MOSI), Manchester, 23 June 2014

- 1.2 The RSA City Growth Commission¹, also in 2014 and chaired by Jim O'Neill, helped to additionally articulate the hard economic evidence, analysis and argument for the Northern Powerhouse². It made the case for cities to take a new, enhanced role in national and local policy and governance. Over the course of its 12 month independent inquiry, the Commission focussed on skills, infrastructure and connectivity, and fiscal devolution. The Commission's final report, 'Unleashing Metro Growth', was launched in October 2014 and made the following recommendations for metro leaders:
- To **coordinate resources** across their city-region, making strategic policy and finance decisions via place-based budgeting and investment strategy;
 - To make more informed and responsive decisions based on **evaluation of local data** and evidence;
 - To develop effective ways of **integrating** public service reform and economic development; and
 - To have greater flexibility over their **spending and borrowing arrangements**, including multi-year finance settlements, retention of a proportion of the tax proceeds of growth, and some freedoms to set and fully retain a suite of taxes.
- 1.3 The Commission also argued that metropolitan cities should be represented in national decision-making by bringing forward measures to enhance connectivity and growth - including a review of infrastructure and connectivity (digital as well as physical).
- 1.4 The rationale for the Northern Powerhouse is driven by the economic concept of agglomeration, which essentially means economies of scale. In particular the notion - subsequently supported with strong objective evidence from the OECD³ - that large densely populated, urban locations lend themselves to natural forces both in terms of consumption and production habits that are positive for economic growth. By definition, the larger the number of concentrated people, the easier it is for prospective employers to find the necessary labour force (especially skilled ones) for their business.
- 1.5 Such natural agglomeration benefits are further enhanced by good universities, exciting culture, and a high quality of life, which boost productivity. This in turns helps boost wages and living standards, and a host of virtuous circular benefits subsequently accrue.
- 1.6 There is evidence from the past 20 years, that global GDP growth has been primarily driven by urban growth. Some have projected that in the next couple of decades as much as 80%

1 RSA Cities Commission: "Unleashing Metro Growth: Final recommendations" (2014)

2 The boundaries of the Northern Powerhouse geography for the purposes of this work covers the geographic regions of the North West, North East, and Yorkshire & Humber.

3 <http://www.oecd.org/gov/regional-policy/47623272.pdf>

of global growth may be driven by urban areas⁴. Crucially in this regard, the UK has one very important global city, London, that registers in the world's most populous 50 cities.

- 1.7 However, no other British city registers even close to the world's top 50. On broad definitions, Birmingham and Greater Manchester would only just be in the world's top 100. It is against this background that consideration must be given to the Northern Powerhouse. Many Northern cities lie in close proximity to one another. In London, each of the Central, District and Piccadilly underground lines is actually longer than the distance between the cities of Liverpool and Manchester, Manchester and Sheffield, and Manchester and Leeds – an area that connects close to 8 million people. Manchester and Leeds alone have a combined GVA of around £115 billion and are inhabited by approximately 5 million people.
- 1.8 It is the proximity of the core cities that makes the Northern Powerhouse unique. With the exception of the Midlands, no other part of the UK has this geographic cluster of important cities, and it is this which marks out the Northern Powerhouse. Include local towns and counties and this represents an area across the whole of the North which extends to close to 15 million people. From a global perspective, this is an area that would easily register in the world's top 50.
- 1.9 The economic and social benefits of lifting these 15 million people to the same performance of London and its surrounding area is clear. It would generate such an economic boost as to raise the trend growth rate of the UK economy significantly, something which would be beneficial to the whole country. It is the geographic closeness of four of the core cities (Leeds, Liverpool, Manchester and Sheffield) that creates the key "powerhouse" potential in the North. This is central to both the attention of policymakers, as well as to business leaders and of course, council and other elected leaders in the North.

International examples: Randstad, The Netherlands

There are international examples to demonstrate that this collective yet multi-city based approach can be successful. The Randstad region includes around half of the Dutch population, almost 8 million people, and is bounded by the four cities of Amsterdam, Rotterdam, The Hague and Utrecht. It was first conceived as a spatial entity half a century ago. The creation of the Deltametropolis Association in 1998 served as an informal body to enhance the transformation of the 'scattered' Randstad into a more coherent framework. This led to the legal establishment of the Regio Randstad in 2002 with a commitment by local leaders and government to strengthen the international competitive position of the region, and improve the quality of life in the western part of the Netherlands. These cities are linked by journeys of around 30 – 50 minutes, including an extensive road network and fast and frequent rail services. These transport links are supported by local rail, tram and bus connections. They also include Schiphol airport, one of Europe's major airports, and Rotterdam port, which is linked by a waterway freight corridor and a dedicated freight railway, within the region. The Randstad generates around half of the Netherlands' GDP (£210 billion in 2011). GDP per inhabitant varies across the region but was on average 53,000 euros a year in 2011 (higher than the national average of 50,000 euros).⁵

China's Urban Connections

China is a world leader in transport technology and infrastructure development, and the national roll-out of high speed rail as part of the 2008 national economic stimulus programme has had a dramatic impact on fostering cross-city economic integration; offering more location options to businesses and workers and stimulating the growth of the nearby second-tier cities. By 2020 its high-speed rail (HSR) system will increase the mobility of around 700 million people and contribute to the creation of four new mega-city clusters. Plans are already advanced for the Yangtze urban cluster which aims to develop urban centres around Wuhan in Hubei, the Changsha-Zhuzhou-Xiangtan city group in Hunan province, and around Poyang Lake in Jiangxi. Similar approvals are in store for two other regions - one covering Beijing, Tianjin, and Hebei, and another taking in Chengdu and Chongqing. The Northern Powerhouse focused visit to China in September 2015 has already resulted in a city clusters research cooperation between the UK and Chinese governments.

⁴ McKinsey, 'Urban world: Mapping the economic power of cities', 2011

⁵ Eurostat



2. BUILDING ON WHAT'S ALREADY BEEN ACHIEVED

- 2.1 The Northern Powerhouse Partnership acknowledges that it is building on elements of work carried out over the past decade to move things forward. This includes the Northern Way⁶, and actions already under-taken by TfN. It also includes the 2016 Northern Powerhouse Independent Economic Review, which identified globally significant capabilities, as well as the opportunities for better exploiting the inter-connectedness between them.
- 2.2 **Transport:** Subsequent to the report of the 2014 RSA Commission, public and private sector partners across the North supported the establishment of TfN in 2014. Making TfN a statutory body with adequate powers and influence is key to building on the current momentum for the Northern Powerhouse. For the first time TfN brings together local representatives from across the North of England (including local transport authorities, Combined Authorities and Local Enterprise Partnerships), to speak with a single voice to central government. This led to the publication in 2015 of a blueprint for transforming connectivity alongside transport improvements – “One Agenda, One Economy, One North”. The report outlines a strategic economic case, plans for rail, highways, freight, inter-city connectivity, integrated transport services and the future of TfN⁷. The Government’s 2015 Autumn Statement committed £150m for the development of a Smart information and ticketing system for the North and a transport development fund of £300m to promote strategic road and rail schemes in the North. TfN are now currently working on a new Strategic Transport Plan with partners and stakeholders.
- 2.3 **Devolution:** A number of devolution deals are in place between national government and local partners across the Northern Powerhouse, and focused on economic growth alongside reform of public services. In addition there are a wider set of City Deals in place across the North of England. In most devolved areas, an elected mayor will be created, who will form a ‘cabinet’ from the leaders of the member local authorities. The mayor and cabinet will be held to account by a scrutiny committee made up of back-bench councillors from the member local authorities. Though each devolution deal has been agreed on a bespoke basis, many common policy areas are covered⁸:
- Restructuring the further education system and devolution of the Adult Skills budget;
 - Business support services, working with UK Trade & Investment;
 - Additions to the Work and Health Programme;
 - Fiscal powers, including council tax precepts, business rate supplements, an investment fund, and EU structural funds;
 - Integrated transport systems, including bus franchising, smart ticketing, and improved joint working with Highways England and Network Rail; and
 - Planning and land use – including powers to create spatial plans, Mayoral Development Corporations, to use Compulsory Purchase Orders, and to create joint asset boards for public sector land.
- 2.4 **Science:** Work around supporting the North’s science base has been strengthened by the ongoing work of the N8 Research Partnership, (which is a collaboration of the eight most research intensive Universities in the North of England⁹), as well as the Northern Health Strategic Alliance (NHSA). Major science investments are already underway such as £15m for the Institute for Smart Data in Newcastle, and £235m for the Sir Henry Royce Institute in Manchester. At the end of 2015 the Government launched a first wave of Science and Innovation Audits, in partnership with universities and local enterprise partnerships, aimed at understanding how science and research assets can drive local innovation and support economic growth. Two audits have now been completed in the North - Greater Manchester working with Cheshire East, and Sheffield City Region working with Lancashire. A second wave of audits is now underway to add to the picture across the North and will include audits around the Northern Bio-economy,

6 Moving Forward: The Northern Way Growth Strategy, September 2004

7 TfN, “One Agenda, One Economy, One North”, 2015

8 Briefing by the House of Commons Library on what has been achieved to date around the Northern Powerhouse concept: <http://researchbriefings.files.parliament.uk/documents/CBP-7676/CBP-7676.pdf>

9 Durham, Lancaster, Leeds, Liverpool, Manchester, Newcastle, Sheffield and York.

Off-shore Energy, Liverpool City-Region, and Leeds City-Region. This SIA process benefitted from LEPs across the North coming together to share strategic thinking and best practice at the Northern Powerhouse level which has opened up opportunities to work with national players like InnovateUK.

- 2.5 **Culture:** There is already a wealth of internationally recognised cultural and arts assets in the North, including Opera North in Leeds, the Hepworth in Wakefield, the Yorkshire Sculpture Park, the Hallé, the Whitworth Gallery in Manchester, and the Liverpool Philharmonic. Additionally Newcastle and Gateshead will host the Great Exhibition of the North in 2018, £15m has been given to projects in Hull as UK City of Culture 2017, and £78m has been committed by government to build the Factory in Manchester.
- 2.6 **Business Investment:** In the 2015 Autumn Statement, the Government announced that it had agreed with the British Business Bank and Local Enterprise Partnerships in the North West, Yorkshire and the Humber, and the Tees Valley to create a Northern Powerhouse Investment Fund. The fund will provide more than £400m to invest in smaller businesses. It will be supported by funding from the European Regional Development Fund and the European Investment Bank. When combined with the North East's fund for SMEs this will ensure that over £500m of investment will be available for Northern businesses over the coming years.
- 2.7 **Education:** In March 2016, the Government established the Northern Powerhouse Education Fund (NPEF) in order to tackle the north-south educational divide and made available £70m of funding to support "proven leaders and outstanding schools" in neighbouring areas to mentor weaker schools. In addition, Bradford head-teacher, Sir Nick Weller, has now reported to the Government with recommendations on how to specifically transform education across the Northern Powerhouse.
- 2.8 **Ongoing Support:** In Budget 2016, Manchester, Leeds, Sheffield, Liverpool and Newcastle jointly with government published the "Northern Powerhouse Phase 2" – a document which signalled commitment to working together to address opportunities and challenges across a number of issues including skills, trade, housing, and entrepreneurship. This was followed at the Autumn Statement by the Government's publication of a Northern Powerhouse Strategy¹⁰ which announced a further investment of £556m to Northern Local Enterprise Partnerships, and reconfirmed the commitments of £13bn for transport in the North over the course of this Parliament and £60m development funding for Northern Powerhouse Rail.
- 2.9 The new Government has repeatedly demonstrated its ongoing commitment to the Northern Powerhouse. Minister for the Northern Powerhouse, Andrew Percy MP, has launched the Northern Powerhouse Partners programme to promote and celebrate major projects in the North and showcase the tangible growth of the Northern economy, with partners drawn from a range of institutions, businesses and sectors.

The Prime Minister, Theresa May, has spoken about the Government's vision for a Northern Powerhouse, intended as "a plan to help the great cities and towns of the North pool their strengths and take on the world".¹¹

The Rt Hon Philip Hammond MP, Chancellor of the Exchequer said, in November 2016, *"Delivering this vision is not only crucial for the North, but for the whole of the UK's success. The North is home to 15 million people and over one million private sector businesses. If the Northern Powerhouse were a country, it would be amongst the biggest economies in Europe. If we can make this region an economic powerhouse, the whole of the UK will benefit."*

- 2.10 Over the past two and a half years, think-tanks and other organisations have produced excellent work helping to analyse the Northern Powerhouse and drive the concept forward. Not least amongst these is invaluable work by IPPR North, Centre for Cities, and ResPublica, as well as independent reports from companies such as Arup. All have sought to set out an ambition or manifesto for the North. Elsewhere, the CBI has helped establish a group of companies from

¹⁰ HM Government, Northern Powerhouse Strategy, November 2016
¹¹ Interview with The Yorkshire Post, August 2016

across the North of England, to help support the Northern Powerhouse from a private sector perspective. There is also real evidence that the Northern Powerhouse is affecting people's thinking and investment decisions. This is shown in the case study below, as well as concrete evidence on Chinese investment into the North.

Case study: Arup

Arup, a global firm of designers, planners, engineers and consultants, has been operating its offices in the North for almost 60 years. Recently, the firm shifted its model of locally managed offices, to create a regional 'Northern' network, sharing its footprint with the Northern Powerhouse. Business plans which previously played to individual strengths of the local office, have been replaced with collective strategies which focus on growing and sharing skills across a wider economic area and client base. Collaborating as a network gives the firm a unique perspective on the complex challenges across the built environment, including energy, water, mobility and cities. It enables it to combine different skills more effectively and co-operate to grow new skills, to deliver the best solutions for clients across the North. With full support from Arup's board, the firm has invested in three new office relocations in the last three years in the North and grown from approximately 600 staff members to over 1,000 based across seven locations: Manchester, Leeds, Liverpool, Sheffield, Newcastle, York and Cumbria.



3. SEIZING THE OPPORTUNITY OF THE NORTHERN POWERHOUSE

- 3.1 The North of England is home to some of the most iconic cities and places of interest in the UK. There are around 15 million people and 7.2 million jobs, and in 2015 the region generated an economic output of around £290bn of Gross Value Added (GVA), about one fifth of the UK's total. The area has a diverse mix of high profile and growing businesses, demonstrating a wealth of expertise, creativity and assets. Additionally, the North is home to twenty-seven universities, eight of which are ranked in the UK's top fifty, which attract tens (possibly hundreds) of thousands of students from across the UK and the world.
- 3.2 This influx of talent, as well as strong links between higher education institutes and local industry, offers an opportunity for growth if greater numbers of graduates can build a career in the same city or region where they were educated. In addition, the North's quality of life is an underpinning asset which supports its economy, particularly in providing an attractive place for people to live, work, invest in and visit.
- 3.3 However, long-standing challenges remain in terms of its prosperity and productivity 'gaps' relative to the wider UK. If effectively addressed then it has the potential to deliver more wealth to the national economy. In 2016, the Northern Powerhouse Independent Economic Review was commissioned by TfN partners. It identified that the economy of the North had the potential to be around £100bn (15%) bigger – with an extra 850,000 jobs and a 4% increase in productivity – by 2050, over a 'business as normal' scenario. Under this 'transformational' economic future for the North, there would be substantial improvements in the skills base, in innovation performance, and in transport connectivity, helping to close the productivity and prosperity gap with the rest of England.
- 3.4 Research by Bloomberg carried out in the United States has additionally shown that many "millennials" are increasingly following job opportunities to smaller metropolitan areas or secondary cities where the cost of living is less than in primary cities such as New York and Los Angeles¹². This pool of 18- to 34-year-olds is finding employment in industries like education, health care, energy and tech. The group is also driven by quality of life, with culture disproportionately important to millennials. They are more interested in cycling and green forms of transport, and less likely to drive. There are clearly lessons for the UK. Other research suggests the more diverse a city is, the more its technological industry and economy thrives.
- 3.5 The findings of the NPIER characterise the North's economic position and the drivers underpinning its performance, and identify opportunities where pan-Northern drivers and collaboration can support local activities. The Review looked to understand the scale, nature and causes of the North's gaps, and its distinctive 'capabilities' (pan-Northern collectives of sectoral, academic, skills and hard asset strengths of international substance). The Review identified the North as having **four prime capabilities** which are highly productive and can compete on the national and international stage. These strengths are not just concentrated in the major cities but are genuinely pan-Northern. The challenge going forward is how to build the connections, interactions, and relationships between these capabilities across the wider North.

The Prime Capabilities of the Northern Powerhouse

- The North has strengths in **advanced manufacturing processes and advanced materials**, with expertise in materials and textiles, engineering and manufacturing, research and design, and metal and non-metallic production processes. The North is home to a wide range of research bases for advanced manufacturing, including the Advanced Manufacturing Research Centre at the University of Sheffield and the Institute of Automotive and Manufacturing Advanced Practice at the University of Sunderland, and benefits from close partnerships between business and Higher Education, sometimes supported by state investment. New technologies, environmental requirements and greater societal awareness are further generating opportunities for those who can create lighter, stronger components and materials that sense and adjust to their environment, with significant benefits for a range of sectors.

¹² <https://www.bloomberg.com/view/interactives/2015-millennials/>

- In **Digital**, the North has a proud history of computing, with Manchester being the birthplace of the world's first stored-program computer. The region has built on this history and has nationally and internationally significant assets underpinning its digital capability. One of the UK's three standalone internet exchanges is in Leeds, and The Hartree Centre for High Performance Computing at Daresbury is home to the world's 30th most powerful computer. There are also clusters of tech expertise across the North, including DigitalCity in Middlesbrough, the Baltic Triangle gaming hub in Liverpool, the Yorkshire and North East & Tees Valley Digital Catapults, and MediaCity in Salford. These offer an opportunity to place the North in the vanguard of the fourth industrial revolution in areas such as Industrial Digitalisation.
 - **Energy** generation, storage and distribution are essential elements of modern society. The pressures of climate change mean that, along with greater energy efficiency through better designed production processes and products, new methods of low or zero carbon energy generation have to be developed and deployed. The North of England is a significant exporter of energy to the rest of the UK, with the Leeds City region alone supplying one-sixth of the UK's electricity. The North's energy capability is bolstered by its advanced manufacturing capability, which means that many of the elements in the energy sector's supply chain are located in the North. There also significant strengths in offshore wind power, as well as nuclear (with exciting developments in small modular reactors).
 - **Health innovation** is widespread across the North. There are a number of health sector specialisms, which mean the North is well placed to generate and deploy health innovation and technologies. The health sector is facing long term social trends, such as ageing populations in developed economies and the growth of antimicrobial resistant pathogens. At the same time it is experiencing rapid technological advances in computing and data analytics that affect public health, drug discovery and development, and the personalisation of medicine. It is also exploiting new manufacturing processes, such as 3D printing for prosthetic limbs and organs. The devolution of the NHS in Greater Manchester is unique in the UK. Given the North's complementary capabilities in big data, robotics, synthetic biology and new advanced materials, the North is in a strong position to develop, undertake and showcase world leading health innovation.
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4. INFORMING THE WORK OF THE NORTHERN POWERHOUSE PARTNERSHIP

- 4.1 To help inform this first report NPP set up a series of round-tables across the cities of the North and invited local businesses, civic leaders, and academics to attend and feed-in view on what actions the Partnership must focus on in order to achieve the greatest collective impact. These events were held in:
 - Manchester – 3rd November (hosted by Bruntwood);
 - Newcastle – 25th November (hosted by CBI);
 - Sheffield – 1st December (hosted by Sheffield City Council/ Arup);
 - Leeds – 1st December (hosted by KPMG); and
 - Liverpool – 2nd December (hosted by the Mayor of Liverpool).
- 4.2 Attendees at these round-tables spoke about their perceived strengths of the region in which they operate, and provided many examples of how the private sector is increasingly operating at a pan-Northern level, reflecting the reality of a Northern Powerhouse. But that more still needs to be done to really meet the potential of the North, while recognising the benefits of collaboration and partnership between the private and public sectors.
- 4.3 The discussion in Manchester recognised the scale of opportunities that are available by bringing together a core population across the NPH, providing business with a greater scale to leverage its investment. However, partners agreed that this depended on having good connectivity in place (North-South as well as East-West) in order to enhance business linkages and ease areas such as road and rail congestion (especially for freight). Health was also reinforced as one of the core Northern strengths, with the potential to engage citizens actively (through areas such as data analytics) and act as an international exemplar – particularly as Northern partners are already starting to work together. However, the group agreed that it was important that wider places across the North reflect on the benefits of a move towards health and social care devolution. Partners noted the risk that potential skills shortages presented to the digital industries, particularly as these skills would drive productivity gains in areas such as manufacturing and smart cities. Finally, it was suggested that greater local direction is needed to ensure the skills produced by the education system in the Northern Powerhouse are fit for purpose and ensure young people are “work-ready”, and more should be done to increase the number of women entrepreneurs across the North.
- 4.4 In Newcastle it was acknowledged that central government departments need to do more to “join-up” in helping to deliver local devolution more holistically. Additionally, the business community has an important role to play within the Northern Powerhouse in encouraging cities to think carefully about the potential benefits of enhanced devolution. Attendees also suggested that lessons be learnt from what’s happening around the rest of the world in terms of broader regions working more closely together - part of this will be about packaging up the strengths and assets of the North so they are as attractive as possible to the outside world, particularly in their synergies. Finally, it was agreed that housing, education and having a clear career path are all areas that need to be addressed if the North is going to be seen as a more attractive place to live and work.
- 4.5 In Sheffield, partners highlighted the central role that universities and teaching hospitals can play in wider “place-shaping” and the benefits of more regular collaboration across the North. Culture and creativity were noted as having an important contribution to make in economic development by improving perceptions of liveability – a more distinctive Northern offer will help retain graduates and attract wider talent. Again, transport connectivity was identified as a key area of action, provided partners in the North are able to prioritise investment projects based on the biggest productivity gains. Partners noted it was also important to avoid infrastructure announcements being made by central government and then delayed, as this sends a negative message to business and creates uncertainty in terms of long-term investment. It was recognised that Sheffield also offers an interesting model for other places through its Skills Bank which joins up employers and the workforce.

- 4.6 In Leeds it was agreed that stronger and more sustained involvement by business could drive momentum around the Northern Powerhouse, and therefore create a more stable platform for longer-term strategy, collaboration and investment. Leeds has an important role to play in helping drive growth across the North. It is developing transformational projects linked to the prime sector capabilities identified in the IER, such as the proposed Burberry campus at Leeds South Bank (advanced manufacturing), the Leeds Innovation District (health innovation), the cyber security and digital resilience project at aql Leeds (digital), and the hydrogen infrastructure project (energy). The group also recognised that good transport connectivity is needed to link Leeds, Bradford and Manchester. It will also bolster international linkages and support trade objectives. For example, improving access to Manchester Airport from across the Northern Powerhouse, along with growing airports such as Leeds Bradford, can open up more destinations and markets. It was felt that further devolution could help remove some of the barriers that slow down big and small infrastructure projects, for example in having to seek agreement from Ministers and Whitehall officials at each stage.
- 4.7 For Liverpool, issues raised included freight connectivity - recognising the strengths in the ports across the North, as well as the need to more clearly articulate a science strategy that genuinely reads across the whole of the Northern Powerhouse in order to drive productivity and drawing in the full range of partners (particularly the universities and businesses). Nuclear energy was identified as one clear example of a sector that is well suited for cross-Northern cooperation to better realise some of the market opportunities.
- 4.8 From all of these discussions a number of common themes emerged, including skills, infrastructure, competitiveness, and the importance of local leadership. It is clear that the North has major strengths economically, socially and environmentally. However, the North is currently under-performing. These all point to an over-arching conclusion that the main focus for the NPP needs to be to address the ongoing challenge of productivity. Every round-table spoke about their strengths in the 4 prime capabilities and the work ongoing to develop them locally. However, it was apparent that there is currently limited pan-Northern work that links them more clearly together, and exploits these capabilities collectively across the North.



5. DRIVING PRODUCTIVITY & REALISING THE AMBITION OF THE NORTHERN POWERHOUSE

- 5.1 For the last thirty years, the North's GVA per capita has been consistently about 25% below the average for the rest of England, and 10-15% below the all England average (excluding London). A persistent economic gap exists between the North and the national average that necessitates a radical change in the economy of the North. This performance gap is structural. In 2014, this gap equated to a £4,800 per person difference in income between the North and the UK average, and a £22,500 per person difference between the North and London.
- 5.2 The NPIER found that productivity accounts for the largest proportion of the 'performance gap' with the rest of England. The main factors driving this productivity gap were identified as insufficient high-skilled workers and too many low-paid and low-skilled workers (including low paid, part time and zero hours contracts); not enough exploitation of innovation and technology; lower levels of investment; lower levels of enterprise; lack of agglomeration; and sub-optimal transport links and underinvestment in transport.
- 5.3 The NPP has therefore set a very clear objective to help increase the impact and contribution of the North of England to the UK economy. The North contains communities with a strong industrial heritage and a distinct culture all surrounded by a beautiful natural environment. By encouraging these communities to work more closely together, we believe we can make the whole of the North greater than the individual parts. This will create the prosperous, modern economic powerhouse that has the critical mass to drive a wealth of opportunities; a North where companies choose to invest and create jobs, and people choose to live because there is a high quality of life, rising living standards and everyone is supported to reach their full potential. To achieve this objective we must be clear what activity works best at the Northern Powerhouse level as opposed to the more local level of economic geography.
- 5.4 The economic analysis conducted to date, and our round-table discussions have led us to conclude that there are four independent but related variables that are key to unleashing the Powerhouse's full potential for everyone's benefit. Each of these is set out below and is necessary to addressing the productivity challenge, but will not be sufficient if taken in isolation.

(i) EDUCATION AND SKILLS

EDUCATION

- 5.5 There is a clear challenge in the North in ensuring that young people are supported as widely as possible through statutory education, to develop strong personal aspirations and achieve their potential. Although this is a key role of the education system, the role of families and the local community in providing the right environment in which to learn and encourage young people cannot be underestimated. New effort is needed to make advancements in this area.
- 5.6 There is now overwhelming evidence that attainment at age 16 is too low in the North, particularly amongst certain groups, lagging behind other parts of the UK and international competitors. The system is fragmented, with many policy levers and actors, but too little integration or clear routes for young people and adults to enter employment and achieve their potential. This directly affects people's aspirations and ability to achieve them. We need to develop clear vocational education streams as well as focusing on academic attainment. Across the North, 56% of pupils attain five or more A* to C grades at GCSE, including English and Maths, compared with 61% in London¹³. The roots of this go back to early years and we need to understand more about how this affects attainment at age 16, but too many secondary schools appear to be underperforming. Sir Michael Wilshaw's recent report (December 2016) highlighted many issues which the schools system in the North can address in order to bring about improvements.
- 5.7 Sir Michael found that secondary schools in England have improved but the attainment gap between the North and Midlands and the rest of the country has not narrowed, in fact, it has widened slightly. "Last year we reported that there was an 11 percentage point difference in the proportion of good and outstanding secondary schools in the regions of the North and Midlands

¹³ IPPR North, Northern Schools, Putting Education at the Heart of the Northern Powerhouse, May 2016

compared with the rest of the country. This remains an issue; in fact, the gap has widened further this year to 12 percentage points". Furthermore, "There are 10 local authorities with 40% or more of pupils who are in secondary schools that are less than good, and where attainment and progress is below the national level on the key accountability measures, and all but three are in the North and Midlands."

- 5.8 It is unlikely that the significant weakness in productivity in the NPH can ever be reversed unless educational achievement can be improved. Unless the next generation of employees in the Northern Powerhouse can be given an education that equips them to enter the world of work and compete with the best, elsewhere in the UK and the world, then the potential of individuals, and the North as a whole, will never be reached. There is too little collective recognition of the importance of developing the aspiration, character and resilience which underpins attainment as well as being required for success in the workplace.¹⁴ The best schools support young people to become active citizens as well as expecting high academic achievement. As well as English and Mathematics skills we need to be developing generic digital skills in all our young people, not just computer science skills in those who choose to study this to age 16.
- 5.9 Encouragingly there is clear awareness in national government of this problem, and the establishment of the Northern Powerhouse Education Fund (NPEF) is an important initiative. If this fund can repeat some of the apparent catalytic role that the Schools Challenge did for London, then this would be important. We need to understand the various factors that contributed to the success of this initiative, including demographic change and how funding impacts on targeted communities and cohorts. However it is heartening that London's educational attainment has improved so much over the past 20 years as this suggests that with the right policies and ambition, it is possible to improve educational outcomes. The fact that primary school results within the NPH are similar to elsewhere in the country, suggests it is attention to supporting learning at a secondary age (both in and out of schools) and secondary school outcomes which is most worthy of policy initiatives, and where it is possible to change the situation in the North too.

SKILLS

- 5.10 Closely related, but also important in its own right, is the topic of skills, and the need to provide young people, and others, with the modern adaptable skills that are attractive to ambitious and competitive employers, many of whom have choices of locations elsewhere in the UK and the world. New initiatives are needed to make advancements in this area, and we believe it is an area that the NPP can help deliver.
- 5.11 In terms of working age (16-64) skills gaps, the North has a deficit across the skills spectrum, with the biggest gaps being at higher skill levels. At level 4+, there is a 5.5 percentage point gap with the UK. In addition, the proportion of people with no qualifications is 1% higher than the UK average. It is at level 4+¹⁵ that the biggest economic impact in a region accrues – but this is precisely the level where the North has the largest skills gaps with the rest of the country¹⁶. As a result too many employers are not able to get the skilled workers they need. With an increased supply of higher level technical and graduate skills, firms would be much better placed to drive innovation and be internationally competitive, moving to high productivity and high pay business models.
- 5.12 The North therefore needs to ensure it is developing the right skills that employers need to drive forward the economy, and in particular both the basic skills to enable people to access work and the technical higher level skills needed to capitalise on our four prime capabilities. The North has some excellent further education colleges and private providers who have a significant role to play in this, and ensuring the Apprenticeship Levy has maximum impact in the North in upskilling the workforce will be essential. We need to be training people for flexible skills to take advantage of the jobs of the future – jobs which do not even yet exist. We need to ensure that people gain the skills and advice they need, at the earliest age, to progress in work, have access to support to re-train as part of life-long learning and reach their full potential. We also need to ensure that employers are investing in developing the skills of their existing workforce to drive

¹⁴ Evidence gathered by the Education Endowment Foundation indicates that character-related interventions can be most effective for improving attainment when they are specifically linked to learning outcomes.

¹⁵ Level 4 qualifications are similar in level to BTEC Professional Diplomas, Certificates and Awards, NVQs at Level 4, Key Skills Level 4 and Certificates of higher education.

¹⁶ SQW, The Northern Powerhouse Independent Economic Review, June 2016

productivity and innovation, seeing this as an investment rather than a cost. There are examples of good practice developing across the North which can be built on, such as the Sheffield Skills Bank, which starts with an employer developed business case for co-investment in skills, rather than from funding streams.

- 5.13 What the NPH does have, as far as tertiary education is concerned, is a number of very strong universities which are recognised globally. As will be discussed elsewhere, harnessing, and boosting the capabilities of these universities is critical to the ambition of the Northern Powerhouse. However, the proportion of graduates who remain in the cities in which they studied six months after graduation is lower across the North than in London.
- 5.14 Around 30,000 people with graduate level skills leave the North every year. Although around 23,000 people with graduate skills also move into the North, there is a clear opportunity for the North to retain more high level skills¹⁷- 76.9% students remain in London six months after graduation compared with, for example, 51.5% in Manchester and 36.1% in Newcastle. Also, people who move to Northern cities to study do not tend to stay. The Centre for Cities found that in Manchester, for example, 67% of the students who travelled to the city to study left upon graduation¹⁸. These skills, which are essential to driving growth and achieving our ambition in relation to our prime capabilities, are likely to become even more important after the UK leaves the EU.
- 5.15 Achieving our potential in relation to our prime capabilities means we need to attract the best talent and companies from around the world to come, and stay, in the North, as well as developing our own people to be the best in the world and achieve their full potential. The North has an excellent, affordable quality of life in an increasingly well-connected region, where people can make their careers. Individual places can only do a certain amount to retain talent, but more could be done to promote the collective 'offer' of the North to attract and retain talent.

PRIORITY: From the evidence above it must be priority for the North to:

Improve educational attainment at age 16, and develop the technical and higher level skills employers need to compete. In order to achieve this, the NPP will commission a group of leading employers and education experts to come together to draw on the latest evidence and thinking in examining:

- How to raise the **aspirations of young people** so that no ambitions are seen as beyond reach and young people can become active citizens. Ensuring consistent and high quality employer engagement with young people throughout their schooling so they understand the world of work is vital to achieving this;
- How to build on the recommendations of the **Northern Powerhouse Schools Strategy**, alongside proposals to maximise the impact of the Northern Schools Fund;
- How to develop a more coherent approach to the currently **fragmented careers system**, with single platforms for delivering Careers Education, Information, Advice and Guidance, with online and face-to-face advice based on sound labour market knowledge;
- How to take a system wide approach to **re-engineer the Skills system** to put employer business cases for co-investment in Skills at its heart so that firms can directly shape the skills provision they need to innovate, grow and drive productivity;
- How to support a wide range of people who need **targeted short courses** to get into employment or flexible skills/support to change careers; and
- How to encourage more local young people to go onto higher education and collectively promote the North as a place for **graduates** not just to study but also once here, to settle and work so that we retain more of the graduates our universities already produce.

This group should also consider how to build on a range of proposals developed by Northern core cities prior to publication of the Government's Northern Powerhouse Strategy, including: improving early years provision to raise attainment; giving children the best start in school and support families; and reforming the skills system so that local and national provision are better aligned with clear and high-quality pathways.

¹⁷ Homes for the North, 'Brain Gain: The role of homes and place making in attracting graduates to the North of England', October 2016.
¹⁸ Centre for Cities, The Great British Brain Drain, Where graduates move and why, November 2016

AMBITION:

The North should aim to:

- **Eliminate the gap with the rest of the UK in the percentage of good and outstanding secondary schools – building on the approach of the Wilshaw report¹⁹;**
- **Raise attainment at age 16 in English and Maths in the North to be at least the national average, and for the North to be regarded as a leading European region in digital skills at age 16;**
- **Be a net importer of graduates, particularly in science and technology skills to support growth in the prime capabilities; and**
- **Ensure employers can access the skills they need to grow by co-investment, and that local people can see the way to develop adaptable skills for the future to achieve their potential.**

(ii) INFRASTRUCTURE AND ASSETS

- 5.16 As has been argued by the Cities Commission in 2014, and now being pursued by TfN, connecting the Northern Powerhouse with state of the art modern transport is crucial to its success. Such connectivity, (both for passengers and for freight), has to be affordable, frequent, innovative, and reliable. Some of the momentum is already underway. Indeed, the North will gain by the construction of HS2, with the potential to benefit the links north of Crewe and to the East Coast Mainline (vital for the links of the North to the Midlands and Scotland). However, as recognised by the Government, boosting East-West links across the North are at least, if not, more crucial. This point was strongly reflected at the roundtable discussions.
- 5.17 It is only by achieving the city-to-city road and rail travel times across the Northern Powerhouse which are aspired to by TfN that we can gain the agglomeration benefits from the North becoming a series of super-connected economies. Reducing journey times, and matching the speed of train services with those in some of the world's most successful multi-city regions, would lead to a potential earnings gain of £93m per year across the largest Northern cities²⁰. For example the journey between The Hague and Utrecht in the Randstand (see box above) can be completed in 37 minutes, compared with 49 minutes to cover a similar distance between Manchester and Leeds. It is estimated that if this journey could be completed in 30 minutes it would lift productivity in Leeds by more than 10%²¹. Therefore Northern Powerhouse Rail (linking Liverpool-Manchester-Leeds-Sheffield-Hull-Newcastle) and the proposed motorway and trunk road improvements (including important Trans-Pennine links between Manchester and Sheffield) are vital to the success of the Northern Powerhouse.
- 5.18 Other vastly improved links, both within metro areas, and between Northern cities, are crucial also. but in the spirit of the previous section, it is important that leaders from the North, and TfN itself, can effectively prioritise the key infrastructure requirement of the North. Transport for the North, as a Statutory Body, should be given the right tools and role to enable it to lead the development, design and oversee delivery of these key transport improvements, drawing on the best of what's already been done in Transport for London and Transport Scotland. TfN has bold plans but these need to be reflected as nationally significant projects so that they can be designed, developed and delivered faster. The North should also consider how some of this critical infrastructure can be part funded with the support of the private sector, as the scale of investments needed will take much longer to deliver if solely reliant on public finance.
- 5.19 Another key recommendation from Cities Commission was a proposal for a seamless payment mechanism, to help make it easier for consumers and producers to travel around and across the Powerhouse. It has been shown that since the Oyster was first introduced in London (now operating a contactless system), commuters travelled across London about 20% more than before. A simple, affordable Pay As You Go (PAYG) model across the North would significantly support the Northern Powerhouse agenda.

¹⁹ "...there are 10 local authorities with 40% or more pupils who are in secondary schools that are less than good, and where attainment and progress is below the national level on the key accountability measures, and all but three are in the North and Midlands". Ofsted, The Annual Report of Her Majesty's Inspector of Education, Children's Services and Skills 2015-16.

²⁰ Frontier Economics, Assessing the productivity benefits of improving inter-city connectivity in Northern England. A Report Prepared for the National Infrastructure Commission, March 2016.)

²¹ CBI, Unlocking Regional Growth, December 2016



- 5.20 How to continue to keep the country moving and improving its international connectivity in order to increase the flow of goods and investment both in and out of the UK, and to serve as the primary catalyst for a stronger economy remains an important issue. Airports across the North are economic catalysts vital to ensuring the international connectivity of the region, which delivers significant inward investment and tourists as well as offering British business and holiday-makers their gateway to the world. However, there are still huge issues to address in the ease of access to our airports, and government must take advantage of the opportunity presented by the creation of a new Aviation Strategy to deliver the appropriate policy to enable UK airports to establish as many connections with key international markets as possible.
- 5.21 The major Northern ports are also vital to the future of the North as a trading region – both on the East and West Coasts – and this role will continue to be very important. For example the Humber is the UK’s most important trading river by volume, while the Super Port in Liverpool is now equipped to handle most of the world’s biggest container ships. TfN’s Chair, Sir John Cridland, is currently undertaking a Commission to make recommendations to improve the North’s access to the global economy through its ports and airports. Multi-modal solutions for passengers and freight will be essential to unlock the growth potential.
- 5.22 Drawing in higher levels of investment into the North is key to driving faster economic growth and ensuring the essential infrastructure for growth is developed and delivered. Over the next 20 years there will be significant sums of investment in new transport infrastructure in the North (including HS2 and potential East-West connections). This will present significant opportunities for regeneration and creating high quality new developments within our towns and cities, and around the stations and new corridors formed by these investments.
- 5.23 However pan-Northern transport is not the only critical infrastructure needed to unlock growth: there is the need to better connect people to jobs within our major towns and cities; we need to enhance our science assets to drive and support our prime capabilities; some of our existing infrastructure could be more efficiently used by better matching supply and demand; and we need the energy and water infrastructure to support our ambitions. Much of the industrial heritage of the North has grown up around our excellent natural assets – especially access to ports, water and energy. The North now needs to capitalise on these assets once again to drive growth – particularly given the potential of the North for sustainable energy.
- 5.24 In addition, exploiting many of the prime capabilities of the North will also be reliant on securely accessing, exchanging and processing, large volumes of data and acknowledging the need for resilience. It will be dependent on adopting new technologies and digital disruption. In turn this will require us to have full fibre infrastructure which will deliver the highest possible speeds to both businesses and domestic premises. The UK and the North currently lag most other countries in ultra-fast ‘fibre to the premises’ broadband – there is only 2% fibre coverage in the UK compared, for example, with 30% in the Netherlands.

PRIORITY: From the evidence above it must be priority for the North to:

Invest in the critical infrastructure to drive growth - including East-West connectivity between the major economic centres of the North. In order to achieve this, the NPP will bring together the different parts of the North, and use the best evidence, to deliver an agreed plan and clear priorities for infrastructure.

This plan should cover the transport, digital, science, cultural, and energy/water infrastructure needed to capitalise on our prime capabilities - building on the work of TfN, the National Infrastructure Commission, Science & Innovation Audits and others. This should not only look at what infrastructure is needed to drive growth and the prime capabilities but also consider:

- Innovative **financial mechanisms** that can be used to deliver essential infrastructure for growth by leveraging existing public assets in different ways and bringing in funding from the private sector;
- How we deliver key investments more quickly by demonstrating their value and positive impacts on the Northern Powerhouse, looking at **value capture models**, and how agreed infrastructure projects are delivered on time to provide investment certainty;
- How to deliver full **Fibre to the Premises** infrastructure across the North as quickly as possible;

- How we can ensure a complete knowledge and understanding of the North's **Science Assets** by using the Science and Innovation Audits that have already been completed and filling in any gaps;
- How we make better use of **existing infrastructure** to support growth; and
- How we capitalise on our **natural assets** - particularly around energy, water, access to ports and the climate - to develop the critical infrastructure that can act as a major attractor to businesses in our prime capabilities.

AMBITION:

The North should aim to:

- **Speed up journey times, capacities and reliabilities between major Northern cities in line with TfN aspirations;**
- **Develop the sustainable energy and water infrastructure to attract major companies to the North;**
- **Be a leading European region in ultra-fast fibre to the premises broadband – so we can be a leading digital economy;**
- **Be a world leading 'testbed at scale' for new technologies that make better use of existing infrastructure and support low-carbon living; and**
- **To have at least four major pan Northern centres of science excellence (linked to each of our prime capabilities identified in the NPIER - like the Sir Henry Royce Institute), grow the number of science and technology graduates, and attract major companies and inward investment based on these strengths.**

(iii) INTERNATIONAL COMPETITIVENESS

- 5.25 Some of the world's most innovative, productive and ambitious businesses are based in North. Our roundtable discussions uncovered examples of innovative enterprises right across the North carving out new global markets. The NPIER has clearly articulated the case for four different capabilities or sectors across the NPH. Marrying the talents of those industries with the research and related capabilities of the universities, creating companies of size to make a significant impact on the future NPH economy, is critical. As the UK leaves the EU we will need to ensure that companies and universities can continue to access the international talent (including foreign students) that they need to compete.
- 5.26 However, to achieve the Powerhouse potential more ambition is needed from the private sector, including from both companies already active inside the NPH and those that are, as of yet, not commercially active in the NPH. The NPIER was clear that, at the moment, the economy of the North is not as productive or innovative as it could be. Too many companies appear to adopt a low cost, low added value business model, and levels of enterprise are lower. There are 32 people per business in the North, compared with 27 across the UK and 19 in London. The growth rate of the business start-ups was 7.3% in the North, compared with 8.2% across the UK and 11.9% in London (2009-2014) – if start-ups in North had set up at the same rate as London, the GVA of the North would be £1.8bn higher.
- 5.27 The North is also below the England average for the proportion of jobs in knowledge intensive sectors, and considerably below the UK average for the number of patents per capita.²² Additionally, informal equity networks are not as well developed in the North, compared with London and the South East. Businesses in the North make 13.8% of UK R&D expenditure and 10.5% of R&D Tax Credit claims – and levels of R&D in the UK are lower than many comparator countries.
- 5.28 The North exports £52bn of goods each year (25% of goods exported from England), making it a larger exporter than 13 EU countries. 50% of these exports are to the EU and trade is part of the history of the North. This needs to be borne in mind during future negotiations of the UK's new trading relationship with the rest of Europe.

²² HM Government, Northern Powerhouse Strategy, November 2016

- 5.29 Foreign Direct Investment (FDI) is growing in the North. In 2015/16, the North saw inward investment projects increase by nearly a quarter from the previous year. This was faster than the UK average, creating 13,700 new jobs.²³ The 2016 EY UK Attractiveness Survey has highlighted the significant increase in FDI projects in the North since the phrase ‘the Northern Powerhouse’ was coined and the potential of devolution to increase the attractiveness of the North to global investors.²⁴ However according to UKTI, 14 per cent of UK FDI came to the North in 2014, compared to 23 per cent of the UK’s population living in the North, which shows the potential to grow this further.
- 5.30 The North therefore has huge potential to increase levels of enterprise, drive innovation, increase exporting and radically improve productivity – the essential ingredient for higher growth and rising living standards. The areas where internationally competitive firms already exist have been identified – the NPIER’s prime and enabling capabilities – and individual cities are capitalising on them. A co-ordinated strategy for exploiting the collective Northern assets in each of these capabilities (including appropriate investment in the science infrastructure to support them) would now start to unlock greater productive potential. At the moment pockets of excellence exist across the North, but their combined strength is untapped and often unrecognised. The Government’s recent Northern Powerhouse Investment Opportunities brochure is useful in this context²⁵. Evidence from elsewhere in the world suggests that a bold and innovative ambition for each capability (developed with the private sector, government, and recognising the crucial role of our universities) would create attractive propositions for international investors and help to transform the economy and deliver the Powerhouse.

PRIORITY: From the evidence above it must be priority for the North to:

Drive higher levels of productivity, innovation and enterprise across the Northern economy. We can do that by capitalising on the collective Northern strengths in each prime capability (Health Innovation; Energy; Advanced Manufacturing/Materials; and Digital). In order to achieve this, the NPP will bring employers and civic leaders together to develop a Productivity and Innovation Strategy. This should build on the Government’s Northern Powerhouse Strategy (published at the 2016 Autumn Statement), and contribute to the Government’s Industrial Strategy. This plan should analyse what needs to be done at each spatial level to drive productivity including the following issues:

- How we break down the barriers to **entrepreneurship** in the North, increasing female entrepreneurship, and supporting firms which seek to grow, going beyond UK-wide interventions to understand and address specific factors in the North. In particular how do we make it easier for companies to start up and grow;
- How we help more **small companies grow** into medium companies;
- How we help all companies **innovate more** using the science and innovation base that exists in the North and wider, including by drawing closely on the Science and Innovation Audits which are now being rolled out across the North;
- How workforces can be developed to help companies break-out of the **low pay, low skill, low productivity** cycle which appears to be more entrenched in the North;
- How **business networks** can be improved to create joined up action, while maintaining the identity of individual institutions;
- How **leadership** in firms can be developed, including developing proposals made at the roundtables for small and medium firms to be able to partner with large businesses and examining, with universities, the role of business schools; and
- How we can best capitalise on the collective strength of the North’s **prime capabilities** to drive the Northern economy and international investment, through a strategic understanding of their mutual dependencies, challenges and opportunities. This should include a deeper understanding of their supply chains and the international partnerships needed to fully exploit these capabilities.

²³ HM Government, Northern Powerhouse Strategy, November 2016 – quoting Inward Investment results 2015 to 2016, Department for International Trade

²⁴ <http://www.ey.com/uk/en/issues/business-environment/ey-attractiveness-survey-2016-uk>

²⁵ <https://northernpowerhouse.gov.uk/investment-opportunities/>

- Such a plan, developed in dialogue with others including BEIS, InnovateUK and the Department of International Trade, should also consider how to build on a range of proposals developed by Northern core cities prior to the drafting of the Northern Powerhouse Strategy, including: regeneration packages linked to global investment; development of air connectivity; and a pan-Northern strategic events programme.

AMBITION:

The North should aim to:

- **Be one of the easiest and best places in Europe to start up, develop and grow a high productivity business;**
- **Have start up and productivity rates at least equivalent to the UK average;**
- **Have innovation and exporting rates at least equivalent to the European average;**
- **Set a bold ambition for what our prime capabilities could become globally, for example, the world leading area in:**
 - **Energy:** Developing new technologies for energy security, production, distribution, storage, carbon capture, decommissioning and grid management – especially in relation to offshore wind, nuclear and hydrogen;
 - **Health Innovation:** Pioneering Clinical Research and Trials particularly in relation to cancer and ageing, integrating health and social care, new diagnostics and medical devices;
 - **Advanced Manufacturing Processes and Advanced Materials:** Driving high productivity, automated and digital manufacturing techniques and processes, capitalising on the North's industrial heritage and strengths in advanced materials; and
 - **Digital:** Linking our digital/tech capabilities in areas such as cognitive computation, simulation/modelling, financial technology and cyber security, to drive digital developments in key sectors across the economy.

(iv) LEADERSHIP AND LEARNING

DEVOLUTION

- 5.31 Another necessary ingredient for improving the Northern Powerhouse is the ability of local leaders to have greater control over more decisions that affect communities in the North. A key part of the transformation of the Northern economy will be the ability to create places where businesses want to invest and people of all ages want to live, work and visit.
- 5.32 This requires the development of modern, vibrant places with a strong eco-system of high-performing schools, affordable high-quality housing, a strong cultural offer and using the best digital technologies to support an enhanced quality of life. In addition, these places need excellent connectivity (within places, between the places of the North, nationally and internationally). Lessons can be learnt from the international examples described above where this has been achieved, where strong civic leadership and a significant range of devolved powers are a common feature. The role of University expertise and knowledge, as anchor institutions central to the transformation of places and driving key sector ambitions, is noticeable in many successful international examples. The North's natural assets and quality of life are also important factors in attracting and retaining companies and skilled individuals. We need to do more to promote this potential for an affordable quality of life, and for people to make their careers in the North as a well-connected region, particularly given future transport investments such as HS2.
- 5.33 The devolution of new powers from central government to Greater Manchester, Liverpool City Region Merseyside, South Yorkshire, Sheffield City Region, and Tees Valley is a major step forward. It is vital this devolution takes place as agreed, and we make more progress on arrangements for the rest of Yorkshire and the North East. Even with this devolution it is the case that the UK remains the most centrally-run economy in the OECD. The Northern Powerhouse Partnership plans to help build the case for government to take a bolder role in moving further on devolution – encouraging new powers for the new mayors, and simultaneously helping support local leaders become more ambitious in their own asks of government. We also need to help areas across

the North learn from each other about what has been successful on devolution, and build the evidence for the economic impacts of devolved powers.

- 5.34 However, it is not sufficient for places just to make their asks of Government for more powers. We also need to recognise that if these new powers are not used to engage residents and businesses in different ways to raise their ambitions for self-improvement and aspiration then nothing much will change. This goes to the heart of the strong civic leadership of places themselves. The North needs to learn from what different places around the world are doing to engage their communities to be active citizens so that all communities are able to contribute to, and benefit from, inclusive growth²⁶. The Voluntary, Community, and Social Enterprise sector (VCSE) has a potentially significant role in helping to achieve this.

RAISING AMBITION

- 5.35 Finally, there is a need for greater ambition and boldness from those in the North and those that want to help the Northern Powerhouse. It is clearly the case that the relative decline of the North has occurred over a long period. It is important to recognise that there are powerful (although not inevitable) economic factors, and their importance and scale should not be easily dismissed. If they are to be overturned and diminished, then a level of ambition and imagination is required in order to create the Powerhouse that the North needs and deserves. The North's businesses and public sector, along with Government, need to raise our collective ambition about what can be achieved in the North and what the North can offer. There are some examples where this has been achieved, such as Boston in the US, and Hamburg in Germany, which are amongst the most successful urban areas of the current world economy. During the 1960s and 70s, it was fashionable for economic textbooks to write these areas off as past their glory days, but they now set an important example for the ambition for the Northern Powerhouse²⁷.

PRIORITY: From the evidence above it must be priority for the North to:

Develop the places in the North where people want to live, work, invest and visit. In order to achieve this, the NPP will develop a plan for greater devolution and decision-making in the North of England including:

- Learning from best practice in relation to place making, including developing a partnership with the **Bloomberg Institute**;
- Building evidence on the next steps in **devolving powers** and developing new public finance models (particularly in the light of flexibilities after the UK leaves the EU), which can drive economic growth and ensure that devolution is embedded;
- Making recommendations on what more can be done to develop a consistent set of messages to and **promote the North on a global stage** highlighting the attractiveness of the region and utilising University and other 'alumni' to help forge lasting global partnerships supporting trade and investment; and
- Making recommendations on what more can be done to promote the **North as an even more attractive place to live**, with an affordable quality of live in a well-connected region, with good cultural facilities, where people can make their careers, in order to attract and retain talent.

AMBITION:

The North should aim to:

- **Be a magnet for people looking to invest, grow a business and looking for an excellent quality of life;**
- **Be a place at the forefront of devolution and innovation, where people can take the decisions that affect their area with new devolved powers; and**
- **Be a place where people compete to invest, driving regeneration and benefiting all communities.**

²⁶ RSA Inclusive Growth Commission, 'Inclusive Growth for People and Places: Challenges and Opportunities', September 2016.
²⁷ KPMG, 'Magnet Cities - Decline, Fightback, Victory', 2016

6. TAKING IT FORWARD

The Northern Powerhouse Partnership believes that the four priorities identified above (Education and Skills; Infrastructure and Assets; International Competitiveness; and Leadership and Learning) are vital to achieving faster economic growth across the North and creating a prosperous, modern economic powerhouse that has the critical mass to drive a wealth of opportunities.

We are determined to drive forward specific actions in each of these areas to help the North improve its economic performance and realise its potential. However, we want to hear from organisations, businesses and individuals about the ideas set out in this report and how you want to work with NPP in moving them forward. We intend to hold further meetings in 2017 across the North with the private sector, public sector, VCSE, and Government to understand the contribution each can make in transforming the North of England.

We intend to produce detailed reports taking forward the issues outlined above during 2017, and making specific recommendations for actions which can be pursued in the short, medium and long term to drive change.

The NPP will be active in helping to implement those actions, with your support. Together we can achieve a truly global Northern Powerhouse, where companies choose to invest and create jobs, and people choose to live because there is a high quality of life, rising living standards and everyone is supported to reach their full potential.



