

INTRODUCTION

The vision of a Northern Powerhouse is a compelling one: by bringing together our northern cities they can become much greater than the sum of their parts. By joining them together, not physically or by some artificial political construct, but by providing modern city-to-city transport connections, by prioritising science and innovation, by establishing creative clusters and by giving those cities the local control and power that a powerhouse needs, we can maximise national prosperity, not just that of the North.

The UK faces a productivity challenge, with rapid employment growth that is not fully translating into increased productivity. The Northern Powerhouse has a critical role to play in addressing this issue. Agglomeration economies are key to increasing total productivity: there is a powerful correlation between the size of a city and the productivity of its inhabitants. The top 600 cities in the world contain just 20% of global population but create 60% of global GDP: specialisation is greater, competition and economies of scale increase, ideas and innovation spread faster.

As clearly demonstrated by the emerging findings of the Northern Powerhouse Independent Economic Review, a 'transformational' economic future for the North, in which there are substantial improvements in the skills base, in innovative performance, and in transport connectivity, is projected to raise the growth rate of the North's productivity, GVA and employment markedly above past trends, helping to close the productivity and prosperity gap compared with the rest of England. With such improvements GVA is projected to be 15% higher than a 'business as usual' projection, with productivity 4% higher and an additional 850,000 jobs created by 2050.

Cities clearly have a role to play in improving productivity. But they also have particular challenges. There is 24% GVA gap between the North and the rest of Great Britain on a per capita basis. Low labour market participation accounts for approximately 20% of that gap – too few of our people are in work. However, the problem is a much broader one with issues related to the sector mix and type of jobs available.

To improve productivity in cities we must invest in our infrastructure and assets, both new and existing, to create the conditions for growth. A key mechanism for delivering productivity improvements will be to create much improved transport connections between the cities of the North, thereby strengthening the economic linkages between cities and helping to support agglomeration. We must also invest in key growth sectors, improving innovation performance and boosting inward investment to transform our sector mix and the type of jobs available. We must provide a skills offer to meet the needs of employers to ensure that our people have the skills required by investors. And through the reform of public services, refocused on person-centred delivery models to provide integrated programmes of support, we must increase the proportion of residents in work and help them to progress through work.

PROGRESS SO FAR

We have already made significant progress. Amongst many other achievements, we have translated the vision set out in One North into a Northern Transport Strategy, and have established Transport for the North, which is due to be placed on a statutory footing from 2017, to deliver that strategy. We have secured a commitment to establish the Sir Henry Royce Institute for Materials Research and Innovation, focused in Manchester with satellite “spokes” in Leeds, Liverpool, Sheffield, Oxford, Cambridge and Imperial, together with a new National Institute for Smart Data Innovation in Newcastle. Steps towards greater devolution have been taken by each of the Northern city regions, providing local leaders with resources and levers to drive growth and reform public services at place level.

And the Leaders of the North have together commissioned an Independent Economic Review to rigorously examine the factors driving the North’s economic performance and to identify the pan-Northern and globally distinctive strengths that have the potential to transform the economic prospects of the North over the next 30 years.

The emerging findings of the Review indicate that there are four pan-Northern ‘prime capabilities’ with global significance: advanced manufacturing, energy, health innovation and digital. It has also shown that to achieve transformational growth the North needs the right investment across the economy ecosystem, including a combination of transformational and smaller scale tactical infrastructure investment, innovation, translational and applied science and its commercialisation, skills, enterprise and support for trade, inward investment and exports.

In short, enhancing connectivity will not be sufficient on its own and the Northern Core Cities are working hard to develop proposals that will foster greater levels of innovation and entrepreneurship; develop, attract and retain highly skilled workers; promote international trade and investment; and ensure that the Northern Powerhouse has sufficient housing capacity to meet the needs of a growing population.

OUR ASKS OF GOVERNMENT

We are asking Government to embed ambitions for the Northern Powerhouse in the way that decisions are taken. National policy must explicitly recognise the role that stronger regional economic performance can play in closing the productivity gap; not just the productivity gap between the North and the rest of the UK but the gap between the UK and our economic rivals such as the US, Germany and France.

In practice we are asking Government to:

- recognise that delivery of Northern Powerhouse ambitions will require a strategic plan, owned by both the Government and local partners, and that plan will need to be fully resourced and implemented;
- recognise and address the current imbalance between investment in the North and South of the country. Government’s current approach to appraisal favours and rewards established strengths across a range of policy areas: for

example over 90% of the NIHR investment in Biomedical Research Centres and Units has been competitively awarded to the South East. Such substantial investment further builds research capability and further raises the bar for those areas of the country not receiving such support. The cumulative effect of such competition has resulted in serious, systemic and enduring disadvantages for regions outside of the South East and these disadvantages must be addressed. The first phase of science and innovation audits currently underway are designed to provide the evidential base to inform decisions about resource deployment, building on the distinctive strengths of different parts of the Northern Powerhouse and other places outside of the South East. We look forward to further phases covering other parts of the Northern Powerhouse. The outcomes of the audit process must be used to inform investment decisions, or the audit process will be meaningless;

- prioritise investment in infrastructure that will deliver productivity and GVA enhancements. As highlighted by the Independent Economic Review, both transformational and smaller scale tactical infrastructure investment will be critical to the achievement of Northern Powerhouse objectives;
- take a bold approach to funding allocations and reduce the burden of repeated competitive funding rounds for those local areas that have already determined clear strategic priorities and programmes for investment and have clearly demonstrated the ability to determine spending and policy priorities on the basis of consistent and agreed principles, with achievement of sustained economic growth at the heart of these;
- deliver on existing devolution commitments in full and continue to work with local places to further devolve functions and resources in a staged manner, commensurate with the ability of places to demonstrate that they have appropriate governance arrangements in place to pass the test of accountability in relation to any additional powers and responsibilities conferred. If we are to achieve our ambitions for the Northern Powerhouse it is critical that local Leaders are empowered to discharge their place-shaping role: global city regions have powerful Governments. A one-size-fits-all approach will not be appropriate: it is up to each individual place to develop evidenced proposals regarding the reforms required to support growth and reform in those places.

We are also asking Government to support the Northern Core Cities in taking forward a second phase of work to progress our joint ambitions for a Northern Powerhouse, as set out in the joint statement issued by Government and the Core Cities at the time of the 2016 Budget.

Skills and employment

Transforming the North's skills base is the most important factor that will boost the North's productivity performance. Across the North (and indeed much of the UK), if we are to ensure we have the right skills available to support growth we need to (a) start investing more education, training and employment support spending into providing the skills companies need; (b) ensure young people leave compulsory education with the core skills and competencies required for work and/or further study; (c) better leverage public investment in skills to encourage firms to invest more themselves in their workforces; and (d) tackle historic skills issues, to increase employment rates and improve productivity.

A system wide approach to tackling the cumulative problems which result in the North's underperformance in terms of skills is required including the need to create coherent pathways at local level, connecting schools and colleges with the world of work. With existing powers and those that are currently in scope for devolution, local areas only have a very limited ability to respond to the issues identified above and improve the skills outcomes of their residents. As such, there is an opportunity to use NPH Phase 2 to explore jointly with Government the contributions of different parts of the entire education and training system to improving labour market performance and understand how the system can be better coordinated and managed to improve economic performance.

Enterprise, innovation, trade and investment

There is a clear gap in the productivity of businesses in the North compared with the rest of England. NPH Phase 2 provides an opportunity to address this gap by working across partners to create the right environment for businesses to prosper by stimulating an enterprise culture, driving innovation, raising investment levels and promoting the internationalisation of the North's business base.

Productivity performance is driven by factors such as the level of investment in R&D and innovation, competition, the pervading enterprise culture, as well as the nature of employment in the sector and the extent to which firms make best use of digital technologies. The scale and pace of disruptive innovation likely to occur in the next two decades is an opportunity to drive up productivity in the North. Research suggests that, while around a third of UK jobs are at the risk of automation over the next two decades, existing planned digital investment will create around 800,000 jobs in the next two years.

The "prime" and "enabling" capabilities identified by the NPH Independent Economic Review need to continue to be developed, advanced and sustained so that the North can capitalise on its existing strengths. It is the combination of the capabilities, and recognition of their close inter-relation, that creates a distinctive offer for the North. The cross-overs between the strengths in the North offer the potential to drive new business opportunities in world leading areas, and help to define new pathways to excellence.

Central to stimulating innovation is ongoing investment in scientific research and R&D and ensuring that this research has commercial application, in terms of developing products and services that can then be sold to market, particularly in an increasingly competitive global environment. Despite a record of science excellence, levels of business innovation and investment in new technology across the North remain low, indicating a failure to exploit research expertise effectively enough for local and national economic gain.

The announcement earlier this year of Government's proposed closure of the Business, Innovation and Skills office in Sheffield, its largest outside London, appears to run counter to the collaborative approach which the cities are keen to develop with Government to underpin business and investor confidence. In this regard we are seeking in future to work more closely with Government to develop a clear strategy that will set out the long-term direction needed to give business the

confidence to invest in the Northern Powerhouse. This will require the cities and Government to work collaboratively together to create growth for the future from the development of new skills and securing critical investment, greater commercialisation of the North's scientific research and inventions, and extending and deepening the international connectivity of Northern businesses.

Housing

People of talent and ambition want to live in places with great schools, good jobs, excellent transport connections, sport and culture. That is why we have consistently made a strong, evidenced-based case for the devolved, place-based management of local services, alongside innovative funding arrangements that remove unnecessary ring-fences to enable consistent prioritisation against local and Northern Powerhouse objectives. The establishment of functional housing markets can only be achieved at the level of functional economic geographies.

We need housing markets that can meet the housing demands of existing and prospective residents. We must maximise the quantity and choice of housing available and drive an increase in the quality of provision and management standards if we are to create neighbourhoods that will attract and retain the diverse labour market required to support the growth objectives of the Northern Powerhouse.

The distinctive characteristics of northern housing markets, mean that national level approaches do not always meet the needs of the region. Meeting the housing aspirations of communities and ensuring that housing supports our economic ambitions requires a fresh approach, based on greater devolved responsibility for housing policies and delivery approaches tailored to the north.

We propose to work with Government to analyse key issues relating to housing markets and the factors that limit house building in the North, including analysing the potential for innovative approaches to land use and planning and new delivery models and risk management arrangements. Our aim would not be to come up with a single pan-northern solution but to develop a new approach to housing policy across the north, enabling individual city regions to agree solutions specific to their areas with central government.

CONCLUSION

Establishing the Northern Powerhouse is crucial to rebalancing the national economy. Building on the initial wave of devolution deals we now need to move into Phase 2 of delivering the Northern Powerhouse and to examine how powers are used, as well as where they sit. The Northern Core Cities and Government have committed to work together to consider how shared powers can be used collectively to deliver our vision for the Northern Powerhouse, ensuring that the powers that sit at national and local level are used in a coherent and collaborative way. It is only by working together that we can achieve our shared ambition.

31 May 2016