

## Business, Innovation and Skills (BIS) Select Committee Inquiry into ‘the Northern Powerhouse and Midlands Engine’

Written evidence submitted by the Centre for Urban and Regional Development Studies (CURDS), Newcastle University, UK NE1 7RU [www.ncl.ac.uk/curds](http://www.ncl.ac.uk/curds)

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### 1. About CURDS

1.1 Established in 1977, the Centre for Urban and Regional Development Studies (CURDS) at Newcastle University is a research centre internationally renowned for its academic excellence and policy relevance in local and regional development.<sup>1</sup> CURDS has published a number of recent studies that have particular relevance for the Business, Innovation and Skills (BIS) Select Committee inquiry into the Northern Powerhouse and Midlands Engine. These include papers and reports on: ‘the governance of urban infrastructure funding and financing’;<sup>2</sup> ‘decentralisation, policy and practice’;<sup>3</sup> ‘declining cities’;<sup>4</sup> the future devolution of funding for local economic growth and development;<sup>5</sup> and findings from the first national survey of Local Enterprise Partnerships.<sup>6</sup> In 2011, the Department for Communities and Local Government also published a comprehensive review by CURDS and the London School of Economics of international evidence on decentralisation and public policy outcomes.<sup>7</sup> CURDS is also a partner in the Engineering and Physical Sciences Research Council (EPSRC) and Economic and Social Research Council (ESRC)-funded iBUILD infrastructure research centre<sup>8</sup> and the ‘Structural Transformation, Adaptability and City Economic Evolutions’ project, led by the University of Cambridge, which is part of the ESRC-funded ‘Urban Transformations’ research programme.<sup>9</sup>

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<sup>1</sup> See [www.ncl.ac.uk/curds](http://www.ncl.ac.uk/curds)

<sup>2</sup> O’Brien, P. and Pike, A. (2015) ‘City Deals, decentralisation and the governance of local infrastructure funding and financing in the UK’, *National Institute Economic Review*, 233, 14-26.

<sup>3</sup> Pike, A., Kempton, L., Marlow, D., O’Brien, P. and Tomaney, J. (2016) *Decentralisation: Issues, Principles and Practice*, CURDS, Newcastle University: Newcastle upon Tyne.

<sup>4</sup> Pike, A., MacKinnon, D., Coombes, M., Champion, T., Bradley, D., Cumbers, A., Robson, L. and Wymer, C. (2016) *Uneven growth: tackling city decline*, a CURDS report for the Joseph Rowntree Foundation: York.

<sup>5</sup> Marlow, D., Kempton, L. and Robson, L. (2014) *Getting devolution of funding right...for local economic growth and development*, CURDS, Newcastle University: Newcastle upon Tyne.

<sup>6</sup> Pike, A., Marlow, D., McCarthy, A., O’Brien, P. and Tomaney, J. (2015) ‘Local institutions and local economic development: the Local Enterprise Partnerships in England, 2010-’, *Cambridge Journal of Regions, Economy and Society* 8(2): 185-204.

<sup>7</sup> Tomaney, J., Pike, A., Torrisi, G., Tselios, V. and Rodriguez-Pose, A. (2011) *Decentralisation outcomes: a review of evidence and analysis of international data*, CURDS, Newcastle University and the Department of Geography and Environment, London School of Economics.

<sup>8</sup> <https://research.ncl.ac.uk/ibuild/>

<sup>9</sup> See: <http://www.urbantransformations.ox.ac.uk/project/structural-transformation-adaptability-and-city-economic-evolutions/>

## 2. Our submission

2.1 We welcome the new inquiry by the BIS Select Committee, and its intention to examine whether the government's existing and emergent pan-regional and local policy and investment strategies can start to address some of the profound spatial inequalities within the UK – notably between the north and the midlands and London and the south east – and their drag effect on productivity improvement and economic growth. Critical and constructive assessment and analysis of initiatives, such as the Northern Powerhouse and Midlands Engine, is designed to produce practical suggestions where policy and strategy can be strengthened to help achieve the desired outcome of a more prosperous, balanced and sustainable national economy. Specifically, our submission is framed around providing a response to the seven over-arching set of questions posed by the Select Committee in its initial call for evidence. Where appropriate, we have referenced further research that the Committee and its advisers may wish to consider and examine further as part of their deliberations.

## 3. The Northern Powerhouse, Midlands Engine, business and productivity

3.1 Rebalancing the UK economy, improving overall national economic performance, and addressing the consequences of the over-concentration of growth in London, which is putting pressure on housing, land, transport and water service infrastructure, and is contributing to widening inequalities, should be important priorities for national, devolved and local governments. A continued focus of national growth and public and private investment in London and south east England risks undermining sustainable, long-term growth and prosperity in the capital and wider city-region and will fail to utilise the assets and economic potential of the north of England and midlands.<sup>10</sup> Initiatives such as the Northern Powerhouse and the Midlands Engine reflect an attempt by national government to construct alternative growth poles in economic lagging regions in England. The conceptual rationale derives from theories which suggest that scale and critical mass in urban areas provide a means to improving growth and productivity. Larger cities are said to be more productive as they contain a greater share of highly educated and skilled people, more productive firms, research and development (R&D) capacity, integrated infrastructure, and specialised goods and services suppliers.<sup>11</sup> Equally, rapid urbanisation is also presenting a major environmental challenge. According to the United Nations, the world's cities cover 2% of global land area, but they account for 70% of greenhouse-gas emissions.<sup>12</sup>

3.2 The north of England has a population of over 15 million, provides 7.4 million jobs and generates £300 billion Gross Value Added (GVA) per year.<sup>13</sup> The midlands economy is worth £222bn GVA per annum and has a population of 11.5 million.<sup>14</sup> If the Northern Powerhouse and the Midlands Engine were defined as individual 'mega-city regions' they would rank 14<sup>th</sup> and 30<sup>th</sup> respectively out of the 32 largest city regions and urban areas in the world (Figure 1). The international comparative dimension is central to the initiative's rationale:

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<sup>10</sup> Foresight Land Use Futures Project (2010) Final Project Report, the Government Office for Science: London.

<sup>11</sup> OECD (2015) The Metropolitan Century: Understanding Urbanisation and its Consequences, Organisation for Economic Co-operation and Development: Paris.

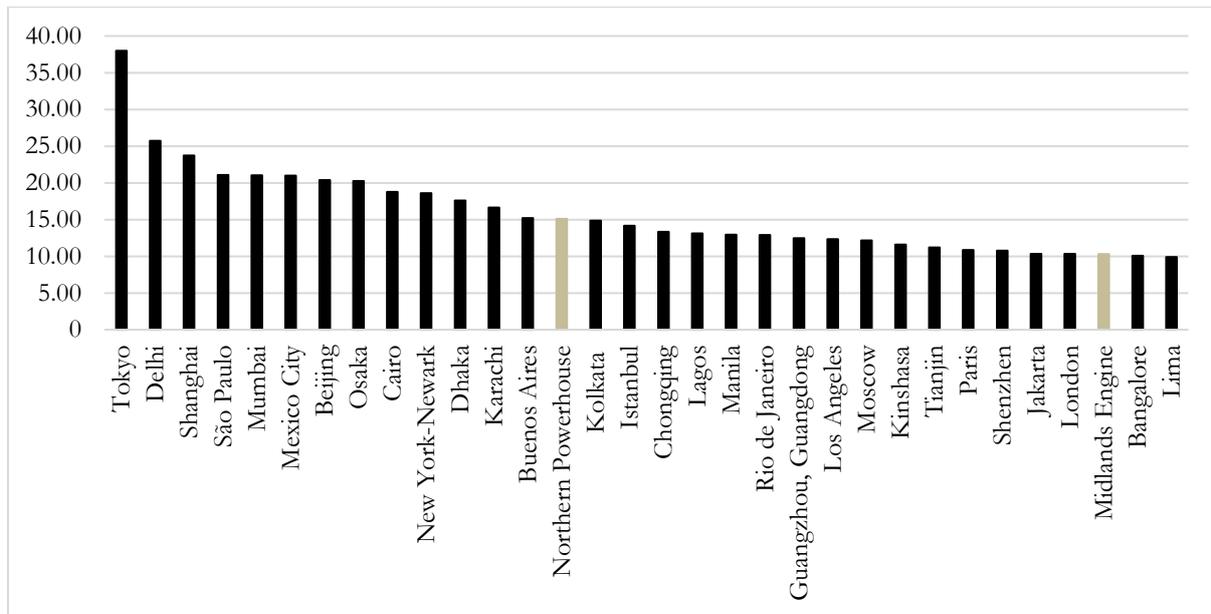
<sup>12</sup> UN HABITAT (2011) Hot Cities: battle ground for climate change, United Nations: New York.

<sup>13</sup> HMG/TfN (2016) The Northern Transport Strategy: Spring 2016 Report, HM Government/Transport for the North: London.

<sup>14</sup> BIS (2016) The Midlands Engine for Growth Prospectus, Department for Business, Innovation and Skills: London.

“We are keen to benchmark not just against London and the rest of UK, but with Europe and the world’s most successful comparable regions. For example, the size, population density and polycentric nature of the North invites benchmarking against the Netherlands’ Randstad, one of the most economically successful regions in the world. While there are differences between the regions, such comparison allows us to consider what a world-class, 21st century regional economic ecosystem including transport looks like and achieves for growth and prosperity”.<sup>15</sup>

**Figure 1: Population (millions) of the world’s largest cities and urban areas (2015)**



**Source: United Nations, Department of Economic and Social Affairs, Population Division (2014). World Urbanization Prospects: The 2014 Revision, CD-ROM Edition.**

3.3 Comparing the Northern Powerhouse and the Midlands Engine to the Randstad, identified as one of Europe’s polycentric mega-city regions (Hall and Pain 2006),<sup>16</sup> although an attractive proposition, is also problematic given that productivity levels in the Randstad were in decline in the years prior to the 2007/08 global financial crisis and Great Recession, with higher productivity levels found in towns and cities located outside the Randstad.<sup>17</sup> Similar studies also found a negative relationship between agglomeration and productive growth as increased congestion and negative externalities impaired Randstad’s economic performance.<sup>18</sup> The important units of analysis within the Randstad are said to be individual cities, while governance at a broader spatial scale has been difficult to formulate, with ad-hoc arrangements in a continual

<sup>15</sup> HMG/TfN (2016) The Northern Transport Strategy: Spring 2016 Report, HM Government/Transport for the North: London: 16.

<sup>16</sup> Hall and Pain (2006) The Polycentric Metropolis: Learning from Mega-city regions in Europe, Earthscan: London.

<sup>17</sup> OECD (2007) OECD Territorial Reviews: Randstad Holland, Netherlands, Organisation for Economic Co-operation and Development: Paris.

<sup>18</sup> OECD (2008) OECD Rural Policy Reviews OECD Rural Policy Reviews: Netherlands, Organisation for Economic Co-operation and Development: Paris.

state of flux, alongside the difficulties of strategic planning at the scale of mega-city region, thus leading some to conclude that there is limited rationale in now speaking of ‘one Randstad’.<sup>19</sup>

3.4 The UK faces a major challenge in improving overall productivity; an issue also confronting most national advanced economies.<sup>20</sup> Productivity varies substantially between and within UK nations and regions, with productivity especially strong in London, and weaker in the north and the midlands. (Figure 2)<sup>21</sup>. Recent economic growth in the UK, although stagnant compared to pre-crisis trends, has been driven primarily by an increase in the number of people in employment working longer hours rather than actual improvements in productivity.<sup>22</sup> Over the long run, governments see improving productivity as more important than increasing employment.<sup>23</sup> Low productivity has a negative impact on growth, tax revenues and public investment,<sup>24</sup> affects international competitiveness in tradeable sectors, and stifles efforts to improve debt-to-GDP ratios and reduce budget deficits.<sup>25</sup> In 2013, the London School of Economics Growth Commission argued that the route to improving UK productivity lay in: investing in human capital; reversing the UK’s poor record in infrastructure investment (the level of public investment is one of the lowest in the Organisation for Economic Co-operation and Development (OECD) and is set to decline further) through new institutional architecture; and providing additional finance for private investment and innovation.<sup>26</sup> The Core Cities group has outlined a set of ‘place-based’ priorities, at the city-region scale, that provide the ingredients to improving productivity growth.<sup>27</sup> The HM Treasury 2015 productivity plan also identifies strengthening economic performance in the north of England as an important policy driver. However, the plan is light on citing evidence demonstrating how decentralisation and governance reform, including the creation of elected city region mayors, will improve productivity in the north of England, and address under-utilised economic potential. International empirical research suggests that decentralisation by itself is unlikely to generate automatic improvements in growth and prosperity.<sup>28</sup> Decentralisation can, however, provide a useful institutional framework in which governance arrangements underpin the implementation of more rounded local and regional economic development policy and strategy in so-called ‘lagging regions’:

“Growth [in poorer performing regions] tends to follow simultaneous gains in several areas, such as human capital, infrastructure and innovation, rather than just one of these factors being responsible. This emphasises the importance of a multidimensional policy approach and the benefits of enhancing areas of complementarity, rather than tackling individual sectors in isolation. A second key message is that human capital is very important for boosting regional growth in all types of regions. And finally, growth

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<sup>19</sup> Spaans, M., Waterhout, B. and Zonneveld, W. (2012) Randstad Case Study: The making of Integrated Territorial Strategies in a Multi-level and Multi-actor Policy Environment, Regional Integrated Strategies in Europe (RISE), ESPON programme: Brussels.

<sup>20</sup> OECD (2015) The Future of Productivity, Organisation for Economic Co-operation and Development: Paris.

<sup>21</sup> McCann, P. (2016) The UK Regional-National Economic Problem: Geography, globalisation and governance, Routledge: Abingdon.

<sup>22</sup> Harari, D. (2016) Productivity in the UK: Briefing Paper Number 06492, House of Commons Library: London.

<sup>23</sup> HMT (2015) Productivity Plan, HM Treasury: London.

<sup>24</sup> Weldon, D. (2016) ‘Stunted growth: the mystery of the UK’s productivity crisis’, The Guardian, Monday 25 April 2016.

<sup>25</sup> OBR (2014) Economic and Fiscal Outlook Dec 2014, Office for Budget Responsibility: London.

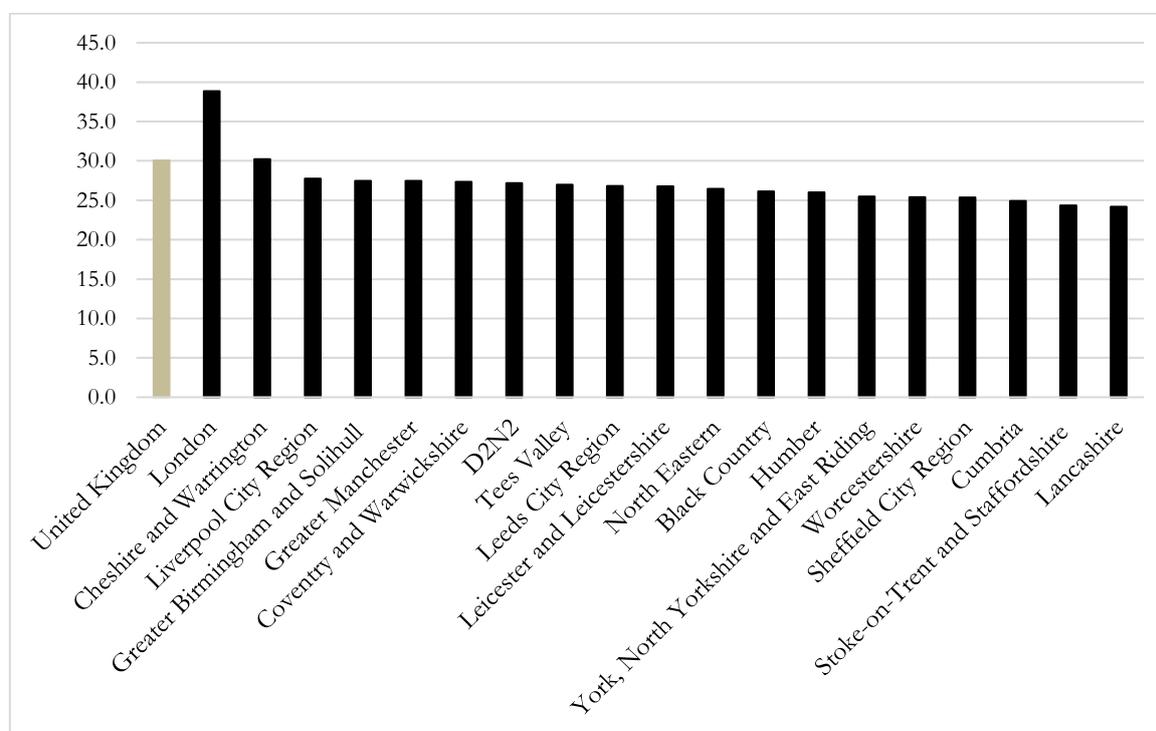
<sup>26</sup> LSE (2013) LSE Growth Commission, London School of Economics: London.

<sup>27</sup> Core Cities (2016) Delivering place-based productivity: Key Challenges and Priorities for Budget Statement 2016, Core Cities Group: Manchester.

<sup>28</sup> Ezcurra, R. and Rodriguez-Pose, A. (2013) ‘Political Decentralization, Economic Growth and Regional Disparities in the OECD’, Regional Studies, 47(3).

dynamics vary with levels of development; they are not the same for underdeveloped regions as for advanced regions”.<sup>29</sup>

**Figure 2: GVA per hour (£) worked for London, Northern Powerhouse and Midlands Engine LEP areas (2013)**



Source: ONS sub-regional productivity data (August 2015).

3.5 Preliminary evidence on the role of ‘effective’ urban governance in generating improved economic performance has been emerging through the OECD, with metropolitan-wide governance seen as a critical element to unlock development, co-ordinate strategic transport planning and improve local economies.<sup>30</sup> But the institutional and organisational barriers to improving or reforming urban governance can, at times, be significant.

3.6 While mega-city regions produce a quarter of global output and wages in larger cities are four times the international average, scale is not everything. A new comparative study, examining the factors behind the success of the San Francisco Bay Area economy, which is one-third smaller in size than the Los Angeles economy, but has an income per capita one third higher than that of Los Angeles, points towards skills, sectors, specialisms, innovation and institutional and governance arrangements being the critical ingredients of economic growth.<sup>31</sup>

<sup>29</sup> OECD (2012) *Growth in All Regions*, Organisation for Economic Co-operation and Development: Paris: 59.

<sup>30</sup> OECD (2015) *Governing the City*, Organisation for Economic Co-operation and Development: Paris.

<sup>31</sup> Storper, M., Kemeny, T., Makarem, N. and Osman, T. (2015) *The Rise and Fall of Urban Economies: Lessons from San Francisco and Los Angeles*, Stanford University Press: Redwood City.

3.7 In the UK, analysis has questioned whether the economics of agglomeration is able to capture fully the unique nature of Britain's spatially unbalanced economy.<sup>32</sup> Here, studies suggest that there are limits to the benefits of agglomeration, including the direct relationship between productivity and city size, which fails to reflect the history and context of particular places in the UK, such as the smaller towns and cities in the south of England, which have been the most productive places recently.<sup>33</sup>

3.8 The government has emphasised planning 'reforms' as a major component of the drive for improvements in UK productivity. However, some have cautioned against over-stating the significance of these changes,<sup>34</sup> noting that such policies, while important for potentially increasing housing supply and enabling greater labour market mobility, are nevertheless seen as secondary factors in generating productivity improvements when compared to investments and innovations in business growth, competitive commercial markets, infrastructure, skills, international trade and the global mobility of labour and capital.<sup>35</sup> The National Institute for Economic and Social Research has argued that the high cost of residential property means individuals are saving less and delaying contributions to pension schemes, thus reducing the amount of capital available for 'productive' investment in business growth and infrastructure.<sup>36</sup>

3.9 High levels of inequality are not an inevitable by-product of economic growth.<sup>37</sup> In order to achieve more inclusive forms of growth, active government policies are required to deliver specific interventions to help create more equitable economies. Research published by CURDS and the Joseph Rowntree Foundation has revealed that most relatively declining cities are located in northern England and that to achieve its potential, the 'Northern Powerhouse' requires an economic strategy that addresses the structural problems of underperforming cities across the north of England.<sup>38</sup>

3.10 In the official government lexicon the term 'Northern Powerhouse' is beginning to replace the three individual north of England regions.<sup>39</sup> The Centre for Cities has, however, questioned the existence of a north of England economy, noting that:

"The focus on boosting northern city regions has begun to expand to a focus on the north as a region. While useful from the perspective of planning some pan-regional transport improvements, or the marketing of investment opportunities across the wider region, such a large geography is ultimately not a helpful basis to devise and deliver the majority of economic policy interventions that could make a difference to the lives of people living in the area".<sup>40</sup>

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<sup>32</sup> Martin, R., Pike, A., Tyler, P. and Gardiner, B. (2015) Spatially Rebalancing the UK Economy: the Need for a New Policy Model, Regional Studies Association: Seaford.

<sup>33</sup> Martin, R., Gardiner, B. and Tyler, P. (2014) 'The evolving economic performance of UK cities: city growth patterns 1981-2011', Future of Cities Working Paper, Foresight, Government Office for Science: London.

<sup>34</sup> Marlow, D. (2016) 'Why current planning reforms won't solve the UK productivity puzzle', Planning Resource: <http://www.planningresource.co.uk/article/1392214/why-current-planning-reforms-wont-solve-uk-productivity-puzzle-david-marlow>

<sup>35</sup> OECD (2015) The Future of Productivity, Organisation for Economic Co-operation and Development.

<sup>36</sup> Allen, K. (2016) 'Housing policy is hitting savers, says NIESR', Financial Times, 2 May 2016.

<sup>37</sup> LSE (2013) LSE Growth Commission, London School of Economics: London.

<sup>38</sup> Pike, A., MacKinnon, D., Coombes, M., Champion, T., Bradley, D., Cumbers, A., Robson, L. and Wymer, C. (2016) Uneven growth: tackling city decline, a CURDS report for the Joseph Rowntree Foundation: York.

<sup>39</sup> See, for example, the UKTI Regeneration Investment Organisation 'Northern Powerhouse Investment Pitchbook' - <https://www.gov.uk/government/publications/northern-powerhouse-investment-pitchbook>

<sup>40</sup> Harrison, B. (2016) 'There is no such thing as 'the' North', Centre for Cities blog, 7 March 2016: <http://www.centreforcities.org/blog/there-is-no-such-thing-as-the-north/>

3.11 The argument here is that the north is not a single political or economic unit and that attempting to define it as such is unhelpful. Ground-breaking studies by CURDS have demonstrated that the north is made up of different individual functional economic areas,<sup>41</sup> but equally parts of the north do share similar economic, social and cultural characteristics. A perceived sense of injustice fostered and nurtured through fundamental economic and social change has bound the north together in collective endeavours at times. The pan-regional scale is useful for making a collective case for the north within the UK political economy – it is more about wrestling political influence through strength in numbers. It is also about trying to alter perceptions that government and national institutions, located in London, have about the north and the midlands, their critical assets, economic potential and ability to attract investment. The ‘nuts and bolts’ of economic and spatial planning and governance are increasingly seen as being more suited to functional economic areas.<sup>42</sup>

3.12 The level of public resources being invested in the Northern Powerhouse initiative by national government is said to be failing to match the rhetoric thus far. A review by the London School of Economics (LSE) found that: “The Northern Powerhouse is not being backed with anything like the finance needed to address any longstanding regional divides” (2016: 17).<sup>43</sup> Attempts are being made to attract foreign investment<sup>44</sup> in order to leverage private capital into the urban built environment in the hope of reversing the dip in overall foreign investment into the north of England in 2014.<sup>45</sup> However, despite some early optimism,<sup>46</sup> it may still be too early to assess the extent to which the Northern Powerhouse and Midlands Engine are having a direct and sustainable impact on the quality and quantity of overseas investment. The LSE review suggested that the Northern Powerhouse is more brand than strategy, and echoed comments by the Centre for Cities by suggesting that politics is extending the spatial boundaries of the initiative beyond the Greater Manchester core and thus unpicking the initial conceptual rationale for the Powerhouse to support and build an alternative urban agglomeration to the London city-region. It also questions the longevity of the Northern Powerhouse given its political association with the Chancellor of the Exchequer. However, building statutory institutional architecture, such as Transport for the North, may help to underpin the foundations of the Northern Powerhouse, embed the programme in national and local development strategies and provide a degree of stability.

3.13 R&D is an important tool for stimulating innovation; itself a crucial element in improving productivity. However, R&D investment in the UK is lower than in many other leading knowledge-based countries and is said to be sub-optimal for an advanced economy.<sup>47</sup> There is also an over-concentration of public research funding in the southern England, driven it

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<sup>41</sup> For approximately 35 years, CURDS research, led by Professor Mike Coombes, has defined Travel-to-Work Areas for the government by analysing each new Census commuting dataset. In particular, CURDS research has made a prominent contribution to urban and regional policy developments calling for economic and housing policy delivery at the functional economic area (FEA) scale.

<sup>42</sup> Coombes, M. and Champion, T. (2011) ‘Migration and commuting: local and regional development links’, in Pike, A., Rodríguez-Pose, A., Tomaney, J, (eds.) *A Handbook of Local and Regional Development*, Routledge: London: 182-192.

<sup>43</sup> Lee, N. (2016) ‘Powerhouse of Cards? Understanding the Northern Powerhouse’, *SERC Policy Paper 14*, London School of Economics: London.

<sup>44</sup> Daniels, K. (2016) ‘Northern Powerhouse lures foreign investors up north’, *Business Daily*, 28 April 2016: <https://bdaily.co.uk/finance/28-04-2016/northern-powerhouse-lures-foreign-investors-up-north>

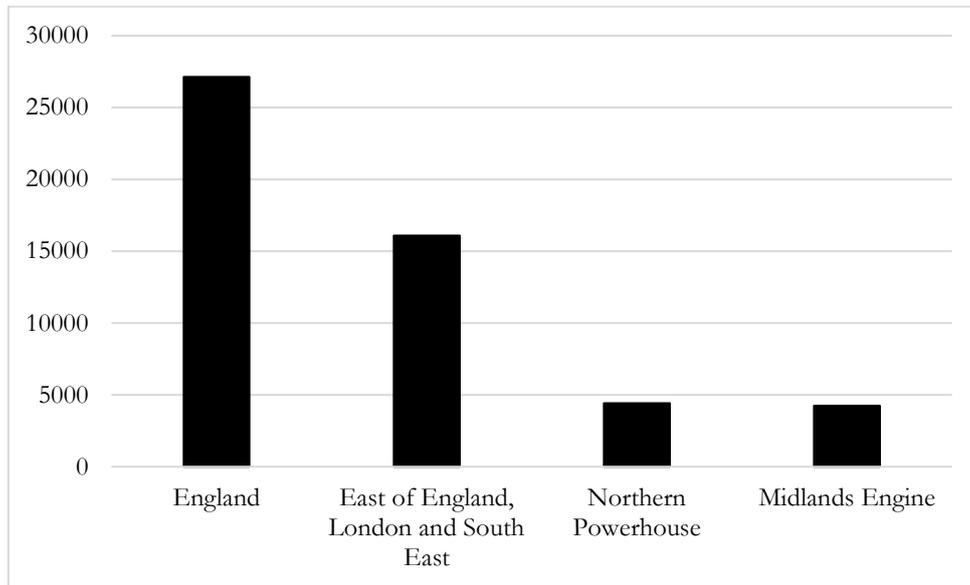
<sup>45</sup> Megaw, N. (2016) ‘Northern England’s share of foreign investment shrinks’, *Financial Times*, 14 February 2016: <http://www.ft.com/cms/s/0/87620cf2-ca7e-11e5-a8ef-ea66e967dd44.html#axzz47X4qamcB>

<sup>46</sup> Roue, L. (2016) ‘Northern Powerhouse propels UK up investment index’, *Manchester Evening News*, 3 May 2016: <http://www.manchestereveningnews.co.uk/business/northern-powerhouse-propels-uk-up-11273580>

<sup>47</sup> Coccia, M. (2009) ‘What is the optimal rate of R&D investment to maximize productivity growth?’ *Technological Forecasting and Social Change*, 76(3): 433-446.

is said by an over-emphasis on ‘academic research excellence’ at the expense of stimulating business R&D and innovation across the wider economy (Figure 3).<sup>48</sup>

**Figure 3: Annual expenditure (£ million) on R&D (combined Government, Business and HE) (2014)**



Source: ONS UK Gross Domestic Expenditure on Research and Development (18 March 2016).

#### 4. The role of the Department for Business, Innovation and Skills

4.1 Although the main departmental actor is the Treasury and the sponsor department for the Northern Powerhouse is the Department for Communities and Local Government, the Department for Business, Innovation and Skills has a crucial role to play in the decentralisation agenda and in supporting the Northern Powerhouse and Midlands Engine. We have reservations about a further shift towards recentralising BIS functions and capacity to London, including closing the Sheffield BIS office. Asking officials to do more with less can be problematic, especially given the scale of the task involved in rebalancing the UK economy. Of course, there should be space to consider whether additional efficiencies can be identified, but with the number of local economic development institutions and initiatives operating in England, BIS cannot withdraw direct engagement in these matters. Proposals to make significant reductions in the total number of BIS staff risks being counter-productive and diminishing institutional capacity at a crucial time for the economy, and when the Northern Powerhouse and Midlands Engine are in their infancies and early stage of development.<sup>49</sup>

4.2 The nation state retains a critical and pivotal role in decentralisation and devolution. National government still needs to be present in local areas, and to understand and anticipate

<sup>48</sup> NESTA (2015) ‘How to cut 40% of science and innovation spending, if you really must’, <http://www.nesta.org.uk/blog/how-cut-40-science-and-innovation-spending-if-you-really-must>

<sup>49</sup> Mason, R. (2016) ‘Sajid Javid review could mean business department axing 4,000 jobs’, *The Guardian*, Friday 8 April 2016: <http://www.theguardian.com/politics/2016/apr/08/sajid-javid-review-could-lead-to-business-department-axing-4000-staff-jobs>

developments and events. In a CURDS survey of LEPs, the role of BIS Local was seen as important and enabled LEP Board Members – particularly from the private sector to navigate their way through Whitehall processes. Devolution from national government requires the centre to retain its engagement on the ground, although BIS Local is stretched and works on large geographies.

4.3 National Audit Office (NAO) reviews into the role of LEPs and the emergent Devolution Deals have raised practical concerns about the capacity of central government to negotiate and manage multiple local growth initiatives simultaneously.<sup>50</sup> The NAO noted that the departments at the forefront of the Deals are those facing the most significant cuts in resources and capacity within Whitehall. The creation of the Cities and Local Growth Unit was an important development, and supported the City Deals process. An increase in the numbers working in the Unit is welcome, but this needs to also complement local capacity on the ground.

4.4 BIS has an important leadership role in developing and supporting the implementation of national strategies and plans, such as the Productivity Plan and national industrial strategies. BIS can play an active ‘steering’ role to ensure that government agencies under its jurisdiction work with local areas, through City Deals and Devolution Deals, to both the spirit and the letter of agreements. This is particularly the case in the ‘skills’ and ‘business support’ policy themes within the Deals, and in R&D and ‘innovation’ elements of the Northern Powerhouse and Midlands Engine programmes.

## 5. Business and local government

5.1 Effective scrutiny and audit of decentralisation is an important aspect of ensuring accountability and transparency in public policy and national and local governance. Business has been afforded a pivotal role in the local growth agenda, with individuals from the private sector recruited to chair and constitute at least 50% of the membership of LEP boards. Since their creation, LEPs have been given increasing responsibilities and public funding. They play an important role in initiatives such as City Deals, Growth Deals, Devolution Deals and the Northern Powerhouse and Midlands Engine. The former Director-General of the Confederation of British Industry (CBI) has also been appointed to lead Transport for the North. With increasing amounts of public resources being channelled through LEPs – up to £12bn according to the NAO – it is vital that mechanisms are in place to monitor and evaluate how public money is being spent.

5.2 The recent NAO review on LEPs is instructive. The review found that 21% of LEPs do not have arrangements in place to ensure the quality and accuracy of monitoring information. Only 62% of LEPs said that they had sufficient resources to meet government requirements for local assurance frameworks, while the NAO was unable to find any accounting information on 5% of LEPs. BIS places significant reliance upon local assurance frameworks to confirm that appropriate arrangements are in place to appraise projects and ensure value for money. Where financial information on LEPs was available, the NAO found that the format and level of detail varied considerably. The uneven levels of transparency and inconsistency in presentation also made it difficult for the NAO to compare LEPs nationally.

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<sup>50</sup> NAO (2016) Local Enterprise Partnerships, Report by the Comptroller and Auditor General, National Audit Office: London; NAO (2016) Devolution Deals, Report by the Comptroller and Auditor General, National Audit Office: London

5.3 A broader set of questions exist about the role and participation of other civic interests in the local growth agenda, such as further and higher education, trade unions, communities, voluntary sector, environmental groups, etc. To date, many have been excluded from this agenda and not privy to ‘behind closed doors’ deal-making. Small businesses have themselves complained that they have limited engagement with the governance of local and regional development taking place through LEPs, combined authorities and other institutions and processes. Giving evidence to the Public Accounts Committee on 25 April 2016, the Policy Director for the Federation of Small Businesses said: “at the moment, what we are seeing is really a private conversation between central government and local government. There is some gesture towards involving business, but certainly very little in the way of involvement for small business”.<sup>51</sup> This appears to suggest that some private sector actors have been afforded a more privileged position in the new localism and local development agenda than others. However, the FSB appears to be able to wield some influence, given the 2016 Budget statement and central national government’s decision on extending business rate relief:

“George Osborne delivered his 2016 Budget today and it contained some sizeable wins for small businesses. The Chancellor listened to FSB calls for the tax system to be made simpler for small businesses and the self-employed and taken important action on business rates. FSB members have campaigned hard to make Small Business Rates Relief permanent, and expand it, so the news that it would be more than doubled permanently is a big win.”<sup>52</sup>

5.4 The changes to business rates announced by national government presents a new fiscal challenge to local government institutions and LEPs seeking to use future retained business rates revenues to fund infrastructure projects, and poses questions about the relationships between local government and local businesses, and between business LEP board members and the wider private sector. Local business organisations, such as North East Process Industry Cluster (NEPIC), can play an important role in developing strategy, co-ordinating and in training, development and acting in the interests of specific sectors in particular places.<sup>53</sup> These institutions can also make a strategic case for new investment and strengthening innovation assets in the north of England.

5.5 Business faces the daunting challenge of navigating a way through the variegated models of decentralisation and the churn and disruption to local growth institutions and programmes in England since 2010 (Table 1). City Deals and Devolution Deals are said to be bespoke mechanisms, with different places reaching agreement with national government on various policy and funding and financing arrangements. Analysis by the House of Commons Library illustrates the differences and similarities between individual Devolution Deals, and the complex regulatory and policy variegation that business needs to understand (Table 2).<sup>54</sup>

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<sup>51</sup> Public Accounts Committee (2016) *Oral evidence: Cities and Local Growth*, HC 913: 7.

<sup>52</sup> FSB press release (16 March 2016): <http://www.fsb.org.uk/media-centre/latest-news/2016/03/16/big-wins-for-small-businesses-in-budget>

<sup>53</sup> See <http://www.nepic.co.uk/>

<sup>54</sup> Sandford, M. (2016) ‘Devolution to local government in England’, *House of Commons Library Briefing Paper No. 07029*, House of Commons: London: 6.

**Table 1: Local and regional economic development institutions and programmes in England**

<b>Pre-2010</b>	<b>Post-2010</b>
Regional Development Agencies Regional Assemblies Regional Spatial Strategies Integrated Regional Strategies Regional Leaders Boards Learning and Skills Councils Urban Regeneration Companies Local Strategic Partnerships Neighbourhood Renewal Fund Housing Market Renewal Pathfinders Local Authority Business Growth Incentive Local Area Agreements Local Enterprise Growth Initiative City/Economic Development Companies Multi Area Agreements/City Region Pilots Working Neighbourhoods Fund Future Jobs Fund Northern Way Midlands Way	Local Enterprise Partnerships Combined Authorities City Deals Devolution Deals Growth Deals Enterprise Zones Housing Zones Growing Places Fund Business Rate Retention Pilots Transport for the North Rail North Northern Powerhouse Midlands Engine Regional Growth Fund (Planning) duty to co-operate/consult

Source: Adapted from NAO (2013) Funding for Local Growth, Report by the Comptroller and Auditor General, National Audit Office: London.

**Table 2: Funding, powers and responsibilities in Devolution Deals (as of 16 March 2016)**

		CWL	GM	LCR	NE	SCR	TV	WM	EA	GL	WoE
<b>Governance</b>	City-Region or County-Wide Elected Mayor	x	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Education and skills</b>	Re-design post-16 FE system										
	Apprenticeship Grant for Employers										
	Adult Skills funding by 2018-19										
<b>Transport</b>	Devolved, consolidated transport budget										
	Bus franchising										
	Joint working with Highways England and Network Rail										
	Local roads network										
	Smart ticketing										
<b>Business support</b>	Growth hub to align local and business support services										
	Joint working with UKTI										
	Devolved approach to business support services from 2017										
<b>Employment support</b>	Joint commissioning of support for harder to help claimants										
	Possible full joint commissioning by 2017										
<b>Land and housing</b>	Public land/assets board										
	Housing Loan Fund										
	Compulsory purchase orders										
	Mayoral Development Corporation										
	Planning call-in powers										
	Consultation on strategic planning applications										
	Housing Grant Fund										
	Spatial strategy										
Integration											

		CWL	GM	LCR	NE	SCR	TV	WM	EA	GL	WoE
<b>Public services</b>	Commission/business plan for health and social care integration										
	Planning for integration										
	Children's services										
	Offender management, probation and prison estate										
	Troubled Families/working well										
<b>Policing</b>	Mayor to become Police and Crime Commissioner										
<b>Fire service</b>	Mayor or PCC to take control										
<b>EU funds</b>	Intermediate body										
<b>Finance</b>	Investment fund (per-year)		£30m	£30m	£30m	£30m	£15m	£36.5m	£30m	£15m	£30m
	Single funding pot										
	Retention of 100% business rates growth										
	Pilot retention of 100% business rates growth										
	Major business rates supplement										
	Community Infrastructure Levy										

**Key**

Devolved	
Under discussion	
[Cornwall CC]	

Source: Sandford, M. (2016) 'Devolution to local government in England',  
House of Commons Library Briefing Paper No. 07029, House of Commons: London: 6 and update briefing note:  
<http://researchbriefings.files.parliament.uk/documents/CBP-7538/CBP07538a.pdf>.

## 6. Monitoring and evaluating the returns on investment

6.1 In thinking about how government monitors and measures the returns on investment in the Northern Powerhouse and Midlands Engine, it is important to adopt a strategic, long-term approach to investment, and consider the different economic as well as social and environmental values attached to specific interventions. The cost of capital and investment in the north and the midlands should be considered alongside the cost in London and the south east. For example, are there diminishing returns from continuing to invest in London to address the diseconomies of agglomeration? And how do we value infrastructure investment beyond narrow (economic) accountancy book values and arrive at a framework that recognises the importance of social and environmental values? If the methodology for making public investments is skewed in favour of one particular city or region then it is likely to reinforce and exacerbate spatial inequalities. Work undertaken by the iBUILD infrastructure research centre, of which CURDS is partner in, recommends that “measures of social and environmental benefit (and cost) are incorporated into infrastructure appraisal frameworks to recognise the wider outcomes and ascertain the broadest possible set of mechanisms to capture revenue and other values”.<sup>55</sup> Related iBUILD analysis also recommends that a similar holistic view of the economic costs and benefits of infrastructure investment is undertaken to help unlock future funding and finance by identifying the economic values of the systems of infrastructure provision that include benefits that are dispersed across the economy and society over long-term timeframes.<sup>56</sup>

6.2 Existing infrastructure plans for transport investment in the north of England and the midlands are relatively silent about the increasing environmental issues and risks that means that more of the UK’s infrastructure has to be resilient. There are significant advantages to be gained from planning, investing and managing infrastructure on an interdependent basis. As the floods of December 2015 in Cumbria, Northumberland, West/North Yorkshire, Lancashire and Greater Manchester demonstrated, long-term resilience has to be built into the UK’s infrastructure sectors and systems, and the houses and businesses that they serve. Otherwise, the potential economic and social benefits that can be derived from infrastructure investment will be marginal compared to the economic, social and environmental costs of repairing infrastructure that is damaged or destroyed by adverse (but increasingly regular) weather-related events. This means government at all levels thinking differently about how to appraise and evaluate public investment in transport and other infrastructure, such as flood defence schemes.

6.3 Viewed through an economic lens, stakeholders in the Northern Powerhouse and Midlands Engine will need, however, to consider whether priority should be given to investment in urban (i.e. intra-city region) transport infrastructure systems where it is said to be possible to demonstrate more immediate and clearer economic benefits.<sup>57</sup> This supports iBUILD research that local infrastructure investment, in particular in transport infrastructure, generates more jobs and return, more quickly, than large national capital programmes.<sup>58</sup>

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<sup>55</sup> iBUILD (2015) Are you being served? Alternative infrastructure business models to support economic growth and well-being, iBUILD Manifesto and Mid-term Report, Newcastle University: Newcastle upon Tyne: p12.

<sup>56</sup> Brown, A., Passarella M. V. and Robertson, M. (2014) ‘The Economics of Infrastructure’, in A Brown and M Robertson (eds.) Economic evaluation of systems of infrastructure provision: concepts, approaches, methods. iBUILD/Leeds University Report: Leeds.

<sup>57</sup> Eddington, R. (2006) The Eddington Review of Transport: Main Report, Department for Transport: London.

<sup>58</sup> iBUILD (2015) Are you being served? Alternative infrastructure business models to support economic growth and well-being, iBUILD Manifesto and Mid-term Report, Newcastle University: Newcastle upon Tyne.

## 7. Looking beyond the Northern Powerhouse and Midlands Engine

7.1 While it may be attractive for policy-makers to extend the concepts of ‘powerhouses’ and ‘engines’ to other areas, we believe that these types of initiatives should focus upon those areas that are of concern and that have the most pressing economic and social challenges. Proliferation risks diluting focus and priority, with the likelihood that all areas, including London, will want similar arrangements. This does not mean that there are no merits in identifying the practical means by which national, devolved and local government can work through the fragmented administrative geographies in London and the south east, which are rendering strategic planning for infrastructure and economic and spatial development across and within the London city region problematic.<sup>59</sup> London’s functional economic geography transcends the boundaries of the Greater London Authority. There is a case for improving strategic spatial planning across functional city-regions, aligning planning, transport, economy, housing and employment strategies and policies, but this is very different than initiatives such as the Northern Powerhouse and Midlands Engine, which should be more about diverting policy and investment to the north and midlands, rather than trying to streamline governance arrangements within the north and midlands by creating pan-regional government.

## 8. Potential ‘gaps on the map’ as a result of devolution

8.1 Decentralisation in England since 2010 has been ad hoc, piecemeal and rapid. NAO analysis and research by CURDS have both suggested that deal-making and decentralisation is producing uneven outcomes and potential new inequalities across different geographies. The deal-making approach, while stimulating innovation, local governance reform and centre-local engagement, has also posed the question of how decentralisation could be improved and made more transparent. Forthcoming published research by CURDS suggests reforming ‘deals’ and ‘deal-making’ through: clarifying the principles, rationales, frameworks, criteria and timetables for deals; incorporating independent appraisal and approval and strengthening monitoring and assessment of delivery; sharing knowledge, experience and practice; and, enabling local actors to enforce, adapt and amend deals.<sup>60</sup>

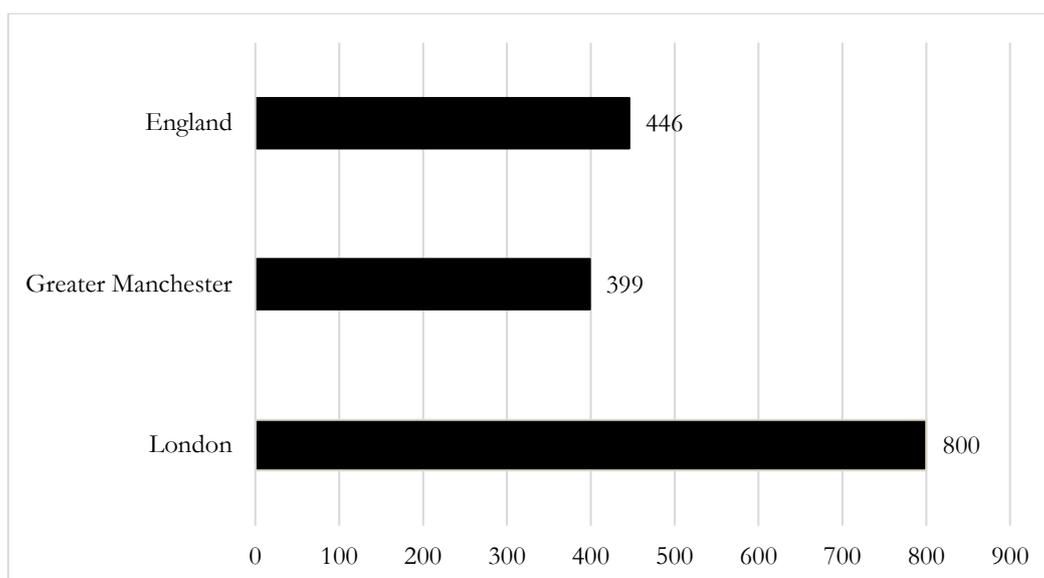
8.2 The government has announced plans to allow councils to retain 100% of business rate income. Cities, including London and core cities in the north and midlands, want to incentivise development to grow their tax bases in order to generate revenues to fund services or use to increase borrowing for capital investment, and have been lobbying national government for greater fiscal decentralisation. However, the scale of tax revenue generating capacity in the largest cities and city regions, especially London (Figure 4), suggests that without some form of effective equalisation and redistribution mechanism poorer places will lose out further as a result of such forms of fiscal devolution.

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<sup>59</sup> O’Brien, P., Pike, A., and Tomaney, J. (2016) ‘Governing the (un)governable? The financialisation and governance of infrastructure in the London mega-city region’, draft iBUILD Working Paper, CURDS: Newcastle upon Tyne.

<sup>60</sup> Pike, A., Kempton, L., Marlow, D., O’Brien, P. and Tomaney, J. (2016) Decentralisation: Issues, Principles and Practice, CURDS, Newcastle University: Newcastle upon Tyne.

**Figure 4: Forecast business rate income (2016/17), per £ head**



Source: DCLG NNDR 1 returns (2016/17).

## 9. Uneven levels of territorial investment between the ‘North’ and ‘South’

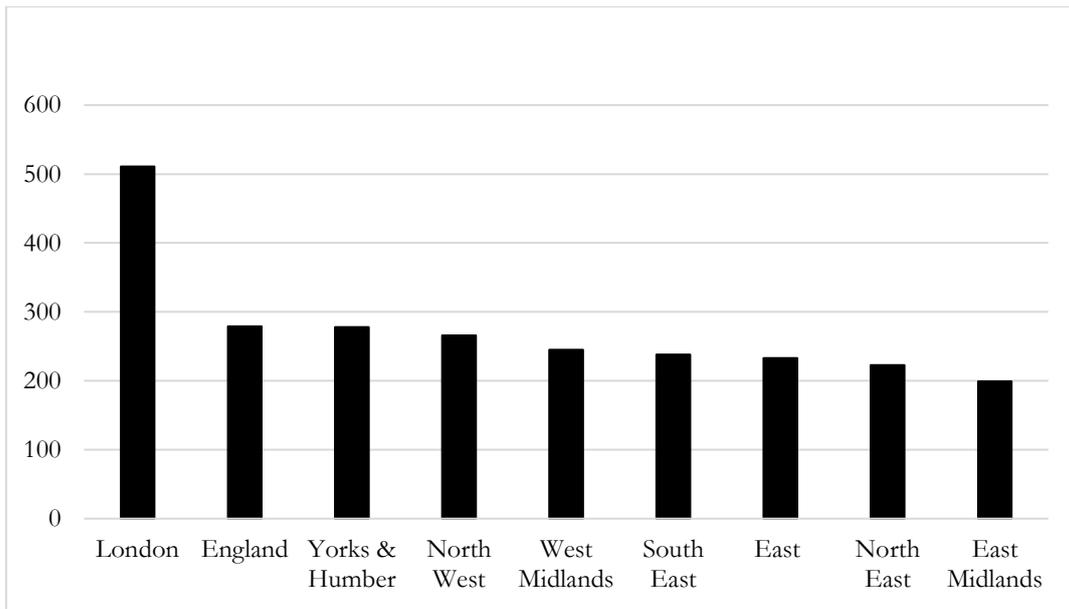
9.1 Using transport as a proxy for productive investment in the capital stock, the levels of government funding per capita in the Northern Powerhouse and Midlands Engine are significantly lower than that in London (Figure 5). As indicated above, government and total R&D investment in the north of England and midlands are a fraction of investment in London and the south east. In addition, significant reductions in local authority budgets and spending power, particularly in the north, have taken demand out of local economies, presenting major economic and social challenges to particular cities and localities.<sup>61</sup>

9.2 While additional investment in the Northern Powerhouse and Midlands Engine is required to reverse decades of spatial inequalities, we suggest that a fundamental re-think is also needed of how decentralisation and devolution can support the creation of stronger and more resilience economies in the north and midlands. A route-map or plan for decentralisation is needed within the UK. Recent attempts at decentralisation have been patchy, which undermines confidence and the basis for long-term strategy development and investment. A plan would help to overcome the current ad hoc, piecemeal and messy approach, which risks creating costs, uncertainty and paralysis. The need for a staged approach in England would also help to demonstrate the positive and progressive impact of decentralisation as a means to improve public policy outcomes rather than just an end in itself.

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<sup>61</sup> Innes, D. and Tetlow, G. (2015) ‘Central Cuts, Local Decision-Making: Changes in Local Government Spending and Revenues in England, 2009-10 to 2014-15’, IFS Briefing Note BN166, Institute for Fiscal Studies: London.

**Figure 5: Identifiable public expenditure on transport in England, per £ head (2013-14)**



Source: HMT (2015) Public Expenditure Statistical Analysis, HM Treasury, London: 140.