

REPORT

THE
STATE
OF THE
NORTH
2015

FOUR TESTS FOR
THE NORTHERN
POWERHOUSE

Ed Cox
and Luke Raikes

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ABOUT IPPR NORTH

IPPR North is IPPR's dedicated thinktank for the North of England. With its head office in Manchester and representatives in Newcastle, IPPR North's research, together with our stimulating and varied events programme, seeks to produce innovative policy ideas for fair, democratic and sustainable communities across the North of England.

IPPR North specialises in regional economics, localism and community policy. Our approach is collaborative and we benefit from extensive sub-national networks, regional associates, and a strong track record of engaging with policymakers at regional, sub-regional and local levels.

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PREFACE

FOUR TESTS FOR THE NORTHERN POWERHOUSE

This year, IPPR North's annual *State of the North* report looks to the long-term future and asks a simple question: How will we know whether the 'northern powerhouse' is working? The classic measures of productivity and growth are important, but alongside these, the four tests for the northern powerhouse presented in the following pages are designed to promote the idea that with greater control over economic development, the north of England can nurture a more equal, resilient and sustainable economy.

We believe that the northern powerhouse can be proclaimed a success when the following four tests – each with their own clear benchmarks¹ within them – have been met in the North.

Test 1

The northern powerhouse must generate a better type of economic growth, one that combines rising productivity with more jobs and higher wages for all.

We will know we are making progress when the following benchmarks have been met.

1. We have increased labour productivity by £8.50 per hour, thereby halving the North's productivity gap relative to the UK average.
2. We have created 600,000 new, good-quality jobs, which would represent a halving of the gap between the North's current employment rate and our proposed national 'full employment' rate.²
3. We have reduced the proportion of people on low pay³ to the national average, if not below it.

Test 2

The northern powerhouse must liberate the potential of its greatest asset – its people – through huge improvements to the development of skills, starting with the very youngest.

Our benchmarks to indicate progress in relation to this test are as follows.

4. We have caught up with the national rate of early years attainment for under-5s, having focussed on the needs of the most deprived children.
5. We have closed the gap in GCSE attainment, in terms of the number of pupils achieving five or more GCSEs including English and maths, having again focussed on deprived young people.
6. We have met the projected demand from employers for skilled workers qualified to QCF level 3 and above. Projections indicate that there will be demand for more than 2.4 million people qualified to QCF level 3 or higher by 2022.

1 We are using the term 'benchmark' rather than 'target' as we are not seeking to prescribe a set date by which certain milestones should be met. Our intention is to set direction and raise aspiration rather than promote a performance management regime.

2 These figures use the working-age population forecast for 2025 as their basis.

3 Defined as less than two-thirds of gross median hourly pay for all workers.

Test 3

The northern powerhouse requires investment in future success, particularly in terms of enabling innovation and building the infrastructure we need for the 21st century and beyond.

We propose two benchmarks against which progress can be measured in this regard.

7. We see levels of investment in research and development in the North matching those of the very best regions in Europe.
8. We see the volume of commuter travel between the major cities of the north of England reach the levels we would expect to see in similar metro-regions in Europe.

Test 4

The northern powerhouse must rejuvenate local democracy by giving people a genuine involvement in the way the north of England is run.

We will know we are making progress when the following benchmarks have been met.

9. The proportion of people who feel that the balance of power between central and local government is 'about right' increases to at least the national average in every northern region.
10. Levels of public influence and efficacy in the northern regions – especially at the local level – rise above the national average, such that more than one-third of people feel that they have a real say over what their local authority does.
11. At least half of the electorate exercise their right to vote in mayoral elections in northern cities.

At the beginning of this new parliament, and with the northern powerhouse in the ascendancy, our ambition for this report is not so much to provide detailed policy prescription as it is to set out something of a vision for what could be achieved for and by the people of the North. Many of the policy prescriptions necessary to achieve these benchmarks are set out in IPPR North's back-catalogue of work – and we will continue to identify more and better ideas for the future. We offer them, in the spirit of optimism and ambition, to stoke new thinking within the burgeoning northern powerhouse debate.

SUMMARY

Since last year's first *State of the North* report (Cox and Raikes 2014), a particular term has very quickly become part of the English lexicon, and played a part in the Conservative victory at the 2015 general election.⁴ That term is the 'northern powerhouse'.

The government has excelled in being largely unspecific as to what exactly the northern powerhouse is – indeed, ministers have been criticised for not being able even to define its boundaries. However, issues of definition seem not to have halted the general enthusiasm for thinking and talking about the northern economy – and the great northern cities in particular – in very much more positive terms than have hitherto been used.

The chancellor has made clear that he sees the combined economic weight of the northern cities adding up to more than the sum of their parts, but that in order to achieve their potential they need much greater levels of autonomy in order to shape and drive local economic growth. So, as we publish this *State of the North 2015* report, the government is in the midst of negotiating as many as 38 'devolution deals' with city- and county-regions across the country, including 12 within (or which include parts of) the north of England.

Despite its general salience, the northern powerhouse narrative is not without its critics, not least those who fear that the economics of the powerhouse depend too heavily on wealth trickling down from the core cities. Others argue that public service reform – and health devolution in particular – is simply a smokescreen for privatisation and further public spending cuts. Furthermore, many consider the apparent imposition of directly elected mayors to be entirely undemocratic.

It is in this contested context, then, that this report asks a simple question:

How will we know whether the northern powerhouse is working?

In simple terms, standard economic metrics such as levels of economic growth and productivity paint an important picture. Yet they don't necessarily paint the full picture; neither are they always entirely helpful in planning for the future. For this reason, this *State of the North 2015* report is framed around four tests – prosperity for all, education and skills, investing in the future, and tackling the democratic deficit – alongside 11 unashamedly ambitious benchmarks, against which the success of the northern powerhouse agenda should be judged. Through them, it provides a vision for policymakers and practitioners of the kind of economy and society that the north of England is capable of becoming.

Test 1: Prosperity for all

The chancellor, in discussing the northern powerhouse, recognises not only the region's scale and potential but also its weaknesses. In terms of size alone, the north of England is indeed a powerhouse. Its economy is worth £289 billion – making it more than twice the size of Scotland's. Its population is 15.1 million, and its cities are growing faster than anywhere else in the UK outside London. It is home to one million businesses and 29 universities, and exports goods worth more than £55 billion each year.

⁴ <http://labourlist.org/2015/05/the-election-result-is-not-as-simple-as-a-north-south-divide/>

Beyond these facts, a fresh analysis of the data shows that the North's recent economic growth compares reasonably well to that of the UK as a whole, when London is excluded, and that despite an overall picture of low productivity, many parts of the North – both within and outside its major cities – are actually thriving.

However, too much of the region's potential is wasted. It has some of the lowest levels of productivity in the whole of Europe. An average worker in the North would, in effect, have to work more than 24 additional 35-hour weeks each year in order to generate as much economic growth as an average worker in London. Too much of its labour is underutilised, and the low incomes that result lead to high levels of poverty and disadvantage.

If the northern powerhouse is to be successful, economic powers must be devolved to allow northern businesses and policymakers to develop an economic model that supports more productive, resilient and sustainable growth: jobs that pay well, prosperity that is shared, and opportunities for all. This does not mean simply adopting the 'London model' in northern cities, which would be unlikely to build the prosperity that the North needs – and indeed would be likely to lead to widening inequalities. Instead, it means finding a more equitable balance between productivity, employment rates and wages. Evidence suggests that raising productivity and employment simultaneously can be challenging, and that in most situations the two are antagonistic. However, this has been achieved in recent periods of UK history. In order to stand the best chance of achieving this ambitious goal, significant initiatives to raise skill levels, and investment in infrastructure and research and development, are needed.

For this reason, our first test can be articulated as follows.

The northern powerhouse must generate a better type of economic growth which combines rising productivity with more jobs and higher wages for all.

We will know that we are making progress towards this goal when three related conditions are met.

First, we need to **halve the productivity gap between the North and the UK as a whole**. If the national rate of productivity growth to 2020 continues up to 2025, to achieve this the North will need to increase labour productivity by £8.50 per hour by that point, which would mean an annual increase of 2.3 per cent each year. Increased productivity is a necessary precondition, albeit not a sufficient basis, for northern prosperity.

Second, we need to **reach an employment rate of 75 per cent, and halve the gap with the national 'full employment' rate**. This will require 600,000 new, good quality jobs.⁵ Dolphin and Lawton (2013) propose that the UK should target an employment rate of 80 per cent, a figure that is more in line with the performance of comparable economies. While ideally this would mean all regions of the UK attaining this rate, we suggest the more realistic goal of halving the gap between the North's current rate and the desired 80 per cent rate.

However, job creation alone will not be enough. Given the entrenched worklessness that has persisted over the long term, and the more recent epidemic of low pay and underemployment, policymakers must do everything within their power to ensure that jobs are of sufficient quality, and are accessible to those who need them.

So, third, we need to **reduce the proportion of people on low pay⁶ in the North to at least the national average**. Two very clear lessons that emerge from the experience of recent years are that work is no longer a route out of poverty, and

5 These figures use the working-age population forecast for 2025 as their basis.

6 Defined as less than two-thirds of gross median hourly pay for all workers.

that rising productivity and economic growth do not automatically feed through into higher pay. Furthermore, high wages can, in the right circumstances, feed through to better progression for employees and higher productivity for employers. While interventions by policymakers, at both the local and national levels, have made a difference at the margins – through living wage policies, for example – devolution offers opportunities to grapple with some of the structural issues around the ‘low-skill equilibrium’, which acts as a drag on pay and progression.

Test 2: From early years to higher skills

It may be a cliché to say that any economy’s greatest ‘asset’ is its people, yet it is also very true. We know that a workforce’s skills are the most critical factor in raising economic productivity – more so than transport and other forms of infrastructure. Yet a highly skilled workforce must be built on firm foundations. For the northern powerhouse to succeed, it must sow the seeds of its future sustainability and success by ‘starting young’.

Therefore, a key test of the northern powerhouse must be the extent to which it invests in the skills of the region’s population. This means taking a long-term view by prioritising early years provision, and working constantly to align labour supply and demand in a complex and dynamic labour market.

From the original analysis of data presented in this report, three distinct points stand out.

- **Social and economic ends are inseparable** – providing citizens with a high standard of education is a good in its own right, but it is also an essential means of ensuring that the current and potential labour force has the ‘human capital’ and skills that the economy needs in order to grow.
- **London’s early years and broader education attainment shows what can be achieved with investment and targeted public policy** – especially for the most deprived. There is an 12-percentage-point ‘early years gap’ between the performance of the poorest children under the age of five in London and those in the North.
- Alongside investing in the skills of the current and potential workforce within the North, **the economy will need to continue attracting migrants from inside and outside of the UK if it is to prosper.**

Much needs to be done in order to meet our ambitions in the area of education and skills, but the northern powerhouse’s success in this area can be judged against our second test, which is as follows.

The northern powerhouse must liberate the potential of its greatest asset – its people – through huge improvements to the development of skills, starting with the very youngest.

We will know that we are making progress when the following benchmarks are reached.

First, the North must **catch up with the national rate of early years attainment for under-5s, with a focus on the most deprived.** The North’s relatively poor attainment in early years stands in stark contrast to attainment nationally. Furthermore, the very poorest children in London outperform even those in the North who are far less deprived. While poverty is an important factor, this gap serves to highlight the potential for policy to make a difference. The North is lagging behind, and it must improve faster – closing the gap with the country as a whole – if it is to embed prosperity for future generations.

Second, we must **close the gap in GCSE attainment, in terms of the number of pupils achieving five or more GCSEs including English and maths, focussing particularly on deprived young people**. The North's poor performance at GCSEs (1.9 percentage points worse than England as a whole) is driven by poor attainment among its most deprived young people (3.1 percentage points worse).

And third, the North needs to **meet the projected demand from employers for skilled workers qualified to QCF level 3 and above**. Projections indicate that there will be demand for more than 2.4 million people qualified to QCF level 3 or higher by 2022.

Test 3: Investing in the future

The northern powerhouse not only needs investment in its people, it also needs investment in innovation, in research and development, and in its creaking infrastructure. Decades of underinvestment have left the North's economy failing to meet its potential – and, as a consequence, fewer skilled people are attracted to and stay in the region.

The original One North plans for improving transport connections between and within the great northern cities, now being developed under the auspices of the new Transport for the North body, have galvanised action across the north of England, and represent the most visible manifestation of a fresh commitment on the part of policymakers and political leaders to collaborate in order to bring about change.

However, as our new analysis of the data shows, actual investment in the northern powerhouse falls a long way short of the rhetoric, and there is little sign that this is about to change. The relationship between public and private investment is critical in this context.

Government very often makes the case that to invest in certain areas or industries would be to interfere with, or prop up, a failing market. However, when it comes to investment in research and development in the North, the government is failing to keep pace with both the market and the rate at which it itself is investing public funds in the North's assets and its economic future. Alongside this, it is evident from big infrastructure projects like Crossrail that private investment is unlikely to be made unless and until government has committed large sums of public finance to getting such schemes off the ground. In the case of the northern powerhouse, high-profile trips to Malaysia and China have their place, but to unlock inward investment of this nature, the government itself must invest in – or at least provide guarantees for – major infrastructure projects.

In 2015, IPPR North argued that we need to see a doubling of government investment in research and development activity in the north of England, to the point where the proportion of government investment in research and development in the North matches that made by the private sector. Furthermore, starting with the spending review in November, the chancellor must make a step-change commitment to large-scale capital investment in infrastructure in the North, such that by the beginning of (rail) control period 6 and roads investment strategy 2, the government will be committed to at least £50 billion of public investment in northern infrastructure which can be used to leverage greater private investment.

Our third test is, then, as follows.

The northern powerhouse must involve investment in future success, particularly in terms of enabling innovation and building the infrastructure we need for the 21st century and beyond.

We will know that we are making progress towards this goal when we achieve two further benchmarks.

First, levels of investment in research and development in the North should match those of the very best regions in Europe. Research and development intensity – measured as a proportion of GDP – is currently at around 1 per cent in the north of England. In order for it to enter the top quartile of European regions, this would need to rise to around 1.3 per cent.

Second, levels of commuter travel between the major cities of the north of England should reach the levels we would expect to see in similar metro-regions in Europe. It has been estimated that, as things stand, levels of commuter travel between Manchester and Leeds are 40 per cent less than might reasonably be expected. The plans currently being developed by Transport for the North are expected to be transformational in this regard, creating a much broader labour market geography than we have currently.

Test 4: Tackling the democratic deficit

The devolution of powers is a key plank of the thinking behind the northern powerhouse. Devolution deals have recently been negotiated with a number of the North's biggest city-regions, with the intention of providing them with the powers and freedoms to enable more localised approaches to driving economic growth and making public services more efficient and effective. The northern powerhouse agenda has, however, also become synonymous with the government's attempts to coerce big cities into adopting directly elected metro mayors. The thinking behind these moves is that as powers are devolved, so too must local political leadership be exposed to greater transparency and accountability, and also that metro mayors often exemplify strong civic leadership in driving transformation and change.

What seems to be less recognised or explicit is the potential for devolution to stimulate democratic engagement and innovation from the bottom up. The apparent imposition of metro-mayors, and the manner in which devolution and deal-making has been conducted, is considered by some to be an affront to the democratic process, and has clearly soured rather than stimulated and renewed the relationship between citizens and their representatives. Yet establishing a new democratic settlement appears critical to the long-term success and sustainability of the northern powerhouse project.

In the general election of 2015, voter turnout across the whole of the North was 64.4 per cent – slightly less than the overall rate of 66.9 per cent.⁷ However, this turnout was far from uniform across the region, ranging from a low of 53.6 per cent in one constituency in the North East to a high of 77.0 per cent in one constituency in Yorkshire and the Humber. One of the reasons why people don't vote is that they feel their vote won't change anything. Polling on this issue shows that the North East and Yorkshire and the Humber fare very badly compared with other regions: it found that around 80 per cent of people in both regions felt that people like them had no say over what the UK government does.

However, perhaps more significant for the northern powerhouse is the fact that a greater proportion of people in the North East and Yorkshire and the Humber, relative to the national average, felt that they had little say over what *local* government does either. Furthermore, in those same regions, people are more unhappy about the power imbalance between central and local government than the national average. Even in the North West, where people are less concerned about the issue, still one in three feel that the split between central and local powers is imbalanced.

⁷ Total vote turnout (including postal votes rejected and votes rejected at count).

If the northern powerhouse is to come to be considered a democratic success, we would expect to see growing satisfaction with the balance of power between central and local government, as well as rising levels of public efficacy and turnout in both national and local elections. Our fourth, democratic test is as follows.

The northern powerhouse must rejuvenate local democracy by giving people a genuine involvement in the way the north of England is run.

Our democratic benchmarks for the northern powerhouse can, therefore, be framed as follows.

The proportion of people who feel that the balance of power between central and local government is ‘about right’ should increase to at least the national average in every northern region. Given the recent Scottish experience, this will require not only the ongoing devolution of powers but also a much greater sense of local political leadership and autonomy without the interference of Westminster.

Levels of public influence and efficacy in the northern regions, particularly at the local level, should rise above the national average, such that more than a third of people feel that they have a real say over what their local authority does. Once again, this will involve the government returning powers over the economy and public services to local and combined authorities, and the roles and responsibilities of their city leaders and metro mayors becoming much more visible and transparent to the public.

At least half of the electorate should exercise their right to vote in mayoral elections in northern cities. There has been considerable debate about the necessity and merits of directly elected mayors for the newly-formed combined authorities, and the growing number of devolution deals that have been wedded to them. However, if they are to garner the mandate and authority that government believes they should, then high turnout will be an absolute prerequisite.



At the beginning of this new parliament, and with the northern powerhouse in the ascendancy, our ambition for this report is not so much to provide detailed policy prescription as it is to set out something of a vision for what could be achieved for and by the people of the North. Many of the policy prescriptions necessary to achieve these benchmarks are set out in IPPR North’s back-catalogue of work – and we will continue to identify more and better ideas for the future. We offer them, in a spirit of optimism and ambition, to stoke new thinking within the burgeoning northern powerhouse debate.

INTRODUCTION

Over the past 15 months, the chancellor of the exchequer has led fresh efforts to rebalance the national economy by championing the idea of a northern powerhouse. The government has, however, given few specifics with regard to what exactly the northern powerhouse is – indeed, ministers have been criticised for not even being able to define its boundaries. However, if a definition is needed, IPPR North has identified four broad elements that would seem to give substance to the general concept.

1. The belief that the combined ‘economic mass’ of cities in the north of England can act as a significant ‘counterweight’ to London, thereby reducing the nation’s dependency on the capital city and rebalancing its economy.
2. The belief that economic growth in the North will be predicated on the ‘agglomeration effects’ generated by the biggest cities – particularly Manchester – and key economic assets in science, technology and other innovation hubs.
3. Recognition of the fact that in order to achieve ‘mass’ and ‘agglomeration’, there needs to be much better connectivity within and between cities, and that this requires significant investment in transport infrastructure.
4. The belief that economic growth potential is best unlocked by devolving key powers and funds to city-regions, formed of combined authorities and local enterprise partnerships (LEPs), under the visible and accountable leadership of directly elected metro-mayors.

Even prior to the idea of the northern powerhouse gaining common currency, no witness to the North’s evident resurgence could defensibly say that it was a region trapped in decline. The region’s five major cities have undergone a surge of self-reinvention, and an influx of young people and immigrants has fuelled revitalised population numbers. Alongside the increasing economic clout of its major cities, the North’s rural areas retain some of the highest levels of life satisfaction in the country. And, as a whole made up of many parts, the North is stronger and more resilient for its variety – for its many ports, airports, universities, urban economic hubs and rural hinterlands.

However, all parts of the country – and indeed all sub-national regions across the developed world – face a series of challenges. Some are rooted in the past, and others will be thrown up by the changes to come. In some parts of the North, the challenges are severe: poverty and economic decline are, in places, endemic. It is fair to say that many parts of the North are still struggling to reinvent themselves in the face of accelerating globalisation, and that the prosperity delivered by economic growth has, instead of benefiting all, become concentrated among a minority of people, leaving many people and places behind.

This report assesses the state of the North as it is, but also sets out what the north of England could, and should, aspire to become. It presents an analysis of the North’s strengths and weaknesses, opportunities and threats.

In the context of the ‘northern powerhouse’, it presents this new analysis by looking at the North’s performance against four broad tests, within which we compare the North and its constituent parts to one another and to the country as a whole. Also within these four tests, we set out 11 benchmarks against which the success of the northern powerhouse should, in time, be judged. These benchmarks seek to shift

the debate away from narrow measures of growth and productivity considered in isolation, and instead present a vision of the North that is built on human capital, as well as financial; that puts people, their skills, opportunities and prospects at its heart; and that seeks to connect the North's significant assets together in a way that improves the quality of life and prosperity of all northern citizens.

In the four chapters that follow, each of our four tests will be explored in turn, through original data analysis that illustrates why each of the benchmarks within each test must be met before the northern powerhouse can truly be hailed as a success. These benchmarks are set out in the last section of each of the first four chapters, and the final chapter offers a detailed summary of each test and benchmark.

TEST 1

PROSPERITY FOR ALL

“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.

“Not one city, but a collection of northern cities – sufficiently close to each other that combined they can take on the world. Able to provide jobs and opportunities and security to the many, many people who live here, and for whom this is all about. You know, if you brought together the best players from each of the Premiership teams in the north, you’d have a team that would wipe the floor with any competition. We need to bring the cities of the north together as a team – that’s how Britain will beat the rest.”

George Osborne, Museum of Science and Industry, Manchester, 23 June 2014 (HM Treasury and Osborne 2014a)

In his comments about the north of England, the chancellor recognises its scale and potential while also recognising its weaknesses. In terms of size alone, the north of England is indeed a powerhouse. Its economy is worth £289 billion – making it more than twice the size of Scotland’s. Its population is 15.1 million, and its cities are growing faster than anywhere else in the UK outside London. It is home to one million businesses and 29 universities, and exports goods worth more than £55 billion each year (Cox and Raikes 2015a).

However, too much of its potential is wasted. As we set out below, the North has some of the lowest levels of productivity in the whole of Europe, too much of its labour is underutilised, and the low incomes that result lead to high levels of poverty and disadvantage.

If the northern powerhouse agenda is to be successful, the devolution of economic powers must allow northern businesses and policymakers to develop an economic model that supports more resilient and sustainable growth: jobs that pay well, prosperity that is shared, and opportunities for all.

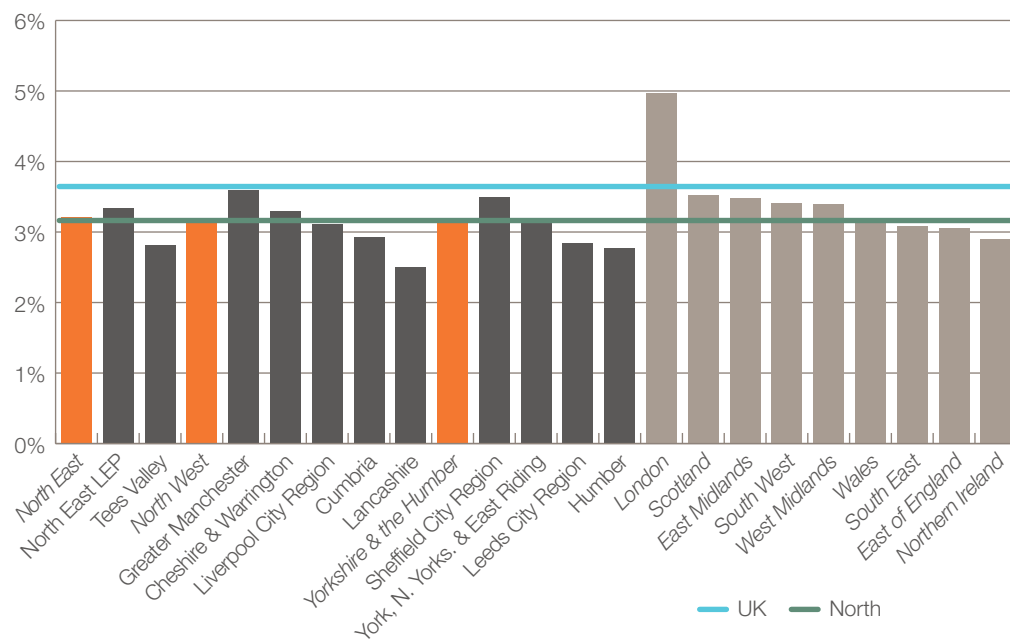
1.1 Economic growth and productivity

Over the last 10 years the North’s economic growth rate only marginally underperformed relative to the national average, with London skewing those results significantly. Against the conventional measure of regional economic growth (gross value added, or GVA), the North’s economy grew by an average of 3.2 per cent in nominal terms in the decade to 2013 (authors’ analysis of ONS 2014). Though it was surpassed, marginally, by the UK as a whole, which grew at 3.6 per cent, almost all of that gap was due to London’s performance. The growth rate for the UK *excluding* London over this period was 3.3 per cent. In addition, at a lower geographical scale a handful of economies in the North grew at or above the national rate, and faster than the other regions and nations of the UK outside London (ONS 2014).

The latest year of growth figures actually showed that, between 2012 and 2013, the North grew at the same rate as the country as a whole (3.3 per cent), and at a marginally higher rate than the UK excluding London (3.2 per cent) (ibid).

Figure 1.1

Average annual growth rate in northern LEP areas and UK regions/nations, 2003–2013



Source: ONS 2014 and 2015a

Note: Here, and in figures 1.2–1.5, x-axis labels in italics denote UK regions/nations; those in roman denote LEP areas.

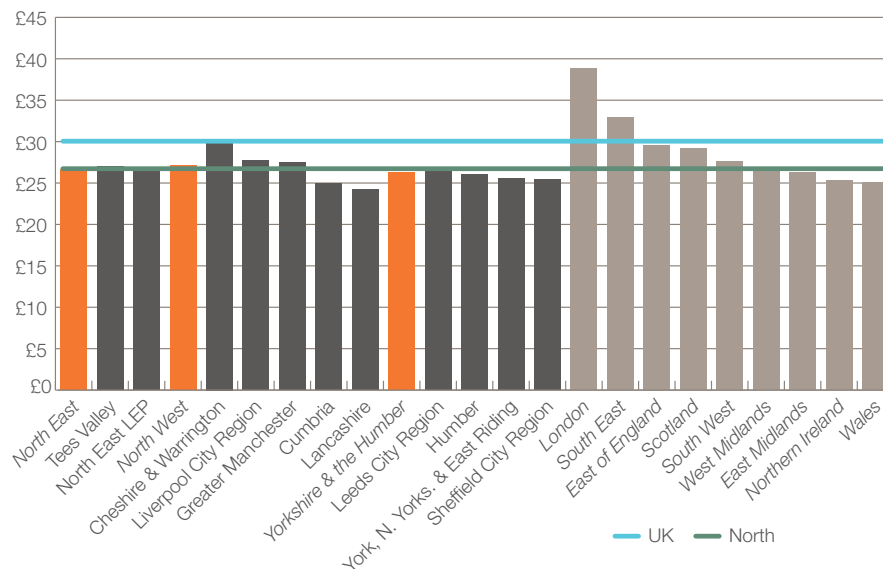
However, the North has an entrenched productivity problem. The UK as a whole underperforms compared to countries such as Germany, France, the Netherlands and Belgium by between 23 and 32 per cent (Dolphin and Hatfield 2015), but the North underperforms the UK’s national productivity rate by 11.1 per cent. Figure 1.2 below demonstrates the scale of the challenge within the UK: it shows that GVA per hour in the North is £26.73, far below the national average of £30.05, and even further behind London’s £38.84 (ONS 2015b).

As with economic growth, productivity is unevenly distributed. Some northern sub-regions outperform the national average. Perhaps surprisingly, while some of the cities are strong, they don’t dominate – the most productive area is Cheshire and Warrington (£30.20 per hour), while Liverpool City Region (£27.70) Greater Manchester (£27.50) and Leeds City Region (£26.80) exceed the northern average (ONS 2015c).

The North’s historically low productivity is due to a number of factors. At the UK level, Dolphin and Hatfield’s analysis (2015) shows that it is the competitiveness of businesses (or lack thereof), rather than the industrial composition of the economy, that has caused UK productivity to diverge with that of comparator countries. Within the UK, Gardiner et al (2012) have shown how, between 1972 and 2010, the disparity in economic growth between the North and London can be accounted for by a combination of ‘differential trends in economic structure’ (60 per cent) and ‘relative competitiveness factors’ (36 per cent).

Figure 1.2

Labour productivity in GVA per hour in northern LEP areas and UK regions/nations, 2013



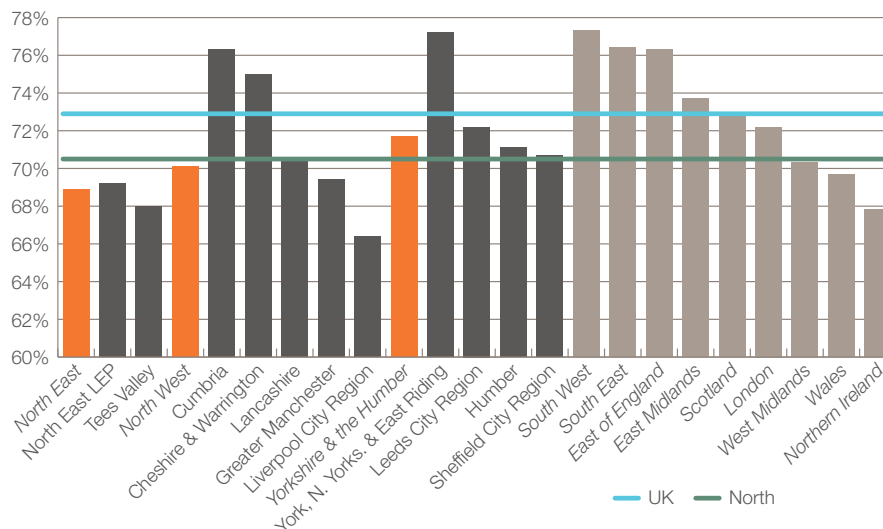
Source: ONS 2015b and 2015c

1.2 Employment

If low productivity is an indication of the wasted potential of northern business, then employment statistics suggest that we are wasting the potential of our human capital too. Compared to the country as a whole, headline labour market figures show that the North is underperforming, albeit with performance varying across the region. The North's working age employment rate is 70.5 per cent, compared to 72.9 per cent nationally, although more rural areas of the North such as York, North Yorkshire and East Riding (77.2 per cent), Cumbria (76.3 per cent) and Cheshire and Warrington (75.0 per cent) surpass the national rate.

Figure 1.3

Employment rates in northern LEP areas and UK regions/nations, 2015

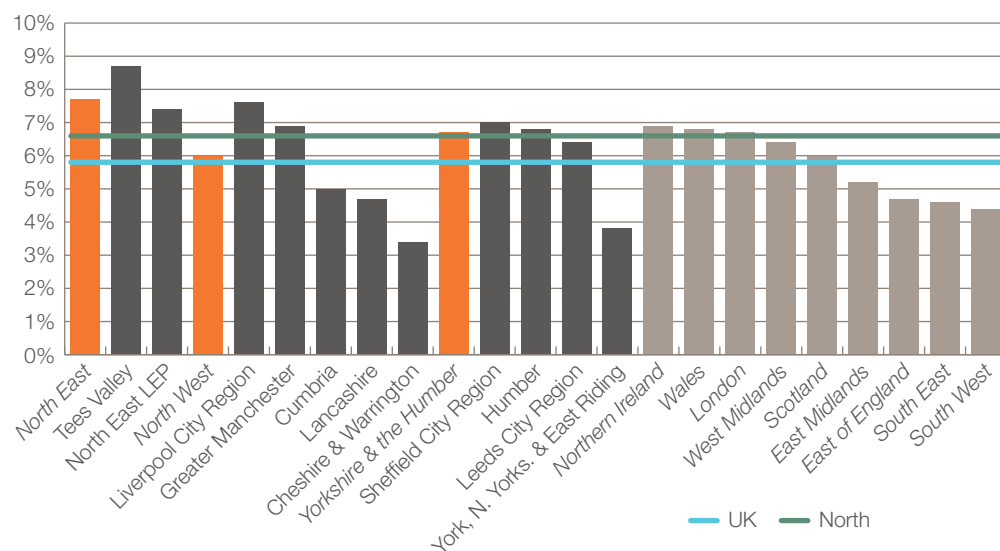


Source: ONS 2015d

Similarly, the North also underperforms against measures of unemployment, with a rate of 6.6 per cent compared to 5.8 per cent nationally. But again, there is stark variation *within* the North, with low rates in Cheshire and Warrington (3.4 per cent) and in York, North Yorkshire and East Riding (3.8 per cent) (ONS 2015d).

Figure 1.4

Unemployment rates in northern LEP areas and UK regions/nations, 2015



Source: ONS 2015d

However, perhaps the starkest indicator of the wasted potential in the northern labour market is the fact that it also lags behind the country as a whole on wider measures of ‘underutilisation’. In addition to those who are unemployed, there are also those who are economically inactive but want a job.⁸ In the North, these individuals, and those who are unemployed, together account for 8.5 per cent of the adult population,⁹ compared to 7.8 per cent nationally. All three northern regions performed poorly compared to the rest of the country, although London and Wales also have similar rates; the North East is the worst-performing region in this regard, with a rate of 9.5 per cent (ONS 2015d).

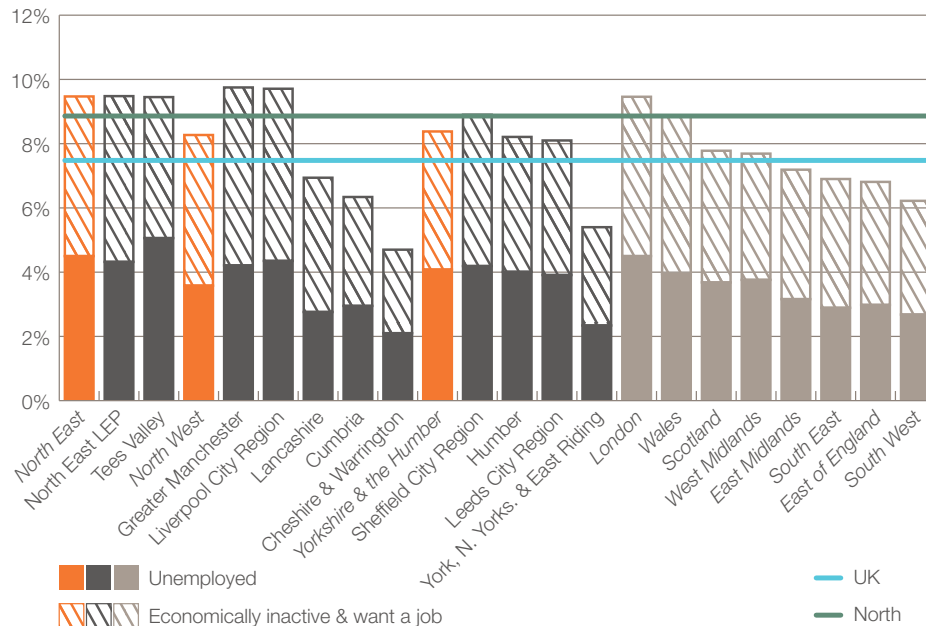
The North also has a relatively high rate of *underemployment*. Defined as involuntary part-time or temporary work, underemployment has risen nationally in recent years, but the North performs poorly against both measures. Across the North, the proportion of workers who are part-time because they were not able to find a full-time job is 18.1 per cent, compared to 15.9 per cent nationally, although the rates in Northern Ireland and London outstrip those of all three northern English regions. Furthermore, a significant proportion of people in the North, 35.4 per cent, are *temporary* workers because they can’t find a permanent job, compared to 33.9 per cent nationally – both Yorkshire and the Humber and the North East and have rates that are surpassed only in Northern Ireland (ONS 2015e).

8 Conventionally, only those who are out of work and who have actively looked for work recently are considered ‘unemployed’, but it is common (in the US, for example) to use a broader definition alongside these. ‘Underutilisation’ can be defined more broadly still to include, for example, low earnings and skills underutilisation. See http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/meetingdocument/wcms_100652.pdf

9 That is, all those aged 16 and over.

Figure 1.5

Rates of unemployment and people who are economically inactive and want a job* in northern LEP areas and UK regions/nations, 2015

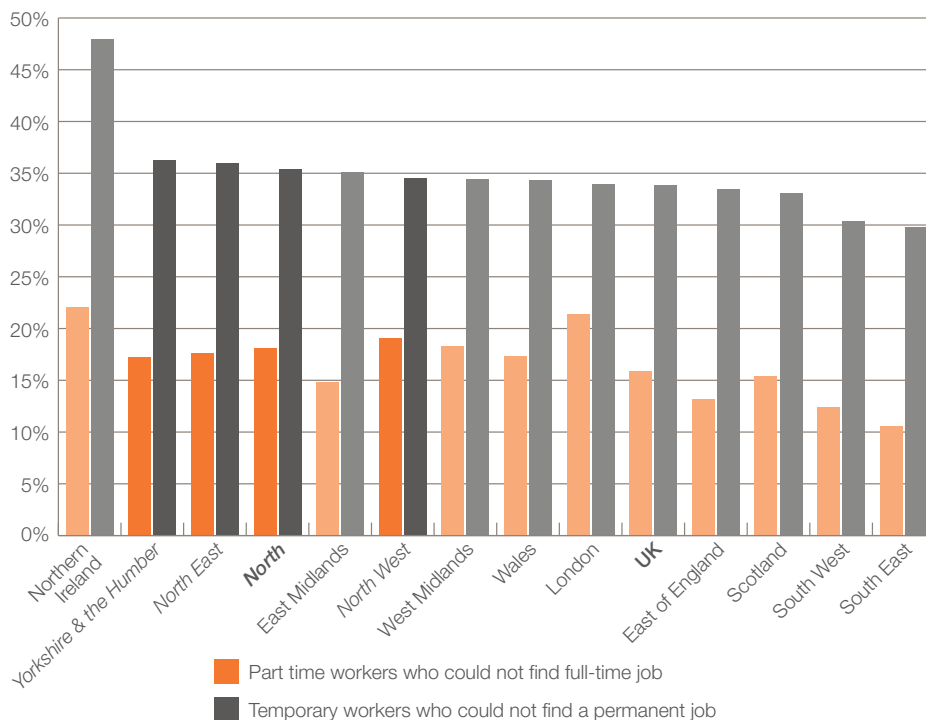


Source: ONS 2015d

*Note: Expressed as a proportion of all those aged 16 and over.

Figure 1.6

Percentage of part-time and temporary employees who want full-time or permanent work, in UK regions/nations, 2015



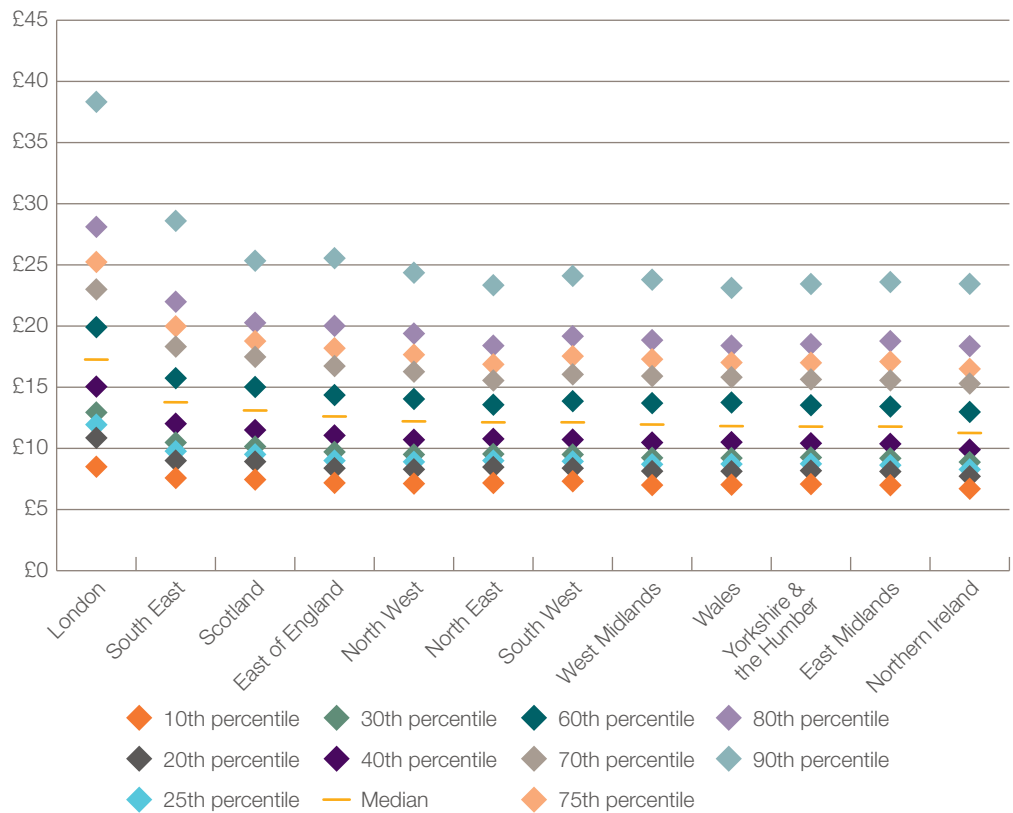
Source: ONS 2015e

1.3 Poverty, inequality and low pay

Labour productivity and employment patterns are inseparable from wages. Hourly pay tends to be lower in the North, although the relative extremes in terms of both high and low wages elsewhere means that there is less wage inequality within the North than in other regions. Median gross hourly pay is particularly low in Yorkshire and the Humber (£11.78) and the North East (£12.17). However, taking the ratio between the hourly pay of the top and bottom 20 per cent of the distribution, all northern regions are below the national average of 2.6, with the North East the most equal region in the North (a ratio of 2.4). In London, by contrast, this ratio is far higher, at 2.9 (ONS 2015f).¹⁰

Figure 1.7

Hourly pay by decile in UK regions/nations, 2014



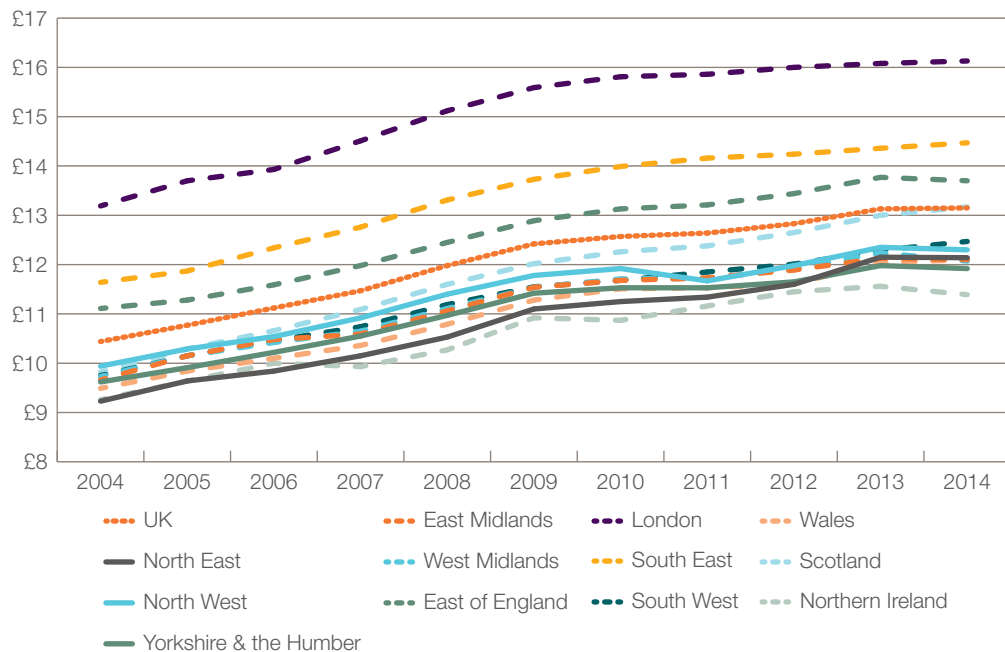
Source: ONS 2015f

Wages are, in real terms, still lower than their pre-recession peak across the country; however, the gap between pay in some parts of the North and the national rate has closed a little since the recession. Nominally, median hourly pay increased by 5.9 per cent (RPIJ inflation during this period was 17.2 per cent), but it rose more slowly in the North West and in Yorkshire and the Humber (at 4.4 per cent in both) meaning that the gap between them and the rest of the country widened. However, nominal median pay rose by far *more* than the national average in the North East during this period (9.4 per cent), and as a result the gap closed somewhat (ONS 2015f and 2015g) (see figure 1.8).

¹⁰ Crucially, however, these figures for wages are not representative of all sources of income, and the inclusion of bonuses and income from other sources would have a very significant effect on the figures, particularly for London.

Figure 1.8

Median gross hourly pay (in nominal terms) for full-time workers in UK regions/nations, 2004–2014



Source: ONS 2015f

Figure 1.9

Percentage of working age adults living in poverty in UK regions/nations between 2001/02–2003/04 and 2011/12 and 2013/14*



Source: ONS 2015h

*Note: All figures are rolling three-year averages.

Employment, unemployment and pay have the predictable consequences for poverty, but housing is also a crucial factor. The percentage of the working-age population living in household poverty (after housing costs)¹¹ is higher in the northern regions, and at its highest in the North East (23 per cent) followed by the North West and Yorkshire and the Humber (both at 22 per cent) (see figure 1.9).¹² Over the decade to 2013/14 this percentage grew by 2 percentage points – in line with the national trend – but within England, only Yorkshire and the Humber deteriorated in the last five years (the rate increased by 1 percentage point), with Northern Ireland seeing the highest rise (3 percentage points) and Scotland also seeing a small rise (1 percentage point). The consequences of London’s economic growth model are clear to see – housing costs make London the region with by far the highest rate of working age poverty (26 per cent), a rate which has risen by 3 percentage points in the last 10 years but has also remained static in the last five (ONS 2015h).

1.4 Benchmarks: Pursuing inclusive economic growth

In making an economic assessment of the current state of the northern powerhouse, three points stand out from the analysis presented above.

- The North’s performance compares reasonably well to that of the UK as a whole, if London is excluded.
- Within an overall picture of low productivity and poor labour utilisation, many parts of the North both within and outside of its major cities are actually thriving.
- The consequences of low productivity and poor labour utilisation are low incomes and high levels of poverty. However, relative to London, housing costs in the North are not as high, and levels of inequality not yet as entrenched.

The North’s economy clearly does need to grow in order to generate the wealth and jobs that its citizens need. However, focussing on economic growth in isolation, or in any way adopting the ‘London model’ in northern cities, is unlikely to lead to the kind of inclusive and sustainable prosperity that the North should aim for.

For this reason, we propose the following test against which the success of the northern powerhouse can be judged.

Test 1: The northern powerhouse must generate a better type of economic growth, one that combines rising productivity with more jobs and higher wages for all.

We will know that we are making progress towards this goal when three related benchmarks are met.

First, we need to **halve the productivity gap between the North and the UK as a whole**. If the national rate of productivity growth to 2020 continues up to 2025, to achieve this the North will need to increase labour productivity by £8.50 per hour by that point, which would mean an annual increase of 2.3 per cent each year. Increased productivity is a necessary precondition, albeit not a sufficient basis, for northern prosperity.

Second, we need to **reach an employment rate of 75 per cent, and halve the gap with the national ‘full employment’ rate**. This will require 600,000 new, good quality jobs.¹³ Dolphin and Lawton (2013) propose that the UK should target an employment rate of 80 per cent, a figure that is more in line with the performance

11 Defined as receiving less than 60 per cent of contemporary median income after housing costs, this is a key indicator for levels of relative poverty.

12 All figures refer to three-year averages – so, for example, the ‘2013/14’ figure refers to the years 2011/12–2013/14.

13 These figures use the working-age population forecast for 2025 as their basis.

of comparable economies. While ideally this would mean all regions of the UK attaining this rate, we suggest the more realistic goal of halving the gap between the North's current rate and the desired 80 per cent rate.

However, job creation alone will not be enough. Given the entrenched worklessness that has persisted over the long term, and the more recent epidemic of low pay and underemployment, policymakers must do everything within their power to ensure that jobs are of sufficient quality, and are accessible to those who need them.

So, third, we need to **reduce the proportion of people on low pay¹⁴ in the North to at least the national average**. Two very clear lessons that emerge from the experience of recent years are that work is no longer a route out of poverty, and that rising productivity and economic growth do not automatically feed through into higher pay. Furthermore, high wages can, in the right circumstances, feed through to higher progression for employees and higher productivity for employers. While interventions by policymakers, at both the local and national levels, have made a difference at the margins – through living wage policies, for example – devolution offers opportunities to grapple with some of the structural issues around the 'low-skill equilibrium', which acts as a drag on pay and progression (OECD 2008).

¹⁴ Defined as less than two-thirds of gross median hourly pay for all workers.

TEST 2

FROM EARLY YEARS TO HIGHER SKILLS

It may be a cliché to say that the greatest ‘asset’ held by any economy is its people, but it also contains a great deal of truth. In the previous section we identified the economic and social problems caused by wasted potential in the North’s labour market, and made the case that more and better jobs must be a key test for the northern powerhouse. We also know that the skills of the workforce are the most critical factor in raising economic productivity – ahead of transport and other forms of infrastructure – and that ‘up-skilling’ those with the lowest qualifications is particularly important (OECD 2012). However, a highly skilled workforce must be built on firm foundations. For the northern powerhouse to succeed, it must sow the seeds of its future sustainability and success by ‘starting young’.

This section begins where the most long-term benefits can be realised – in the early years of a child’s life. It is here that investment can have an incredibly strong bearing not only on a person’s life-chances and opportunities, but also on the prosperity they are able to generate throughout their life course. We then explore how improved early years provision can subsequently feed through into better educational performance more broadly, before moving on to consider issues concerning higher and adult education, and the importance of inward migration.

2.1 Education and early years

Many children in the North get off to a bad start in life, particularly those from more economically disadvantaged backgrounds. Less than half (47 per cent) of the children in the most deprived decile¹⁵ in the North achieve a ‘good’ level of development¹⁶ in their early years foundation stage, with only those in the East Midlands (at less than 43 per cent) faring worse. The ‘early years gap’ between early years performance in the North and that in the rest of the country (particularly in London) is stark. A much higher proportion of the poorest 10 per cent of children in London achieve a good level of development: they enjoy a 12 percentage point gap over their northern peers (DfE 2014).

However, there is an early years disparity *within* the North, too. That is, there is a far greater variation in performance between different income groups in the North than there is between those same groups across England as a whole. In the North the range in the percentage of children achieving a ‘good’ level of development in the early years varies by 25 percentage points between the top and bottom deciles, compared to a range of only 15 in London (which has the smallest disparity by far). Again, only in the East Midlands is this gap (at 28 percentage points) greater than in the North (ibid).

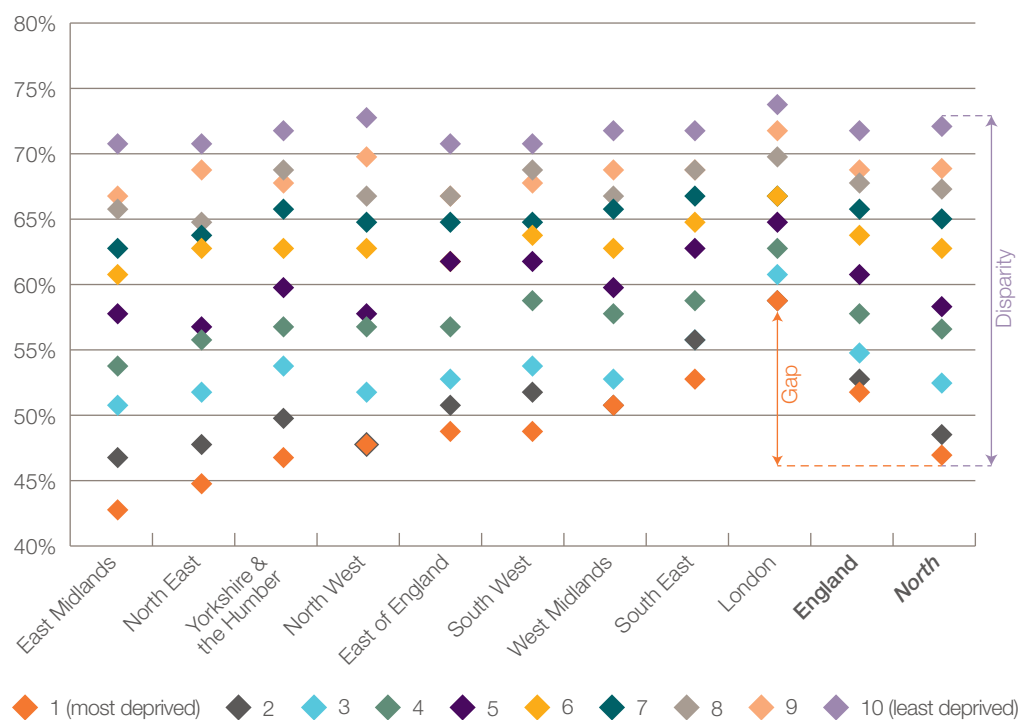
15 In this case, income deciles as defined by the Income Deprivation Affecting Children Index (IDACI). See <http://standards.esd.org.uk/?uri=metricType%2F382&tab=details>

16 ‘Children have been deemed to have reached a good level of development (GLD) in the new [early years foundation stage] profile if they achieve at least the expected level in the ELGs [early learning goals] in the prime areas of learning (personal, social and emotional development; physical development; and communication and language) and in the specific areas of mathematics and literacy’ (DfE 2014). https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/376216/SFR46_2014_text.pdf

It is particularly concerning that, even accounting for deprivation, early years attainment in the North is both far poorer and more unequal than elsewhere in the UK. Many factors are likely to contribute to this, including demographic trends and different policy interventions; it is likely, for instance, that London benefits from more maintained provision than elsewhere (LDA 2011).

Figure 2.1

Percentage of children achieving a 'good' level of development in their early years foundation stage profile teacher assessments, by decile of the Income Deprivation Affecting Children Index, 2014



Source: DfE 2014

Note: The 'gap' annotated on this figure denotes what we describe as the 'early years gap' between London and the North; the 'disparity' indicates the level of early years disparity within (in this case) the North.

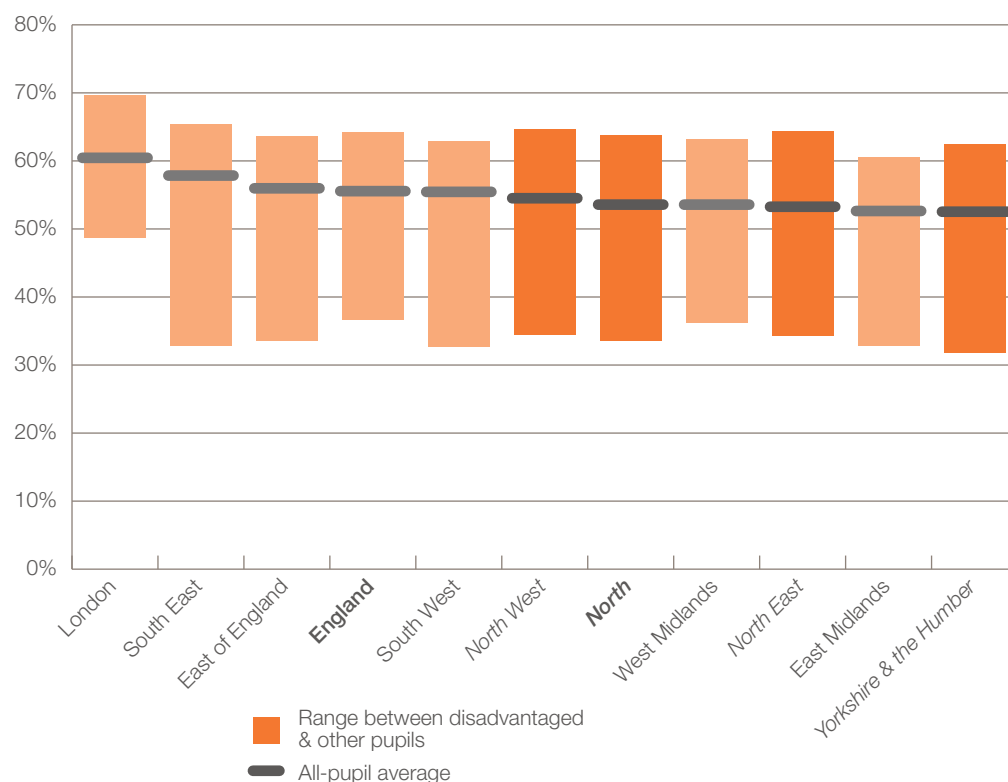
We know that children's performance at the early years stage affects them at every subsequent stage of their schooling (Field 2010). Problems in early years can have a strong bearing on GCSE attainment – and so, unsurprisingly, the North underperforms in this area too. In terms of the overall proportion of young people who attain five or more A*–C grades at GCSE, including in English and maths, the North was among the lowest performing of the English regions in 2013/14 – 54.9 per cent of young people attained this standard, compared to 56.8 per cent across England and 61.5 per cent in London (DfE 2015). Disadvantaged young people¹⁷ in the North also underperform the national attainment rate for their peers, with only 33.6 per cent attaining five GCSEs compared to 36.7 per cent nationally (ibid). This is a poor performance indeed, although those of the South East and South West were even worse.

17 'Includes pupils known to be eligible for FSM [free school meals] in any spring, autumn, summer, alternative provision or pupil referral unit census from year 1 to year 6 (i.e. not including nursery or reception) or are looked after children.' Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/399009/SFR06_2015_CharacteristicsMethodology.pdf

Since 2010/11, the North's overall GCSE attainment scores have slipped more than the English average has; however, attainment among disadvantaged pupils actually improved marginally over this period, and did so by slightly more in the North (0.6 percentage points) than in England as a whole (0.4 percentage points). There were notable improvements in the North East (of 2.0 percentage points) and Yorkshire and the Humber (1.5 percentage points), but a deterioration in the North West (by 1.1 percentage points) (ibid).

Figure 2.2

Difference between the percentage of disadvantaged and non-disadvantaged pupils attaining five or more A*–C grades at GCSE, including English and maths, and all-pupil average percentage, in English regions, 2013/14



Source: DfE 2015

2.2 Workforce skills

Early years and school education form the foundations for a skilled workforce, and once again, it is likely that failures affecting people at earlier ages are at the root of the relatively poor levels of workforce skills in the North. While educational attainment is important for a wide range of reasons, from an economic perspective it is vital for higher productivity and economic growth. It is concerning, therefore, that employers in the North report skills gaps in their current workforce and when recruiting (UKCES 2014a), while – as the unemployment figures above highlight – the labour force's potential remains underutilised. This is a clear waste of human capital.

In general, the North has a lower proportion of higher skilled people than the national average. Across the region, 52.5 per cent of working-age people hold a QCF level 3 qualification¹⁸ or above – less than the national rate of 56.5 per cent. While London's

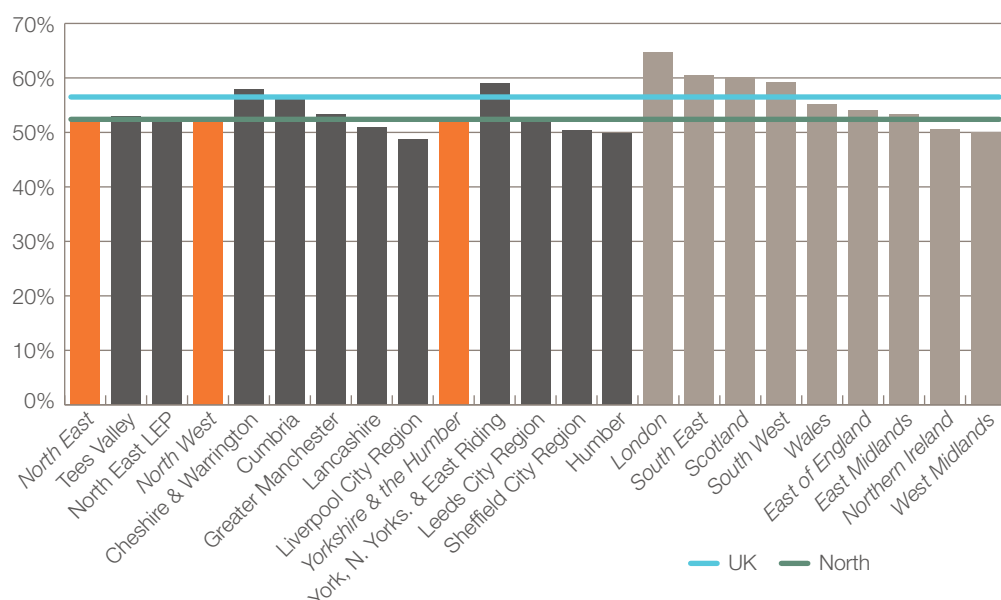
¹⁸ Also referred to as 'NVQ level 3', and equivalent to two A-level passes.

skills profile distorts this figure a little, even when London is excluded the North's labour force still has a lower level of skill than that of the UK as a whole, for which the figure excluding London stands at 55.2 per cent (ONS 2015d). This reflects the relatively strong skills profiles of the South East, the South West and Scotland.

However, there are highly skilled pockets of workers *within* the North – in places like Cheshire and Warrington, Cumbria, and York, North Yorkshire and East Riding, for example – and, when combined, the five northern city-region LEPs have almost as many individuals qualified to this level (3.6 million) as London does (3.7 million) (ibid). This is particularly relevant given the current policy focus on connecting the major cities, and highlights the need for cities to build better connections to rural areas as well as between each other.

Figure 2.3

Percentage of population with a QCF level 3 qualification or above in northern LEP areas, and in UK regions/nations, 2014



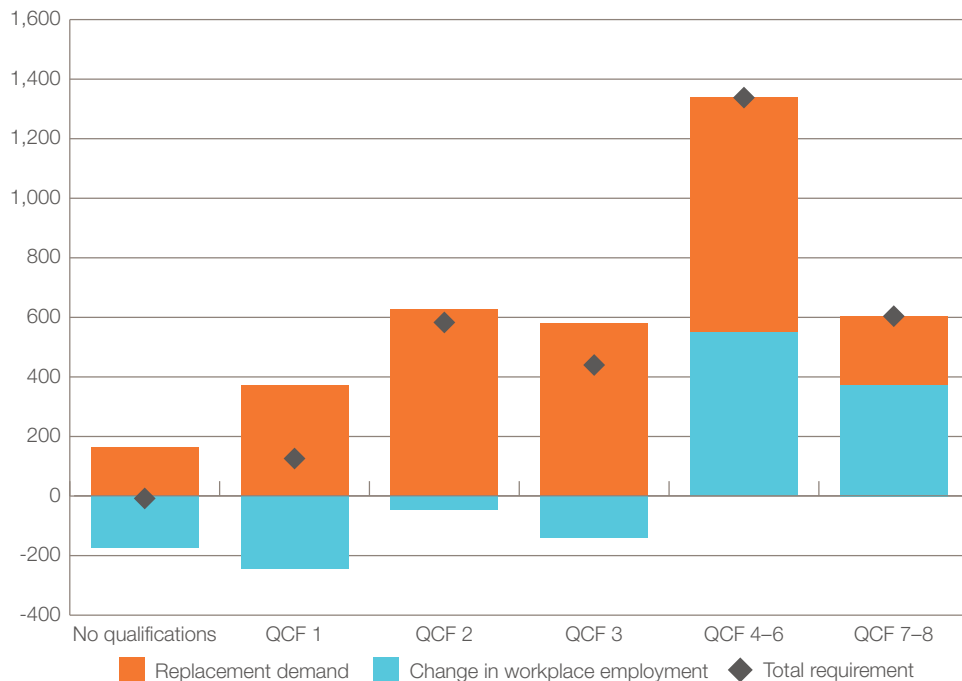
Source: ONS 2015d

Note: X-axis labels in italics denote UK regions/nations; those in roman denote LEP areas.

The demand for skills will only increase – in the North, it is predicted that more than three-quarters (77.3 per cent) of the jobs that become available between 2012 and 2022 will require a qualification equivalent to QCF level 3 or above. Some opportunities for those with lower qualifications will be generated by ‘replacement demand’ as workers retire, for example, but the total number of jobs for which people need to be qualified to at least the equivalent of QCF level 3 is predicted to rise from the 57.9 per cent it was in 2012 to 66.0 per cent in 2022 (UKCES 2014b). The capital projects that the North is looking to progress also have crucial skills dimensions: both transport and housing construction often require specific skills in the local resident population, but these skills are currently lacking in many areas in the region (Remark 2015).

Figure 2.4

Projected change in workplace employment and replacement demands (000s) by qualification level in the North, 2012–2022

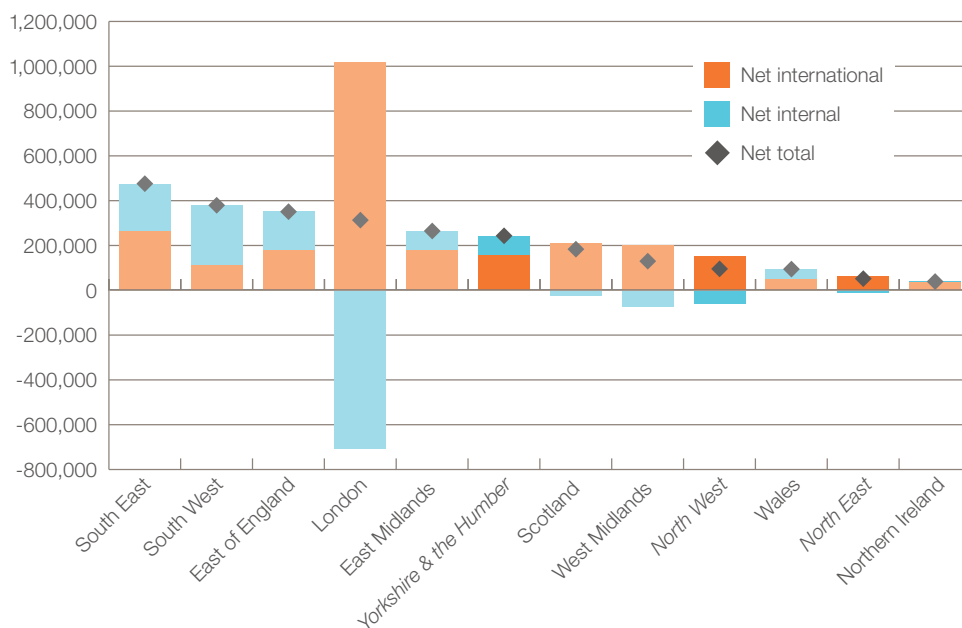


Source: UKCES 2014b

2.3 The importance of inward migration

Figure 2.5

Net internal migration (within the UK) and long-term international migration in UK regions/nations, 2004–2014



Source: ONS 2015i

Investing in residents so that they can benefit from economic opportunities is crucial, but migrants both from within the UK and from outside of it will also be needed in order to address predicted skills shortfalls in the North. In 2013/14 alone, 183,020 people moved into the North from other UK regions, and in the decade since 2004 more than 1 million people have moved into the North from abroad (ONS 2015i and 2015j). Both internal and international migrants tend to be attracted to the big northern cities of Manchester, Leeds and Sheffield. However, the flow of 'indigenous' people out of the cities and into the other English regions means that those cities rely on international migrants to prevent accelerating population decline.

2.4 Benchmarks: Laying the right foundations

It will take a generation for the true success of the northern powerhouse to become apparent. In part this is because HM Treasury's investment pipeline extends across decades (as we shall see in the following section), but also because efforts to improve northerners' life chances and economic prosperity must focus on the prospects of young people, of infants, and even of those who are yet to be born.

A key test of the northern powerhouse must therefore be the extent to which investment is made in the skills of its population. This requires us to take a long-term view of investment by prioritising early years provision, and working constantly to align labour supply and demand in a complex and dynamic labour market.

Three distinct points stand out from the analysis presented above.

- **Social and economic ends are inseparable** – providing citizens with a high standard of education is a good in its own right, but it is also an essential means of ensuring that the current and potential labour force has the 'human capital' and skills that the economy needs in order to grow.
- **London's early years and broader education attainment shows what can be achieved with investment and targeted public policy** – especially for the most deprived. There is a 12-percentage-point 'early years gap' between the performance of poorer children under the age of five in London and those in the North.
- Alongside investing in the skills of the current and potential workforce within the North, **the economy will need to continue attracting migrants from both inside and outside of the UK if it is to prosper.**

Much needs to be done in order to meet our ambitions, but the northern powerhouse's success in these areas can be judged by the following test.

Test 2: The northern powerhouse must liberate the potential of its greatest asset – its people – through huge improvements to the development of skills, starting with the very youngest.

We will know that we are making progress when the following benchmarks are reached.

First, the North must **catch up with the national rate of early years attainment for under-5s, with a focus on the most deprived.** The North's relatively poor attainment in early years stands in stark contrast to attainment nationally. Furthermore, the very poorest children in London outperform even those in the North who are far less deprived. While poverty is an important factor, this gap serves to highlight the potential for policy to make a difference. The North is lagging behind, and it must improve faster – closing the gap with the country as a whole – if it is to embed prosperity for future generations.

Second, we must **close the gap in GCSE attainment, in terms of the number of pupils achieving five or more GCSEs including English and maths, focussing particularly on deprived young people**. The North's poor performance at GCSEs (1.9 percentage points worse than England as a whole) is driven by poor attainment among its most deprived young people (3.1 percentage points worse) (DfE 2015).

And third, the North needs to **meet the projected demand from employers for skilled workers qualified to QCF level 3 and above**. Projections indicate that there will be demand for more than 2.4 million people qualified to QCF level 3 or higher by 2022.

TEST 3

INVESTING IN THE FUTURE

“I said that if we can bring our northern cities closer together – not physically, or in some artificial political construct – but by providing modern transport connections, supporting great science and our universities here, giving more power and control to civic government; then we can create a northern powerhouse with the size, the population, the political and economic clout, to be as strong as any global city.”

George Osborne, Beetham Tower, Manchester, 5 August 2014
(HM Treasury and Osborne 2014b)

The northern powerhouse needs not only investment in its people, but investment in innovation, in research and development, and in its creaking infrastructure. Decades of underinvestment have resulted in an economy failing to meet its potential – and so failing to attract and retain skilled people.

This section explores issues of investment in the North – both investment from private sector sources, and crucial and catalytic public sector investment.

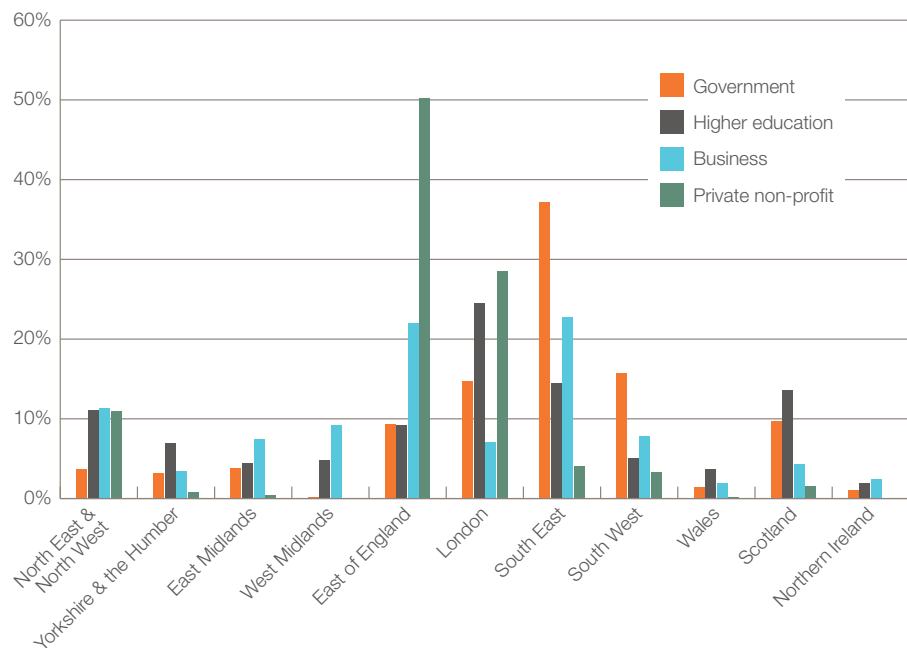
3.1 Private sector investment

The North’s business base has as a different profile, in terms of sectors and business sizes, from those of other English regions. It has a slightly lower proportion of sole enterprises and a slightly higher proportion of small businesses than the national average, and it is also home to a relatively high proportion of businesses in sectors such as the wholesale and retail trade, repair of motor vehicles and motorcycles, and transportation and storage (ONS 2015j). The public sector tends to be relatively far more important to local economies – particularly in the North Eastern, Sheffield and Liverpool city-regions – while manufacturing is particularly important in Cumbria, Humber, and Cheshire and Warrington (ONS 2015a).

Related to this profile is a national imbalance in research and development (R&D) expenditure. In general, there tends to be relatively far more business investment in R&D within the pharmaceutical industry, while manufacturing, the motor vehicles and parts and computer programming sectors also tend to spend more in this area relative to other sectors (Keen 2015). The proportion of national business expenditure on R&D that is spent in the North is, at 14.8 per cent, more than twice as high as the proportion of the government’s national R&D expenditure that is spent in the region, which stands at 7.0 per cent spent (ONS 2015k). In simple terms, the government does not ‘follow the market’, but instead concentrates more than half (51.8 per cent) of its R&D expenditure on London and the South East; business, by contrast, spends less than a third (29.9 per cent) there (ibid).

Figure 3.1

Percentage of R&D expenditure spent in each UK region/nation, by sector, 2013

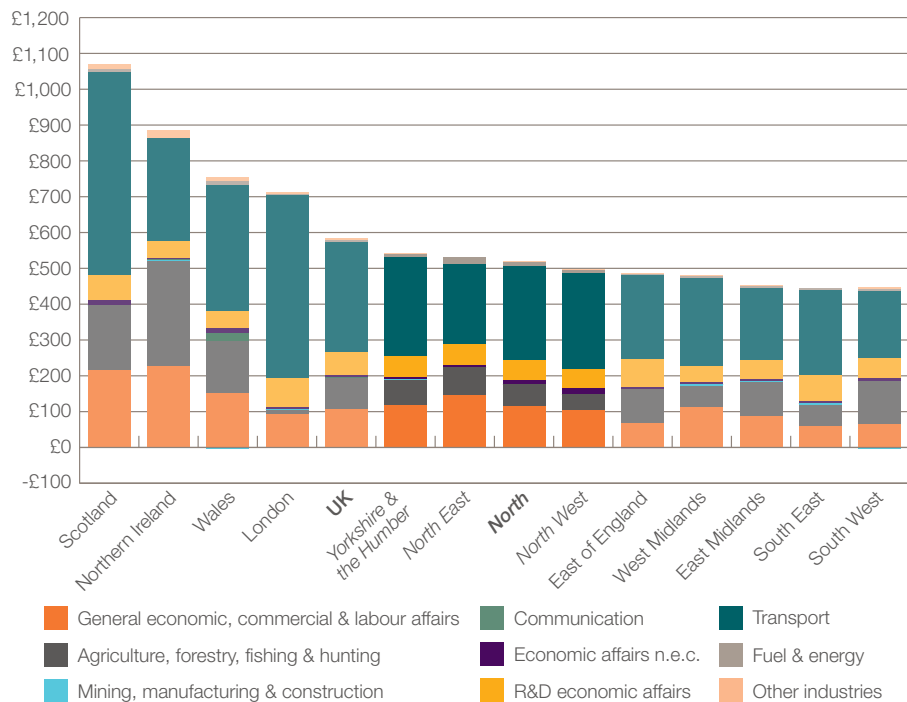


Source: ONS 2015j

3.2 Public investment

Figure 3.2

Public expenditure on economic affairs per capita, by category, in UK regions/nations, 2013/14



Source: HM Treasury 2014

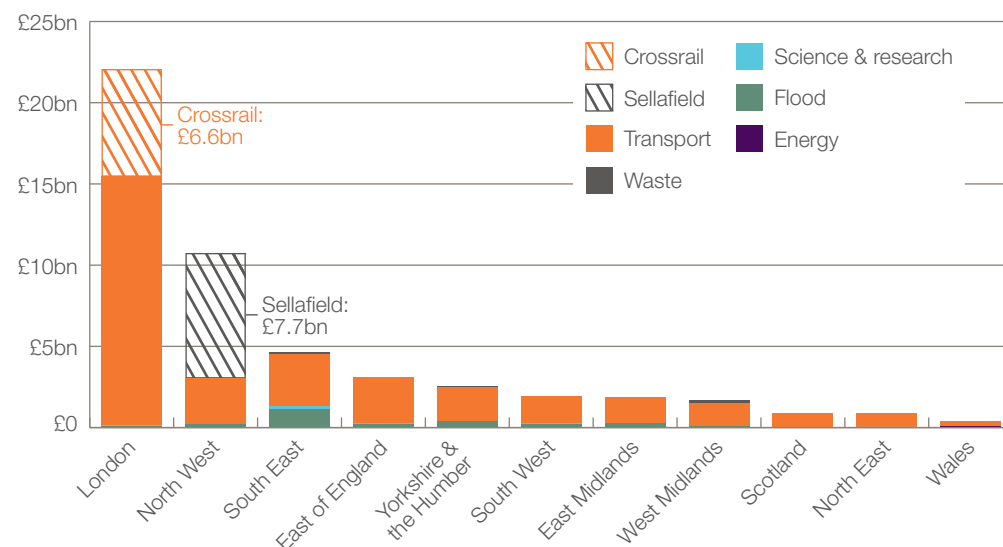
The current pattern of public expenditure, if it is sustained, will do little to fire up the northern powerhouse – rather, it will only entrench economic divergence within England and the UK. The level of public spending on economic affairs in the North contrasts sharply with that for London, but even more so with spending levels in Scotland, Wales and Northern Ireland, where much of this policy area is devolved. As figure 3.2 illustrates, transport spending stands out as particularly high in London and Scotland relative to other regions and nations, but relatively little is spent in the North on other areas such as general economic, commercial and labour affairs; agriculture, forestry, fishing and hunting; and on R&D, as discussed above.

The numbers illustrated in figure 3.2 are historical, and take in all spending on economic affairs. Looking to the future, however, there is cause for concern about investment in infrastructure. The national infrastructure pipeline gives an account of plans for future investment. As things stand, the vast majority of infrastructure spending is targeted at areas other than the North – and particularly at London. If we consider all planned infrastructure, government spending on projects included in this pipeline is set to amount to £14 billion (11.8 per cent of overall planned spending) in the North overall, compared to £22 billion (18.4 per cent) in London (HM Treasury 2015). A large proportion of planned investment in the North is represented by the decommissioning of nuclear waste in Sellafield, which will not improve the productivity of the wider local economy – unlike Crossrail, which makes up a sizeable proportion of London’s planned expenditure. In London, planned transport infrastructure investment alone amounts to £2,600 per capita, while in the North it is only £380 per capita (ibid).

Investment in transport is rightly at the core of the government’s conception of the northern powerhouse. Yet the North’s infrastructure is suffering from decades of neglect and underinvestment which has left its cities far less well-connected than the regions of other countries to which the North should be comparable. Delivering the investments and policies necessary to counteract this neglect could be instrumental in driving not only higher productivity but greater social inclusion and environmental sustainability (Cox and Raikes 2015b).

Figure 3.3

Planned expenditure, from 2015/16 onwards, on public and public/private funded projects included in the national infrastructure pipeline, by UK region/nation



Source: HM Treasury 2015

3.3 Benchmarks: Building the northern powerhouse

If the northern powerhouse has come to signify anything at all, it is the importance of connectivity. The original One North plans for improving transport connections between and within the great northern cities, now being developed under the auspices of the new Transport for the North body, have galvanised action across the north of England, and represent the most visible manifestation of a fresh commitment on the part of policymakers and political leaders to collaborate in order to bring change.

However, as the data presented in this section has demonstrated, actual investment in the northern powerhouse falls a long way short of all the rhetoric, and there is little sign that this is about to change. The relationship between public and private investment is critical in this context.

Government very often makes the case that to invest in certain areas or industries would be to interfere with, or prop up, a failing market. However, when it comes to investment in research and development in the North, the government is failing to keep pace with both the market and the rate at which it itself is investing public funds in the North's assets and its economic future. Alongside this, it is evident from big infrastructure projects like Crossrail that private investment is unlikely to be made unless and until government has committed large sums of public finance to getting such schemes off the ground. In the case of the northern powerhouse, high-profile trips to Malaysia and China have their place, but to unlock inward investment of this nature, the government itself must invest in – or at least provide guarantees for – major infrastructure projects.

Throughout 2015, IPPR North has argued that we need to see a doubling of government investment in research and development activity in the north of England, to the point where the proportion of government investment in research and development in the North matches that made by private sector. Furthermore, starting with the spending review in November, the chancellor must make a step-change commitment to large-scale capital investment in infrastructure in the North, such that by the beginning of (rail) control period 6 and roads investment strategy 2, the government will be committed to at least £50 billion of public investment in northern infrastructure which can be used to leverage greater private investment.

Only when we see this level of investment will the northern powerhouse achieve our third test, and meet two further benchmarks.

Test 3: The northern powerhouse must involve investment in future success, particularly in terms of enabling innovation and building the infrastructure we need for the 21st century and beyond.

We will know we are making progress when the following benchmarks are met.

First, **levels of investment in research and development in the North should match those of the very best regions in Europe.** R&D intensity – measured as a proportion of GDP – is currently at around 1 per cent in the north of England. In order for it to enter the top quartile of European regions, this would need to rise to around 1.3 per cent (Eurostat 2015).

Second, **levels of commuter travel between the major cities of the north of England should reach the levels we would expect to see in similar metro-regions in Europe.** It has been estimated that, as things stand, levels of commuter travel between Manchester and Leeds are 40 per cent less than might reasonably be expected (Overman et al 2009). The plans currently being developed by Transport for the North are expected to be transformational in this regard, creating a much broader labour market geography than we have currently.

TEST 4

TACKLING THE DEMOCRATIC DEFICIT

The devolution of powers represents a key plank in the thinking behind the northern powerhouse. Devolution deals have been negotiated with a number of the North's biggest city-regions, with the intention of providing them with the powers and freedoms that they need in order to pursue more localised approaches to driving economic growth and making public services more efficient and effective. The 'northern powerhouse' has also become synonymous with the government's attempts to coerce big cities into adopting directly elected metro mayors. The thinking behind these moves is that as powers are devolved, so too must local political leadership be exposed to greater transparency and accountability, and also that metro mayors often exemplify strong civic leadership in driving transformation and change.

The governance dimensions of the northern powerhouse are rarely considered in democratic terms – indeed, the democratic argument for greater devolution is not one that government ministers deploy at all frequently. Yet it is, and will be, critical to the long-term success and sustainability of the northern powerhouse project.

With that in mind, this section considers the current state of democracy in the north of England, and sets out some democratic benchmarks against which the success of the northern powerhouse initiative can, in future, be judged.

4.1 Voter turnout in the 2015 general election: the regional picture

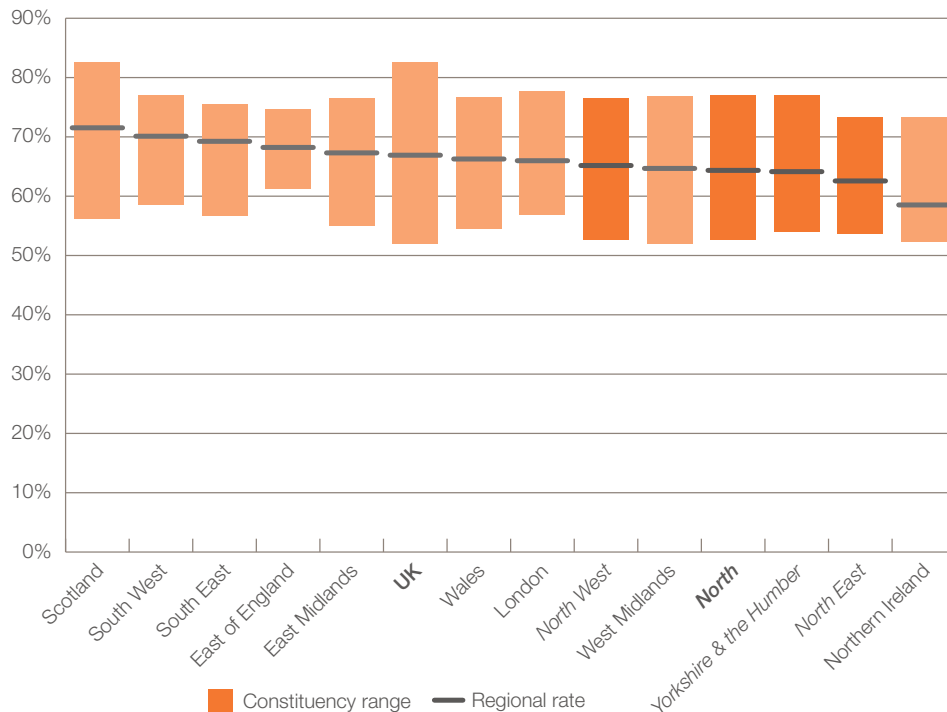
Voter turnout is a critical measure of political engagement, and is often used as a comparative indicator of political inequality. The extent to which people choose to participate in the electoral process can tell us a lot about peoples' sense of empowerment and efficacy at the local and national level.

Of all the English regions, two of the three northern regions had the lowest voter turnout rates in the 2015 general election. Voter turnout across the whole of the North was 64.4 per cent, but within this average it ranged from a low of 52.7 per cent in Blackley and Broughton, to a high of 77.0 per cent in Sheffield Hallam (Electoral Commission 2015).¹⁹ To put these figures in context, the lowest constituency-level turnout in the country was 51.9 per cent in Stoke and Trent Central, and the highest was recorded in East Dunbartonshire, at 82.5 per cent. The example of Scotland is instructive, as it is currently experiencing something of a democratic revival: average voter turnout was high, at 71.5 per cent (ibid) – an indication, no doubt, of the democratic enthusiasm galvanised by the shifting of power away from Westminster and Whitehall (and, of course, a referendum that provoked intense debate on that very issue).

¹⁹ Figures refer to total vote turnout (including postal votes rejected and votes rejected at count).

Figure 4.1

Total voter turnout (including rejected postal votes and votes rejected at count), and range of constituency-level turnout (highest and lowest), in UK regions/nations

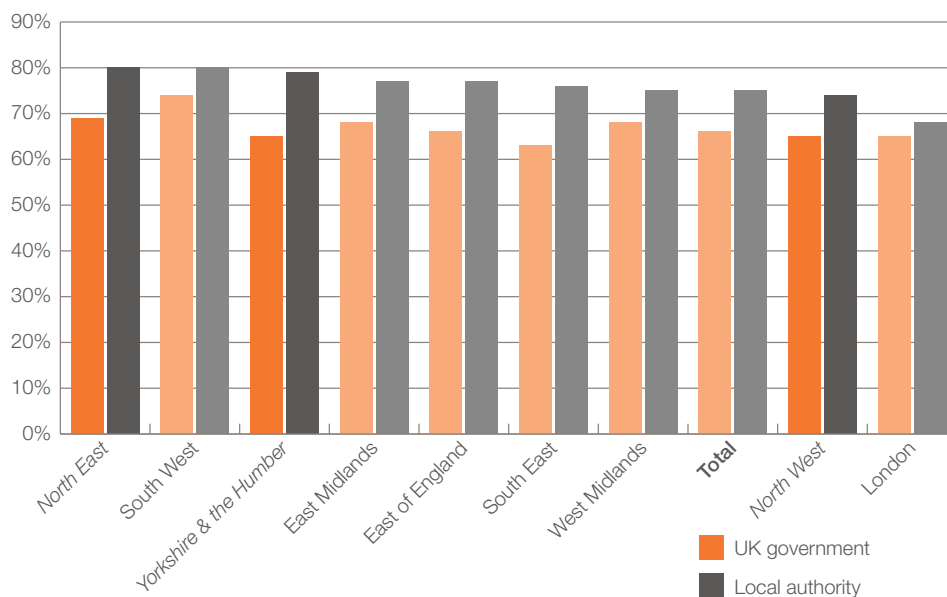


Source: Electoral Commission 2015

4.2 Citizens' efficacy and influence

Figure 4.2

Proportion of people polled who agree with the statement, 'People like me don't have any say about what the local authority/UK government does', by English region, 2012



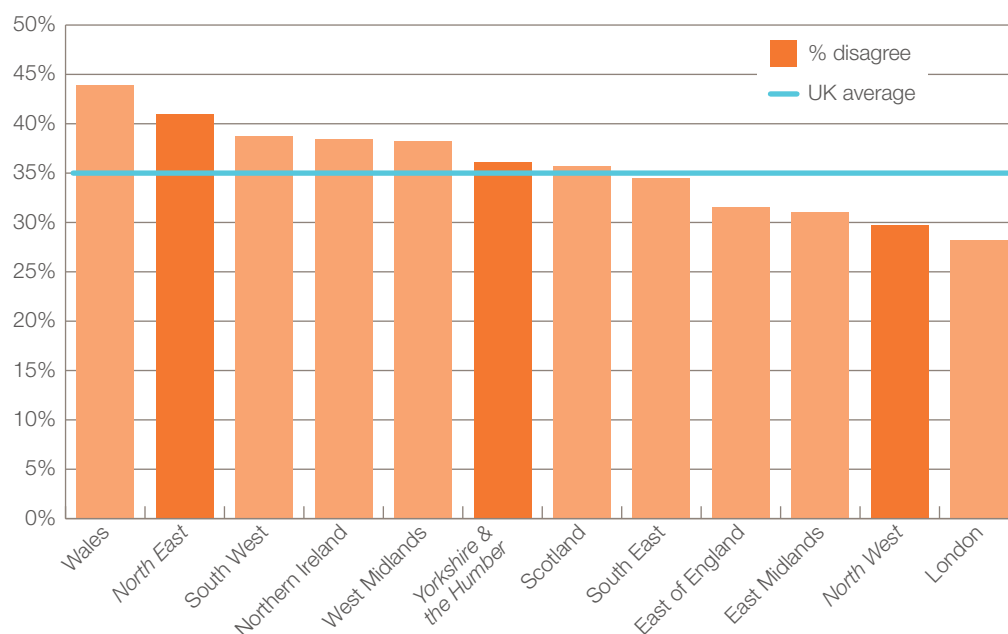
Source: YouGov et al 2012

However, turnout in national elections is only one indicator of political inequality. As is suggested by comparing, for example, voting statistics from the North East with those from Scotland, one of the reasons why people don't vote is that they feel their vote will not change anything – that is, people's sense of efficacy varies from place to place. Figure 4.2, which illustrates results from a 2012 YouGov poll, shows precisely to what extent people in English regions feel that they have a say in local and national government. Once again, the North East and Yorkshire and the Humber appear to fare particularly badly in this regard, with around 80 per cent of people in both regions reporting that people like them have no say over what the UK government does (YouGov et al 2012). Curiously, the figures are much better for the North West which, London aside, seems to demonstrate higher levels of efficacy than anywhere else. This is perhaps a symptom of the region having famously strong local leadership. Indeed, it is important to note that, as figure 4.2 illustrates, people in every region feel that they have a lot more say over local government affairs than they do in Westminster (ibid).

The fact that people feel they have greater efficacy and influence at the local level concurs with data showing that people in most UK regions and nations feel that the balance of power between central and local government is out of kilter. People in the North East and Yorkshire and the Humber seem to feel this power imbalance more than the national average. However, once again, people in the North West – along with Londoners – are less worried about this issue than those in other regions, although almost one in three of them still feel that central–local power is imbalanced. Again, this could be a symptom of the fact that, in London and in Greater Manchester at least, there is more visible local leadership and much greater devolution of powers.

Figure 4.3

Proportion of people in UK regions/nations who disagree with the statement, 'The current balance of power between central and local government is about right', 2014



Source: PwC 2014

4.3 Benchmarks: Devolving power and democratising the northern powerhouse

Devolution has the potential to stimulate democratic engagement and innovation from the bottom up. Establishing a new democratic settlement is critical to the long-term success and sustainability of the northern powerhouse project.

If the northern powerhouse is to be considered a success in democratic terms, we would expect to see growing satisfaction with the balance of power between central and local government, as well as rising levels of public efficacy and turnout in both national and local elections.

Our democratic test is as follows.

Test 4: The northern powerhouse must rejuvenate local democracy by giving people a genuine involvement in the way the north of England is run.

And our democratic benchmarks for the northern powerhouse are, therefore, the following.

The proportion of people who feel that the balance of power between central and local government is ‘about right’ should increase to at least the national average in every northern region. Given the recent Scottish experience, this will require not only the ongoing devolution of powers but also a much greater sense of local political leadership and autonomy without the interference of Westminster.

Levels of public influence and efficacy in the northern regions, particularly at the local level, should rise above the national average, such that more than a third of people feel that they have a real say over what their local authority does. Again, this will involve the government returning powers over the economy and public services to local and combined authorities, and the roles and responsibilities of their city leaders and metro mayors becoming much more visible and transparent to the public.

At least half of the electorate should exercise their right to vote in mayoral elections in northern cities. There has been considerable debate about the necessity and merits of directly elected mayors for the newly-formed combined authorities, and the growing number of devolution deals that have been wedded to them. However, if they are to garner the mandate and authority that the government believes they should, then high turnout will be an absolute prerequisite.

OUR PROPOSED NORTHERN POWERHOUSE TESTS AND BENCHMARKS

A SUMMARY

Test 1: Prosperity for all

The northern powerhouse must generate a better type of economic growth, one that combines rising productivity with more jobs and higher wages for all.

Benchmark 1

We need to **halve the productivity gap between the North and the UK as a whole**. If the national rate of labour productivity growth to 2020 continues up to 2025, to achieve this the North will need to increase productivity by £8.50 per hour by that point, which would mean an annual increase of 2.3 per cent each year. Increased productivity is a necessary precondition, albeit not a sufficient basis, for northern prosperity.

Benchmark 2

We need to **reach an employment rate of 75 per cent, and halve the gap with the national 'full employment' rate**. This will require 600,000 new, good quality jobs.²⁰ Dolphin and Lawton (2013) propose that the UK should target an employment rate of 80 per cent, a figure that is more in line with the performance of comparable economies. While ideally this would mean all regions of the UK attaining this rate, we suggest the more realistic goal of halving the gap between the North's current rate and the desired 80 per cent rate.

Benchmark 3

We need to **reduce the proportion of people on low pay²¹ in the North to at least the national average**. Two very clear lessons that emerge from the experience of recent years are that work is no longer a route out of poverty, and that rising productivity and economic growth do not automatically feed through into higher pay. Furthermore, high wages can, in the right circumstances, feed through to higher progression for employees and higher productivity for employers. While interventions by policymakers, at both the local and national levels, have made a difference at the margins – through living wage policies, for example – devolution offers opportunities to grapple with some of the structural issues around the 'low-skill equilibrium', which acts as a drag on pay and progression (OECD 2008).

Test 2: From early years to higher skills

The northern powerhouse must liberate the potential of its greatest asset – its people – through huge improvements to the development of skills, starting with the very youngest.

Benchmark 4

The North must **catch up with the national rate of early years attainment for under-5s, with a focus on the most deprived**. The North's relatively poor attainment in early years stands in stark contrast to attainment nationally.

²⁰ These figures use the working-age population forecast for 2025 as their basis.

²¹ Defined as less than two-thirds of gross median hourly pay for all workers.

Furthermore, the very poorest children in London outperform even those in the North who are far less deprived. While poverty is an important factor, this gap serves to highlight the potential for policy to make a difference. The North is lagging behind, and it must improve faster – closing the gap with the country as a whole – if it is to embed prosperity for future generations.

Benchmark 5

The region must **close the gap in GCSE attainment, in terms of the number of pupils achieving five or more GCSEs including English and maths, focussing particularly on deprived young people**. The North's poor performance at GCSEs (1.9 percentage points worse than England as a whole) is driven by poor attainment among its most deprived young people (3.1 percentage points worse) (DfE 2015).

Benchmark 6

The North needs to **meet the projected demand from employers for skilled workers qualified to QCF level 3 and above**. Projections indicate that there will be demand for more than 2.4 million people qualified to QCF level 3 or higher by 2022 (UKCES 2014b).

Test 3: Investing in the future

The northern powerhouse must involve investment in future success, particularly in terms of enabling innovation and building the infrastructure we need for the 21st century and beyond.

Benchmark 7

Levels of investment in research and development in the North should match those of the very best regions in Europe. Research and development intensity – measured as a proportion of GDP – is currently at around 1 per cent in the north of England. In order for it to enter the top quartile of European regions, this would need to rise to around 1.3 per cent (Eurostat 2015).

Benchmark 8

Levels of commuter travel between the major cities of the north of England should reach the levels we would expect to see in similar metro-regions in Europe. It has been estimated that, as things stand, levels of commuter travel between Manchester and Leeds are 40 per cent less than might reasonably be expected (Overman et al 2009). The plans currently being developed by Transport for the North are expected to be transformational in this regard, creating a much broader labour market geography than we have currently.

Test 4: Tackling the democratic deficit

The northern powerhouse must rejuvenate local democracy by giving people a genuine involvement in the way the north of England is run.

Benchmark 9

The proportion of people who feel that the balance of power between central and local government is 'about right' should increase to at least the national average in every northern region. Given the recent Scottish experience, this will require not only the ongoing devolution of powers but also a much greater sense of local political leadership and autonomy without the interference of Westminster.

Benchmark 10

Levels of public influence and efficacy in the northern regions, particularly at the local level, should rise above the national average, such that more than a third of people feel that they have a real say over what their local authority does. Once again, this will involve the government returning powers over the economy and public

services to local and combined authorities, and the roles and responsibilities of their city leaders and metro mayors becoming much more visible and transparent to the public.

Benchmark 11

At least half of the electorate should exercise their right to vote in mayoral elections in northern cities.

There has been considerable debate about the necessity and merits of directly elected mayors for the newly-formed combined authorities, and the growing number of devolution deals that have been wedded to them. However, if they are to garner the mandate and authority that government believes they should, then high turnout will be an absolute prerequisite.

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