

THE STATE OF THE NORTH 2016

Building northern resilience in an era of global uncertainty

IPPR
NORTH

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SUMMARY

Last year's *State of the North* report was full of confident projections of northern powerhouse potential. In substantive terms, little has changed: this year the northern economy has passed the £300 billion mark, jobs growth has motored on, and northern regions topped this year's EY Attractiveness Survey for foreign investment.

However, dark clouds are gathering on the horizon following the events of the past six months that have engendered more than a wobble – uncertainty now pervades the northern mood. Regardless of current quarter on quarter national GDP growth, the decision to leave the EU will have a profound effect on the northern economy. Whether in terms of trade, access to skilled labour or EU funding programmes, the implications of Brexit on the North will be profound. There will be upsides of course but for the time being business is cautious and concerned.

The political fallout from the Brexit vote has also been severe. The champions for the northern powerhouse in the national government – former chancellor George Osborne and financial secretary Jim O'Neill – have both departed the main stage. Meanwhile, devolution deals appear to have stalled, and the focus on regional rebalancing has now been subsumed into a wider initiative to develop an industrial strategy.

All this, however, presents new opportunities. While Osborne's approach was always too partial, piecemeal and parochial, Greg Clark's ambition to create a 'place-based industrial strategy' led by the powerful new Department for Business, Energy and Industrial Strategy has the potential to ignite a new era of economic activism around some of the North's major economic strengths.

Such developments are timely. Following on from IPPR North's *Blueprint for a Great North Plan* in January 2016, which set out a framework for a modern industrial strategy, Transport for the North unveiled in June the results of the Northern Powerhouse Independent Economic Review. The review identified four 'primary economic capabilities' where the North has been shown to have world-class assets and a further three 'enabling capabilities' that will underpin this potential.

Add to this the excellent progress being made in building powerhouse capacity in relation to transport infrastructure, finance, trade and investment; the northern powerhouse strategy and northern powerhouse schools strategy published alongside the chancellor's autumn statement; and there should be cause for cautious optimism. Instead though, wider events mean that business confidence is weak and once again, the prospects of inclusive growth in the North are looking as distant as ever.

Our *State of the North 2016* report focuses on three key issues that will build business confidence in an era of increasing uncertainty.

1. SECURING A UNITED NORTHERN VOICE AT THE BREXIT NEGOTIATING TABLE

The North has distinct economic assets and interests that present both opportunities and threats as the UK prepares to leave the European Union. However, the fledgling and patchy development of combined authorities, metro mayors and devolution deals in the North means that the region is not well placed to formulate a coherent response to Brexit. It will therefore

struggle to match the response of the devolved administrations for Northern Ireland, Scotland or Wales, or of the mayor of London or other well-established lobbying groups.

Recommendation 1: IPPR North calls for the formation of a Northern Brexit Negotiating Committee to determine the type of Brexit that would best suit the North, to speak with one voice in the negotiations, and to build direct relationships with regions and nations within and beyond the EU in order to develop and enhance its particular trade interests.

2. ESTABLISHING CLEAR PRINCIPLES FOR A PLACE-BASED INDUSTRIAL STRATEGY

The government's industrial strategy represents an opportunity not only to address the implications of Brexit but also to take a more proactive approach to many of the structural challenges facing the UK economy, not least regional rebalancing. There are numerous 'types' of industrial strategy with varying degrees of intervention. IPPR has set out four clear 'objectives' that any new approach must address including the need to develop a strong spatial dimension to enable all parts of the country to contribute to its prosperity, but IPPR North believes that industrial strategy must adopt three 'place-based principles'.

- *Regional differentiation:* Develop a more sophisticated understanding of what drives growth in different types of region rather than the hitherto insufficient account of growth focused on urban agglomeration.
- *Co-ordinated investment:* Drive up public investment in infrastructure, research and development and other economic assets to match private sector investment and act as a catalyst for business innovation and smart specialisation.
- *Devolution:* Develop and enhance its approach to devolution both to regional and local tiers of government with a much greater emphasis on fiscal powers to enable subnational bodies to direct investment on local economic opportunities.

Recommendation 2: IPPR North calls upon government to adopt a place-based approach to industrial strategy with the three core principles of regional differentiation, coordinated investment and devolution as its foundation.

3. FOCUSING ON LOCAL ECONOMIC RESILIENCE ALONGSIDE GROWTH AND DEVOLUTION

The large majority of our *State of the North 2016* report focuses on the importance of building local economic resilience. As with industrial strategy, there is a rich literature on how local economies resist and recover from economic shocks. Building on the work of Martin and Sunley (2014), IPPR North has developed a resilience framework consisting of four factors, each with a set of key indicators, and has used these to profile each of the 11 local enterprise partnership (LEP) areas across the North of England.

Our analysis finds that the North's resilience is as varied as its geography, but we have been able to group the North's LEP areas into the following categories.

1. **Resilient or prosperous:** areas that are relatively well prepared, with a diverse economy and strong labour market
2. **Dynamic but vulnerable:** areas where there is a diverse or diversifying economic base, but have some structural flaws, especially compared to similar city-regions in the EU
3. **Dependent or vulnerable:** areas that are reliant on a single industry or small group of industries, and have significant structural issues to overcome.

Recommendation 3: IPPR North recommends conducting LEP resilience audits. The North's LEPs, working closely with relevant local and combined authorities, should each conduct a resilience audit that sets out in detail the threats to their economy in the wake of Brexit. This audit should then be used to inform a strategic response, and a set of asks from the government that are tailored to acting on this strategy as part of a new round of devolution deals with each LEP area.

For the full report, including all references, data sources and notes on methodology, see: www.ippr.org/publications/the-state-of-the-north-2016

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