



FULL STEAM AHEAD

BUSINESS ATTITUDES TOWARDS THE NORTHERN POWERHOUSE

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ABOUT IPPR NORTH

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CONTENTS

1. Introduction	3
A recent history of the northern powerhouse.....	3
The national business view of devolution.....	5
Our methodology and key research questions.....	6
2. Business attitudes towards devolution in the north	7
Public attitudes to devolution	7
Business attitudes to devolution.....	8
What should be devolved?.....	9
Attitudes to fiscal devolution	10
The northern business view of the northern powerhouse.....	10
The capacity issue	11
3. Conclusions and recommendations.....	13
Barrier 1: some implications of the Cities and Local Government Devolution Bill ...	13
Barrier 2: the spending review and constraints on capital investment	15
Barrier 3: external factors.....	16
Recommendations.....	16
References	18

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1. INTRODUCTION

This paper looks at the emergence of the ‘northern powerhouse’ concept, and in particular at the response of northern businesses to it. Through a programme of original research, we highlight the differences between the attitudes towards devolution of national and northern business groups, the barriers and risks that concern northern businesses, and the steps that can be taken at the national, local and business level to counter those risks and thus to maintain the momentum that currently exists behind the northern powerhouse. Such devolution, we argue, should be full steam ahead.

A recent history of the northern powerhouse

Both before and after the 2015 general election, the chancellor has made great play of the concept of a ‘northern powerhouse’.¹ Although it remains vaguely defined, the idea broadly comprises four key ideas:

- That the combined ‘economic mass’ of cities in the north of England can act as a significant ‘counterweight’ to London, so reducing the nation’s dependency on the capital city and rebalancing the economy.
- That economic growth in the North will be predicated on the agglomeration effects generated by the biggest cities – particularly focussed on Manchester – and key economic assets in science, technology and other innovation hubs.
- That in order to achieve mass and agglomeration there needs to be much better connectivity within and between cities which requires significant investment in transport infrastructure – now being driven forward by a Transport for the North partnership (see DfT et al 2015).
- That economic growth potential is best unlocked by devolution of 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.²

This agenda is certainly not new. Many look back to the Northern Way initiative advocated by the then-deputy prime minister John Prescott, which brought together the interests of the three regional development agencies (RDAs) in a series of ‘programmes’ on transport, investment, housing and other pan-northern concerns (SQW 2011).

Following the abolition of the RDAs, IPPR North established the Northern Economic Futures Commission, which published its final report, *Northern prosperity is national prosperity*, in November 2012 (see IPPR North and NEFC 2012a). This report called for ‘a paradigm shift in our national economic thinking which re-evaluates the significance of the north of England in relation to the national economic interest’. It set out a series of propositions about the northern economy (see boxed text below) and made over 30 recommendations – many of which have subsequently been woven into the government’s programme.

1 See for example Osborne 2014a, 2014b, 2015.

2 As featured in the Queen’s speech 2015: <https://www.gov.uk/government/speeches/queens-speech-2015>

Northern prosperity is national prosperity: key propositions

- **Northern prosperity is national prosperity:** With a quarter of the population contributing to a quarter of economic output, the northern economy is more than twice the size of Scotland and, if it were a state, it would rank as the eighth largest in the EU, ahead of Sweden, Denmark and Belgium. Northern growth would be good for everyone. Halving the output gap between the north and the national average would increase national economic output by over £41 billion.
- **Northern potential for growth:** There is a growing body of evidence that mid-sized cities and their hinterlands offer the greatest potential for rapid growth. Such potential rests on releasing key indigenous drivers of growth. These drivers would include greater investment in human capital; retaining the relatively high number of graduates educated at northern universities; capitalising on upward trends in innovation, investment and entrepreneurship; and reversing the shocking underinvestment in transport infrastructure.
- **Structural challenges** are inhibiting growth: To unlock this untapped potential, a number of structural issues need to be acknowledged and addressed. The north of England is part of the way through a transition away from the heavy industrial economy of the past, and private sector weaknesses have been exacerbated by a hollowing out of the labour market, by problems accessing a financial sector that is increasingly concentrated in London, and by spatially blind policymaking, which has taken a narrow view on returns to investment. Addressing these issues over the medium term to enable the north to complete its transition to a more sustainable economy which will promote long-term economic rebalancing.
- The north must be seen as an **interconnected metro-region:** There is no single geography of economic growth. Northern economies are increasingly interconnected, with different local economic centres playing diverse economic roles. Manchester and Leeds exert a strong economic influence across the north, while Sheffield, Newcastle and Liverpool make distinctive contributions as hubs of growth and employment, and as gateways to the wider economy. York, Preston, Chester and Warrington have key assets as dynamic and independent cities, while parts of the rural economy have experienced rapid and significant growth in key sectors. However, to maximise growth opportunities there needs to be much greater connectivity, coherence and coordination across and between all these economic centres.
- Northern economic development needs bolder **leadership and autonomy:** The dominance of the economy of London and the south-east has been supported by an overly centralised approach to economic and social policy in Whitehall. The current government has made much of its desire to decentralise, and has taken some small steps in this direction. However, this process needs to be quicker and deeper, and the north must foster leadership and governance of a quality that is up to this challenge.

Source: *Northern prosperity is national prosperity: NEFC interim report (IPPR North and NEFC 2012b)*

Since then there have been a number of other reports which have galvanised and promoted the combined importance of city growth and devolution. These have included:

- *No Stone Unturned in Pursuit of Growth*, by Lord Heseltine (2012)
- *Competitive Cities, Prosperous People* by the Core Cities Group (2013)
- The publications of the City Growth Commission, including its final report, *Unleashing Metro Growth* (2014)
- *HS2 Plus*, a review of progress made in the High Speed Two infrastructure project, by its chairman, David Higgins (2014)
- ResPublica's report *Devo Max – Devo Manc*, which proposed a plan to give Greater Manchester greater control of its finances and an elected Mayor (Blond and Morrin 2014).

While there are differences in emphasis and in terms of the specific recommendations in these different reports, there has been remarkable consensus and consistency in the core message: devolution to cities and economic prosperity in the north of England go hand in hand.

Building upon this consensus, the chancellor – and HM Treasury more widely – has taken a keen interest in shifting powers away from Whitehall and towards combined authorities and city-regions. This was exemplified by the proposed devolution of the entire £6 billion budget for health for the Greater Manchester Combined Authority.

The national business view of devolution

With ideas about English devolution and a northern powerhouse so frequently in the news, it has been beholden upon national business bodies to offer a ‘business view’. The national business voice has found expression in various ways.

National business groups have generally been positive, albeit cautious, about the devolution agenda. In principle, the idea of greater powers at the regional and city level to boost local economies has been welcomed, in particular where it involves investment in infrastructure.

There is less enthusiasm for devolution of tax-raising powers, however, insofar as it is perceived as creating further complication for business. There is also concern about accountability and governance at the sub-national level.

The Federation of Small Businesses (FSB) is broadly supportive of the move to hand more powers to cities and regions. The national chairman has stated publicly that:

‘Local decision-makers are best placed to understand local economic needs and if managed carefully, greater decentralisation has the potential to deliver the economic rebalancing which is so clearly needed’.

FSB 2015

Although the FSB campaigned for the devolution of business rates to Wales, it opposes allowing local variation in business rates elsewhere in the UK, because of concerns that this would fragment the tax system, leading either to increased costs for business or a ‘race to the bottom’ between different areas.

This position is broadly that of the British Chamber of Commerce (BCC) as well, which has been broadly supportive of the devolution agenda. Their own polling of members found that most want to see more spending decisions related to local growth made in their areas. However, they also point to scepticism towards any devolution of tax-setting powers, as well as concerns about accountability and governance. The BCC has proposed a ratepayers’ vote on local economic development strategy and funding decisions, which would ensure that plans for an area’s future have the support and input of the whole business community (BCC 2015).

The Confederation of British Industry (CBI) has voiced its support for the devolution of key powers, including transport and planning, which ‘should give authorities and Local Enterprise Partnerships the tools to develop ambitious plans for growth’ (CBI 2015). The CBI has firmly stated that it views a unified business tax regime as an essential pillar of Britain’s single market and would therefore oppose any local tax-raising powers. Its director-general has also voiced concern about the pace of devolution, and has emphasised that a clear case must be made that devolution will support job creation and investment (Cridland 2015).

The Institute of Directors (IoD) is perhaps most supportive of the devolution agenda. Simon Walker, its director-general, has stated that:

‘Five per cent of the money raised in Leeds stays in Leeds. For most European cities it would be 40 per cent. Local people know how to spend money much better than central government ... The man in Whitehall really doesn’t know best – those days are well gone.’

IoD 2014a

Likewise, a poll of IoD members suggested that a significant majority want to see greater devolution across the UK, including England, including 67 per cent who would like to see devolution of tax and spending powers at the regional and city level (IoD 2014b).

Our methodology and key research questions

It is in this context that IPPR North decided to look at business views on devolution and the ‘northern powerhouse’ concept in the north of England – and in particular, whether northern perspectives might be any different from views expressed by national business bodies.

The research considered the following questions:

- What do representatives from businesses in the north of England think of decentralisation in principle? What reasons do they give to explain their support for, or opposition to, greater devolution?
- What would ‘good’ decentralisation look like for business?
- What are their perceptions of the ‘northern powerhouse’? What, if anything, does it mean to them and how do they think its message could be better communicated? What do they think are the key opportunities or weaknesses?

Our research methodology involved:

- Two roundtable discussions with businesses from a range of sectors and types. One was held in Manchester and another in Newcastle, and each had around 20 participants.
- A series of five interviews with business leaders – again, participants were selected from different types of business and different parts of the north.
- An online survey, which was promoted through a wide range of business media channels and networks.

Our survey attracted 81 responses, of which just over one-third were micro-businesses with four or fewer employees, 40 per cent had between five and 250 employees, and just under a quarter had more than 250 employees. Nearly half of businesses surveyed were over 20 years old. Over half had a turnover of more than £0.5 million, and nearly one-third had a turnover of over £10 million. Respondents were quite equally spread across the north of England and from both towns and cities. On balance, respondents from financial and professional services sector were slightly overrepresented. Where the survey was least representative was in terms of age, ethnicity and gender: 80 per cent of respondents were white, British men over the age of 45.

It is important to note that IPPR North makes no claim that this is a ‘representative sample’ of northern business. While we have tried to ensure a good balance of research participants, resources did not permit a proper poll or a more systematic approach to the selection of roundtable participants and interviewees. Indeed, it could be argued that there was a degree of self-selection among research participants, which might skew findings. We would accept that criticism; however, through interviews with local chambers and other business networking bodies, we have found that our findings seem broadly consistent with views found elsewhere and so we are confident to present them in this paper as a fair reflection of business attitudes in the north. We would also make the case that they are no less representative of business attitudes than those published by the other national business bodies cited above.

2. BUSINESS ATTITUDES TOWARDS DEVOLUTION IN THE NORTH

There has been very little systematic study of business attitudes to devolution. However, there is a growing body of work on attitudes among the general public, which, to date, presents a contested picture.

Public attitudes to devolution

According to the Who's Accountable survey 2014 (PwC 2014), when asked whether they think the current balance of power between central and local government is about right, only 18 per cent of the general population agree (indeed, less than one in 50 'strongly agree'). In the West Midlands and Yorkshire and the Humber, this falls below 15 per cent and, interestingly, it is only in London – with its mayor – where more than one in five people think the balance is right (21.6 per cent).

When asked whether ministers should have less power over local services and local government should have more, nearly half agree (46 per cent), with only 17 per cent disagreeing and around one third not sure. This supports the evidence found in the Future of England (FoE) surveys, where 39 per cent of respondents said that they believe local authorities should have more powers (Cox and Jeffery 2014).

Such responses would seem to stem from a strong sense of local attachment. According to the 2012 FoE survey, 80 per cent of survey respondents said that they felt strong attachment to their 'local area', compared with 75 per cent to England and 66 per cent to the UK (ibid).

In the same survey, local authorities also fared better than the UK government in terms of people's sense of local efficacy and influence. When asked if they agreed that their local authority 'didn't care much about what people like me think', 68 per cent of people said that they did. While this might seem poor, it was better than people's attitudes towards the UK government (74 per cent said that it 'didn't care much') and the European Union (84 per cent). Interestingly, it was the London Assembly (54 per cent) and London mayor (45 per cent) that fared best on this efficacy measure (ibid).

These results are consistent with other surveys. The national Citizenship Survey asked a very simple question about levels of public trust in police, councils and parliament. While the police consistently received the top scores over the decade to 2010/11, trust in local councils was significantly higher than was trust in parliament, and this had been consistently rising where it was falling for parliament (CLG 2011).

However, although the general public senses a problem, people seem much less sure about solutions. When asked about the different forms that English devolution could take, there seems no immediate or growing appetite for England to be governed by anything other than a UK-wide parliament.

Regional assemblies were the last serious attempt by any government to develop devolved institutions within England. Alongside RDAs, they were planned by the New Labour government to devolve power to the English regions at the same time as new powers were being handed to London and the devolved nations. Compared with these bodies, however, their geography was less resonant with any sense of

local identity and the package of powers to be devolved was far less clear. As a result, in the first referendum to be held on the formation of a regional assembly, the people of the North East delivered an overwhelming rejection of the proposed new institution.

Since then, further experiments with apparently more decentralised forms of English local governance have met a similar fate. The Coalition government presented English cities with opportunity to vote for a local 'city mayor', but only Bristol voted in favour. (Liverpool also adopted a city mayor but at the instigation of a council vote rather than a public referendum.) Police and crime commissioners were introduced without public ballot, but when it came to elect the individual commissioners turnout was less than 15 per cent.

On the basis of these results, one could quite rightly ask whether there is any public appetite for decentralisation in England. Equally, though, one could ask whether people have been asked the right questions. The British Social Attitudes survey, for example, does not offer respondents any devolutionary option other than a regional assembly, which is unlikely to garner favour after it was so badly discredited in 2004. City mayors may have been rejected not because of any innate anti-devolutionary tendency but perhaps because, as in the case of regional assemblies before them, the public could see no added value to be gained from another elected official with no obvious additional powers or remit beyond those already held by the local authority (Willet and Giovannini 2014)

In short, we contend that the public clearly recognises the *need* for decentralisation but is consistently being presented with unattractive *models* of devolution, and responds accordingly.

Business attitudes to devolution

The IPPR North research undertaken for this paper demonstrates a more sophisticated understanding among northern businesses than general public attitudes polling seems to show. In part, this is because our broader methodology allowed opportunities for more discursive research and analysis, but it also demonstrates that many businesses seem to have given these issues significant consideration in the context of their strategic planning.

Much like the public at large, the view of the overwhelming majority of northern businesses surveyed and interviewed was that England is overly centralised. Just over 10 per cent of respondents think that the balance of power between central and local government is about right, with none 'completely agreeing' and over a quarter 'completely disagreeing'. When asked what government should do to deliver most benefit to individual companies, devolution was the third most popular answer, supported by approximately one in four, behind improvements in education and skills policy, and investments in infrastructure. And when asked what government should do to improve the northern economy at large, devolution was the second most popular answer, after investment in infrastructure.

The reasons for this seem to be fairly simple and business-focussed. Nearly two thirds of northern businesses surveyed disagreed with the statement that national government does best for their businesses; this compares with nearly four in 10 in the case of local government, showing greater trust in local government to make decisions that will bring business benefits.

When asked whether devolution might make doing business more complex, just over a quarter agreed with this possibility; exactly half disagreed or completely disagreed. Similarly, when asked whether it might make doing business more risky, less than one in five agreed.

During our interviews and roundtables, businesses expressed a range of concerns about existing plans for devolution – not least the capacity of local government to deal with change (see below) – but the overwhelming view was that the benefits outweighed the risks. And overall, those businesses we spoke to were optimistic about the possibilities of devolution: more than half agreed that the benefits of devolution would outweigh the costs, compared to just over 20 per cent who disagreed. This was corroborated in roundtables and interviews, where respondents talked about the importance of ‘bringing decisions closer to the needs of businesses’ and ‘putting us in control’, with devolution allowing businesses to ‘do what we’re good at’ to ‘allow this region to flourish’.

Alongside the positive business reasons for greater devolution, discussions often moved quickly towards concerns that a more centralised economy tends to operate in the interests of London. There was a clear view from many participants that economic centralisation was the principal reason behind the economic dominance of London, as it skewed investment towards the capital and thus disadvantaged northern businesses compared to their southern counterparts. Northern businesses also felt that it was harder to win national contracts if they didn’t have a southern base – according to one participant: ‘even if you’re based in Manchester you get treated like a tinpot outfit when you tender for a big contract’.

More broadly, the dominance of London and the south-east was considered to be detrimental to national economic resilience and a key reason for the poor state of the public finances. ‘If you have policy designed to work in London then it’s not necessarily going to meet our needs elsewhere,’ noted one respondent. ‘It’s about having that flexibility, that understanding on a local scale.’ There is also general agreement that devolution ‘isn’t just about us in the north: an unexploited north is bad for the UK’.

What should be devolved?

Northern business attitudes to devolution, while broadly positive, exhibit a level of sophistication that is generally not identified in public attitudes research or by the press and media.

Our programme of interviews and roundtables allowed businesses to express the need for a relatively complex pattern of devolution based on principles of subsidiarity, with different tiers of government being responsible for different functions. These more complex views were also expressed in terms of different ‘aspects’ of devolution – administrative, fiscal and democratic (see Cox et al 2014).

The most popular functions that northern businesses felt should be devolved concerned training and the skills system. There was a common view that one of the main reasons businesses often struggle to attract the skilled workers they need is that they have insufficient interaction with schools, colleges and other training providers, where training provision is perceived to be determined centrally rather than by local labour market demands.

Northern businesses also made a strong case for the devolution of transport and infrastructure funding and decision-making. Again, this was often driven by the view that centralised decision-making had skewed investment towards London-based schemes, such as Crossrail, at the expense of less well-known but locally important investments in the north.

Our survey showed, however, that businesses want to see different functions devolved to different tiers of government. When asked about skills, planning and business support, the majority of businesses surveyed felt these should be devolved to city-regions or combined authority areas (like Greater Manchester). But when asked about economic development and transport, they felt such affairs should

be devolved to a bigger geographical area. For economic development, roughly a third favoured a return to the old northern regions, and another third favoured a wider 'combined region' across the whole of the north of England. For transport, just under half of all those who responded argued that it should be organised at this 'combined region' (pan-northern) level.

Attitudes to fiscal devolution

Decentralisation is not the preferred approach in all policy areas, of course. Unsurprisingly, immigration, income tax and corporation tax were the functions where there was least appetite for devolution, and where businesses felt things would be best organised at the national level.

One of the most interesting findings of the research concerns northern business attitudes to tax devolution – and in particular to business rates. Although national business bodies often claim that their members are very cautious about devolving business rates – especially business rates-setting – our research suggested otherwise. In our survey, just over one-fifth of respondents felt that national government was best placed to set business rates, but almost a third thought it should be done at a regional or pan-northern level, and another third felt it should be done at city-region level. Beyond this, around 15 per cent felt it should be entrusted to local authorities. This once again shows that, despite some diversity of opinion about precisely which level business rates should be devolved to, there is considerable appetite to wrest control from central government. And this applies not only to tax retention schemes but also to business rates-setting powers.

Some of the reasons for this came out in our interviews and roundtables. Although concerns were expressed that, historically, local government has not always had business interests at heart – and indeed had penalised businesses through high business rates in the 1970s and 1980s – most businesses felt that local government has changed a huge amount, and that it now recognises – perhaps more than central government – the importance of the local business base. Some concerns were expressed about equalisation between areas, but businesses felt that the benefits of a more local approach outweighed the risks of less generous redistributive system.

The northern business view of the northern powerhouse

The 'northern powerhouse' was first mentioned in a speech by George Osborne in June 2014. Our research indicates that the idea has been successfully disseminated, even if significant concerns about its substance remain.

About nine of every 10 respondents to our survey said that they had heard of the 'northern powerhouse', and roughly seven out of 10 indicated that they would consider that their company is contributing to it. A similar proportion agreed that it made sense to create an overarching brand for the north of England, with just over half agreeing that the concept of the 'northern powerhouse' would help to attract investment to the region. Overall, this amounts to fantastic 'brand penetration', particularly for a government proposal.

However, although most businesses are aware of the 'northern powerhouse', and may sympathise with its implicit objectives, there is considerable frustration and confusion regarding what it means in practice. Damningly, almost four out of five respondents said that they thought current plans on devolution were not being communicated effectively.

During our roundtable events, there was appreciation for the emphasis placed upon connectivity and infrastructure, which are considered vital to the region's business prospects. Most also agreed about the need for a clear plan or strategic

vision for the north, and were pleased that politicians were finally ‘talking up’ the region. However, three concerns were expressed about the current manifestation of the northern powerhouse.

First, businesses were wary of the nature of devolution negotiations so far, which are perceived to have been secretive ‘backroom deals’ between local and national government, with business interests excluded from discussions. Some have also argued that the terms of the debate are being set by the Treasury, forcing cities to ‘play the Westminster game’, as one participant put it. Ultimately the northern powerhouse will succeed or fail on whether businesses are prepared to play a major role in making it happen – for example, if they feel willing to invest more effort and money in training and vocational education. If they feel excluded from ongoing debates around devolution, however, they are more likely to be only reluctant participants.

Second, there were concerns that the powerhouse agenda represented a deliberately cynical ploy to curry favour in the north ahead of the general election. Given more recent announcements, including the introduction of the Cities and Local Government Devolution Bill to parliament,³ these fears have proven at least partly unfounded. However, until the government commits new money for the north, particularly in infrastructure, many businesses are likely to continue to view the northern powerhouse as a brand lacking substance.

Finally, there were concerns that the current uneven approach to devolution could prove divisive across the north. Many spoke of the risk that areas outside of the core cities,⁴ and outside of Greater Manchester in particular, would be left behind. Those in the North East and rural areas were particularly concerned about being excluded, although there was no great difference in the enthusiasm for devolution between regions – indeed, participants at the North East roundtable seemed just as keen as those at the North West event. Since our roundtables, North East businesses have become even more vocal about their concerns (see for example Hardesty 2015).

But ahead of all these other issues, one preoccupies businesses more than any other: local government capacity.

The capacity issue

As we have shown, businesses in the north of England are generally in favour of devolving greater powers to local regions and cities. However, this enthusiasm is tempered by their collective lack of faith in the ability and capacity of local government to deal with these changes and to wield new powers.

In our survey, just one in four respondents thought that local government was up to the job of having more power. Our conversations with businesses suggested two possible reasons for this lack of confidence:

- First, that local government does not have **sufficient officer support** to perform capably. Some pointed out that ongoing cuts to local government budgets have further eroded this capacity. Many complain about delays to the planning system caused by a reduction in the size of planning departments, for example.
- Second, that the **leadership of local authorities** in the north is a cause for concern. Whereas Greater Manchester was often held up as a good example of a council with strong leadership, other councils were considered lacking, with businesses acutely conscious of council leaders ‘playing politics’ rather than

3 See <http://services.parliament.uk/bills/2015-16/citiesandlocalgovernmentdevolution.html>

4 Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield.

taking decisions in the interests of the wider regional economy. Examples were cited from several city-regions where personal animosity between individual leaders – even from the same political party – had led to decisions that were short-termist or unhelpfully compromised.

In relation to the wider northern powerhouse geography in particular, leadership and capacity was again raised as an issue. Businesses pointed out the need for a pan-northern body to ensure that city-regions such as Leeds, Manchester and Newcastle are encouraged to collaborate. One roundtable participant put it very succinctly: ‘where is our Boris Johnson or Nicola Sturgeon?’

Notwithstanding these concerns, businesses still felt that, on balance, devolution was a good thing and that local government capacity would grow as a consequence. Some referred to the developments made in Manchester, in terms of convening policy and research expertise from across the region, and of the public and private sector interests that are working closely together under the auspices of the Manchester Growth Company. It was felt that business and local government could do more to enhance one another’s capacity within the emerging context.

3.

CONCLUSIONS AND RECOMMENDATIONS

The majority view of northern businesses surveyed and interviewed for this research is that devolution in England is to be welcomed and that the northern powerhouse should proceed ‘full steam ahead’. Despite an element of caution on the part of some national business bodies, businesses in the north – large and small – appear more bullish. They have clearly identified the commercial benefits of locating economic decision-making ‘closer-to-home’.

Whether in terms of a more devolved skills system, more local control of transport and other infrastructure, or even business rates and local tax variation, northern businesses clearly put more trust in local government and the emerging combined authorities in city-regions to work in their interests than they do in central government.

Although the limitations of this research project are clear, its conclusions reflect a growing consensus among businesses regarding the opportunities of the northern powerhouse agenda. This should add further encouragement to national government to press ahead with its Cities and Local Government Devolution Bill and to work hard to ensure devolution in England remains a central feature of its programme across government. It should also help to persuade local councils to work collaboratively with each other and with Westminster to ensure they secure the best deal for their area.

However, at present there are significant barriers to progress that may jeopardise the devolution agenda as it currently stands. We identify three broad issues that were only touched on by businesses during our research but which we elaborate upon here, within what is a relatively fast-moving context.

Barrier 1: some implications of the Cities and Local Government Devolution Bill

The Cities and Local Government Devolution Bill, which is currently progressing through parliament,⁵ is relatively permissive in its current form. The fact that it widens the opportunities for more areas to form combined authorities and extends the breadth of those functions that government can devolve will be welcomed by businesses across the north of England. Government would do well now to ensure the bill does not become overloaded with technical amendments that work to narrow the possibilities for a rich tapestry of local approaches. Equally though, businesses will not look kindly on a subsequent ‘deal-making’ process that appears to be ensnared by the ability of Whitehall to negotiate every deal, department by department, line by line, with a level of caution that is ultimately anti-devolutionary in spirit. There are three areas where this might be particularly true.

First, the chancellor has made it clear that the adoption of a directly elected metro-mayor is a prerequisite for extensive devolution to city-regions. In fact, the bill does not legislate for this level of conditionality. It makes provision for ‘mayoral combined authorities’ but the devolution of new powers can be made to ‘combined authorities’ per se. This provides a little room for manoeuvre, but with such an

⁵ See note 3.

explicit emphasis on mayors by government, and with the so-called ‘Manchester model’ heralded as a benchmark for other cities, it is unlikely that there will be any backing-down on this condition.

Combined authorities outside Manchester are right then to be ‘exploring options’ and ‘keeping doors open’ with respect to metro-mayors, albeit with considerable reluctance to simply copy Greater Manchester in city regions where the economic and political geography is very different. Businesses will not want to see their enthusiasm for further devolution dashed by what can appear to be relatively parochial political interests.

Perhaps the key to unlocking potentially challenging local circumstances is to look overseas to the array of mayoral models that exist in continental Europe and the US. These include leaders’ boards with a delegated city-region ‘president’ (for example, in Bologna) or a fixed-term, rotating chair; elected and unelected ‘assemblies’ (Rotterdam) and ‘standing conferences’ of key stakeholders who are responsible for a city-region strategy and plan (Barcelona). A number of these models include the direct representation of businesses in a way that goes beyond the LEP-combined authority model that is emerging in England. The businesses we spoke to were relaxed about the possibility of additional complexity that this would involve.

Second, so far the devolution agenda has focussed exclusively on city-regions – Manchester and Leeds in particular. There is an economic logic to this position, with significant evidence pointing to Britain’s second-tier cities (after London) holding the greatest potential for economic growth. To this end, IPPR North and other commentators have advocated an asymmetrical approach to devolution: starting with the cities and those wishing to make faster progress on the devolutionary agenda (see Cox et al 2014).

However, as other ‘key cities’⁶ and some counties are right to point out, economic growth potential does not lie exclusively or even predominantly within those five core cities that have so far constituted combined authorities (Leeds, Liverpool, Manchester, Newcastle and Sheffield). To all intents and purposes, this is now recognised in the Cities and Local Government Devolution Bill, and numerous counties and other key cities are already working up their own proposals for collaborative working and the devolutionary demands which will follow. What remains to be seen, however, is the enthusiasm with which these will be received by government and its capacity to deal with multiple proposals. It will be challenged to understand the local dynamics well enough to judge between competing claims, in some cases between overlapping areas.

Even among the core cities there are genuine concerns that the northern powerhouse concept does not extend much beyond backing for Manchester and Leeds. More work needs to be done to bring the Liverpool, Sheffield, Newcastle and Hull city-regions more fully into the northern powerhouse frame. Only when the north collaborates as a proper, polycentric urban system – such as those we see in continental Europe or the US – will it be able to act as a real counterweight to London and the south-east.

This points to the third problem with the bill, and its consequences: that there is still a distinct lack of due process for new and emerging combined authorities to follow. Government is right to create a permissive context in which different areas can bring forward their own proposals and demands, as this reflects a genuine approach to localism. Nevertheless, a system without sufficient ‘rules of the game’ risks coming off as arbitrary and effectively concentrating power in the hands of a small number of ministers and their advisors.

6 See <http://www.keycities.co.uk/>

To avoid such accusations, alongside the bill, the government should set out a clearer process and timetable for all. Such a process should not rest so much on ‘tests’ or ‘criteria’ for combined authorities to meet, but instead set out the kind of framework within which negotiations can take place, the kind of models and ‘devolution packages’ that different areas might adopt, and the kind of timescales combined authorities can expect for the negotiation and administration of their deals. Such clarity will help to address business concerns about the transparency of deal-making and allow for any consequent business planning to be better informed.

Barrier 2: the spending review and constraints on capital investment

The second major barrier to progress lies in central government’s propensity – or reluctance – to put its money where its mouth is. A critical element of the northern powerhouse project concerns major investment in transport infrastructure. In the March 2015 budget, the chancellor committed £12.5 million to the further development and appraisal of the various schemes that comprise the Transport for the North proposals (see DfT et al 2015). But beyond this, no public money has yet been committed.

Some will argue that this is in accordance with due process, that government wouldn’t commit to schemes which, as things stand, have yet to go through proper appraisal and whose price tag could be anything between £15 billion and £65 billion. Having said that, such levels of investment will necessarily involve a significant element of private investment, and so the sooner the government demonstrates its commitment in substantive terms, the sooner private investors are likely to show more concrete interest. Furthermore, such investment is long overdue and requires lengthy lead-in times. If there is any real chance that such investments are to bring any meaningful economic benefit even in the coming decade then more urgent progress needs to be made. Through the impending budget in July and then the spending review due in the autumn, the chancellor has two opportunities to make a much bigger financial commitment to the northern powerhouse than has been made thus far.

The spending review represents an opportunity or threat to the northern powerhouse agenda in other ways too. Over the past five years, local government has borne the brunt of deficit reduction policies, having dealt with a 40-per-cent real-terms cut in core grants over the course of the last parliament and with many councils – particularly in our big cities – having to deal with cuts to more targeted grants as well. Although councils have responded with remarkable dexterity, this has had a significant impact on their capacity – not least in relation to non-statutory functions such as economic development. As businesses are all too aware, this is affecting their ability to move forward plans and ideas that would support devolution and the northern powerhouse.

While there is still scope for combined authorities to pool and merge economic development and planning functions, if there is to be a further £8 billion reduction in government grant funding to councils over the next parliament – as the Office for Budget Responsibility currently predicts (see Wintour and Elliott 2014) – local councils will simply not be able to cope. Of course, plans for further devolution risk being undermined by a lack of capacity to deliver them at the local level. But in addition to this, the proposed cuts increase the risk that devolved services will themselves fail due to insufficient funds, undermining trust in local government and stalling the current momentum behind devolution. This must be recognised in the spending review with a more generous settlement for local government, yes, but perhaps also with a different approach to the decision-making process.

If it is the genuine intention of the new government to roll-out the ‘Manchester model’ in devolving powers to other places then this necessitates a different approach to the spending review. With an increasing amount of funding from different central government departments being un-ringfenced and devolved to combined authorities, the opportunity exists to create much more extensive place-based budgets. Such an approach could create a significant fund that could be devolved as a single, predictable five-year budget for combined authorities to invest.

Looking longer-term, the real prize in terms of English devolution is to break the level of local dependency on government grants altogether through meaningful fiscal devolution. Our report has shown that there is a greater appetite for fiscal devolution among northern businesses than national business bodies seem to communicate. Business rate retention schemes are a small step in the right direction, as is the more extensive pilot programme promised as part of the Greater Manchester devolution deal. But the government needs to use its review of business rates as the first step in a much more extensive programme of fiscal devolution that would see combined authorities much better able to raise and spend tax revenues at the local level, in line with much of the rest of Europe.

Barrier 3: external factors

Finally, there are two external factors that risk undermining the northern powerhouse agenda.

In the course of our research, many businesses have expressed concerns about Scottish devolution. While northern businesses generally express their sympathy with the civic nationalism voiced north of the border, and envy the kind of devolutionary demands being made there, they have two significant fears. First, there is resentment at the generosity of the Barnett formula and a very real sense that – with London treated as a special case – Scotland’s gain is the north of England’s loss. Second, there is a real worry that the new Scotland Bill will give Holyrood fiscal powers that will enable it to attract business and investment away from the north of England. Unless something is done to redress these ‘borderlands’ issues, ideally through a more generous and permissive fiscal settlement with combined authorities in the north, then once again there is a risk that northern powerhouse proposals will simply be trumped by a more powerful and autonomous Scotland (see Schmuecker et al 2012).

Second, as described in the sections above, northern businesses are keeping a watchful eye on London. As attention turns to the mayoral elections in May 2016, there are real fears that a hotly contested battle between the two major parties could lead to government pledges and commitments that will once again privilege the capital city over the rest of England. In particular, the demands for Crossrail 2 could easily be counterposed against investments in northern infrastructure. Regardless, it is likely that mayoral candidates will make other devolutionary demands in line with the recommendations of the London Finance Commission (LFC 2013) which could give London a level of autonomy – not to mention revenue streams – that northern cities could only dream of.

While not wanting to inhibit further devolution to London or Scotland, northern business will expect to see a level of parity with measures offered to the north if the northern powerhouse agenda is to retain its credibility.

Recommendations

A number of recommendations are implicit in the conclusions above. However, in spelling these out more clearly it is possible to highlight some priorities for different players which will make the northern powerhouse concept a reality.

Government must:

- Hold firm with its permissive Cities and Local Government Devolution Bill but at the same time clarify a process by which other city and county regions can make devolution deals, in order to avoid bottlenecks and intransigence in Whitehall.
- Adopt a different approach to its spending review, identifying large-scale, five-year place-based budget settlements for combined authorities and pledging significant capital investment in northern powerhouse transport schemes.
- Build on its business rates review with a long-term commitment to proper fiscal devolution, showing a clear trajectory for progress to ensure the north of England is not disadvantaged by further devolution to Scotland or London.

Combined authorities and local government must:

- Seize new opportunities for further devolution deals with a sense of urgency and fresh resolve, setting aside parochialism in the interests of the greater good and developing plans for city governance with ingenuity and openness.
- Extend the opportunities for business involvement in all aspects of economic development and strategic planning, and not exclusively through LEPs, especially in the areas of skills, infrastructure and business rates.
- Continue to develop creative and resourceful approaches to collaboration both locally – pooling officer capacity and sharing policy development – and between areas, thereby enhancing strategic planning across the whole northern powerhouse area.

Businesses and LEPs must:

- Take steps to support and enhance the capacity of LEP and combined authorities through secondments into relevant policy and research teams, co-commissioning of research and analysis, participation in consultations, LEP activities and other collaborative opportunities, and in other mutually beneficial ways.
- Collaborate across LEP and combined authority areas to support pan-northern objectives in relation to transport, innovation, inward investment and other strategic priorities.

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