

Reinvigorating the Northern Powerhouse? Recommendations for policy makers



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April 2020

Introduction

The Northern Powerhouse (NPh) is a long-term strategy for the economic development of the North of England, launched by then Chancellor George Osborne in 2014. It is underpinned by the economic theory of agglomeration, arguing that the increased geographical concentration of people and jobs in large cities will enhance productivity and growth. The application of this idea to the economic geography of the North emphasises the need to bring the major cities of the region closer together to create a transformative urban counterweight to the dominance of the London city-region.

Over time, however, the NPh lost much of its original momentum and clarity amidst changes of government and ministers, generating considerable confusion and frustration within the North. More recently, the Johnson government has emphasised its strong support for the NPh, framed by a new language of 'levelling up' growth across the country. Drawing upon detailed research, this briefing identifies key policy recommendations to reinvigorate the NPh, helping to restore momentum and clarity.

Key Recommendations

Rather than taking a cities versus towns approach, a renewed NPh should adopt an integrated, regional strategy based on a clearer understanding of the relationships between places – cities, towns and rural areas - and the potentially complementary roles they can play within the economy.¹

A new Development Agency for the North to implement a refreshed NPh strategy should be established.

Government should clarify its commitment to Northern Powerhouse Rail (NPR) and the Northern sections of HS2, viewing these as an integrated, long-term programme of investment rather than as competing projects.

Government should set out a clear and comprehensive framework for devolution across England, publishing the long-awaited White Paper.

The economic scope of the NPh should be extended beyond identified growth sectors to encompass the basic services and infrastructures that many people rely upon, particularly in communities beyond the big cities.

What the research tells us about the NPh

Key ingredients of the original NPh strategy include enhanced transport connectivity between the major cities of the North; science and innovation investments; devolution of power and resources to the political leaders of Northern cities; and, support for cultural initiatives and activities. Other English regions followed suit in launching their own parallel initiatives, most notably the Midlands Engine, as well as a Western Powerhouse.

The origins of the NPh

As has been well documented in recent years, the UK has one of the highest levels of regional inequality of any major European economy.¹ Regional inequalities grew from 2010-2016 with the three Northern regions experiencing the lowest growth.²

“The thinking behind the NPh has been influenced by the ‘new economic geography’ and urban economics”

The thinking behind the NPh has been influenced by the ‘new economic geography’ and urban economics. These approaches emphasise the economic benefits generated by the scale, density and concentration of economic activity in cities. Based upon the argument that regional imbalance in the UK is not a result of London being too big, but the secondary cities being too small³, the solution is to counter-balance London by better integrating and empowering the group of Northern cities, enabling them to act as single agglomeration.

Another important influence on the NPh is the HS2 project. While HS2 as a national project has been prioritised over regional transport schemes, they have been presented as complementary based on the scope for improved East-West connections links across the Pennines to support HS2 and improve connectivity.

The NPH as an economic development strategy

The emergence of the NPh strategy also reflected the influence of previous regional initiatives, particularly Labour's Northern Way initiative involving the three Northern RDAs, and developing forms of cross-regional cooperation between Northern cities and regions.

The Northern Powerhouse Independent Economic Review (NPIER) set out an economic strategy for the North of England, identifying the four 'prime' capabilities of the North, namely advanced manufacturing, energy generation, health innovation and digital. In the absence of a dedicated trans-regional economic agency beyond TfN, the implementation of the NPIER has largely taken place through its influence in framing LEPs' sectoral priorities in their revised Strategic Economic Plans and Local Industrial Strategies.

“The establishment of TfN as a trans-regional body is a key organisational expression of the NPh approach”

The NPh strategy is critically dependent upon improved transport connections to bring the region's major cities 'closer together'. Hence, the establishment of TfN as a trans-regional body is a key organisational expression of the NPh approach. While TfN gained statutory status in 2018, its role remains largely advisory, with the government required to take account of its regional priorities in making national investment decisions. It lacks control over the Northern rail franchises as well as the power to fund itself through borrowing. Accountability and decision-making powers still reside with ministers.

Sometimes termed HS3 or 'Crossrail for the North', Northern Powerhouse Rail (NPR) has become central to the broader NPh strategy, with TfN's plan including a new line between Leeds and Manchester via Bradford, as well as significant upgrades to other parts of the trans-Pennine network. This favoured NPR route is integrated with the two Northern arms of HS2. While the Johnson government has pledged its support for NPR, this has been overshadowed by the uncertainty surrounding the Northern sections of HS2.

Another key dimension of the NPh concerns the promotion of the region for inward investment and trade. Investment opportunities in the NPh region have been packaged in the form of a Northern Powerhouse 'pitchbook' of projects. Investment and trade promotion are been led by national government through the formation of a dedicated NPh team based in Manchester within the new Department for International Trade.

The NPh as a political vision

The NPh was a central strand of the Conservative's 2015 election campaign and became a key domestic policy priority following their victory. In contrast to secretive devolution deals, it was designed to appeal to a broader Northern public, providing a new language for promoting the economic development of the North. At the time of 'peak Powerhouse' in 2015, the term NPh was recognised by 56 per cent of northerners.⁴ NPh rapidly gained support from business interests, local government leaders, think tanks and universities in the region. Since its establishment as an advocacy organisation in 2016 by George Osborne, the Northern Powerhouse Partnership (NPP) has played an important role in defining and advancing the NPh policy agenda (for example, extending it to education).

"The official NPh agenda has been criticised as narrow and unrepresentative by some groups in the North"

The official NPh agenda has been criticised as narrow and unrepresentative by some groups in the North, overly focused on business and transport with little to say about people and communities. These concerns prompted the establishment of 'People's Powerhouse' group which calls for a more inclusive North. This movement has become a presence on the NPh circuit as a part of a broader, participative approach that reaches beyond government and business. The Brexit referendum exposed an underlying intra-regional divide. Many former industrial towns and rural areas of the North voted 'leave', whereas the core cities, with the exception of Sheffield, voted 'remain', albeit rather narrowly in most cases. While rooted in the experience of deindustrialisation, income inequality and austerity, this sense of marginalisation among people in outlying areas was compounded by the adoption of city-centric growth strategies that have concentrated investment in urban cores rather than attempting to spread it across the region.

The NPh lost political momentum after 2016 as it was not a key policy priority for the May government. By contrast, Boris Johnson has expressed his strong support for the NPh, pledging funds for the Leeds-Manchester section of NPR, alongside devolution, local control of railways and increased funding for bus services and cycling routes. This commitment has been reinforced by the Conservatives victory in the General Election of December 2019, which saw them win 28 Northern seats from Labour. The NPh Minister, Jake Berry MP, sought to rebrand it as 'Northern Powerhouse 2.0', based on a 'whole North approach' encompassing smaller cities and towns. While this approach points to a shift away from agglomeration, the government struggled to translate it into policy. The key initiative to emerge here is the Towns Fund, originally announced by Theresa May in March 2019 and subsequently expanded by Johnson.

Devolution in the NPh

Devolution to Northern city regions has been directly folded into the NPh strategy as a key 'ingredient', based upon government's narrow view of devolution as a means of enhancing local economic growth. In common with the NPh, the emphasis on devolution peaked in 2014-6, driven by Osborne and the Treasury.

Based on the earlier City Deals, English devolution has been enacted through the bilateral negotiation of 'deals' between central government and local leaders. This approach is more akin to delegation than political devolution with local institutions effectively acting as agents of central government within an asymmetrical system of local-central relations. While the establishment of elected 'metro Mayors' was a government requirement, they introduce an important element of political devolution based on their local electoral mandates.

“This geographically selective approach is creating governance and funding disparities between devolved and non-devolved areas of the North”

English devolution is geographically selective in nature, focusing largely on major city-regions. This geographical selectivity has been exacerbated by problems in agreeing deals in some areas, particularly the North East and Yorkshire. As a result, large parts of the North remain untouched by devolution. The government's approach remains characterised by a lack of coherence and vision, although the 2019 Conservative Party Manifesto included a commitment to publish a White Paper for devolution across England in 2020.

This geographically selective approach is creating governance and funding disparities between devolved and non-devolved areas of the North as the government has rewarded devolved areas with additional funding. For instance, half of the £2.45 billion Transforming Cities Fund for local transport schemes is devolved to the areas with mayors, with the remainder allocated between other areas on a competitive bidding basis.⁵ Northern mayors have periodically used the NPh concept to criticise government policy and call for increased investment and further devolution. While city-regions remain the primary units of devolved governance in the North, the pan-regional scale of the NPh plays a supplementary role as a 'soft' space of cross-regional collaboration between local leaders, amplifying their voice in lobbying the central government for additional resources and powers.

Recommendations for Policy Makers

Rather than taking a cities versus towns approach, a renewed NPh should adopt an integrated, regional strategy based on a clearer understanding of the relationships between places – cities, towns and rural areas - and the potentially complementary roles they can play within the economy.⁶

Informed by the economics of agglomeration, the original NPh agenda involved the concentration of investment in the major cities of the North. Whilst intellectually coherent, this approach neglects other areas of the North, particularly the outlying parts of city-regions (e.g. the northern and eastern boroughs of Greater Manchester), towns and rural areas. In addition, many of the prime economic assets of the North are geographically dispersed, particularly in the energy and manufacturing sectors.⁷ As has become increasingly apparent since the Brexit vote of 2016, the benefits of city-centric investment and regeneration strategies have not spread to surrounding ‘left behind’ areas. Subsequently, the focus on cities has lost some impetus in favour of a more geographically inclusive ‘whole North’ approach, while growing concerns about towns are evident in the establishment of the Towns Fund by national government. Yet this drift away from agglomeration thinking has undermined the coherence of the NPh approach as it has not been replaced by an alternative theoretical rationale. This underlines the urgent need for fresh thinking to develop a new post-agglomeration regional policy for the North based on an understanding of the changing relationships between places. Earlier research suggested that the relationships between major city-regions and surrounding cities and towns could be characterised as ‘independent’, ‘isolated’, ‘dependent’ or ‘interdependent’.⁸ Future economic strategies for Northern city-regions should be informed by a clear understanding of the linkages between central cities and neighbouring towns, cities and districts.

A new Development Agency for the North should be established to implement a refreshed NPh strategy.

Along with the Midlands Engine (ME), the NPh has demonstrated the benefits of a broader trans-regional approach to issues such as transport and infrastructure planning, trade and inward investment promotion and the allocation of research and development funds.⁹ In the context of England’s fragmented organisational arrangements for economic development¹⁰, the NPh and ME have addressed an important institutional vacuum at the trans-regional scale following the abolition of regional development agencies (RDAs). Yet a key weakness of the NPh concerns the lack of dedicated organisational capacity to implement policy. This is evident in a failure to convert high-profile funding and policy announcements into delivery, contributing to a sense of frustration among people and organisations in the North. While the NPh is a long-term regional strategy, the approach of successive governments has been driven by short-term political considerations. The NPh is

organisationally diffuse and fragmented, spanning a range of national, regional and local organisations and initiatives (central government departments, Transport for the North (TfN), LEPs, Combined Authorities, NP11, the Northern Powerhouse Partnership, N8, the People's Powerhouse, IPPR North, etc). By contrast, the creation of a development agency for the North would provide clarity, coherence and the capacity to develop a more strategic, long-term approach to the formulation and delivery of policy. Based in the North, such a body should operate outside of government, while still being accountable to it, removing the NPH from day-to-day political influence. It would have spending flexibility over its own dedicated budget, allocated by central government. The agency should be broadly representative of the local authorities and LEPs of the North through a strategic oversight board and involving close collaboration in practice. This proposal is designed to strengthen and extend existing trans-regional working in England.¹¹

Government should clarify its commitment to Northern Powerhouse Rail (NPR) and the Northern sections of HS2, viewing these as an integrated, long-term programme of investment rather than as competing projects.

This briefing supports the recommendation of the recent Northern Powerhouse Partnership (NPP) report to establish HS2 North as a special purpose vehicle working with the private sector to integrate HS2 and NPR.¹² This body would be overseen by TfN and be responsible for delivering key elements of HS2 North and NPR, based upon a phased programme of investment. It should be granted powers to raise funds from business and private investors, building on strong business support for HS2 and NPR. At the same time, Northern transport should not become wholly fixated upon prestige projects such as HS2 and NPR when the academic evidence indicates that increased investment within city regions is likely to have greater economic benefit than inter-city projects.¹³ As well as increased powers and funding for Mayors and Combined Authorities over local transport, particularly for the expansion of bus services and cycle routes, powers over regional rail services in the North should be devolved to TfN, providing an important element of regional oversight and accountability.

Government should set out a clear and comprehensive framework for devolution across England, publishing the long-awaited White Paper.

This should offer meaningful devolution to all the city-regions and regions of the North, reflecting local aspirations and needs rather than prescribing a 'one size fits all' model. Following the agreement to implement the south Yorkshire deal, devolution should be extended to the rest of Yorkshire. It should also work to extend the geographically circumscribed North of Tyne Authority to the neighbouring South of Tyne authorities as well as offering devolution to Cheshire, Cumbria, Lancashire and the Humber. The piecemeal and secretive deal-based approach of previous governments has lost much of its political impetus and has created disparities in access to resources and political voice between

devolved and non-devolved areas.¹⁴ It should be replaced by a comprehensive and democratic vision and process of devolution that can engage citizens and communities.

The economic scope of the NPh should be extended beyond identified growth sectors to encompass the basic services and infrastructures that many people rely upon, particularly in communities beyond the big cities.

The importance of this 'foundational' or 'everyday' economy is increasingly recognised as part of an inclusive growth agenda,¹⁵ for example in local industrial strategies in England, but policy thinking is at an early stage.¹⁶ Local economic development policy remains largely focused upon the tradeable, competitive zone of the economy. This has arguably been reinforced by the recent Treasury-driven pre-occupation with fixing weak productivity. The focus on tradeable, high-value sectors has left the low-wage labour markets in which many Northern residents are engaged largely untouched.¹⁷ To extend its reach, the NPh strategy needs to address concerns about productivity, job quality and service provision in the foundational economies of the North. This focus can be developed alongside the support of high-value sectors as part of a more integrated and inclusive model of development that seeks to generate positive multipliers between the tradeable and non-tradeable sectors of the economy.

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