

# A five-point plan to transform the Northern economy

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## 1. TRANSFORM TRANSPORT CONNECTIVITY

Build Northern Powerhouse Rail and HS2, while improving intra-city transport links, to give private investment the certainty it needs to deliver homes and jobs.

## 2. DRIVE INNOVATION

Increase the North's share of public investment in research & development funding (R&D) to bring it in line with the Golden Triangle in the next decade - without reducing spending in the South East.

## 3. POWER THE NET ZERO TRANSITION

Unlock private investment for a fleet of small modular reactors (SMRS), carbon capture and storage (CCUS), and wider renewables as well as Northern-made heat pumps and home insulation.

## 4. CLOSE THE DISADVANTAGE GAP

Work with schools, charities, and agencies to end the education disadvantage gap in the next decade through targeted interventions in persistently disadvantaged neighbourhoods.

## 5. UNLOCK APPRENTICESHIPS AND TRAINING OPPORTUNITIES

Transform the skills system and encourage businesses to invest in training by devolving more responsibility to metro mayors and allowing more flexibility in the apprenticeship levy.



# /1. TRANSFORM TRANSPORT CONNECTIVITY

The North's creaking transport infrastructure constrains productivity, deters business investment, and limits opportunity. A series of broken promises and endless delays have driven up the cost of infrastructure and left us more exposed to inflation. Leaked analysis showed that the latest pause to HS2 is likely to cost the taxpayer at least £366 million on Phase 2a alone.<sup>1</sup>

In 2021 the government announced that the Eastern leg of HS2 would no longer go all the way to Leeds and would instead stop in the East Midlands. The promised new Northern Powerhouse Rail line from Manchester to Leeds will now end in Marsden in Yorkshire. NPP analysis of the Integrated Rail Plan found that the government is investing around £36bn less than was originally promised – with the North bearing the brunt of the cuts.<sup>2</sup>

The North's unique economic geography means that investment in large-scale transport infrastructure has the potential to deliver a huge return.

By better connecting our great Northern cities, we can create a whole greater than the sum of our parts. An interconnected network of thriving economic hubs across the Pennines would allow people here to access better-paid, more highly-skilled jobs. Moreover, it would attract businesses from around the globe looking to capitalise on a talent pool of millions.

This concept – agglomeration – is at the heart of the Northern Powerhouse vision. We want to see an end to the chopping and changing on transport. We need certainty to unlock private investment.

## Recommendations

- Accelerate the delivery of HS2's Western Leg between Euston and Manchester, including the section through Manchester Airport to Piccadilly.
- Expand Leeds station to improve capacity onto HS2.
- Accelerate the delivery of Northern Powerhouse Rail and extend the new line between Manchester and Marsden, with a Bradford link through Huddersfield.
- Reopen the Leamside Line in the North East.
- Devolve more powers over the transport network
- Rethink how transport is funded, including changing the rules around capital investment as well as devolving 1p of employers' National Insurance contributions to fund local transport

<sup>1</sup> <https://news.sky.com/story/hs2-pause-designed-to-save-money-is-costing-the-taxpayer-more-than-360m-leaked-govt-briefing-reveals-12907338>

<sup>2</sup> <https://www.northernpowerhousepartnership.co.uk/second-class-rail-investment-for-the-north-as-government-publishes-irp/>

## /2. DRIVE INNOVATION

The North boasts some of the best universities in the world as well as institutions pioneering research in areas such as advanced materials and energy. Translational institutes, such as the Advanced Manufacturing Research Centres in Sheffield and Lancashire, are helping maximise the benefits of research.

Unlocking the potential of these innovation assets was a key component of the original Northern Powerhouse agenda, which pioneered the establishment of organisations such as the Royce Institute as well as the National Centres for ageing and data at the University of Newcastle.

However, the government's focus on strengthening Northern R&D has weakened since then. The UK's geographical imbalances in economic performance continue to be exacerbated by regional imbalances in R&D spending, with a £1.6billion public funding gap between the North of England and the Golden Triangle, which holds back billions in private investment.<sup>3</sup>

We are also losing out on billions in lost funding from EU programmes such as the ESF and EDRF, which funded initiatives to support spinouts such as Northern Accelerator.

### Recommendations

- Increase the North's share of public investment in research & development to bring it in line with the Golden Triangle by 2030 - without reducing the current amount of spending in the Greater South East.
- Extend the initial Innovation Accelerators alongside the new Investment Zones.
- Bring together the public and private sector through devolution deals to set clear industrial opportunities.
- Extend industrial innovation and SME support.
- Promote research commercialisation and knowledge exchange through innovation eco-systems.
- Back the success of the Northern Gritstone investment vehicle established by Leeds, Sheffield, and Manchester, which boosts the commercialisation of university spinouts and start-ups and create equivalents to cover the wider North.

<sup>3</sup> [https://www.nesta.org.uk/report/the-missing-4-billion/?gclid=Cj0KCQjwl8anBhCFARIsAKbbpyQcFdTTjnTyootNNY0qJ3C7AsCL57YGjEIt8f2ATnsnWhPRQfjtr1AaAvttEALw\\_wcB](https://www.nesta.org.uk/report/the-missing-4-billion/?gclid=Cj0KCQjwl8anBhCFARIsAKbbpyQcFdTTjnTyootNNY0qJ3C7AsCL57YGjEIt8f2ATnsnWhPRQfjtr1AaAvttEALw_wcB)

## /3. POWER THE NET ZERO TRANSITION

Net zero goes hand in hand with levelling up the North. Two centuries after we powered Britain through the first Industrial Revolution with our coal-fired factories that transformed us into an international trading power, we are now in a global race to develop capabilities in emerging green sectors.

It's an opportunity to re-industrialise the North, create well-paid jobs and turbocharge our flagging productivity. It's also an opportunity to improve the lives and livelihoods of people across our regions, making it cheaper and easier to use public transport and heat our homes – all while reducing our carbon emissions.

However, the UK stands to miss climate targets on nearly every front according to a recent report by the Climate Change Committee.<sup>4</sup> Moreover, much of the drop in UK carbon emissions comes at the expense of exporting industry overseas – which makes neither economic nor environmental sense.

While the North has developed considerable renewable energy assets, such as offshore wind in the North Sea, too much of the green economy's manufacturing supply chains are based overseas (with the notable exception of the Siemens Gamesa factory in Hull).

Moreover, the delivery of Track-1 progress with Hynet and Teesside clusters is welcome but it leaves the Humber, the UK's largest carbon emitting industrial cluster, without a route to store their emissions. Alongside the existing East Coast Cluster, the selection of Viking as a Track-2 cluster could allow businesses in the region like Drax, Phillips 66, and others to unlock £15bn of private investment.

More than half the country's renewable energy is produced in the North, but we need more investment in R&D to develop clean technologies, more investment in local supply chains and more investment in skills which enable people to access new green jobs. We also need to ensure access to cheap, reliable decarbonised energy, which is critical to steel production and other supply chains.

### Recommendations

- Deploy a fleet of small modular reactors (SMRs), a significant export opportunity which allows us to build up our nuclear capacity and boost Northern supply chains.
- Unlock £15bn of private investment from Drax, Phillips 66 and other businesses in the Humber by selecting Viking as a Track-2 cluster.
- Expand green hydrogen production, storage and distribution.
- Retrofit domestic and commercial buildings whilst securing a UK and Northern supply chain for heat pumps, insulation and other technologies.

<sup>4</sup> <https://www.theccc.org.uk/publication/2023-progress-report-to-parliament/>

## /4. CLOSE THE DISADVANTAGE GAP

Closing the productivity gap will not happen without addressing the persistent North-South divide in education outcomes. The North has the highest numbers of long-term disadvantaged children from high-impact ethnic groups (including White and Black Caribbean) meaning the effect of the education disadvantage gap is starkest here.

In 2023, more than 28% of entries by pupils in London were awarded grades 7 or higher, equivalent to an A or A\*, compared with just under 18% of entries by pupils in the North-East.

These children begin falling behind from an early age, greatly limiting their ability to go into more productive, higher paid careers. According to NPP and FFT Education Datalab research 29% of long-term disadvantaged pupils were found to be receiving workless benefits at age 22. These young people were around five and a half times more likely to be in this position than those who had never been eligible for free school meals (5%).<sup>5</sup>

We need to support long-term disadvantaged pupils by looking at the challenges they face beyond the school gates which have a detrimental effect on academic performance. This means understanding specific local issues and tackling underlying problems faced by young people in left-behind areas.

No money has been spent so far in some of the priority 'Education Investment Areas', which were unveiled by the government in February 2022. The initiative replaced the Opportunity Areas programme, introduced by former Education Secretary Justine Greening in 2016 which devolved £72m to twelve disadvantaged areas in a bid to improve social mobility, with Bradford the largest beneficiary.

The programme was huge successful at improving outcomes among disadvantaged pupils, particular at the early years level. The changes mean that the former Opportunity Areas in the North have lost many millions each in funding for initiatives such as tutoring and attendance improvement programmes, aimed at helping the most disadvantaged children. Blackpool has lost the equivalent of 80% of its funding.

### Recommendations

- Drive up education outcomes through place-based solutions to specific local issues, such as Opportunity Areas.
- Work with charities and organisations such as SHINE on social mobility programmes that address multiple issues in tandem.

<sup>5</sup> <https://www.northernpowerhousepartnership.co.uk/publications/pupils-from-poorer-backgrounds-do-better-in-london-new-report-finds%ef%bf%bc/>

## /5. UNLOCK APPRENTICESHIPS & TRAINING OPPORTUNITIES

We need a highly skilled workforce here in the North, equipped with the tools to build the industries of the future: green energy, advanced manufacturing, and innovative health sectors. Investing in future generations remains the key to unlocking growth and levelling up.

The 2016 Northern Powerhouse Independent Economic Review (NPIER) identified a significant skills gap between the North of England and the rest of the country.<sup>6</sup> Skills levels in key capabilities in the Northern economy have lagged behind the national average for many years now, posing a risk for the zero transition.

ONS data from 2023 found that nearly half (46.7%) of people in London hold a degree or equivalent qualification (level 4 or above) compared with less than a third (28.6%) of those in the North-East. The figure is 35.8% for the South-East.<sup>7</sup>

Transforming our labour market will attract businesses from around the world but problems in the skills system mean that we are failing to maximise the full economic opportunities of emerging sectors.

We need to reform the apprenticeship levy, introduced by former Chancellor George Osborne in 2015, to allow more funding to be shared across supply chains. Between 2019 and 2022, businesses lost out on more than £3billion in skills funding from the government, after they failed to spend their full allocation due to rules about how the money can be used.<sup>8</sup>

Our skills system remains overly-centralised. It is easier for metro mayors and council leaders to join the dots between skills policy and local industry need.

### Recommendations

- Allow more flexibility in the apprenticeship levy to allow more sharing across supply chains.
- Extend powers over post-19 skills funding granted to the West Midlands and Greater Manchester in the 'trailblazer' devolution deals to other mayoralities.

<sup>6</sup> <https://www.transportforthenorth.com/wp-content/uploads/Northern-Powerhouse-Independent-Economic-Review-Executive-Summary.pdf>

<sup>7</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/educationandchildcare/bulletins/educationenglandandwales/census2021>

<sup>8</sup> <https://www.ippr.org/news-and-media/press-releases/over-3-billion-in-unspent-apprenticeship-levy-lost-to-treasury-black-hole-new-data-reveal>