CBI
THE VOICE OF BUSINESS

The UK's growth landscape

Harnessing private-sector potential across the country

Contents

Foreword

The overarching message of this report is a positive one – there is great private sector potential in every part of the UK. But for too long a preoccupation with disparities between regions and nations has prevented policy from fully realising potential within them. A new, more responsive approach is needed, based on the 'geography of growth'.

A lasting and sustainable recovery requires growth from all parts of the UK and cannot rely solely on the economic strength of the Greater South East. This report, which sits alongside new CBI work on industrial strategy and a range of region-specific analyses, highlights the opportunity that exists to nurture private sector growth up and down the UK if the right policy conditions are in place. It outlines how governance structures could be strengthened to support effective local and strategic decision-making, how key infrastructure projects could be brought forward to unlock growth where it is currently constrained, how powerful incentives could be introduced to encourage investment and underpin local development strategies, and how a better understanding of business demographics and local labour markets can help policymakers meet the needs of growing businesses. This is the challenge to government, and one that is only partially being met at present.

Localism has been the watchword for the current government across a broad range of policy areas. From planning, to local authority finance, to public service provision, the coalition has been at pains to demonstrate its localist credentials and its desire to devolve power away from Whitehall. For businesses, the local approach is only the right one when it can help them take advantage of growth opportunities: it is a means to an end rather than the end itself. It can bring better decision-making and improve access to business support, but too much of it can lead to fragmentation, duplication and inefficiency, imposing greater costs on companies. 'The right policy at the right level' must be the mantra.

In some areas a focus on local has left less scope for strategic policymaking and CBI members are concerned that some policies will suffer as a result. Transport planning, foreign direct investment and economic analysis are examples where a broader spatial approach is needed, but for which it is unclear how they will be taken forward successfully in the current institutional landscape.

Where there are advantages to local policymaking, the message from businesses to government is 'be bolder'. Devolution to areas that better reflect the geography of the private sector makes sense, but LEPs have lacked the meaningful powers and resources to enable them to make a real impact. Encouraging investment in places with potential is a good idea, but we could be bolder with the incentives on offer in Enterprise Zones. Enabling local authorities to share in the benefits of business growth can help to promote a pro-enterprise culture, but a business rate retention scheme could make a bigger difference. These policies have potential with more teeth.

John Cridland
CBI director-general

Executive summary

This report calls for a new approach to spatial policy, anchored in the entrepreneurialism, commitment and energy that exists in businesses and business people in all parts of the UK – the 'geography of growth'.

The reality is that, to succeed in rebalancing the economy away from a dependence on debt and the public sector, the private sector must be investing in and exporting from all parts of the UK. Just as a broad base of growth sectors must replace a dependence on the few, all parts of the UK must seek to maximise and realise their private sector potential. Relying on the 'usual suspects', either in terms of sectors or regions, is no longer an option.

For this to happen, the policy debate must move on, shedding the usual pre-occupation with trying to level out regional and national disparities and instead seeking to maximise and realise private sector growth potential in all parts of the UK. For too long, pockets of real opportunity in every region and nation of the UK have been overlooked because policy has been focused on headline outcomes and overall growth rates.

This in turn requires a new approach to the level at which policy is devised and delivered, which takes its cue from where private sector activity is located – for example, 78% of English GDP growth came from urban areas in the last ten years. These areas, often (but not always) located around city regions, are sources of considerable private sector strength and have the potential to act as cores of growth throughout the UK, not least in regions traditionally written off as 'lagging'.

If these areas are to flourish, they must be effectively governed. The new Local Enterprise Partnerships better reflect the functional geography of the private sector, but have so far lacked the resourcing and powers required to make a substantial impact on growth – 50% of businesses surveyed expect them to have little or no impact on growth. Equipping LEPs with statutory powers alongside the minimal level of core annual funding already announced will ensure that they can sustain the business engagement that is critical to their success.

Ensuring that LEPs are integrated into the new City Deals programme will allow the deals to enhance, rather than complicate, local decision-making in core cities.

Connecting growth hubs to each other and to key domestic and international markets is crucial. Better connected cities, for example across the North, can achieve benefits of scale ('agglomeration') that are beyond the reach of individual areas. A more effective, efficient network for transporting goods and services within and from the UK can put more businesses within the reach of new markets, both domestic and international. This requires a flexible governance approach which facilitates development at both a strategic and local level, depending on the scale of the project at hand.

The geography of growth must also be effectively incentivised, to stimulate activity and spark innovation. Government must ensure that the limited resources available are relentlessly focused on private sector growth – in particular, the Regional Growth Fund must better target opportunities. While the Business Rate Retention scheme and Enterprise Zones are good examples of how tax can be used as a spatial policy lever, both incentives need to be bulked up if they are to generate a substantial impact.

Crucially, policy must recognise the patchwork nature of businesses and labour markets across the UK, responding to the substantial variations that exist. Business size, ownership and sector patterns differ from place to place, while labour markets – often viewed through the national policy lens – closely reflect the growth geography of the private sector. Targeting the right spatial level, taking account of local variations, is a key part of a more nuanced approach to growth policy.

When assessing the geography of growth, it is clear that the challenges differ from place to place, but crucially, the opportunities for growth are everywhere. This report sets out what needs to happen to ensure that spatial policy is doing all it can to assist the rebalancing of the economy and the creation of a dynamic growth landscape.

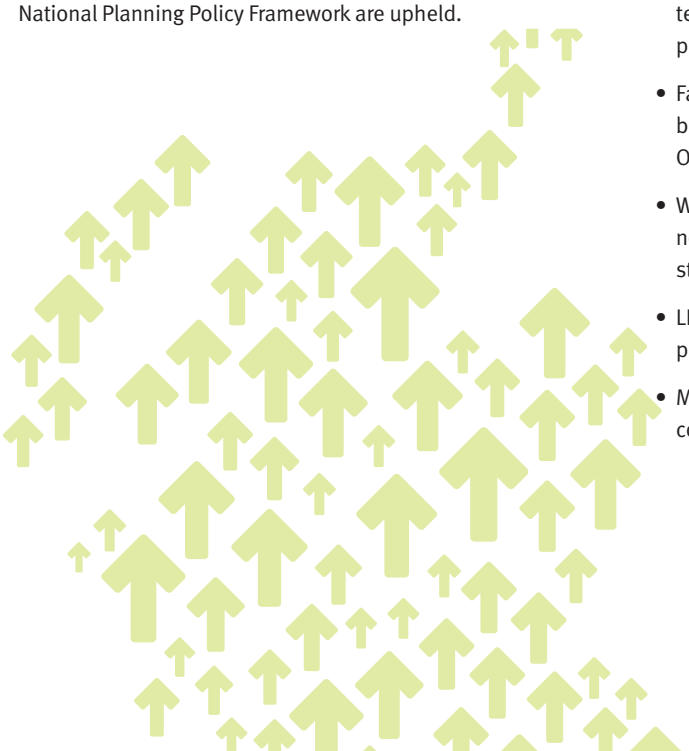
Summary of recommendations

GOVERNING THE UK'S GROWTH LANDSCAPE

- Consider giving LEPs statutory status so they can take responsibility of funding streams and have greater flexibility on how they design and deliver programmes
- Central government must incentivise LEPs to collaborate on policies like transport planning, for example by making future funding streams dependent on collaboration over a wider spatial area
- Future City Deals should be agreed over the same geography as LEP areas, unless there are good reasons why this is not appropriate.

CREATING GROWTH CONNECTIONS

- Road improvements in town centres should be prioritised in local transport strategies to relieve congestion and free up growth
- Government should fast track delivery of transport schemes that link businesses to trade hubs at ports and airports
- Government should look to bring forward further 'TIF 2' schemes in urban areas outside the core cities
- Small local pension funds should pool resources to create funds to invest in local infrastructure projects
- Government must improve the transparency of local planning authority performance to ensure that the principles of the National Planning Policy Framework are upheld.



INCENTIVISING THE GEOGRAPHY OF GROWTH

- Reform Regional Growth Fund to better support growth opportunities
  - Strengthen the consideration of an area's potential for private sector growth within the current bid assessment criteria
  - Reduce the minimum bid threshold to at least £500,000 or give preferential treatment to larger bids by cities or LEPs that make funding available to SMEs
- Bolster Enterprise Zones for maximum impact
  - Expand their size – for example to whole cities
  - Look again at the Business Rate rebate element and how this compares internationally
- Expand the Business Rate Retention scheme to properly incentivise pro-growth decision-making
  - Include increases in property value as well as in stock within the scope of the scheme
  - Extend reset periods to at least 20 years and remove the cap on business rate retention to make the scheme clear, simple and strong.

RESPONDING TO GROWTH DEMOGRAPHICS

- Consider the case for localising public sector pay over the long term, to improve public service delivery and create a more level playing field for the private sector
- Facilitate local brokerage between FE colleges and the local business base through City Deals, LEPs and UKCES' Employer Ownership pilots
- Working with businesses, LEPs and cities should map local skills needs and make addressing them part of the local growth strategy
- LEPs should make increasing local higher education participation part of their strategy
- More universities should consider sponsoring university technical colleges.

1 A new geography of growth

Only sustainable, private sector growth can lead the UK back to economic health, weaning the economy off its debt-fuelled dependence on government and household consumption.[1] This private sector growth must come from all corners of the UK if the economy is to successfully rebalance towards investment and exports and establish a sustainable growth footing.

The good news is that private sector potential – entrepreneurialism, ambition and energy – exists in every part of the UK. But for too long, pockets of potential have been overlooked because policy has focused on levelling out headline rates of growth at the regional level. Equally, an exclusively 'local' approach risks overlooking the need to connect growth hubs and recognise issues of region-wide challenge or opportunity. The view from business is that a new approach is needed, one based on the 'geography of growth', which seeks out private sector growth at every spatial level and in every part of the UK.

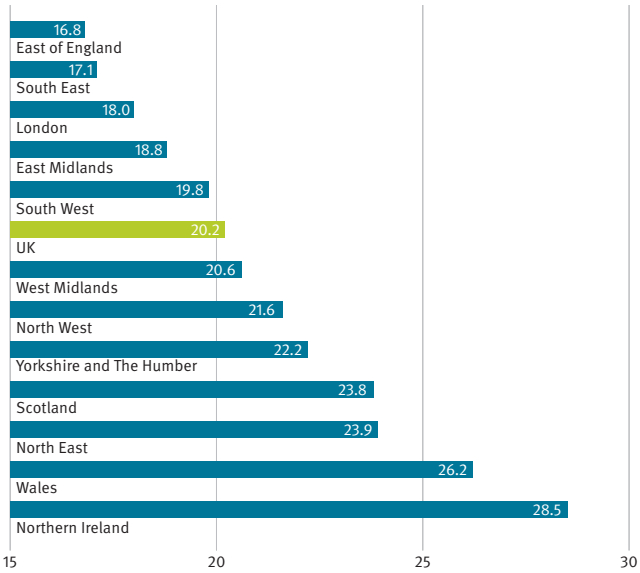
A new focus on private sector opportunity...

Taking the traditional regional view can mean that places of potential within regions are overlooked, as regions are classified as 'lagging', despite containing some real success stories. For example, private sector employment in Sunderland grew by 10.5% between 1998 and 2008, almost three times the wider North East rate of 3.6%, and productivity in Edinburgh is 25% higher than Scotland as a whole.[2] Moreover, Tyneside grew at the same per-capita rate as London in the decade from 1997-2007.[3] Ignoring pockets of potential such as these can lead to a bleak view of economic potential across the UK and distract from opportunities to build on existing strengths.

Identifying and nurturing hubs of private sector growth is the only sustainable future for regions and nations with high levels of public sector employment (**Exhibit 1**). All regions will experience public sector job losses and those best able to respond will be those where the private sector is most dynamic. Harnessing the vibrant, entrepreneurial potential that exists throughout the UK is not only desirable, but crucial to sustainable growth and sustainable jobs.

Exhibit 1 **The size of the rebalancing challenge varies by place**

Public sector employment, % total employment, Q1 2012



Source: ONS, CBI analysis

...which moves the policy debate forwards

A positive approach to meeting the UK's growth challenge requires a break from the traditional, but ineffective, cycle of policies designed to level out growth rates between regions. Efforts to tackle disparities between regions have consistently failed to make an impact. Disparities in GDP per capita have widened in recent decades, despite the concerted efforts of successive governments. For example, in 1992 the average region had an output per person of £58 for every £100 produced in London, but by 2009 this had fallen to £51.[4]

Moreover, the current fiscal environment means that significant spending to reduce the gaps between regions is not only unachievable – it's unaffordable. This necessary fiscal consolidation and the weakness of the underlying economy has reduced the amount of spending available to the government, meaning that large scale, explicit spending efforts to close regional disparities are no longer an option.

Instead, policy must focus on nurturing private sector potential by getting governance structures right, by investing in infrastructure, through powerful incentives to invest, create jobs and grow businesses, and by understanding how business demographics and labour markets affect people and places. This report focuses on those policy levers available to government, setting out the business view on what needs to change to realise a geography of growth throughout the UK.

Exhibit 2 **London as a growth asset, not a growth problem**

London accounted for more than £1 in every £5 generated in the UK in 2010 (22%) and generated 39% of the UK's total growth between 2000 and 2007 – far more than the contribution of Paris or Rhein-Ruhr to France and Germany respectively.[5,6] A high-performing London supports the rest of the UK through its:

- Net contribution to the public finances (£10-£20bn a year)[7]
- Role as a trading partner with other parts of the UK (exports c£125bn, imports c£110bn)[8]
- Function as a training ground for UK workers
- Generation of complementary employment elsewhere in the UK.

Much of the spatial policy debate in recent years has focused on how London's growth can be 'redistributed' throughout the rest of the UK. But rather than seeing the global standing and exceptional performance of London as a problem, policy must take a new, more positive approach, seeking ways to ensure that other parts of the UK are able to draw on and learn from London's success.

Others argue that London's rapid growth is itself unbalanced and unsustainable. Yet this overlooks the fact that London is a global city, competing at an international level with other hubs of private sector growth – in this wider context, London's performance is not so 'unbalanced'. In fact between 2007 and 2025, London is expected to slip from ranking No1 on GDP to No3, with 12 cities around the world growing more quickly.[9]

A pre-occupation with London's out-performance distracts from the fact that policy must continue to support London if it is to retain its status as a leading global city and continue to benefit the performance of the UK as a whole.[10] If threats to London's competitiveness such as restrictions on its physical expansion, reduced openness to skilled labour and doubt about future hub aviation capacity go unaddressed, then this key engine of UK growth could begin to stutter – to the detriment of every part of the UK, not just London.

2 Governing the UK's growth landscape

A new spatial policy based on the geography of private sector growth means that government must deploy policies at the most appropriate spatial level – whether local, regional, or national. 'Functional' economic areas such as city regions are a natural starting point but the government must recognise that some issues require a more strategic approach than is offered by pure localism.

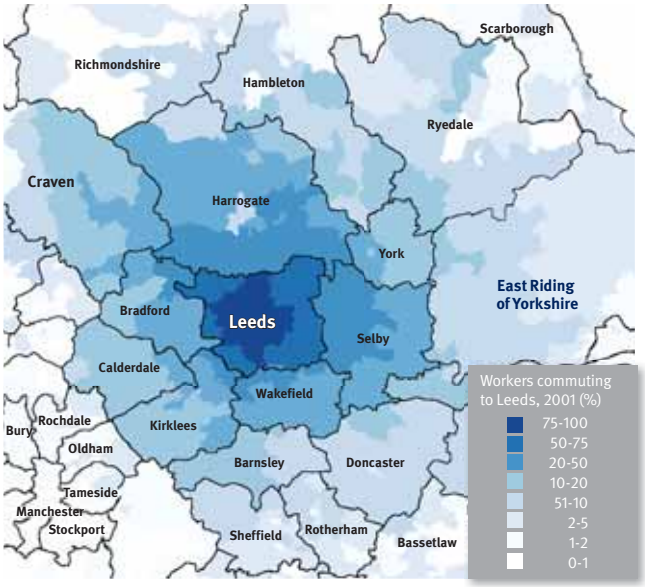
Getting sub-national governance right is a key part of this, but the message from business is that the shift to a new set of governance structures is by no means done – making the new landscape work for business remains a substantial challenge.

Cities should be at the centre of a new geography for economic policy

Where private sector activity takes place does not always fit with traditional regional boundaries. Rather, city regions are areas into which people commute to work, around which agglomeration benefits build up and, crucially, at the heart of which private sector activity takes place – 75% of the private sector workforce is located in cities and their hinterlands (**Exhibit 3**).[11,12]

If the overarching policy objective is to promote sustainable private sector growth throughout the UK, then taking these areas as the starting point for policy makes sense. This does not mean that cities are the be-all and end-all for economic development – there is also huge business potential in smaller towns and rural areas. But cities are a useful organising geography around which to base a range of policy decisions.

Exhibit 4 Leeds is the locus of a wider economic area



Source: City Relationships – economic linkages in Northern city regions, Leeds city regions, Northern Way, November 2009

The coalition has recognised the importance of cities, creating a cities minister in 2011 and launching City Deals (which equip cities with new powers and tools for economic development) in eight 'core' cities (see page 13).

Looking at these areas also helps to counteract some of the negative perceptions of economic performance outside the Greater South East. City regions and the urban cores within them are often

Exhibit 3 Cities are hubs of private sector activity

City regions are hubs of private sector activity. They generate 61% of UK gross value added and more than 75% of the private sector workforce is located in cities and their hinterlands.[13,14] They are also driving the UK forward – 78% of English GDP growth came from urban areas in the last ten years.[15]

City regions attract and support private enterprise in part because of the benefits of clustering together they create, meaning that, on the whole, the same business located in a city will be more productive than the same business located more remotely.

- **Access to other companies** – a larger number of suppliers and customers to choose from leading to lower costs and better matches
- **Access to a large pool of labour** – again, increasing the likelihood of a better match
- **'Knowledge spillovers'** from increased interaction leading to innovation and increases in productivity.

City regions can be made up of one clear urban core – such as Greater Manchester – or several interconnected cities, such as the Leeds City Region (comprising Leeds, Wakefield, Barnsley, Bradford and York). Common to all of these 'functional economic areas' is that they are defined by economic flows that may cut across traditional governance boundaries, such as local authorities.

the real success stories of UK growth and contain substantial strengths on which to build a more robust private sector presence. For example, cities account for just 2% of Scotland's land mass, but 54% of its highly skilled jobs.[16] Moreover, towns and cities are distributed throughout the UK, meaning every region and nation has its own hubs of private sector performance on which to build.

A one-size-fits-all approach to policy must be avoided

Starting from functional economic areas rather than regions makes sense when focusing on private sector growth, but this should not underpin a one-size-fits-all approach. Policy must be tailored to the relevant economic geography, which may differ depending on the type of policy and what is trying to be achieved. The shift from Regional Development Agencies (RDAs) to Local Enterprise Partnerships (LEPs) cannot afford to let policies 'fall through the gaps' – for example, it is important that policy can be carried forward at a wider, strategic level when its implications affect businesses and communities over that geography. Governance arrangements must therefore be able to accommodate decision-making at different levels.

The principle of the 'right policy at the right level' combined with a clear focus on private sector growth should underpin the government's approach to all policy with a spatial impact.

Exhibit 5 **Learning from governance success in Manchester and Leeds**

Leeds and Manchester are two examples of successful, co-ordinated governance of functional economic areas that are both sources of opportunity in their own right for the respective city regions, but also examples for others to follow. Both cities have strong track records in partnership working and have managed to introduce Local Enterprise Partnerships that map onto and integrate with existing governance arrangements, reducing the transition costs of the change from RDAs and allowing a much more proactive approach to taking new opportunities.

For example, both cities have successfully bid for Enterprise Zones (eg around Manchester Airport and the Aire Valley in Leeds) and have successfully negotiated ambitious City Deals, which grant them substantial new powers. Manchester's Deal includes an innovative 'earnback model' that will see the city benefit directly from the economic gains achieved through its infrastructure investment and Leeds' includes a £1bn transport fund, a further £400m infrastructure fund and support for a new 14-24 apprenticeship academy.

Businesses are not yet convinced LEPs will make a real impact

Across England 39 Local Enterprise Partnerships (LEPs) have been set up, in an attempt to cover areas that more accurately reflect natural market economies and to bring together representatives of local authorities and business leaders to establish strategic priorities. Most LEPs better represent functional economic areas – for example, over 87% of residents in the Leicester and Leicestershire LEP area also work there.[17] The Partnerships have generally secured good business engagement. However, companies around the UK are sceptical that they will make a substantial impact on growth unless action is taken to strengthen them.

The establishment of LEPs has brought some benefits and opportunities

Most LEPs generally represent functional economic areas when looking at the proportion of residents who also work within the LEPs' boundaries.[18] In addition, the majority (55%) of businesses surveyed think LEPs have the right geographical footprint, though 26% feel they are too small and 7% regard them as too large (**Exhibit 8, page 12**).[19] LEPs offer businesses a real chance to set local economic priorities – in particular, CBI members have emphasised some key positive aspects common to most LEPs:

Strong business leadership: senior business representatives make up significant proportions of LEPs' leadership teams. Many local business leaders have stepped up to this challenge and now have a key role in determining the economic development priorities for the area alongside local authorities.

Exhibit 6 **Promoting the West Midlands automotive sector requires new levels of co-operation**

The West Midlands automotive sector received a welcome boost this year following Jaguar Land Rover's announcement to invest £350m at the I54 site on the Staffordshire-Wolverhampton border. Construction is now underway on a new bridge to connect to the site, which also hosts other advanced manufacturers, to the M54.

However, business felt that the loss of the RDA (Advantage West Midlands) has made it more difficult to plan strategically around funding support for the auto sector, particularly through the local supply chains which have the potential to be stronger. Now, securing advanced manufacturing supply chain support requires a proactive approach by the LEPs, with funding coming at different times through different channels and government departments. The division of the functional area into a number of LEPs also makes strategic planning more difficult – overcoming this requires a good degree of co-operation between the region's LEPs.

Catalyst for local authority collaboration:
LEPs have the opportunity to overcome tensions between local authorities that have typically held back growth initiatives, such as where to locate Enterprise Zones. Following the success of the Manchester example, authorities such as Leeds and Sheffield are now taking steps towards Combined Authority status with LEPs an important catalyst in this process.

Delivering initiatives with tangible business benefit: we are starting to see more LEPs coming forward with their own practical initiatives to boost employment and help local businesses (**Exhibit 7**).

Exhibit 7 **Black Country LEP: helping to simplify planning for local businesses**

The involvement of local business leaders in LEPs offers an opportunity to identify barriers to growth and co-ordinate policies across local authorities to address them. The Black Country LEP has set itself an objective of simplifying planning processes within its boundaries and has consulted widely with local businesses to pinpoint areas for improvement.

Last year the LEP produced a Planning and Development Charter, which outlines the principles, values and behaviours that will be taken forward consistently by the signed-up local authorities. The LEP is also taking forward an initiative to create just one set of supporting documents that would be needed for planning applications submitted to any of these four councils. This would mean that key information on transport assessments and sustainability requirements could be provided identically for each, reducing time and cost for businesses.

But businesses see a number of threats to the success of LEPs

While most companies recognise the potential in LEPs they are still not convinced that, in their current guise, they can affect change in local economies.Fifty percent of businesses surveyed think LEPs will have little or no impact on growth and 45% have had no engagement so far with any LEP (**Exhibit 8, page 12**). This is particularly concerning, given that the success of LEPs will depend on the strength of private sector participation and businesses are unlikely to commit much resource to projects they are not convinced by. In addition, businesses that have committed themselves to the partnerships may be tempted to walk away.

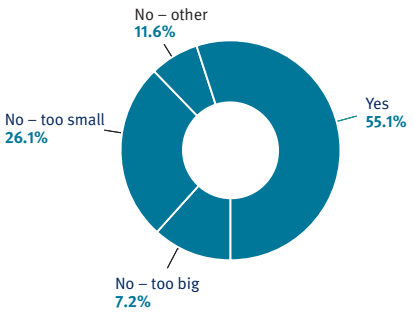
In particular, CBI members – some directly involved in LEPs – have identified the following ways in which LEPs must be strengthened to improve their chance of success.

Lack of resources has reduced LEPs' capacity to deal with important issues: most LEPs have been reliant on small contributions from their local authorities, contention over which can distract from achieving LEPs' wider objectives. Most have been run on a shoe string, limiting the capacity and calibre of the secretariat that they can employ, the quality of their outputs and their ability to stay on top of policy. At the time of our survey for this project, 67% of respondents felt that better financial resourcing of LEPs would make them more successful. The government's recent announcement that £250,000 of core funding will be made available to each LEP for the next two financial years is therefore welcome and should free up additional capacity for LEPs to focus on delivering growth growth – however, additional and ongoing support may be necessary for LEPs to fully meet their potential.

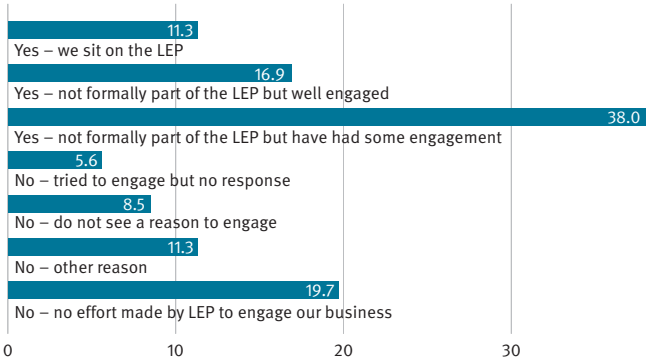
Lack of real powers limits LEPs' impact: LEPs are not defined in statute, which on one hand gives them greater flexibility but also places limits on the powers that can be devolved to them. For instance, while European structural funds were devolved to RDAs to administer, it is not possible to give LEPs the same responsibility. Since their inception they have focused a good deal of their time and effort on accessing centrally designed programmes and funds, such as bidding for Enterprise Zone status or Regional Development Fund monies, rather than focusing on their own initiatives. It is not just the scope of programmes that has typically been outside of LEP control, but also the timing of them. Giving LEPs greater powers to forge their own course will help to convince businesses that they are more than conduits for central government policy.

Exhibit 8 **Businesses views on LEPs**[20]

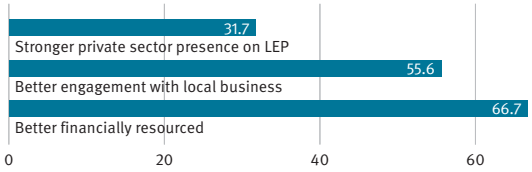
Is the geographic footprint of your LEP appropriate?



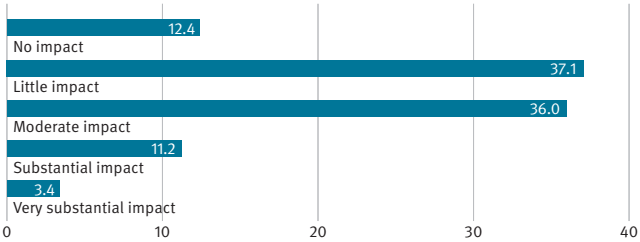
Has your business engaged with your LEP to date? (%)



How could your LEP be improved (%)?



What impact do you expect your LEP to have?



Source: CBI survey

Central agencies must buy in to LEP priorities: LEPs depend on a wide range of outside agencies to deliver elements of their growth strategies – for example they may need to engage with the Highways Agency on road improvements and with a wide range of statutory consultees in the planning process for new physical development. These bodies are not necessarily accountable to LEPs and have their own objectives and ways of working, but if LEPs are to have the impact that is hoped, it is essential that central agencies take account of their priorities for local growth.

Certainty is vital to business engagement: businesses are willing to commit time and energy into improving the business environment, but many require greater assurances that LEPs are here to stay before engaging fully. Moreover, political uncertainty could undermine the commitment of those already well-engaged with LEPs. From a business perspective, the stability of local governance structures is just as, if not more important than their scale and structure. Building cross-party support for LEPs as far as possible is vital to preserve the high levels of business goodwill shown so far.

LEPs must be incentivised to collaborate on some policy issues: The formation of LEPs and the abolition of the RDAs should not mean that a regional perspective on growth is lost. Businesses are concerned that the absence of RDAs will have an impact on the delivery of certain functions that are most effectively taken forward with a broader spatial perspective than can be provided by individual local authorities or LEPs.

CBI members have particularly identified the following policy areas:

- Transport planning
- Economic analysis
- Foreign Direct Investment
- Innovation policy
- Industrial policy (**Exhibit 9**).

Exhibit 9 Sustaining a strategic focus on nuclear in the North West

There is a risk that the North West's nuclear strength is taken for granted in the post-RDA landscape unless a co-ordinated approach is taken by the new LEPs. The functional geography of the region's nuclear cluster extends beyond the boundaries of any one LEP and is a good example of where strategic co-ordination – rather than straightforward localism – is necessary.

The North West is home to half of the UK's 45,000-strong nuclear workforce and is the only part of the UK to boast full fuel-cycle capability, from conversion and enrichment to power generation and decommissioning – a true sectoral asset.

Feedback suggests that LEP engagement with the nuclear community could be improved and that the important co-ordinating role played by the RDA risks being lost in the transition. While Cumbria LEP did apply for a nuclear enterprise zone at Lillyhall, this was unsuccessful. Maintaining a focus on nuclear will require a deliberate, co-ordinated focus by the region's LEPs, local authorities, businesses and education institutions.

City Deals will provide opportunities to strengthen urban areas

Business welcomes the government's intention to strengthen England's core cities through the City Deals programme, which has seen greater powers and resources devolved to these urban areas to help them take greater control of their strategies for growth. This approach has three clear benefits:

- **Concentrates effort and resource on hubs of private sector activity:** companies closely associate themselves with the cities in which they operate and the bulk of private sector activity takes place in these areas

- **Recognises the opportunities for growth through agglomeration:** the benefits of close ties between businesses across a city region can be exploited through the city-centric approach
- **Recognises that cities are at different stages of development:** the deals are bespoke, which enables each city to progress at a sustainable rate and take on additional powers incrementally. Cities that are ready to take more responsibility are able to do so.

The process of negotiating the City Deals could also be a catalyst for stronger collaboration between local authorities across city regions. Building on the example of Manchester, the first wave of deals saw Leeds and Sheffield taking steps towards establishing Combined Authority status – a formal tie between the local authorities in the city region that will see them share budgets and work together on some elements of policy. Establishing such structures will give a boost to businesses in these areas, who will welcome councils coming together to establish strategies for the wider city region.

Exhibit 10 **Ensuring East Midlands' city geography does not disadvantage its governance**

The geography of the East Midlands presents a set of unique challenges for the region. There is no single dominant city-region to act as a particular locus, such as Manchester in the North West or Leeds/Bradford in Yorkshire and the Humber. The only city in the East Midlands with a City Deal process in place is Nottingham, though the proposed powers and resources as part of the deal fall far short of those given to other core cities such as Manchester. There is no reason why the different nature of the East Midlands should detract from the rationale of devolving greater power and resources to city regions such as Nottingham – the region's cities must make their voice heard to avoid losing out. For example, it has been clear that since electing its first city mayor in Leicester in 2011 with full powers, this has resulted in the streamlining of the decision-making processes in the city.

Some promising measures, but City Deals must integrate with LEPs to ensure success

The first wave of deals included some important measures that, if implemented well, will help to unlock private sector growth. In particular, the Tax Increment Financing powers brought forward in several deals will give authorities an additional tool with which to support new infrastructure and regeneration.[21] In addition, the measures on skills and apprentices will help to deliver effective local brokerage involving local businesses of all sizes.

For City Deals to be most successful though, it is important that the geography they cover is well defined and marries well with the governance bodies that have a stake in their success, such as LEPs. Where a City Deal only applies to a portion of a LEP there is the potential for division and unnecessary complexity. Businesses would urge government to work with cities to ensure that LEP and City Deal boundaries differ only where there are good reasons for this being the case.

RECOMMENDATIONS

Consider giving LEPs statutory status so they can take responsibility of funding streams and have greater flexibility on how they design and deliver programmes

Central government must incentivise LEPs to collaborate on policies like transport planning, for example by making future funding streams dependent on collaboration over a wider spatial area

Future City Deals should be agreed over the same geography as LEP areas, unless there are good reasons why this is not appropriate.

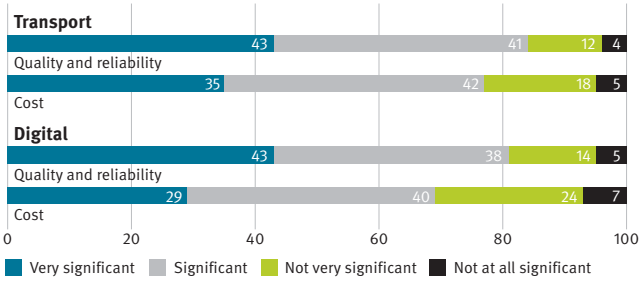
3 Creating growth connections

Maximising the potential for private sector growth will require a focus on connecting economic hubs in the UK with one another and to national and international markets. Smart investment in infrastructure can have a significant impact on the economic performance of different places, particularly when joined up with policy initiatives aimed at improving the business environment.

Infrastructure is important both as a driver and an enabler of growth. The construction of new railways, roads or broadband infrastructure creates jobs locally almost immediately through the activities of developers and their supply chains.[22] In fact, it is estimated that even before new infrastructure becomes operational, the building of it is estimated to generate £2.84 to the economy for every £1 spent. This has a significant local impact as 90p of this £1 is retained in the local economy.[23]

But the more significant impact of infrastructure investment is in its capacity to enable growth in local areas over the long term. Taking forward the right projects at the right time can help boost the performance of businesses well beyond those involved in the delivery of them. The wider benefits that infrastructure can bring include improving access to and the efficiency of labour markets, increasing business competition, increasing domestic and international trade and attracting globally mobile activity.[24] In short, businesses become more productive as connections with their suppliers, customers and competitors are improved, so the quality, reliability and affordability of infrastructure have a significant impact on their investment decisions (**Exhibit 11**). It is therefore critical that infrastructure renewal is targeted to unlock the potential of the private sector, particularly in urban areas.

Exhibit 11 **Significance of quality, reliability and cost of transport/digital infrastructure for investment (%)**



Source: CBI/KPMG infrastructure survey 2012

Cities must become better connected to boost local growth

The pressing need for infrastructure renewal is felt keenly in the UK's urban areas, where the benefits of new projects are felt by the greatest numbers of businesses and where the costs of congestion or lack of capacity are most evident. To give businesses the best chance of benefiting from improved transport infrastructure, strategies should focus on three key elements:

- Tackling bottlenecks and relieving congestion within our urban areas
- Improving networks that link urban centres
- Improving links to and from our main gateways to international trade.

Tackling bottlenecks and relieving congestion within our urban areas

Tackling bottlenecks in our networks must be a priority. Delays and unreliability of transport systems have a direct impact on businesses and consumers. The Eddington Transport Study estimated that if congestion is left unchecked it could cost the UK economy over £22bn in time wasted by 2025.[25]

To a certain extent, increased congestion reflects the economic success of urban areas. As growing towns and cities have attracted more businesses and inhabitants, pressure has increased on their networks. But further growth is likely to be choked off unless there is a persistent focus on relieving these pinch points.

Exhibit 12 **Transport infrastructure is a critical success factor in Wales**

Despite the established connection between economic growth and infrastructure, Wales has a growing infrastructure gap with England. Due to its geography, it is especially important for businesses based in Wales to have access to modern roads, rail, air and ICT infrastructure.

The Wales Infrastructure Investment Plan (WIIP) must set a clear pipeline for public-funded projects and unlock private-sector investment in infrastructure. The Welsh government must ensure it puts the policy framework in place to support the prioritisation and delivery of nationally significant infrastructure. The M4 relief road is one example of a project which has a 'more than local' dimension, due to the potential to significantly boost economic growth right across south Wales. As a result, the WIIP must ensure these projects are fast-tracked and prioritised at every stage of the devolved policymaking process. The CBI believes the following key infrastructure should fall within the 'nationally significant' category: M4 relief road, electrification of the Great Western Mainline to Swansea, energy, next generation broadband and regionally important infrastructure.

The delivery of the M4 relief road remains the single most important infrastructure project in Wales. Efficient roads remain a constant priority for business across the whole of the UK. It is critical that the infrastructure is in place to underpin business efficiency and competitiveness. The priority remains connecting Wales with its key markets, as a result, that means east-west road links in North and South Wales. Delivery of the relief road is vital if we are to achieve the growth and jobs Wales urgently needs. CBI Wales will continue to work with the Welsh government and the UK government to find a workable solution as business is keen to play its part in delivering this important project.

As the primary route of travel within towns and cities improvements to the road network are the main priority. Ninety percent of passenger distance travelled each year is on roads and schemes designed to add new capacity are crucial alongside maintenance of existing routes. A recent survey conducted by the CBI showed that 65% of companies across the UK had seen deterioration in local roads over the last five years and that 95% of companies were concerned about current levels of congestion.[26] According to the Highways Agency, local roads make up 98% of the total network, so it is crucial that they can efficiently transport passengers and goods to their ultimate destinations – particularly in more remote but trade-heavy regions across the North.

Analysis of traffic speeds by the LEP Network has revealed that congestion on roads is an acute problem in most urban areas. Traffic speeds in these places are generally 25% below the national average for similar road types, and this figure rises to above 50% in some parts of inner London. But the problem is not just confined to the capital, with speeds in places such as Bristol (38%), Reading (40%) and Newcastle (24%) also well below the average for similar road types.[27]

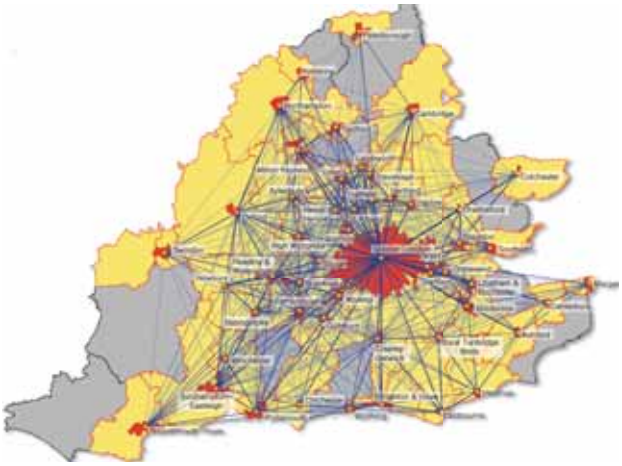
Improving networks that link urban centres is critical – particularly in the North

We also need to improve transport connectivity between urban areas to enable businesses and their employees to travel and communicate efficiently across greater distances.

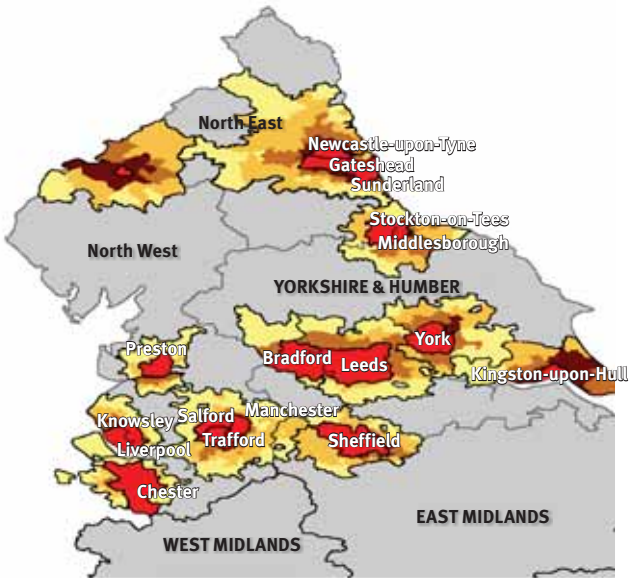
Connections between urban areas in the North West, Yorkshire and Humber and the North East are weak and in need of new investment – ensuring better access between cities and to London is crucial. Research undertaken by the Northern Way (**Exhibit 13**) found relatively low levels of commuter flows between cities such as Manchester and Leeds and highlighted the existence of vertical

'...65% of companies across the UK had seen deterioration in local roads over the last five years'

Exhibit 13 **Connectivity across the North is much weaker than in the Greater South East**



Source: *The polycentric metropolis: learning from mega-city regions in Europe*, Hall and Pain



Source: *The Northern connection*, Northern Way

boundaries between west, central and eastern parts of the North, through which relatively few commuters currently travel. In contrast, the Greater South East is a highly connected 'polynet' with connections throughout the region. As the region's hub, London not only acts as the focal point for these linkages but also benefits from a single transport system with city-wide, singular control – a good example of where governance and infrastructure interact.

Exhibit 14 **Better connectivity can help stimulate growth in Northern cities**

Better transport links between the city regions of the North can help foster stronger economic links, stimulating economic growth and helping the North's cities to collectively punch above their individual weights. Compared to the Greater South East, economic linkages between cities in the North, in particularly across the Pennines, are currently weak. While 77% of companies in London are satisfied with their domestic connections, just 44% of those primarily based in North West and North East are, according to recent CBI/KPMG research. Recent closures of large stretches of the A1 due to flooding highlight the need for road investment in the North East.[28] In addition to this research suggests the North's cities, which are among England's second tier of cities in terms of size, are currently smaller than their OECD equivalents.

The Northern Hub series of rail proposals across the North of England aims to address this, by making journey times between city centres more efficient, reducing travel times and improving freight capacity. This will make it substantially easier to do business across the North and help strengthen economic links between cities. It is estimated the project will add over £4.2bn to the northern economy creating between 20,000-30,000 jobs.[29] The government has announced its backing for the project as part of a £4.2bn package of rail enhancements that are set to take place across the country, in a welcome move for the private sector across the North.

Exhibit 15 **Improvements to the rail freight network are needed to develop trade flows across the North**

The Humber Estuary is a unique natural asset, and with the country's largest ports complex, a significant economic one. Grimsby and Immingham combine to form the UK's largest port by tonnage, and further up the estuary the port of Hull handles large volumes of unitised trade, particularly from Northern European and Scandinavian markets. Along with the Port of Tyne, Teesport, and Felixstowe, it is part of a vital set of trade hubs along the North and eastern coastline of the UK.

But rail freight upgrades are urgently needed if these ports are to continue to fully support the needs of businesses, particularly those in Northern regions. New capacity is needed on rail links serving the ports alongside modernisation of signalling and electrification of parts of the network. In addition, there is significant potential to develop east-west trade across the North by upgrading track gauge to accommodate wider and higher rail wagons carrying bulk biomass or container trade.

Investing in these improvements could have a transformational effect on businesses across the North that rely on the efficient transfer of goods and materials from overseas. It would also present opportunities for ports in the North East, Humber and in the North West to develop trade flows that are currently constrained by deficiencies in the rail network.

Improving links to and from our main gateways to international trade

Ensuring that we have excellent links to our seaports and airports must be a key priority for policymakers. The UK port industry is the largest in Europe, handling over 500 million tonnes of freight each year and enabling the transfer of goods and materials to and from thousands of UK businesses.[30] The UK's airports are also logistical hubs, ensuring that goods, services and businesses are able to access markets abroad. The UK does 20 times more trade with countries with whom it has a direct air link and trade and export flows over the last decade have increased more quickly to emerging markets served by daily flight connections.[31]

A failure to adequately link some parts of the country to these international gateways is likely to impact their growth performance and constrain business development as the efficiency with which they can access new markets is diminished. At present, there are bottlenecks in both road and rail networks that reduce the efficiency with which passengers, goods and raw materials can be transported to and from sea and airports. For the former, the vast majority of containerised freight has to go through the south, in part due to limitations in our networks.

Continued investment is needed to improve surface access to the UK's airports. Airports have the ability to boost regional economies and act as catalysts for growth but we must ensure they are well integrated into our wider transport networks. Onward connections, to and from airports will help to improve passenger and freight transfer and will help to reduce local congestion impacts.

The failure to set out a national strategy for aviation, particularly with regard to hub capacity, is having a knock on impact on local economies. Point to point flights from regional airports to important trading destinations can have a significant positive impact on local economies' trade performance. For example, Emirates' flight route to Dubai from Newcastle launched in 2007 has coincided with increases in trade to Australasia from the North East by 65%.[32] But the lack of capacity at the UK's hub airport, Heathrow is squeezing out domestic flight connections – only nine regional airports now have flights to Heathrow. This restricts the frequency and flexibility with which companies in some parts of the country can access some key international markets which would be uneconomical to serve on a point-to-point basis from their regional airport.

In the short term, the government must look to increase the use of mixed-mode operations at Heathrow, which will open up some breathing space for new flights and increase the airport's resilience. Over the medium term, the CBI has argued that a new runway is needed to serve the South East. Finally, it is important that all options to improve capacity over the long term are considered, including building a new hub airport for London.

Governance structures must take a more responsive spatial approach

Making the most of private sector potential will require infrastructure projects to be pursued at different levels. Business priorities for infrastructure differ from place to place and according to variable economic and physical geography – this is a good example of where a one-size-fits-all approach will not suffice. We need a balanced system, which can support important projects at a strategic level but can also deliver local priorities.

LEPs must work together to champion projects at a strategic level and support their delivery

Companies are concerned that the abolition of a regional tier of governance will make it difficult to get key infrastructure projects at a regional or pan-regional level off the ground. One of the primary functions of the Regional Development Agencies was establishing a Regional Spatial Strategy of which the Regional Transport Strategy (RTS) was a key component. Without the RTS, planning for transport projects with regional significance will be more challenging, relying on the collaboration of bodies with a local outlook.

The duty to cooperate provision of the Localism Act aims to ensure that local public bodies and transport authorities work together on strategic planning issues. But this measure is untested, and is aimed at punishing authorities that do not cooperate rather than creating the conditions and incentives in which they might seek to cooperate.

There is also a question mark as to whether the 39 individual LEPs are large or influential enough to command the attention of central government departments to mobilise resources and political support for projects. The onus is therefore on these bodies to come together and present a joint message of shared priority transport schemes. Without this there is a danger that regions – and particularly those outside of London – lose out in relative terms and that their share of public investment in transport infrastructure is diminished.

Exhibit 16 Creating growth connections in the East Midlands

The East Midlands' connectivity with London emerged as a strong theme in our research. The region's proximity to the capital was viewed as under-exploited, as a result of comparatively poor transport links. The announcement of £800m to electrify the Midland mainline line north of Bedford by 2019 is therefore a major step forward in facilitating better access to London and is a clear opportunity for businesses in the region.

Businesses also felt that the region – with the support of its LEPs – must make a clear, unified case for connection to the High Speed 2 (HS2) network. Part of the reason for the Midland mainline having fallen behind is that the west coast and east coast mainlines were seen as the key north-south arteries and as such were prioritised. There is a similar risk that, without effective connection to HS2, the region stands to miss out on the benefits of improved connectivity to the rest of the UK.

Connections between the East Midlands and the West Midlands – specifically Birmingham – were also seen as a priority issue. The widening of the A453, as the major artery between Nottingham and the M1 will be a major step forward in terms of connectivity between Nottingham, Leicester and Birmingham, with particular importance given to the surface access to East Midlands Airport. This project must be kept on track if the opportunities available are to be realised. But rail links between Birmingham and the major cities in the East Midlands (particularly Nottingham) remain poor and anecdotal evidence suggests that this is a barrier to investment.

Government should encourage closer collaboration between LEPs by providing additional funding or further powers over transport planning to those that work in partnership and can demonstrate political buy-in from all the local authorities involved.

'There is a danger that regions outside London lose out in relative terms and that their share of public investment in transport infrastructure is diminished'

Cities need the right tools to support projects with high-growth impact

Local infrastructure and regeneration projects can unlock the potential of the private sector, so it is essential that cities have the right tools with which to bring them forward. Many urban areas already have a clear sense of the projects that would have the greatest impact on growth but historically they have not had the powers to get them off the ground, nor the ability to finance them.

The devolution of greater powers to the core cities through their City Deals is a step in the right direction which offers opportunities for these areas to take control of their local transport priorities. Through the first wave of deals, authorities in Birmingham, Bristol, Leeds and Sheffield will take charge of transport budgets, matching local resources with those devolved from the centre to support their strategic investment decisions. Cities are also thinking innovatively about how they can set up self-sustaining investment funds, which will give them more independence from the centre by enabling them to pool multiple funding sources and leverage private sector investment. With less money around to fund projects this type of ingenuity is particularly welcome.

It is also essential that new local models that can leverage new finance for infrastructure are brought forward. Businesses see great potential in Tax Increment Financing (TIF), which allows local authorities to borrow against increased tax revenue generated by the growth which is stimulated from new infrastructure.

Newcastle, Sheffield and Nottingham secured new TIF powers as part of the first wave of city deals. However, outside of the core cities it seems unlikely that large-scale TIF projects will be brought forward. For larger TIF projects to be progressed it is necessary for central government to ring-fence tax revenues within a specified zone for a period of 25 years or longer. While this option is starting to be pursued through the core cities, and most notably in Manchester with its innovative 'Earn-back model', it is less clear how other fast-growing urban areas with strong governance arrangements can benefit from it.

It is also important that investment in infrastructure can be attracted from a diverse range of sources from both the public and private sectors. Pension funds have long been identified as suitable investors as the long-term nature of their liabilities means that infrastructure is an attractive asset class. At a local level, there is an opportunity for smaller pension funds to pool their resources to invest in local projects, taking advantage of their local knowledge and catering to the needs of local businesses. Local government schemes in some parts of the country are already taking up this challenge – for example the Greater Manchester Pension Fund groups ten local councils and hundreds of small employers and has an objective to increase its local investments to 5% of funds over the next few years.

Planning policy must take a pro-infrastructure approach

Businesses are keen to be part of the solution and play their part in delivering the projects that raise the capacity of local economies and fulfil the potential of companies within them. To do so, it is essential that barriers that prevent the delivery of infrastructure projects at a local level are addressed.

Planning can be an enabler of private sector growth at a local level and crucially, it is one of the few policy levers local councils can control. But it is consistently highlighted as a significant problem by many businesses, delaying the efficiency with which critical projects are carried out. Almost all (97%) businesses view planning as a barrier to infrastructure delivery and while many CBI members acknowledge that the policy environment has improved in recent years, driving a culture change throughout the system is a wider objective which will to take longer to achieve.[33]

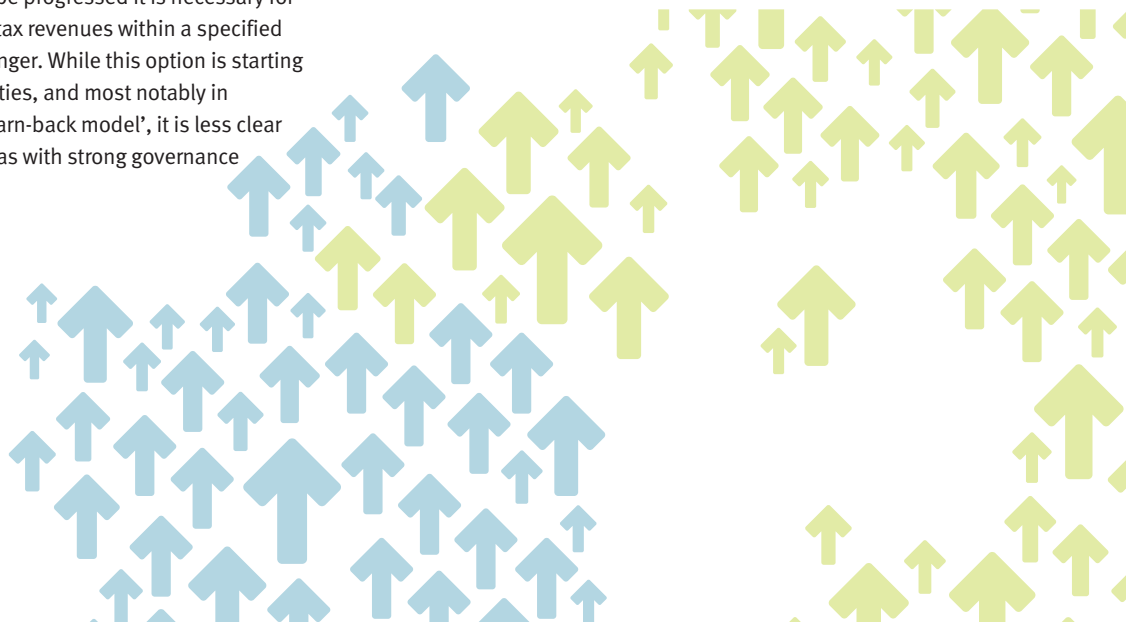


Exhibit 17 **Digital connectivity remains a barrier to business growth in the east…**

The importance of good connectivity extends to digital as well as physical transport infrastructure. But businesses in the East Midlands and East of England cited poor broadband connectivity as a barrier to enterprise. Some parts of East Anglia, such as Suffolk, have managed to secure funding for improved broadband, but this remains an issue elsewhere. The government's commitment to improving digital connectivity around the UK must give priority to areas like the east, where the need is among the most pressing. Where areas have secured funding, particularly EU support, this should be seen as a catalyst and precedent for action to secure EU funding elsewhere. This is a particular priority for the East of England and East Midlands, as well as Wales, given that other, previously poorly-connected regions such as the rural South West are making significant digital progress.

…but is an opportunity for the South West…

Digital connectivity was cited widely as an issue in our research of the South West, but by 2014, the whole of Cornwall and the Isles of Scilly will have access to super-fast broadband, funded by the EU, BT and Cornwall Council. This digital enablement will provide a boost to enterprise in the county by closing the virtual distance between businesses and their customers and suppliers – in part tackling the remoteness of the area which has been cited as a challenge. Digital roll-out will also help businesses access networks of support services which are now largely online only, as well as facilitating access to a wider range of professional advisers – an issue raised by several businesses in the region.

Beyond Cornwall, other parts of the region are also at the forefront of the fibre-optic roll-out. This will see the South West become digitally well-connected relative to the rest of the UK, transforming a long-standing weakness into a source of comparative strength. The region must seek to maximise the impact of this significant improvement for local firms, by ensuring that businesses are aware of the roll-out and of the opportunities it brings. But the region must also market its future digital connectivity as an asset to attract new business into the South West, breaking down preconceptions of the region as remote and poorly connected.

Positive policy reforms must be followed up with a pro-growth approach from local bodies

The recently-published National Planning Policy Framework (NPPF) introduces some positive reforms and seeks to embed a pro-growth ethos in the locally-driven planning system. While this is welcome, there is work to do to ensure that this filters through to decisions made on the ground.

Central government must ensure new infrastructure is delivered by monitoring the application of the NPPF at a local level and ensuring that decisions uphold its core principles. It is right that choices on where and how development takes place should be taken at a local level, but it is also important that the critical need for new infrastructure is not forgotten. Central oversight can help to ensure that certain areas are not left behind in the development of their networks. The delivery of digital infrastructure has been regularly held up by planning in some parts of the country, restricting high-speed and reliable web access for local businesses.

Openreach's deployment of superfast broadband across London boroughs is a case in point – it has recently pulled out of Kensington & Chelsea after the council rejected plans for 96 of the proposed 108 superfast broadband cabinets in the borough.

'Planning is consistently highlighted as a significant problem by many businesses'

The announcement of changes through the Growth & Infrastructure Bill to allow the installation of cabinets without prior approval from local councils is therefore welcome and is a major opportunity to speed up broadband roll-out.

Local authorities must strengthen their links with local businesses to get a better understanding of their planning needs. Across the country there are examples of good practice, but our survey indicates that too many local authorities still have weak links with businesses in their area. Half of the respondents (50.0%) to our survey judged local authority engagement with business as poor or very poor, with only one in seven (14.3%) judging it as good or very good.[34] Where the local LEP has established planning as one of its priorities it will be the best vehicle for strategic business engagement. Where this isn't the case, local authorities need to devise alternative means of consulting with their business base.

RECOMMENDATIONS

Road improvements in town centres should be prioritised in local transport strategies to relieve congestion and free up growth

Government should fast-track delivery of transport schemes that link businesses to trade hubs at ports and airports

Government should look to bring forward further 'TIF 2' schemes in urban areas outside the core cities

Small local pension funds should pool resources to create funds to invest in local infrastructure projects

Government must improve the transparency of local planning authority performance to ensure that the principles of the National Planning Policy Framework are upheld.

4 Incentivising the geography of growth

Maximising the potential for private sector growth will mean ensuring the limited resources available to fund growth incentives are targeted on pockets of growth potential. While government is heading in the right direction, the suite of incentives put in place is not yet delivering for business. Action must be taken to ensure that incentives through measures such as the Regional Growth Fund, Enterprise Zones, reforms to the business rates system and the use of tax measures are effective in unlocking private sector growth.

Growth capital is needed throughout the UK, particularly outside the Greater South East

Securing growth capital can be a major challenge for ambitious businesses. This need varies between different parts of the UK, based on an area's business base and sectoral specialisations. The West Midlands, for example, has a much larger share of mid-sized businesses than the UK average, a business size likely to face greater challenges in accessing capital, as we highlighted in 2011 in our *Future champions* report.[35]

Feedback from CBI members suggests accessing funding outside London and the Greater South East can be particularly difficult, especially in areas where the private sector is small. Academics highlight the low density of business angels and venture capital funding outside London and the Greater South East.

The RGF can help to meet this need, but prioritising areas of private sector potential is vital

The Regional Growth Fund (RGF) can go some way to helping to meet this need, but it needs to fund value for money projects in locations with potential for private sector growth. The size of the RGF means that targeting areas of private sector growth potential is vital, as the fund is substantially smaller than the budgets of the Regional Development Agencies that it replaced. The 2011-2014 total budget of the fund (£2.4bn) is around the same as the RDAs' average annual budget between 2005/06 and 2009/10.[36] An initial assessment of the fund's first two bidding rounds by the National Audit Office (NAO) suggests that, on the whole, projects selected to date represented better value for money than projects not selected.

Changes are needed to tackle business scepticism about the RGF's impact

In its current shape, some businesses are sceptical the RGF will make a real difference to local growth. Three out of five (59.4%) respondents to our survey thought the RGF will make little difference to sub-regional growth, while just over one third (36.2%) thought it will make a moderate impact. Three changes need to be made to ensure that the Fund makes the maximum possible impact.

- **Raise awareness:** although the two RGF rounds to date have been oversubscribed, too few businesses actually know the RGF exists – only one out of eight respondents to our survey knew what the RGF was (prior to the announcement of the third round).[37] In any future funding rounds government must therefore raise awareness of the fund to ensure the best projects are funded
- **Prioritise growth more explicitly:** it is unhelpful that the RGF has two somewhat conflicting objectives – creating economic growth and supporting areas with a high proportion of public sector employment. Evidence from past policies suggests the fund will be most effective in helping regions dependent on the public sector by focusing on pockets within these regions or nearby that have potential for economic growth rather than working against market forces
- **Make the bidding process easier and more accessible for SMEs:** The process from applying for to receipt of money from the fund is too time intensive – in March 2012, only a third of successful projects had received funding.[38] In addition the minimum bid threshold of £1m is often too high for small and medium sized firms – only 5% of small businesses sought funding above the £1m threshold over the last 12 months.[39] Government should therefore consider reducing the minimum bid threshold to fewer than £500,000 or give preferential treatment to larger bids, for example by cities or LEPs, that will support local growth by making RGF funding available to smaller and medium-sized businesses.

The case for tax devolution needs to be fully tested

Tax, as well as spending, can be an important spatial growth lever, but the debate often reduces to a simple one about whether or not to devolve taxes to more local levels – whether to devolved nations, local authorities, or other levels of governance. There are two issues with this approach: the case for tax devolution needs to pass a number of basic 'tests' before being given genuine consideration, and devolving taxes is only one of a range of options open to policymakers.

The case for tax devolution needs to pass a number of basic 'tests'

It is easy to see tax devolution as a straightforward way to empower local actors to make better tax decisions, which more effectively reflect the opportunities and needs of the private sector in different parts of the UK. However, in the case of many taxes, there are very good reasons why the private sector in all parts of the UK is better served by a unitary regime.

For example, the CBI has long believed that the interests of the UK are best served by a unitary Corporation Tax (CT) system, especially given the mobile nature of the underlying tax base (profits). This provides the simplest environment for UK and foreign businesses and investors to operate in, and minimises the potential for distortion of economic activity through artificial profit diversion. There would also be considerable economic drag caused by the increased compliance costs of operating across different jurisdictions for all affected UK businesses. It is also unclear that power to set Corporation Tax (CT) rates would benefit devolved economies in the way that proponents of devolution have asserted.

There are four tests that must be cleared for a compelling case for devolution to be made:

- **Does devolution add unduly to complexity and compliance?** Operating across a number of differing tax regimes adds to the complexity of the overall UK system and the compliance costs faced by businesses. This runs contrary to the government's tax simplification agenda, threatens the attractiveness of the UK regime to international investors and adds to business' administrative costs
- **Does it distort the tax base?** Where the underlying tax base is mobile (for example profits), differing rates across the UK could lead to the distortion of the tax base as activity is diverted to take advantage of rate differentials – this would erode the overall tax base and make it more volatile across regions and nations
- **Will it definitely be effective?** It is not always clear that it will generate the degree of benefit often asserted by its proponents. For example, the headline rate of CT can attract the attention of potential inward investors, but the decision on whether to invest will also be driven by a range of other factors, including the broad economic environment
- **Does it create an unwanted precedent?** Devolving a tax to one sub-national body increases the likelihood of calls to devolve powers to other similar bodies, where the case for devolution may be weaker. Therefore decisions to devolve cannot be treated as one-off events, but as parts of potentially much more extensive processes.

Businesses in Northern Ireland, which has a unique land border and a challenging private sector landscape, take a different view of what is needed to boost growth and have called for the devolution of Corporation Tax to Northern Ireland.

Devolving taxes is only one of a range of options open to policymakers

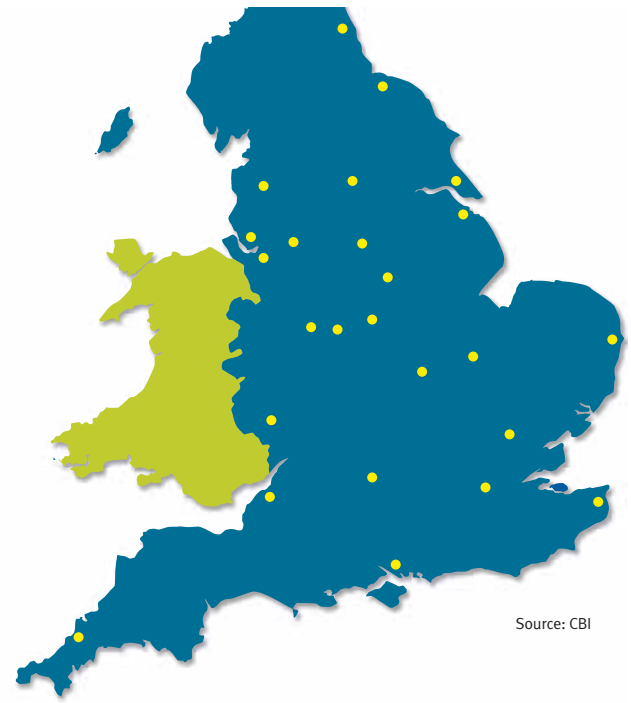
Devolution is only one of a range of ways in which tax can be used as a spatial policy tool to promote private sector growth, but the prominence of the devolution debate often draws attention away from these more subtle uses. For example, two new schemes use local tax incentives without resorting to straightforward devolution:

- Enterprise Zones offer business rate discounts to businesses within the zone

- The business rate retention scheme makes the distinction between localising retention and use of tax revenue by local authorities, and localising power to set rates. This allows the scheme to offer something new to local decision-makers without encountering some of the difficulties of devolution, such as distortion of the tax base or additional taxpayer complexity (see page 27).

These more inventive uses of the tax system to support private sector growth demonstrate that the government's options extend beyond simple devolution. However, the size of the incentives offered through the tax system need to be carefully assessed: in the case of Enterprise Zones and business rate retention, both schemes must pack a bigger punch to make an impact on growth.

Exhibit 18 **Enterprise Zones**



Source: CBI

Note
The South East Enterprise Zone is on two sites – Sandwich and Harlow – which is why there are 25 sites shown but only 24 Enterprise Zones.

Enterprise Zones need to be bigger and have stronger incentives

Businesses surveyed were more positive about Enterprise Zones than the RGF, but the zones need to be bigger and have stronger incentives. Enterprise Zones are tightly defined geographical areas 'where a combination of financial incentives, reduced planning restrictions and other support is used to encourage the creation of new businesses and jobs – and contribute to the growth of the local and national economies'.[40] There are now a total of 24 Enterprise Zones around England (**Exhibit 18**).

Businesses believe that Enterprise Zones can make some impact on local economic development. While 37% of businesses surveyed said they believe Enterprise Zones will have little impact on sub-regional growth, 48% believe they will make a moderate impact. In addition to this, businesses involved in LEPs see Enterprise Zones as an achievement for their area. However, in the past Enterprise Zones have had a somewhat patchy track record with the initial boost of activity not lasting, large-scale displacement effects and few additional jobs created at relatively high cost (**Exhibit 19, page 26**).

Potential for private sector growth must be the key criterion for Enterprise Zone location

To avoid past mistakes, Enterprise Zones need to be part of a wider, longer-term growth strategy. Government has already made progress by establishing Enterprise Zones that have real potential for private sector growth, such as the Temple Quarter in Bristol and the North Eastern zone, focusing on the region's significant low carbon potential. Local areas must now use Enterprise Zones as a catalyst for private sector growth and make them part of a wider strategy of improving local economic growth, rather than simply depending on the Zones for private sector growth. LEPs will have to play an important role in this and should monitor the zones' impact on the local economy.

Exhibit 19 **Enterprise Zones 1981-1996: a patchy track record**

In the 1981-1996 Enterprise Zones, the initial boost of activity created did not last. While Enterprise Zones quickly attracted investment to the area, the time-limited nature of the incentives in most cases meant that businesses left once the incentives ran out. With mobile inward investment disappearing the opportunity to make investment 'sticky' and use the zone to improve the wider business environment was often missed.[41]

The other issue with Enterprise Zones was that they led to large scale displacement effects. Rather than attracting new investment, the zones attracted businesses from elsewhere in the region or the country leading to a waste of public money.[42] The government's own evaluation of the original 11 Enterprise Zones estimated 80% of the jobs created were displaced from other areas.[43]

Enterprise Zones created few additional jobs at a relatively high cost. Of the 96,000 to 125,000 rise in employment in the zones during the first two rounds of Enterprise Zones only 58,000 are estimated to have been net additional jobs.[44] PA Cambridge Economic Consultants final evaluation of the scheme estimated the public sector cost per additional job in the zones at a costly £17,000 (1994/1995 prices).[45]

Enterprise Zones need to be bigger and the incentives stronger

In addition to this, three changes could make the Enterprise Zones more effective. While it is important that the zones are designated in the right areas and part of a wider growth strategy, businesses have identified some room for improvement:

Exhibit 20 **Exploiting Enterprise Zone potential in Sheffield and Leeds**

Recognising that a return to mass, heavy industry is not an option, Sheffield has become more strategic about cluster development, in particular advanced manufacturing. The UK's premier advanced manufacturing technology park is located on the Sheffield/Rotherham border, which sits at the heart of the Sheffield City Region Enterprise Zone. The park houses the University of Sheffield/Boeing Advanced Manufacturing Research Centre, a growing cluster of advanced manufacturing businesses and plans for a dedicated skills centre.

While the park itself is far from being a 'magic bullet' for Sheffield, it demonstrates the potential for focused, deliberate efforts to generate growing cluster activity and has acted as a trailblazer for Leeds, which is planning an advanced medical park in the new Aire Valley Enterprise Zone. It is also a good example of how businesses and universities can work together to exploit the world-class research capacity of the UK's higher education sector – an asset that is currently under-utilised across the UK. The White Rose University Consortium between the universities of Leeds, Sheffield and York, focusing on collaborative research and funding, is another positive platform on which to expand the region's HE-related activity.

- **Increase footprints once the cost of the current zones has been established:** making the zones bigger would raise awareness of their existence amongst global investors. For example, Enterprise Zones could cover whole cities. This would also minimise displacement effects, albeit appropriate safeguards would have to be built in to minimise deadweight costs
- **Strengthen incentives:** the incentives offered by the zones are not large enough. Enterprise Zones are most likely to attract larger companies and businesses are concerned that in an era of globally mobile investment, the incentives offered within the zones – particularly business rate rebates – will simply not be enough. Government should therefore reassess the size of the zones' business rate rebates, how they compare internationally and examine whether further incentives, such as training relief, can be introduced[46]
- **Link into other initiatives:** Zones need to be better linked into other growth initiatives, such as LEPs or the RGF. Access to finance, for example, is a particular barrier to growth in the current climate and businesses are concerned the zones currently do not address this.[47]

Business rate retention can incentivise a more growth-oriented approach by local authorities

Allowing local authorities to retain some of their business rate revenue growth, known as business rate retention, can give them a clear incentive to promote growth. Currently incentives for local authority councils to go for growth are lacking.[48] This is because of resistance to development from local stakeholders, additional pressure on local services that results from economic growth and the fact that the UK is one of the least fiscally devolved nations within the OECD.

The CBI is positive about local councils retaining a share of the growth in their business rate in order to incentivise a pro-growth approach among local authorities. However, we support the current system of universal business rates setting.

Business rate retention needs to be simple and the incentives need to be larger

Effective growth incentives need to make a sufficient impact and be simple. However, the current proposal does not meet these criteria, as it excludes improvements in the business environment and does not last long enough.

- **The scheme must ensure that *all* areas can attract investment:** Under the proposal only growth in business rates due to an increase in the stock of commercial property would be retained, while an increase in business rates through higher value (eg through improvements in the local area) would not be counted. This means the scheme is less suited for local authorities with little demand for new commercial stock, which are likely to need to invest in improving their business environment first before experiencing any growth.[49] To improve these areas' chances for future private sector investment, the government must include all increases in an area's business rates – be it through increases in stock or value.
- **Extend budget reset periods to support longer-term planning:** Local authorities' budgetary needs will be reassessed on a ten-year basis and baseline budgets reset. This reduces the incentive to approve development with time and leads to distortions towards the end of each reset period.[50] The short reset period also makes it more difficult for local authorities to use the new income stream as a way to fund infrastructure improvements through innovative new finance models, such as tax increment financing. This reduces the effectiveness of the incentive and makes long-term planning difficult. To make the incentive more effective the CBI therefore calls on the government to extend reset periods to at least 20 years.[51] The additional proportional cap on business rates, which means that for each one percent increase in the business base no authority will see more than a one percent increase in its baseline income, should also be removed. This will help ensure growth incentives are clear, simple and strong.

RECOMMENDATIONS

Reform Regional Growth Fund to better support growth opportunities

- Strengthen the consideration of an area's potential for private sector growth within the current bid assessment criteria
- Reduce the minimum bid threshold to at least £500,000 or give preferential treatment to larger bids by cities or LEPs that make funding available to SMEs

Bolster Enterprise Zones for maximum impact

- Expand their size – for example to whole cities
- Look again at the Business Rate rebate element and how this compares internationally

Expand the Business Rate Retention scheme to properly incentivise pro-growth decision-making

- Include increases in property value as well as in stock within the scope of the scheme
- Extend reset periods to at least 20 years and remove the cap on business rate retention to make the scheme clear, simple and strong.

5 Responding to growth demographics

The businesses and people that make up the geography of growth differ throughout the UK. The business makeup varies in terms of the size, sector, and ownership of different companies. Labour markets also differ, in terms of skill levels, rates of unemployment, inactivity and earnings. The geography of growth must be responsive to these differentials – understanding the varied growth demographics around the UK is crucial to ensuring that policy can identify and target opportunities.

Responding to the varied private sector landscape

Business 'demography' – variations in size, sector and ownership – is often closely linked to the challenges facing each place such as the level of investment, exports or access to finance, making it a critical growth-affecting factor. To best tackle challenges and take opportunities, decision-makers must have a good understanding of their local private sector landscape.

Different business sizes bring different challenges

Analysis of the make-up of firms in each region shows that there are varying proportions of large and small firms from place to place. For example, the North East has 395 more large firms (employing more than 200 people) than the overall size of the regional economy would suggest, whereas the South West and east of England have 515 and 553 fewer such firms than their economies would suggest.[52]

This is not to say that there is a 'correct' proportion of small, medium or large firms that each place should aspire to, but an area's performance will in part be a function of its business makeup. For example, a reliance on large employers, such as in the North East, makes the region comparatively more vulnerable to job losses at, or the closure of, individual companies. But equally, the region has huge potential to develop more local success stories (**Exhibit 22, page 30**). Conversely, parts of the South West or east may want to focus on boosting the number of large firms as a complement to the regions' SME strength (**Exhibit 23, page 30**). It is essential that policy-makers, and LEPs in particular, are aware of these dynamics when designing their growth strategies.

Medium-sized businesses in particular have untapped potential

The CBI has recently highlighted the massive growth potential which lies in the UK's medium-sized businesses and has estimated that if these companies can raise their ambition, take on new capabilities for growth and gain access to the right type of finance, they could be worth an additional £20bn to the economy by 2020.[53]

The growth of medium-sized companies has particular spatial implications given that these businesses make up higher proportions of employment in regions with weaker output per person and where public sector employment is higher (**Exhibit 21**).

Exhibit 21 **Regions with lower output per person and higher public sector employment have greater mid-cap employment (% total)**

Source: BIS, ONS, CBI analysis

Exhibit 22 **Harnessing mid-sized business potential in the North East**

The North East has the highest proportion of its workforce employed in mid-sized businesses of all UK regions, and has the only positive regional balance of trade in the UK. MSBs have the potential to deliver private sector jobs growth and the stability of the MSB presence in the North East is an asset as well as an opportunity, particularly in this difficult economic climate. In research for the BBC, Experian identified the North East region as having the highest number of potential high growth 'champion' businesses in the UK. These firms are defined as young, small but rapidly growing firms with directors that show entrepreneurial skill, appetite for business risk and real international outlook.

With the correct support these businesses have huge potential to grow. One example of how larger businesses in the North East are supporting MSB growth is through a home-grown initiative at Northumbrian Water, where over 60% of its supply chain is based in its operating areas. They challenged Hydrascan Limited, based in Gateshead, to invent a process to clean mains pipes while minimising the disruption caused by digging trenches. The process has proved so successful that Northumbrian Water has used Hydrascan in its £60m mains cleaning programme on Tyneside, and has registered the technology in order to grow the business. Hydrascan is currently talking to the UK water industry and showcasing its work in Germany and Asia.

The CBI has recently set up M-Clubs across all regions of the UK, which are business networks specifically for medium-sized companies looking to tackle some of the barriers to growth highlighted in our report. This year, businesses involved are coming together to share knowledge and gain intelligence on accessing growth capital, increasing their export capabilities and developing leadership with experts in each field. Each club is regionally based, ensuring the specific characteristics of place are taken into account.

Exhibit 23 **Changing attitudes to exports in the South West**

Businesses in the more rural, western counties of the South West tend to be smaller, less R&D intensive and are less likely to be foreign owned, all of which contribute to the lower export intensity. As foreign ownership is closely related to foreign direct investment (FDI), tackling the openness of the South West in terms of exports and FDI together therefore makes sense, with a key objective being the attraction of more 'primes' capable of supporting supply chain activity. But these factors – size, R&D intensity and ownership – are all fairly structural and deep-rooted in nature, suggesting there is no quick fix available to the government around, for example, boosting export finance availability.

Instead, business can do more to learn from one another, rather than relying on the government, particularly given that the South West's constraints are about outlook and attitude as much as anything else. In research for last year's CBI work on exports, there was consensus in our focus groups that peer-to-peer support can help businesses overcome barriers to internationalisation in a way that the government cannot replicate. Some businesses suggested that companies should look to pool resources and invest in greater collaboration to research new markets and opportunities and reduce risk and fear of failure. Having identified this challenge, the CBI is establishing 'M-Clubs' in 11 regions across the UK, including the South West. They will bring together mid-cap businesses to facilitate discussion, networking and on-going support networks on key challenges facing their businesses, including export promotion (in collaboration with Lloyds Bank).

'Business can do more to learn from one another, rather than relying on the government'

Business ownership shapes attitudes towards investment and exports

Growth strategies must also bear in mind the different types of company ownership structure within their boundaries. Whether firms are predominantly foreign or family-owned, publicly listed or owned by private equity are key considerations which impact the support they need.

For example, while almost one in three companies in London is foreign-owned, only one in seven in Wales or the South West is.[54] Having a certain proportion of companies under foreign ownership can be positive for places as it suggests an area is open to new investment and can help to improve management practices and innovation. Areas with low or falling levels of foreign involvement in their economy may want to focus on this opportunity for improvement. Conversely, nurturing and sustaining a growing base of domestically-owned firms is a challenge for places such as Northern Ireland where foreign buy-out is more common (**Exhibit 24**). Here the challenges lie in ensuring that sufficient, local equity investment is available to allow ambitious firms to grow.

Similarly, regions may need to take varied approaches according the number of family businesses within their boundaries. Almost 80% of companies in the East Midlands are family firms, above the average, which tend to have very different characteristics to other company types and will therefore require a different policy approach.[55] For example, they tend to be slightly more risk-averse and their growth rates tend to be steady and stable rather than dramatic and volatile, but they also enjoy much lower insolvency rates than other types of firms. As such, the external financing environment for family businesses is much more balanced toward long-term patient capital and debt financing rather than high-risk venture capital.

'While almost one in three companies in London is foreign-owned, only one in seven in Wales or the South West is'

Exhibit 24 **Developing a stronger enterprise ecosystem in Northern Ireland**

The business start-up, survival and growth landscape in Northern Ireland is comparatively weak. Access to finance is a critical part of this picture and the limited evidence available suggests that this is a serious barrier: just £21m of private equity was deployed by British Venture Capital Association (BVCA) members in 2011 in Northern Ireland – a large fall from £163m in 2010.[56] Moreover, just 14 companies benefited from publicly-backed venture capital deals in 2010, compared with 109 in Scotland.

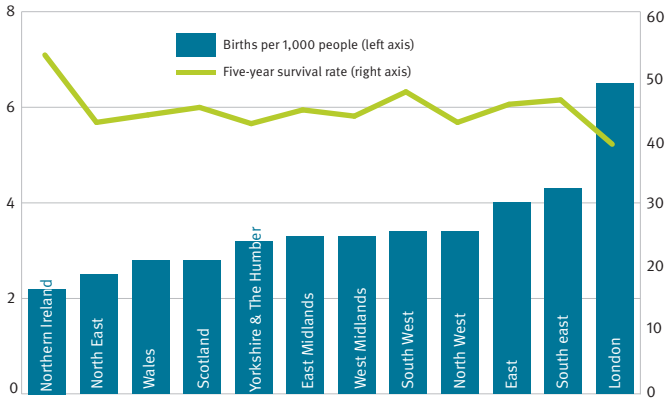
While part of this picture results from the lack of a mature and extensive business angel and VC community in Northern Ireland, more can be done to kick-start investment. In particular, the Executive should consider providing an additional £25-30m a year to support seed-corn venture capital mezzanine funds (in addition to the Growth Fund), as a supplement to standard bank lending, through to £1m+ venture capital investments.

An improved domestic funding landscape would also reduce the incentive for early or middle-stage start-ups, particularly those in higher-value added sectors, from having to sell up too early, often to foreign companies. This would help nurture a stronger pool of growing mid-sized businesses capable of creating new private sector employment.

Tapping the UK's entrepreneurial potential

The level of business start-ups and their longevity also varies from place to place, showing that some areas have had more success than others in fostering an entrepreneurial culture and nurturing new businesses. For example, whereas London has an annual business birth rate of over six for every thousand of its population, the North East and Northern Ireland have rates at just over two (**Exhibit 25, page 32**). Once again, this is a huge opportunity for regions with weaker start up records to take a focused approach to

Exhibit 25 **Survival rates for business births, 2005-09 (%)**



Source: BIS, ONS, CBI analysis

nurturing entrepreneurs and start-ups. For example, the North East and Northern Ireland both have strong higher and further education systems in place, providing the skills and knowledge which with to underpin a vibrant start-up ecosystem.

Supporting local decision-making in the public sector

The fortune of local economies and their labour markets are also closely intertwined. Across the UK many areas with more challenging private sector economies have lower average weekly earnings. Cost is an important advantage for these areas in the short run. The CBI believes that the private sector in these communities should be able to use this to its advantage, but that this can be difficult where high levels of public sector employment at higher, nationally-set wages, restrict businesses' ability to grow effectively through hiring at affordable rates. For this reason, we believe that local managers should be given progressively more control over pay budgets, allowing them to align pay to the local labour market.

Recognising political sensitivities, the CBI therefore calls upon the government to consider the case for local public sector pay carefully and look at how it can be implemented over the longer-term. A long-term introduction is necessary to ensuring that there is no negative effect on local economies from changes in consumer spending, and to build up local managers' ability to manage the pay bill.

Local management can deliver better and more efficient services

Local ownership of pay drives better and more efficient services. With a public sector pay premium of 8.3%, moving to more locally set pay will undoubtedly present challenges in the short term.[57] However, by giving local public sector managers more effective performance management tools a move to local market facing pay could help allocate public spending more efficiently and improve the quality of public services, improving public service delivery in areas where the public sector is not currently competitive.

Local pay is already commonplace in the Court Service.[58] Its introduction elsewhere would allow the public sector to benefit from the 'new flexible employment relationship', which is now commonplace in the private sector and has helped preserve jobs over the course of the recession.[59]

Local management can deliver a level playing field for the private sector

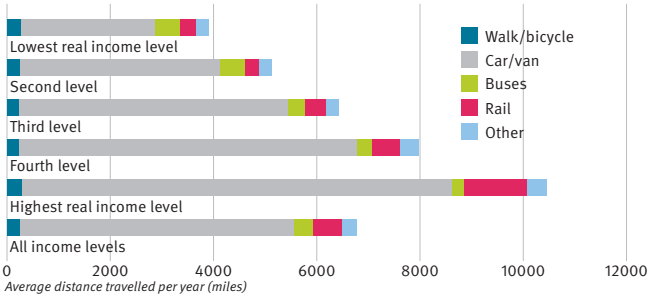
Alongside better and more efficient services, market-facing public sector pay can also help create the level playing field needed to help the private sector grow. With public sector pay substantially higher for both men and women than in the private sector in nearly every region of the UK, local private sector employers often have to pay a premium to get their hands on highly qualified staff.[60] This is a particular problem for weaker economic areas of the country, which already tend to have lower concentrations of highly skilled staff. It disadvantages these areas whose natural competitive advantage is their lower cost of doing business.

'Public sector pay is substantially higher for men and women than in the private sector in nearly every region of the UK'

Target labour market interventions at the right economic area

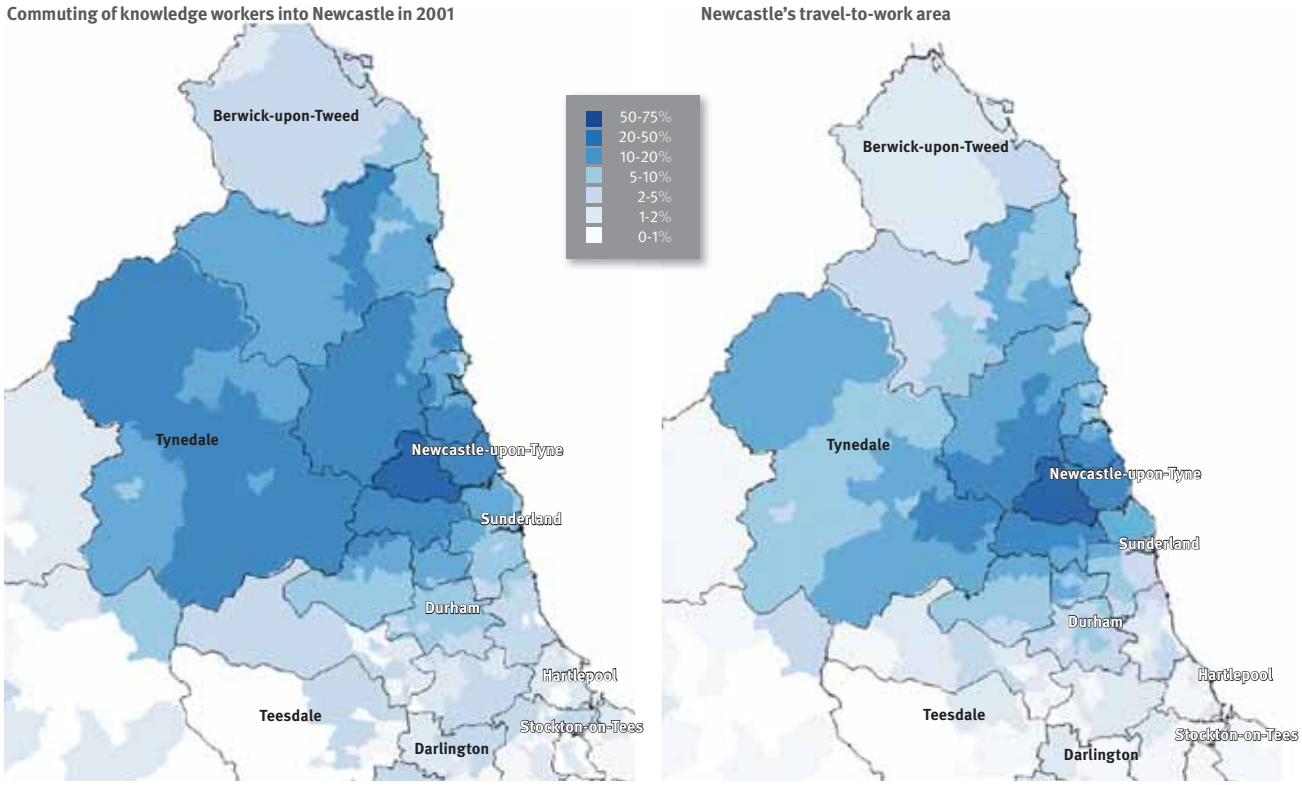
As with other policy interventions, labour market policy targeted at supporting private sector growth across the UK needs to be taken at the appropriate geographical level. Travel-to-work areas vary for different types of people because different people tend to have different travel horizons. Travel distances tend to widen with increasing income and skill level, meaning a manager's commuting distance tends to be much longer than a customer service employee's (**Exhibits 27 and 28**). Similarly, job search horizons tend to be more local for those with lower skills levels.[61]

Exhibit 27 **High earners tend to travel longer distances than lower earners (000s)**



Source: National travel survey, Department for Transport, 2009

Exhibit 28 **Knowledge workers travel from much further afield into Newcastle than the average commuter (% commuting)**



Source: *City relationships: economic linkages in Northern city regions*, The Northern Way, 2009

This means labour market policy interventions for different groups of people don't only need to vary based on their individual barriers to work or their skills levels – to be effective they also need to be targeted at different geographical levels. For Jobcentre Plus and Work Programme providers, for example, this means matching unemployed to jobs within their respective travel-to-work area. Having been established at a level closer to that of functional economic areas, LEPs should find this easier than their predecessors, the Regional Development Agencies, but it is important to bear in mind that some interventions, like skills policy, may need to be undertaken both below and above the LEP level.

Education institutions have a key role to play in supporting local growth

Link further and vocational education provision to local labour demand

To get the skills they need, businesses must work hand in hand with further education and vocational institutions. To be successful and grow their local areas employers need to be able to access the skills they need. Where skills gaps exist, firms will often be able to attract highly skilled employees from other parts of the country. However, at the lower end of the labour market people tend to be less mobile, making it crucial that provision of further and vocational education meets local need. Businesses play an important role in making this happen, by working with local educational institutions within their area. The UK Commission for Employment and Skills' (UKCES) new employer ownership pilots represent an excellent vehicle for this and are welcome because they give businesses more of a say on the skills delivered within their area (**Exhibit 29**).

The recent changes in the way provision is funded, such as the move from funding courses to funding learners, should help to strengthen links between further education and vocational institutions and the local business base. However, with a business to run, employers have a limited amount of time to engage with what remains a complex system. Local brokerage is therefore key

'With a business to run, employers have a limited amount of time to engage with what remains a complex system'

Exhibit 29 **UKCES's Employer Ownership pilots**

The Employer Ownership pilot offers employers in England direct access to up to £250m of public investment over the next two years to design and deliver innovative training solutions. The pilot is jointly overseen by UKCES, the Department for Business, Innovation and Skills and the Department for Education. The first round of applications is now closed with pilots by Nissan, Siemens and Rolls Royce among the 34 winning bids announced. The details for the second round of bidding are currently being finalised.

The CBI welcomed the announcement of the Employer Ownership pilots and has long argued for a more demand-led further and vocational education system with businesses having a greater say over the types of skills training delivered. We therefore want to see the pilot extended beyond round two if there is demand from employers.

Exhibit 30 **Silicon skills along the M4 corridors**

Silicon, digital, IT and telecoms are key strengths along the M4 corridor. The region's silicon industry draws on an historic skills base dating back to the 1970s and the training of companies like Inmos, but focus must now turn to the next generation. Sustaining this skills base means sustaining the cluster's mass and ensuring that the region's education institutions are producing graduates required by industry. Part of the wider challenge is in better marketing these private sector assets, including silicon, to ensure that these sectors are associated with the corridor in the minds of investors, skilled workers and policymakers

Exhibit 31 **Innovative local skills brokerage: City Deals Round 1**

In July 2012 the Cabinet Office announced the first round of City Deals, covering Birmingham and Solihull, Bristol and the West of England, Greater Manchester, Leeds City Region, Liverpool City Region, Nottingham, Newcastle and Sheffield City Region. These included greater powers and levers for cities to deliver the skills and jobs that local businesses and people need, including:

- Incentive payments and payment by results to give cities greater influence over the skills system
- The creation of city apprenticeship hubs with cities helping SMEs take on apprentices through the creation of Apprenticeship Training Agencies
- Innovative funding models that lever in national skills funding to provide the skills local businesses need.[62]

The CBI welcomed the announcement and measures to provide local skills brokerage for smaller firms, in particular. Enabling greater business influence on training will help plug skills gaps. In implementing these new models making business part of the solution will therefore be key.

and cities and LEPs play an important role in this. They know their local economy well, can act as a mediator between businesses and educational institutions and help attract skills funding (**Exhibit 31**). Due to their business involvement LEPs are ideally placed to map local skills needs and translate this into longer-term skills strategies supporting economic growth within their area. Many of them, including the Solent LEP are already doing this.

'LEPs are ideally placed to map local skills needs and translate this into longer-term skills strategies'

Exhibit 32 **Boosting skills to tackle weak productivity in the West Midlands**

Productivity in the West Midlands is just 86% of the UK average, the lowest in England and Scotland, ahead of only Wales and Northern Ireland.[63] RDA analysis concluded that skills is one of the primary factors behind this weak productivity performance.[64] Birmingham metropolitan area has the lowest proportion of high-level skills in its working age population of all core cities. After the North East, the region has the lowest proportion of economically active adults holding a qualification at NVQ level 4+ at just 30.4%, 5.5 percentage points below the UK average.[65]

However, the West Midlands is home to 11 universities and one university college, including a number of world-class institutions. Retaining more of the graduates leaving these higher education institutions is often seen as the solution to the region's skills needs, but the lack of demand for highly skilled workers in the West Midlands is actually the major factor at play – graduates' location decisions strongly follow patterns of skills demand.

The region does, however, have an opportunity to better tailor its skills output to the needs of businesses with the opening of the new University Technical Colleges, including the Black Country UTC and Aston University Engineering Academy. With strong employer engagement and involvement in course design, the UTCs can ensure that they are meeting the demands of industry in the local labour market.

Universities are centres of potential throughout the UK

Universities are sources of considerable skills and business potential. They are big local employers and their students and staff spend significant amounts of money within the local economy, but as institutions universities fulfil a number of important functions within their area.[66]

Exhibit 33 Boosting enterprise and innovation in Scotland through HE-business links

Addressing the comparatively weak start-up and innovation landscape in Scotland should be a key national priority. Scotland has the fewest enterprises per 10,000 people (673) of every region and nation of the UK (except the North East), while the UK average is 897.[67] Entrepreneurship is key to changing this, but Scotland has the fourth lowest business birth rate per 10,000 people in the UK at just 28, against a UK average of 38.[68] At the other end of the spectrum, Scotland has just half the number of the UK's top 100 privately owned companies than its size would suggest, at just four.

The good news is that the higher education research and development picture in Scotland is comparatively strong, providing a solid innovation platform from which to grow enterprising new businesses and to support the research needs of larger, R&D intensive companies. In terms of higher education institutions' R&D spending as a percentage of GDP, Scotland came top of the UK regions and devolved nations and placed third highest in the OECD. However, offsetting the strong HE spending has been a poor record of business R&D spending, which actually fell in real terms by 3.9% between 2001 and 2010.[69]

Diverting some public R&D resource away from simply funding innovation and towards building HE-business links, for example through Knowledge Transfer Partnerships, is one way Scotland can ensure that its strong HE R&D landscape translates into a thriving start-up culture and better innovation engagement from mature businesses. Securing better business spending on R&D is particularly crucial as the fiscal consolidation continues to limit the extent of public support.

They play an important 'skills leadership' role, can bring significant amounts of funding to their local area, foster links with local businesses and generate high value spin-outs. More can be done to maximise universities' value to their local economy.

Universities and other higher education institutions train companies' future workforces, but graduates won't always stay local. Nevertheless, increasing skills is of key importance for areas facing more challenging economic conditions (**Exhibit 32, page 35**). It opens up opportunities for these areas' residents in other parts of the country – and some of them may stay in the local economy or return once they have gained experience elsewhere.

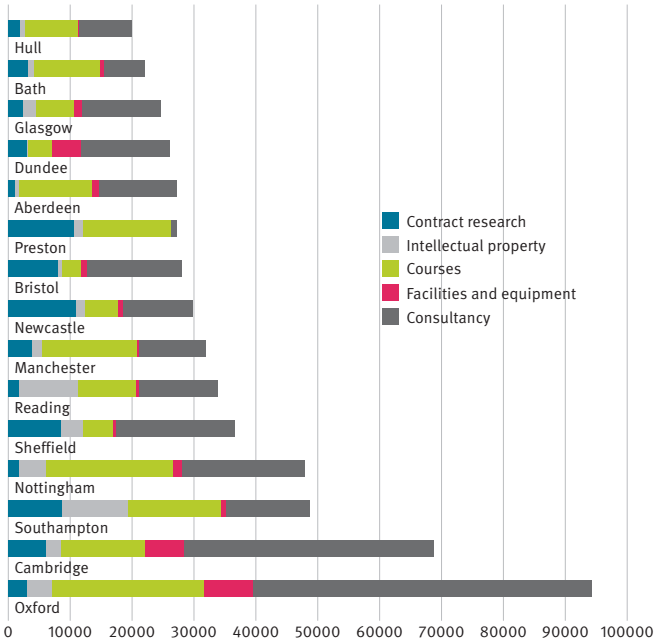
Universities can also support local economies by sponsoring university technical colleges (UTCs). University technical colleges are new colleges for 14-19 year-olds which combine practical and academic studies in areas sought after in the local economy.

By sponsoring UTCs, universities can help use their specialisms to support long-term economic growth in their area. The Energy Coast UTC that will open in 2013 in Cumbria, for example, will support the North West's nuclear cluster and Cambridge's UTC will support the area's biomedical and environmental technology sectors. There are currently 33 UTCs open or planned, but with 300 higher education institutions around the country there is clearly more potential for universities to support growth within their area through UTCs.[70]

LEPs have an opportunity to help bring together businesses and universities, as this can spur local innovation, increased funding coming into the local area or local employment in start-ups (**Exhibits 33 and 34**). In Preston, for example, 85% of the university's business income between 2004/05 and 2007/08 came from within the region. In Liverpool it was almost 50%. Universities can also create high-value spin-outs with above average turnover (**Exhibit 35**).[71] This means universities can create value businesses for the local economy, generating employment within the local area.

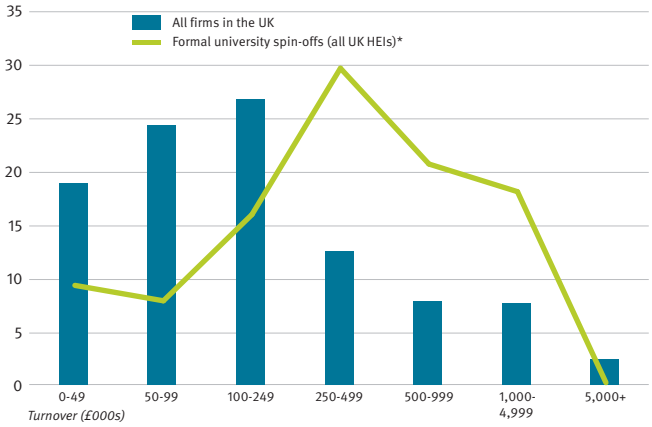
'...with 300 higher education institutions around the country there is more potential for universities to support growth in their area'

Exhibit 34 Income from businesses per university in a city, 2004-08 (£000)



Source: *Starter for ten: five facts and five questions on the relationship between universities and city economies, Centre for Cities, 2011*

Exhibit 35 University start-ups are high value (average annual % in each turnover group, 2004-08)



Source: *Starter for ten: five facts and five questions on the relationship between universities and city economies, Centre for Cities, 2011*

RECOMMENDATIONS

Consider the case for localising public sector pay over the long term, to improve public service delivery and create a more level playing field for the private sector

Facilitate local brokerage between FE colleges and the local business base through City Deals, LEPs and UKCES' Employer Ownership pilots

Working with businesses, LEPs and cities should map local skills needs and make addressing them part of the local growth strategy

LEPs should make increasing local higher education participation part of their strategy

More universities should consider sponsoring university technical colleges.

Conclusion

Creating a 'geography of growth' must be at the heart of the government's approach to spatial policy. Seeking out and nurturing private sector opportunities is a common challenge for the whole UK, but means something different in each part of it.

The new governance structures put in place by the coalition should enable a more responsive, granular approach to local business opportunities, but LEPs are not fully equipped to support business to the extent that they could. Greater powers and better integration with the City Deals programme are needed to make this change.

Infrastructure is both a driver and an enabler of growth and projects must be brought forward that can free up private sector potential. These must be designed and promoted at different levels according to scale, but it is essential that all bodies involved with infrastructure delivery look to tackle the barriers that prevent important projects from getting off the ground – such as the planning system.

The government has introduced a number of local growth incentives, but these are too complex and often not strong enough to make a substantial impact. A better focus on private sector growth, for example in assessing Regional Growth Fund bids, will ensure that the best use is made of the limited resources available.

Our research into local economies around the UK revealed a patchwork of challenges and opportunities cutting across the breadth of policy issues. It is vital that policy and decision-makers can be responsive to different and changing local business demographics and labour markets. But it also raises new challenges in co-ordinating activity to promote enterprise and tackling region-wide challenges.

One message rings loud and clear from companies operating throughout the UK: business wants to be part of the solution. Companies throughout the UK are committed to creating wealth and jobs and stand ready to drive the rebalancing of the economy. Policy alone cannot make this happen, but it can provide the right environment in which business can flourish – **the geography of growth**.

Footnotes

1 *Rebalancing the economy: a new model of growth, CBI 2012*

2 *Hidden potential: fulfilling the economic potential of mid-sized cities, Centre for Cities*

3 *ONS, CBI analysis*

4 *ONS, CBI analysis*

5 *ONS, gross value added, CBI analysis 2010*

6 *London – sustaining its leadership position, McKinsey Global Institute, March 2012 (alternative is ONS, 29% between 1997 and 2010)*

7 *London's Place in the UK economy 2009-10, LSE 2009*

8 *Keeping the UK competitive, London First*

9 *London – sustaining its leadership position, McKinsey Global Institute, March 2012*

10 *London – sustaining its leadership position, McKinsey Global Institute, March 2012*

11 *Why cities matter/key city stats, Centre for Cities*

12 *Private sector cities, Centre for Cities 2010*

13 *Why cities matter/key city stats, Centre for Cities*

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Note

All references to regions and nations of the UK, including in data and charts, refer to the geographically-defined regions specified by the ONS (formerly known as Government Office Regions), unless otherwise stated.

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Our mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all.

To achieve this, we campaign in the UK, the EU and internationally for a competitive business landscape.

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