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The government's vision of a Northern Powerhouse is slowly becoming a reality. But what practical difference will it make to small businesses in the area? **Tim Smedley** reports

Northern light

It was only just over a year ago that the Chancellor, George Osborne, first announced his plan for "a Northern Powerhouse", designed to forge closer links between Greater Manchester, Liverpool, Leeds, Sheffield, the North East, Hull and the Humber, so that "combined, they can take on the world".

The pace of the Northern Powerhouse scheme has been hectic. But what exactly is it, and what could it mean for small businesses? With a population of 11 million contributing to a quarter of UK's economic output, Northern England's gross value added (GVA) is larger than that of Scotland, Wales and Northern Ireland combined. If it were an independent EU state, it would rank ahead of Sweden.

"By joining our northern cities together," said Osborne, they will be "able to provide jobs and opportunities and security to the many." His

plan involves improved transport infrastructure to link the city regions, plus devolved power and budgetary control to elected city mayors. In last year's Autumn Statement, £7 billion was earmarked to realise the dream.

Mike Cherry, FSB Policy Director, welcomes the agenda. "The need to rebalance the economy has been a big push of ours for many years," he says. "We've long pushed for proper funding for infrastructure such as rail projects, airport

capacity and road networks; business support and advice fit for what small businesses need; and access to finance. Local areas may soon get more of a say in how these funds are to be spent."

Devolution, not revolution

Greater Manchester is undoubtedly setting the pace. Its 10 local authorities will come together under a single mayor from 2017, taking responsibility for transport, housing and planning. Osborne signed



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the plan off, adding a £6 billion health budget. Other movers include Sheffield City Region Combined Authorities and the North East Combined Authority – despite a previous protestation against a shared mayor. Other combined authorities in the North, and indeed England-wide, are expected to follow.

In turn, central Government also devolves responsibility for austerity cuts onto local authorities. Martin McTague, Local Government Chairman at the FSB, says “giving local government more wiggle room means government has the advantage of saying ‘no devolution, then accept the pain of deep cuts’ or ‘accept devolution, and have control over how the money is cut’. It’s a no-lose situation for central Government.”

There is also business support for the plans. A survey by thinktank IPPR North found most businesses felt England was overly centralised. When those surveyed were asked what Government could do that would most benefit companies, the top three answers were devolution, improved education and skills policy, and investment in infrastructure.

Devolution would bring much of the latter two areas, plus business support, into local authority control, says McTague. “Some of the resources gummed up with councils having border arguments would be simplified under devolution,” he says. “Small businesses will find it simpler, because it will mean the same arrangements across a much bigger area, with the accountability coming from a directly elected mayor.”

According to the Core Cities advocacy group that represents Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool and Manchester, devolution could deliver an additional £222 billion and 1.6 million jobs – the equivalent of the economy of Denmark.

What’s the catch?

However, there are risks. James Meadway, Chief Economist at the New Economics Foundation, has argued that the proposals see “some increase in powers, but not very much”. One issue is competition. “Mayors can spend business taxes but will scrap to try and attract businesses, so it’s a zero sum game.” And he believes the benefits seen in Scotland are unlikely to be repeated. “Devolution has made a big difference because the Scottish government has a large degree of power, but Manchester is smaller and the power transfer is smaller, so you will not get the same outcomes.”

Another problem area is transport. The Chancellor’s transport commitment to a £600 million Northern Hub is paltry compared with the £20 billion-plus for HS2, the high-speed rail network. Leeds-to-Manchester can take an hour by train, despite being barely 40 miles apart. Leeds-Bradford Airport and the Tees Valley docks both lack rail links. At a recent FSB roundtable in Manchester, the demand was for a good capillary network to connect small firms with their regional customers and workforce, not HS2 – or even HS3, a suggested east-west link.

In October 2014, the Government set up Transport for the North, to begin improvements. Yet almost as soon as businesses could get excited, the planned electrification of the TransPennine Manchester-Leeds line was halted. Jack Hunter, a researcher at IPPR North, believes this postponement “undermined the positive rhetoric” and warns that if it isn’t resolved soon, the Northern Powerhouse risks falling “at the first hurdle”.

Patchwork quilt

Devolved power to combined authority regions also raises the prospect of each area competing with their neighbours rather than collaborating. Equally, businesses that span more than one region could face a complex web of differing devolution agreements.

Cherry points to the scrapping of Regional Development Agencies (RDAs) and the introduction of Local Enterprise Partnerships (LEPs) in 2010. "They were set up in a similar, haphazard way," he says. "When RDAs came to an end, it was a confused picture, and small businesses were not always heard within that vacuum. We need to learn from those experiences and make sure there are good, robust governance arrangements in place."

However, McTague argues that some things are made simpler by combining local authorities. "If I'm part of a region that has seven or eight local authorities, all with different approaches to business, different business support packages and different teams, then I'm dealing with a patchwork quilt," he says. "In the [devolved] arrangement, you'll get just one, no matter whether you're in Bury, Stockport or Manchester."

In Merseyside, West Cheshire and Wigan, this devolution offers a "genuine opportunity", says FSB Regional Chairman Chris Burgess. But he warns that "to reap the benefits of devolution and help drive forward the Northern Powerhouse agenda, it is essential that the councils comprising Liverpool City Region combined authority put aside their differences and work together." Local squabbling could still play a part, not just within but also between regions.

Access to finance

Another key element of the Northern Powerhouse must be improved access to finance. Since 2010, the EU's Joint European Resources for Micro to Medium Enterprises (JEREMIE) fund has given £390 million loan and equity finance to small businesses, split across three separate funds in Yorkshire, the North East and the North West. In July, the Chancellor announced a second round of £400 million JEREMIE funding for the Northern Powerhouse.

Andrew Mitchell, Chief Executive of North East Finance (NEF), the holding fund manager for the North East's £142 million fund, says high-growth, innovative SMEs are key to rebalancing the UK economy, particularly in software, medical technology and high-value manufacturing. But he also has concerns. "London-based investors will invest in a £50 million buyout in the North, but not in a £500,000 seed fund in a tech business when there are options just up the road in Clerkenwell,"

he says. He also fears banks will not lend to high-risk sectors, leaving a venture capital 'equity gap' in the region.

Michael Janes, FSB Teesside Branch Chairman, runs creative design agency E-Strands, and has been a beneficiary of NEF's EU money. "We benefited from a micro loan for an expansion in the business three years ago," he says. "NEF has helped many companies in the area survive the past three years."

The gap largely appears in growth funding, rather than in seed capital. For example, of the 39 LEPs in England, Manchester's rates 38th in terms of the proportion of start-ups that survived from 2009 to 2012. "The continuity rate is lacking," says Cherry. "The barrier to growth is leadership, management, marketing and communications."

Simon Monaghan, Chair of FSB Leeds branch and a professional business coach for Business Doctors, agrees. "You don't need to rent a building – you can rent by the square foot, you can hot-desk," he says. "But the issues are more around advice than funding."

Any vision must seek to address other practical challenges. Janes identifies broadband as one of the top issues. In some areas of the Tees Valley, superfast broadband will not be available until 2017. Parts of Darlington do not have copper wire, so cannot get superfast broadband. The FSB wants broadband to be a top Northern Powerhouse priority.

What happens next?

Further details of the Northern Powerhouse plans will be given in November's Autumn Statement. "There is a welcome focus on boosting the northern economy," says Hunter. "Now let's see the funding, and the accountability. Business needs to see more certainty from government, in the form of additional spending."

The wishlist in the North is clear, agrees Mitchell. "If you want to have entrepreneurial businesses that are developing new products and services, they have to have access to local capital, airports, other cities close by, the right skills, and universities generating bright graduates in their sector," he warns. "It's not trying to be like London. A better example is Germany, where you've got Hamburg, Cologne, Frankfurt, Berlin; each is different and successful."

But the message for small business owners is that "the goods are there for the taking", says Cherry. "We need to make sure we're getting a deal that benefits the business community," he says. "It's an open offer from Government, and we need to make sure we get a slice of that."

TIM SMEDLEY is a freelance business journalist

In numbers: Northern Powerhouse

16.7

The percentage of UK population that lives in the region

23

The number of universities in the region

27

The percentage of all jobs within the Northern Powerhouse based within the Manchester City Region

119

The percentage increase in new digital companies incorporated in Liverpool between 2010 and 2013 (second highest in the UK)

£400 million

The amount of EU regional funds to be made available for northern small businesses later this year

£7 billion

The amount the Chancellor has earmarked for Northern Powerhouse investment

£8 billion

The total budget devolved to Greater Manchester, covering skills and training, transport, planning and health

£250 million

The investment in the Sir Henry Royce Institute for Advanced Materials Science in Manchester, with branches in Leeds, Liverpool and Sheffield

£289 billion

The gross value added (GVA) of North East, North West and Yorkshire & Humber combined