



ICAEW

ICAEW submission to the National Infrastructure Commission open consultation

Comments submitted on 08 January 2016 in response to the National Infrastructure Commission call for evidence

Connecting northern cities

Introduction

ICAEW welcomes the opportunity to provide a submission to the National Infrastructure Commission (NIC) open consultation. We would be happy to discuss any aspect of our comments and to take part in all further written or oral consultations on this area.

Who we are

ICAEW is a professional membership organisation, supporting over 144,000 chartered accountants around the world. Through our technical knowledge, skills and expertise, we provide insight and leadership to the global accountancy and finance profession. Our members provide financial knowledge and guidance based on the highest professional, technical and ethical standards, to over 1.5 million businesses.

Terms of reference for consultation

ICAEW responded to three of the five questions posed by the National Infrastructure Commission's call for evidence regarding 'Connecting northern cities'. See them listed below.

(i) Connecting northern cities

1. To what extent are weaknesses in transport connectivity holding back northern city regions (specifically in terms of jobs, enterprise creation and growth, and housing).
2. What are the key international connectivity needs likely to be in the next 20-30 years in the north of England (with a focus on ports and airports)? What is the most effective way to meet these needs, and what constraints on delivery are anticipated?
3. What form of governance would most effectively deliver transformative infrastructure in the north, how should this be funded and by whom, including appropriate local contributions?

For further information, please contact:
Zohir Uddin
Email: [content redacted]

Summary of main ICAEW points

The following points by ICAEW fall within one of the three priority areas the National Infrastructure Commission has identified; connecting northern cities.

Connecting northern cities

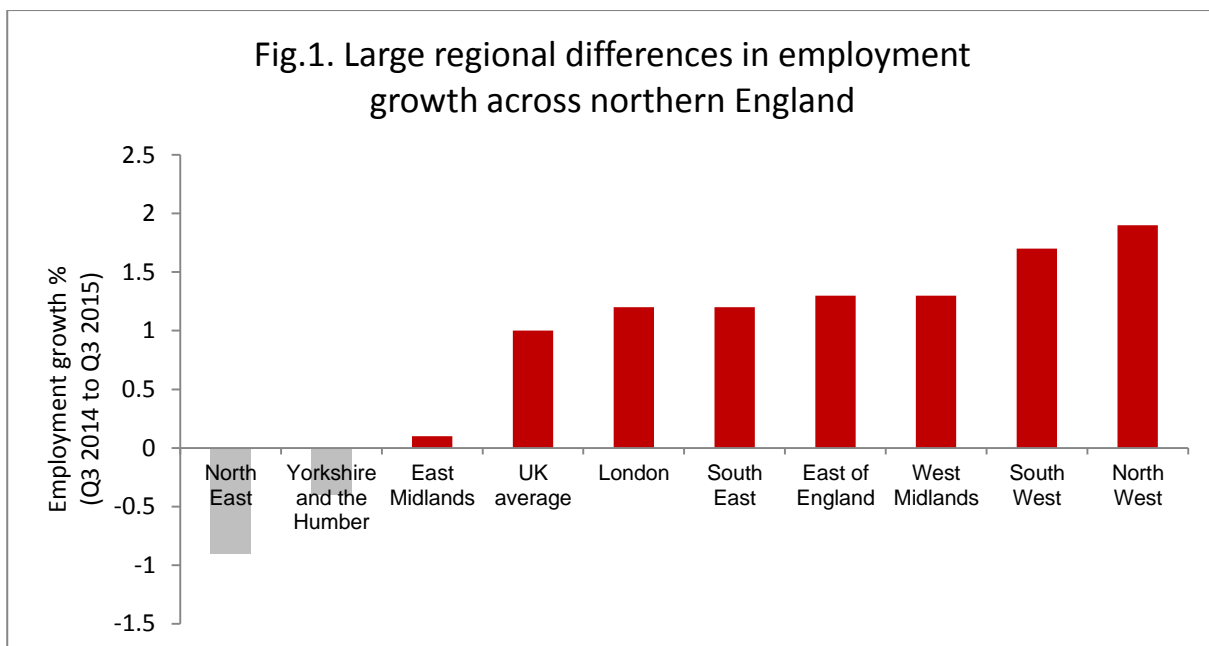
1. **Closing the *intra*-regional divide is key to forming a ‘single northern economy’:** The economic divide *within* northern regions is greater than the gap northern regions have with the rest of England. Improving transport connectivity between northern cities must be aimed at closing this intra-regional divide.
2. **International connectivity is vital to boost northern exports:** The long-term connectivity needs for the north of England need to be geared towards encouraging exports. Future improvements in international connectivity must complement and encourage the existing advantage the north has in seaports and airports.
3. **Local business involvement:** New and emerging forms of transport governance such as Transport for the North must take into account the voice of local businesses and reflect the reality of local economies across the region.

Improving connectivity between cities in the north of England has been identified as one of the three priority areas the National Infrastructure Commission will explore.

Question 1: To what extent are weaknesses in transport connectivity holding back northern city regions (specifically in terms of jobs, enterprise creation and growth, and housing)?

ICAEW is pleased to see that the National Infrastructure Commission has identified transport connectivity in the north of England as one of its first priorities. The latest available data from the government's National Infrastructure Pipeline¹ shows that investment in transport infrastructure in the UK will be around £127 billion over the next few years, accounting for nearly a third of all infrastructure investment. This makes transport the second largest area of infrastructure spending, behind energy which accounts for 60 percent of all investment. Therefore transport infrastructure remains high on the government's priority list. However, by examining the impact or net results of this investment on the northern regions of England, it can be seen that much more needs to be done to ensure that improved transport connectivity leads to tangible economic benefits for these regions.

Unlike other infrastructure sectors such as water utilities and communications, investment in transport is publically funded for the most part, with private investment accounting for less than 10 percent. Therefore there is a greater imperative for government to use taxpayer-funded investment in transport infrastructure to yield economic benefits (i.e. jobs, enterprise creation, housing) for those regions in the north of England which need it the most.



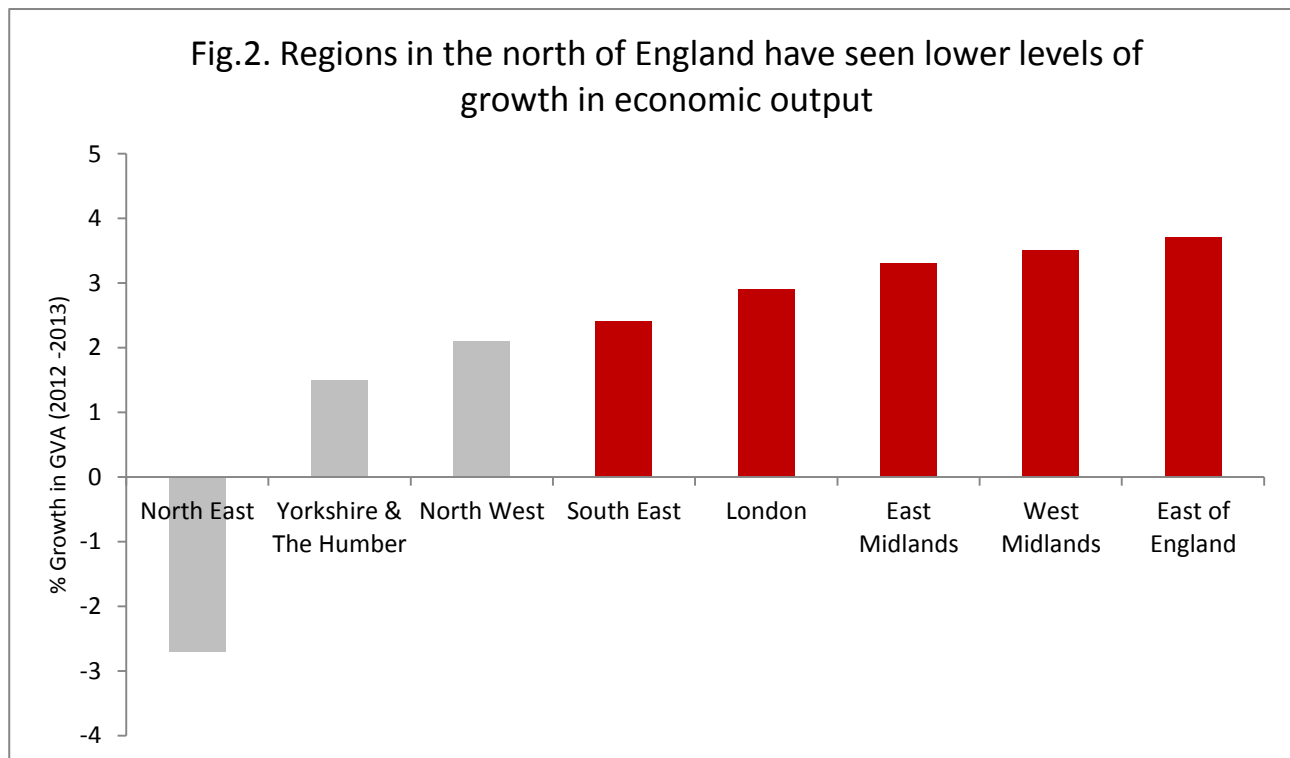
Source: ONS, Labour Market Statistics, Dec 2015. Latest available data

When examining how and if weaknesses in transport connectivity are holding back northern city regions, it is critical that the National Infrastructure Commission looks at the evidence base. This includes examining the recent trends in employment growth, business creation and levels of economic growth. Figure 1 shows the growth in the number of people in employment across regions in England over the last 12 months.² Not surprisingly it shows that regions in the south of England perform better than the UK average. However, it also shows that the region which has

¹ <https://www.gov.uk/government/publications/national-infrastructure-pipeline-july-2015/national-infrastructure-pipeline-factsheet-july-2015>

² From Q3 2014 to Q3 2015

seen the fastest levels of employment growth over the last year is the North West with 1.9% growth, nearly double the UK average. ICAEW's quarterly Business Confidence Monitor survey shows that this high level of job creation is expected to continue over the next 12 months.³ One example of this sustained employment growth highlighted in the ICAEW Business Confidence Monitor survey comes from Liverpool-based shipping line ACL. The company's managing director points to how the company has more than doubled its staff in the past few years and expects further expansion ahead, when a new fleet of ships comes into service in the autumn of 2015. This individual example of ACL highlights a larger point about the positive correlation between improved transport infrastructure (ports in Liverpool in this case) and local employment growth. The experience of the North West on employment growth stands in stark contrast to the neighbouring regions in the north; the North East and Yorkshire and the Humber. Both these regions saw negative growth in the number of people in employment over the course of last year. So in the case of these two northern regions, it can be argued that weak transport infrastructure is having an adverse impact on the local job market.



Source: ONS, Regional GVA, 2015. Latest available data

Figure 2 above shows the levels of growth in economic output (Gross Value Added) across various regions in England. It can be seen that northern regions such as the North East and Yorkshire underperform their counterparts in the south of England and the Midlands. In fact, the North East region saw the largest decline in output growth of any region and was one of only two regions which failed to see any GVA growth in 2013.

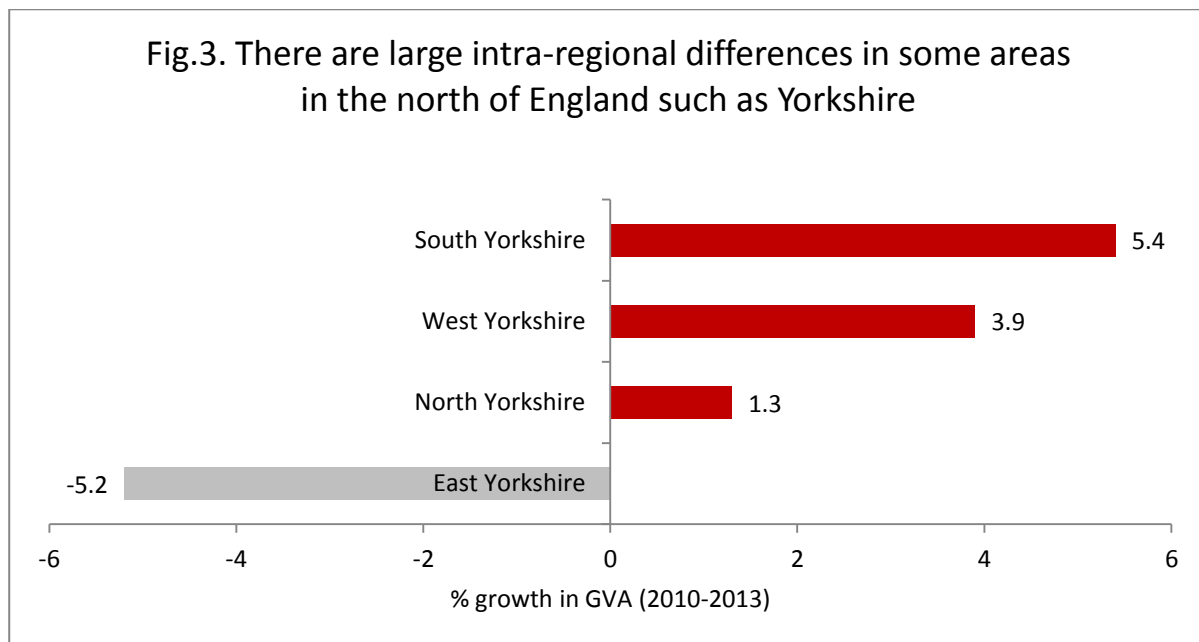
Figures 3 and 4 paint a more detailed picture of specific regions. They show that despite the overall levels of output growth being relatively low, there are some large differences in performance within individual regions. Some areas within the regions have been doing well and in some cases far exceed the national average. In fact the gap between regions in the north and south is not as large as the gap that exists *within* some regions. For example, Figure 3 shows the significant gap in economic performance within Yorkshire. It can be seen that while South Yorkshire enjoyed an above-average 5.4% increase in GVA over the last few years, East Yorkshire suffered a decline of 5.2% over the same period. Figure 4 shows a similar pattern between the two

³ ICAEW, Business Confidence Monitor

large cities in the North West, where Manchester has begun to outpace Liverpool. The evidence here suggests that the regions and cities in the north of England are extremely varied economically. Poor transport connectivity in the north has amplified these regional disparities and is holding back the true economic potential of the north.

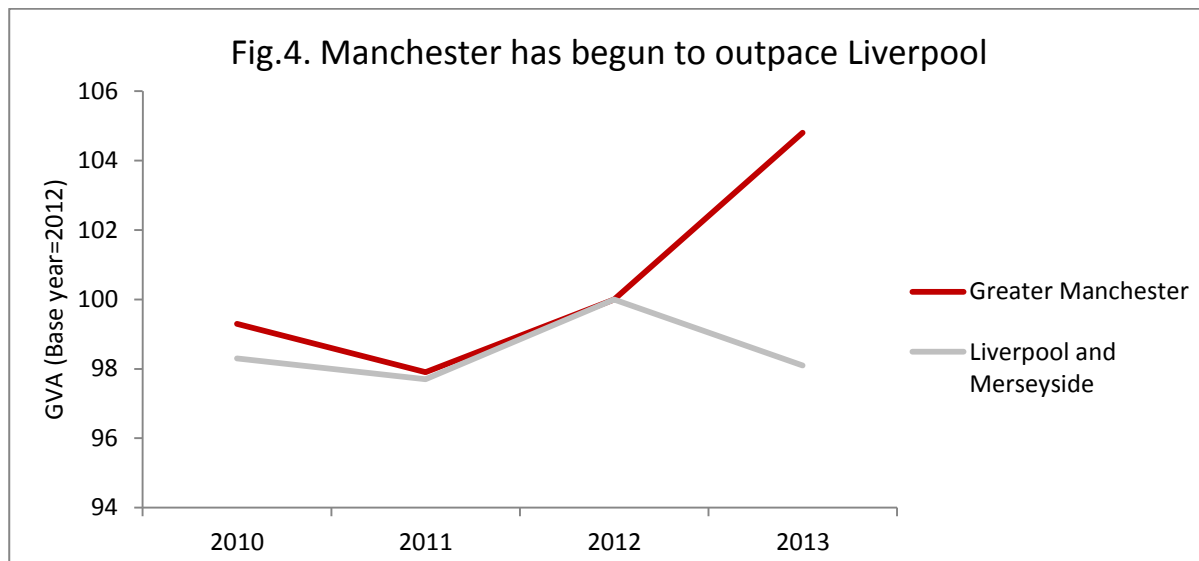
Both these examples show that despite the National Infrastructure Commission's laudable ambitions to 'form a single northern economy'⁴ by connecting the cities of the north, it is important that stronger transport connectivity between regions in the north also leads to a closing of the large economic divides that exist, and not just focus on reducing travelling times. This was also alluded to in the final report of the City Growth Commission: *"If our closely geographically located cities can have the best transport between them, allowing their current, and potential future consumers and producers to feel as though they are all part of one urban mass, then the benefits that typically accrue to London could be repeated elsewhere."*⁵

Fig.3. There are large intra-regional differences in some areas in the north of England such as Yorkshire



Source: ONS, Regional GVA, 2015. Latest available data

Fig.4. Manchester has begun to outpace Liverpool



Source: ONS, Regional GVA, 2015. Latest available data

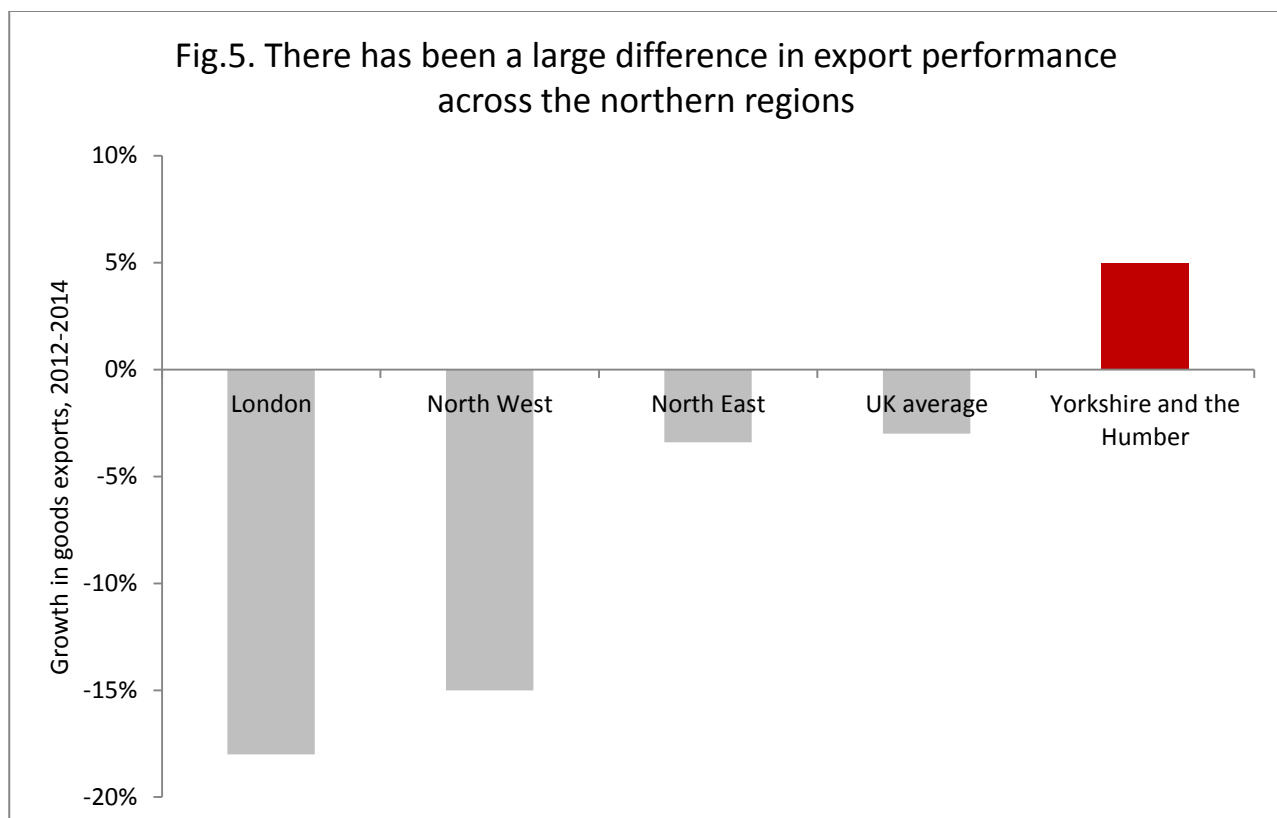
⁴ National Infrastructure Commission, terms of reference, Oct 2015

⁵ City Growth Commission, Final report, 2014

ICAEW has members working across the UK. They tell us that the major cities in the north do not lack for advisers and professionals working in the financial and professional services sectors, such as M&A advisers. For example, in addition to the Big 4 accountancy firms, there are many more established professional services firms in Manchester as well as the other major cities. What they did signal was a need for lateral collaboration – between regional centres – as well as vertical (with the south). They also pointed out that the choice for foreign businesses setting up in the UK, between a location somewhere in the North and, say, the M4 corridor, would be influenced by local infrastructure.

Question 2: What are the key international connectivity needs likely to be in the next 20-30 years in the north of England (with a focus on ports and airports)? What is the most effective way to meet these needs, and what constraints on delivery are anticipated?

Improving international connectivity in the north of England over the next 20-30 years is vital to the regions trade and export ambitions. In a similar way to how regions in the south have good access to overseas markets through both air and seaports, the north's true trading potential can only be realised if the infrastructure is there to facilitate it.



Source: ONS, Regional GVA, 2015. Latest available data

When considering the key international connectivity needs for the north of England, the National Infrastructure Commission should keep in mind the growing appetite for businesses in northern regions such as Yorkshire and the Humber to export. The latest trade statistics show that over the last couple of years only three regions in the UK experienced any increase in goods export.⁶ Yorkshire and the Humber was one of those regions and saw a 5% increase in the value of traded goods. Figure 5 above shows that this compares significantly well with neighbouring regions in the north as well as the UK average. An example of what's been driving Yorkshire's export growth can be seen in the ICAEW Business Confidence Monitor with Doncaster based furniture retailer DFS.

⁶ From 2012 to 2014. Latest available years for annual trade data

The company has seen particularly strong export sales growth, with gross sales up 7% in the financial year to date compared with the same period last year.⁷ DFS is planning to further expand abroad, after a positive reaction since opening its first store outside of the UK and Ireland in the Netherlands. The example of DFS increasing its exports to overseas markets is a snapshot of what is happening across the Yorkshire region at large. This has implications for the future of transport connectivity in the north, especially internationally connectivity.

As the table below shows, five of the ten largest ports in England are in the north; with three of them being in Yorkshire and the Humber alone. In fact, the largest port by volume in England is Grimsby and Immingham which sits at the mouth of the River Humber and serves as a key gateway for the wider region. Therefore it is clear that more can be done to use the existing advantage this region of the north has in international connectivity to boost exports from the region and thereby promote the local economy. However, the strength in sea port capacity must be complemented by greater international connectivity through airports in the region.

List of the 10 largest ports in England by volume

Port	Region	Volume of freight handled (million tonnes)
Grimsby and Immingham	Yorkshire and the Humber	59.4
London	London	44.5
Tees and Hartlepool	North West	39.5
Southampton	South East	36.7
Liverpool	North West	31
Felixstowe	East of England	28.1
Dover	South East	27.6
Bristol	South West	11.4
Hull	Yorkshire and the Humber	10.9
River Hull	Yorkshire and the Humber	10

Source: Department for Transport, 2015

Question 3: What form of governance would most effectively deliver transformative infrastructure in the north, how should this be funded and by whom, including appropriate local contributions?

The OECD has found that governance structures that take today's realities in metropolitan areas into account typically function more effectively, especially in transport planning.⁸ Therefore, recent initiatives in the governance and planning of northern regions such as Transport for the North (TfN) must be based on the economic realities of the local cities and towns under its remit. In its latest report TfN confirmed that its partnership board now formally represents all of the north's local transport authorities and Local Enterprise Partnerships, covering every part of the north.⁹ It has called this a "historic step" as it's the first time the northern public and business leaders have been brought together in this way. To maximise the benefits of this innovative form of transport governance, it is important that the contributions that business leaders and the Local Enterprise Partnerships make is heard and considered.

⁷ ICAEW, Business Confidence Monitor

⁸ OECD, The Metropolitan Century, 2015

⁹ Transport for the North, Autumn Report, November 2015