



Ian Harper looks at the opportunities regional devolution could bring for construction, engineering and property

# REBALANCING THE UK

**N**O-ONE I'VE spoken to in the construction, engineering and property industries doubts the UK economy is skewed significantly in favour of London and south-east England.

According to Jonathan Guest, senior economist at Atkins: "In 2014, London's gross value added (GVA) per head was 68 per cent higher, and the south-east's was 6 per cent higher than the average for England. They also outperform all other regions on several metrics including employment, inward investment and economic output."

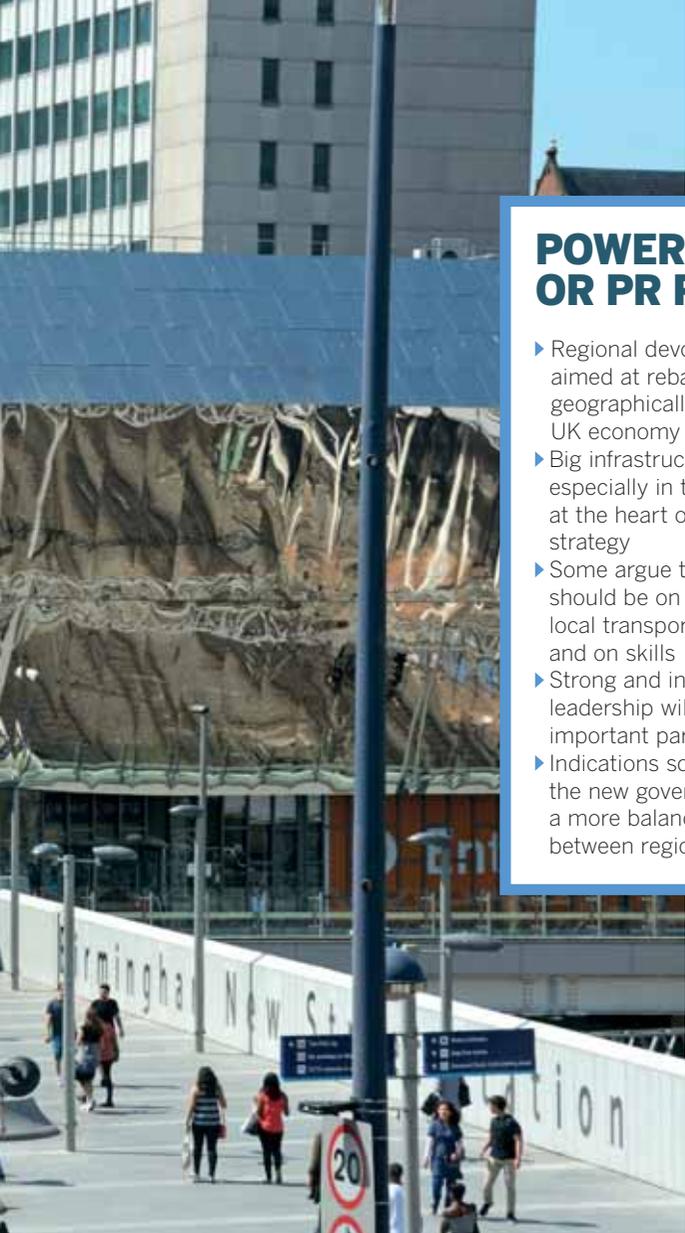
Alistair Dickson, head of RSM's Scottish real estate and construction team, agrees: "There's a significant economic imbalance between London and the south-east on the one hand and the rest of the UK on the other. The latest GVA figures show that London and the south-east account for 38 per cent of the national economy."

However, is this about to change? Are the much vaunted concepts of the "Northern Powerhouse" and "Midlands

Engine" promoted by the former chancellor, George Osborne, set to make a difference?

For Osborne and his boss David Cameron, redressing the imbalance between an overheated south-east and a north and Midlands in dire need of regeneration involved the creation of "city regions", notably the Northern Powerhouse, embracing the major cities from Liverpool to Hull, and the Midlands Engine, covering Birmingham and its many satellites. The idea was that these city regions would get greater autonomy to set key policies, notably in respect of skills and transport.

The idea also accumulated a couple of flagship projects, HS2 and HS3, which – at a cost of many tens of billions of pounds each – would link the unfashionable north to prosperous London and the south-east and then connect the north better to itself. While HS2 is extremely controversial, HS3 is much less so given its promise to improve the north's mediocre east-west rail links.



## POWERHOUSE OR PR PUFF?

- ▶ Regional devolution is aimed at rebalancing a geographically skewed UK economy
- ▶ Big infrastructure projects, especially in transport, are at the heart of government strategy
- ▶ Some argue that the focus should be on smaller-scale, local transport improvements and on skills
- ▶ Strong and inspiring civic leadership will be an important part of the initiative
- ▶ Indications so far are that the new government favours a more balanced approach between regions

In some quarters (particularly northern ones), the Northern Powerhouse is regarded as hype. Others feel this is unfair, and say it and the Midlands Engine have generated some inspiration.

According to Chris Richards, senior business environment policy adviser at the manufacturers' body EEF: "The Northern Powerhouse, Midlands Engine and other associated regional monikers are useful slogans that help to crystallise an objective for a geographic area. Transport is an economic enabler, not just in terms of allowing people to get the jobs they want and businesses to access wider talent pools, but also in terms of enabling future support for devolution from the business community through tangible and visible improvements in local transport networks. Infrastructure, particularly transport, is central to productivity and is the bedrock of the local business environment."

### BIG INFRASTRUCTURE – OR NOT SO BIG?

For many pundits, big infrastructure projects can create economic growth provided the money is invested wisely, and many studies over the years claim to back this up, supporting the view: "Build it and they will come".

While some would debate this, it's likely that big projects such as HS2 and HS3 do offer a bonanza to the construction, engineering and property sectors. However, as Shona Frame, a partner and construction sector specialist at law firm CMS, notes, while large projects are welcome, they have long lead times and may not be suitable for all

contractors given their scale. Perhaps more desirable, she says, is "a balance between these and smaller scale, regional projects to spread the workload between various different sizes and locations will distribute the benefits more widely across the country".

The key proposition of both HS2 and HS3 was that they would directly stimulate economic activity in the major cities of the Midlands and the north and help rebalance the UK economy in the process.

However, research carried out by Centre for Cities suggests this argument is flawed and that the way to rebalance the UK economy has less to do with high-speed transport links between big cities than with the creation of a highly skilled workforce and the provision of better transport links within cities.

Paul Swinney, principal economist at Centre for Cities, explains: "Building the HS2 and HS3 projects would put a lot of money on the table for those companies in the infrastructure and construction sectors. But if you're looking to improve the performance of the north of England economy, then you've got to be thinking about local transport and skills issues as being the big things. Money going into the infrastructure and construction sectors doesn't necessarily translate in tackling the longer term issues the north faces."

Swinney says Centre for Cities compared the large cities of the north to similar ones in continental Europe, notably the Randstad in the Netherlands and the Rhine-Ruhr region in Germany. He says: "We found that the reason those places performed strongly wasn't because of rail links between them, but because of the strength of the cities themselves."

Critical to this, he says, is a highly skilled workforce, and good transport links within the city.

From an engineering perspective, a report from the Institution of Civil Engineers (ICE), titled *State of the Nation 2016: Devolution*, supports these conclusions and makes three key recommendations. These, says Jonathan Spruce, chair of the ICE National Transport Expert Panel, are: "Firstly, while the devolution of infrastructure policy is crucial to the UK's economic rebalancing, it should not be imposed. Secondly, that skills are critical to delivering infrastructure-driven growth. Thirdly, devolution should be about improved quality of life and sustainability."

Guest at Atkins says: "There are skills gaps in every sector of the economy. The most pressing are those within occupations which require science, technology, engineering and mathematics skills, which are often found within growth sectors or industries supporting infrastructure development."

### DEVOLUTION THE KEY

However, Centre for Cities' key research finding is that the first step to economic rebalancing must be the devolution of powers in respect of skills and infrastructure to the likes of 'metro mayors' – powers which Birmingham, Liverpool and Manchester have grasped, but which Leeds and the cities of the north-east have rejected, possibly to their detriment, Swinney says.



**"There's a significant economic imbalance between London and the south-east and the rest of the UK"**

**Alistair Dickson**



Property company CBRE has reached similar conclusions. Martin Guest, MD of CBRE's Birmingham office, says: "Earlier this year we published *Core Cities, Core Strengths*, which identifies the critical factors that make an investable city. The key themes that emerged were civic leadership, talent in growing areas, quality of life and 'placemaking', and inter and intra-urban accessibility, all of which I believe will be significantly enhanced as a result of devolution."

Pointing to the roles of Boris Johnson in London and Sir Howard Bernstein in Manchester, Guest argues that strong civic leadership is a must.

He adds that whoever gets the job must articulate the region's vision, deliver on strategy and project confidence. He says: "They'll also need to forge strong alliances and working arrangements between the individual councils to ensure key areas such as transport, skills and housing are prioritised and integrated."

**TANGIBLE BENEFITS ALREADY VISIBLE**

The devolution powers so far agreed for the north and Midlands will not come into force until next spring, but RSM's Dickson says we're already seeing tangible benefits from the focus on growing the regional economies: "For example, the north of England's four main ports have agreed a new partnership to help create jobs, boost exports and prosperity across the whole of the north of England. Liverpool (run by Peel Ports), Hull (ABP), Teesport (PD Ports) and Tyne (Port of Tyne) have all signed a Memorandum of Understanding to co-operate so that the north can act as a genuine gateway to the world."

He adds: "We've also seen co-operation between the north's academic institutions. The N8 universities – Durham, Lancaster, Leeds, Liverpool, Manchester, Newcastle, Sheffield and York – are collaborating in their efforts to lobby for more inward investment, in transport and infrastructure."

He also points to a string of practical projects: "Growth Track 360 is an initiative led by a cross-border alliance of business, political and public sector leaders to secure £1bn of rail improvements to transform the North Wales and Cheshire regional economy and deliver 70,000 new jobs over 20 years. The group is aiming to boost the economies of North Wales, Cheshire and the Wirral economies by linking them with the planned HS2 line between London and the north of England. In the north-east of Scotland, the UK and Scottish governments and local authorities have co-operated on a major investment programme involving a £250m 'City Deal' for Aberdeen and a £254m investment in key infrastructure projects in Aberdeen and Aberdeenshire, which includes better rail links and improvements to the A90. The package also includes specific help for the oil and gas industry."

CBRE's Guest says: "Birmingham's stock has undoubtedly risen on the back of the redevelopment of New Street Station and the extension of the Metro, resulting in unprecedented levels of inward investment in the city in the last couple of years."

He believes HS2 will have a similarly positive

**"[Improving transport links in Birmingham] has resulted in unprecedented levels of inward investment"**

Martin Guest



impact: "The Curzon Street Masterplan, which will be one of the largest regeneration schemes in the UK, is a case in point. No doubt there will be further regeneration opportunities as the project gathers pace."

**WHAT ABOUT BREXIT?**

Last month in *The CA's* 2016 Law Review, Steve Cannon, a partner with law firm Clyde & Co in Manchester, noted that those most likely to benefit from the Northern Powerhouse lived in the major metropolitan districts and wondered if they were the same 20 to 25 per cent of the north's population who voted to remain in the EU. If so, then this raises the issue of whether the Northern Powerhouse might widen the split between these people and the Brexiteers who are located mainly outside the cities?

Cannon says: "It's a problem without an obvious solution. It is naturally the case that any benefits from 'agglomeration' must be channelled through the major cities of the north. This is where the easy wins are likely to be in terms of transport and the other key objectives. Once outside these areas, it is difficult to see how, without this agglomeration effect, there would be an effective return on investment. Having said this, the north is diverse in terms of the location and sizes of settlement, key industries and infrastructure needs. With the wide variety of interested parties, the targeting of investment will likely lead to a further political aspect to the workability of the policy as a whole."

**THE ROAD AHEAD**

According to Richards at the EEF: "The process started by the previous government is a good one and one that manufacturers support. While initially there was some concern at the speed at which devolution was being pursued, particularly as local authorities appeared to be pursuing an approach that was focused more on getting as many new powers as they can, the subsequent deals that were signed landed in the right place."

So what might lie ahead now that Cameron and Osborne are history? CBRE's Guest notes: "The whole devolution agenda was very much George Osborne's baby. However, his allegiance appeared to favour the Northern Powerhouse, probably because that's where his constituency was. Theresa May seems keen to ensure devolution is more balanced."

The recent Tory Party conference offered the first opportunity to gauge the May Government's thinking, and according to Spruce at the ICE, there's reason for "cautious optimism". He says: "I think, being brutally honest, that in the industry we felt there was a bit of a wobble on the Midlands Engine and Northern Powerhouse with the change of prime minister. But from what Philip Hammond said on 4 October, and he was very clear about it, they are

here to stay. Interestingly, the Department for Transport is rejigging its internal structure to have a directorate which is looking at regional transport practice and working with the newer regional organisations like Transport for the North and Midlands Connect. I think I'm more encouraged than I was a week ago."

It may be tempting fate to say it, but the future for all those construction, engineering and property companies looks rosier now than it has for many years. **CA**

**IAN HARPER IS A FREELANCE BUSINESS JOURNALIST**