

A Northern Big Bang

Unleashing Investment in the North

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NORTHERN
RESEARCH GROUP





About the Authors

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In his Ministerial roles he introduced radical changes to level up, including devolution deals with new metro mayors, as well as designing and delivering the new Towns Fund and Future High Streets Funds, bringing £3.6bn of direct investment into the regions. He also led on policies to encourage local growth and improve Northern infrastructure, with the aim of closing the North/South divide.

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Nick was a Special Adviser in Government between 2012 and 2018, working for two Secretaries of State in three different Departments – the Department for Culture, Media and Sport, the Department for Business, Innovation and Skills and the Department for Communities and Local Government. In each of these Nick worked on policies to encourage local growth and economic rebalancing, including devolution, infrastructure investment, the launch of the Northern Powerhouse and the Midlands Engine (with which Nick still works), the creation of metropolitan mayors, distribution of the Local Growth Fund and the establishment of various Enterprise Zones.

About the Centre for Policy Studies

The Centre for Policy Studies was recently named by Conservative MPs polled by ComRes as the most influential think tank in Westminster. Its mission is to develop policies that widen enterprise, ownership and opportunity.

As an independent non-profit think tank, the CPS seeks likeminded individuals and companies to support its work, but retains editorial control of all of its output to ensure that it is rigorous, accurate and unbiased.

Founded in 1974 by Sir Keith Joseph and Margaret Thatcher, the CPS has a world-class track record in turning ideas into practical policy. As well as developing the bulk of the Thatcher reform agenda, it has been responsible for proposing the raising of the personal allowance, the Enterprise Allowance, the ISA, transferable pensions, synthetic phonics, free ports, and many other successful policy innovations.

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Contents

Executive summary	4
Introduction	6
The Problem	8
Our Solution	11
Our proposals	14
1. Unlocking more private capital into infrastructure	14
2. Encouraging business investment	17
3. Lighting the touchpaper	19
4. Planning success and successful planning	21
5. Masters of their own destiny	23
Conclusion	26



Executive Summary

In December 2019, millions of Northern voters broke with tradition by voting for the Conservative Party, in many cases for the first time.

They were voting not just to secure Brexit, but because they were tired of being neglected and ignored. They were tired of living in a country in which attention and investment are channelled towards the South East, while the North has gone from being an industrial powerhouse to one of the least productive areas in Europe.

We believe the Government needs to match their radicalism in voting Conservative with an equally radical agenda to improve their lives and their region – through a new ‘Big Bang’ for the North.

The aim of a Northern Big Bang should be to unleash a torrent of investment into the Northern economy, to deliver the productivity gains, economic growth and higher wages that are so desperately needed.

Our recommendations include updating pension scheme rules to encourage more investment into Northern infrastructure; allowing the writing-off of all capital expenditure; creating a new Initial Investment Incentive to help spur a Green Industrial Revolution; making major planning decisions in weeks not years; creating a new Northern Infrastructure Bond aimed at global investors, as well as a Northern

Recovery Bond to allow local investors to support growth; and creating a new Growth Board for the North.

The various proposals put forward are designed to unlock billions of pounds of private sector investment. These proposals, and that investment, can help create a Northern Big Bang, comparable to the 1980s Big Bang in the City of London, which did so much to bring new opportunities and economic growth in London and the South East.

There is a particular opportunity to make the North the home of the Green Industrial Revolution which the Prime Minister, Boris Johnson, has called for. The innovation and technology which will allow us to achieve our Net Zero ambitions need to be inculcated somewhere, and the North of the England is the most obvious place, given its manufacturing strengths and industrial pedigree.

These efforts, and the measures we put forward, will help the Prime Minister and this Government to level up the economy. These ideas are meant to help make the North one of the most investable places on the planet. That will require having the right structures and the right incentives in place to ensure investors look to the North of England.

By making the North the best possible destination for domestic and global capital, we will kick-start a growth and productivity revolution, and make the people of the North the masters of their own destiny.



HOW TO CREATE A NORTHERN BIG BANG

The aim of a Northern Big Bang should be to unlock a torrent of private-sector investment into the economy of the North.

Infrastructure and Investment

- Insist all UK Infrastructure Bank projects prioritise unlocking private sector investment where possible
- Create a new Northern Infrastructure Bond aimed at global investors
- Update rules around UK pension schemes to encourage more investment into Northern infrastructure
- Either introduce full expensing for businesses nationwide, as previously proposed by the CPS, or allow the writing-off of all capital expenditure by Northern businesses until 2025
- Create a new, time-limited, Initial Investment Incentive – the Triple I – which will reduce costs for major investors. This could be explicitly focused on Net Zero and green growth – for example by incentivising investment into new gigafactories

Planning

- Consider extending the reach of the Nationally Significant Infrastructure

Projects (NSIP) regime to cover large commercial planning applications

- Allow applicants to opt out of the NSIP regime and take their application through a local authority's planning system instead
- Guarantee that any application which creates more than 100 jobs will have a decision within two months – or be automatically approved
- Allow any investor with an investment over £20 million or whose investment will unlock 250+ jobs to have their application determined by a high-level body, such as an upper tier authority or a Government minister
- Look again at Permitted Development Rights to see how they might be extended to more usefully support industrial, commercial and transport projects

Local decision-making

- Create a new Growth Board for the North, to advise on priority projects and help steer investment
- Introduce a Northern Recovery Bond allowing Northern investors to invest in Northern economic growth



Introduction

The North of England was once the powerhouse of the British economy, with its industrial heartlands among the most advanced local economies on the entire globe.

Today, it has some of the most deprived areas in the Western world and its economy is among the least productive in Europe.¹

There are still brilliant people in the North, as well as many brilliant companies, universities and centres of innovation – but it is undeniable that, taken as a whole, it has fallen behind. This is not because of any natural economic law but because the British economy – just like British politics – has been built around the needs and demands of London and the South East, which have monopolised investment, talent and attention.

The North of England has always been home to a spirit of restless radicalism. It was this radicalism that saw people vote for Brexit in their millions. And it was this radicalism which, a little over a year ago, saw a swathe of Northern constituencies vote Conservative for the first time in a generation. They felt let down by a political Establishment, and a Labour Party, which had taken them for granted for too long – and done too little to improve their lives.

The votes that saw seats like Leigh, Bishop Auckland and Don Valley returning Conservative MPs for the first time in their

100-year history was in large part about securing the UK's departure from the European Union. But it also represented a growing belief that the Conservative Party, under Boris Johnson, was now the party most likely to represent their economic and social interests.

“The North of England has always been home to a spirit of restless radicalism.”

That show of faith needs and deserves to be repaid. But how?

The Government's 'levelling up' agenda is intended to spread opportunity more fairly around the country. The Covid-19 pandemic has made the need all the more urgent.

Yet to date, most of the discussion has focused on the need for greater public investment. While there is certainly a need for this, especially in terms of transport infrastructure, the scale of the challenge calls for something far more radical.

The most successful examples of regeneration in this country – such as the extraordinary growth of London's Docklands into a global financial centre since the 1980s, or Nissan's investment in manufacturing in Sunderland – were driven by private investment on a colossal scale, supported and enabled by government. It

¹ <https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/compendium/economicreview/april2018/regionalandsubregionalproductivitycomparisonsukandselectedeucountries2014>



was the same philosophy that inspired Rishi Sunak, an MP for a Northern constituency, to propose in a Centre for Policy Studies report that free ports could be used to regenerate deprived areas – a policy that is now at the heart of the Government’s agenda.

Those millions of people in the North were voting to leave the European Union – but they were also voting for change. A change in their own prospects and a change in the prospects of their region.

“ Investment and innovation at scale are needed. The North has form in this regard... it is time to show the same spirit of ambition once again.”

It is essential that the Prime Minister, the Chancellor and the MPs of the North match the radicalism which they showed in both 2016 and 2019 with a radical agenda of their own. An agenda for a new Big Bang, designed to unlock a deluge of private-sector investment across the North, both from Britain and overseas, and make the

people of the North the masters of their own destiny.

Some may object to the recommendations in this report, on the grounds that we are arguing for special treatment for the North. In fact, as the Centre for Policy Studies set out in its recent report ‘A Rising Tide’, the South East has had special treatment for generations.² Moreover, we would be very happy to see this sort of ‘special treatment’ used to stimulate growth across the country, in all those areas that need to be levelled up. But if the Government enacts them anywhere, we believe that it should be in the place where the need is most obvious – and which we, as Northerners, feel most qualified to advocate for.

Investment and innovation at scale are needed. The North has form in this regard. It was, after all, the North birthplace of the Industrial Revolution – the shift to mass manufacturing, powered by innovation, mechanisation and hard work, which saw huge increases in wealth, growth and economic activity in the 18th and 19th centuries. It is time to show the same spirit of ambition again.

2 <https://www.cps.org.uk/files/reports/original/191028170944-ARisingTide3.pdf>



The Problem

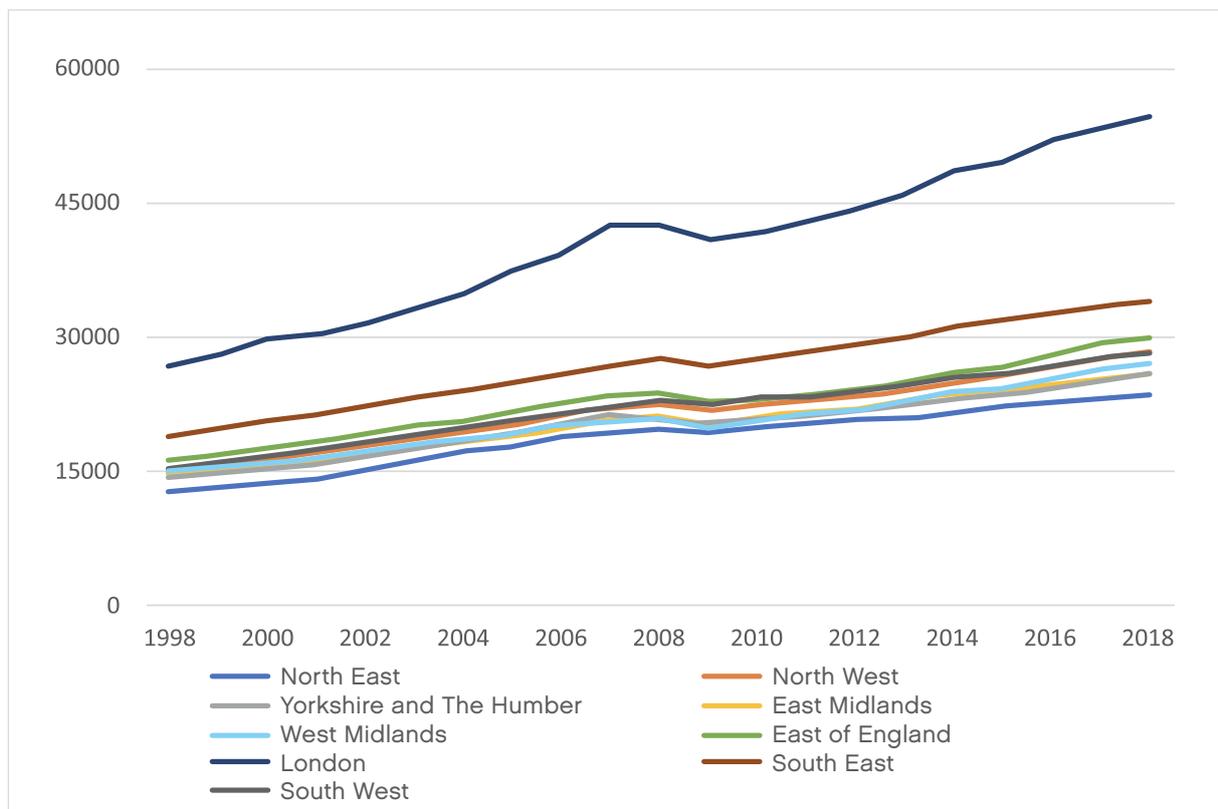
The North of England was once a powerhouse. Today, its economy is among the least productive of any region in Europe.³

The roots of this decline go back more than a century. But last year, in one of the first major policy reports to tackle the 'levelling up' agenda, the Centre for Policy Studies showed that the huge disparities

between England's regions have widened dramatically over recent decades.⁴

London's per capita GDP was already higher than any other region two decades ago, with the South East a comfortable runner up. But these two regions have now substantially extended their lead. The constituent parts of the North, particularly the North East, have been falling further behind, as the chart below illustrates.

Regional GDP per capita in England at current market prices, 1998-2018



Source: ONS, Regional gross domestic product all NUTS level regions, [link](#)

³ <https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/compendium/economicreview/april2018/regionalandsubregionalproductivitycomparisonsukandselectedeucountries2014>

⁴ <https://www.cps.org.uk/files/reports/original/191028170944-ARisingTide3.pdf>



The evidence also suggests that the pandemic is causing greater damage to local economies in areas which were already struggling. Places with weaker economies have been less able to endure the financial damage caused by Covid-19, while those with higher-productivity jobs, especially in the services sectors concentrated in London, have been able to continue through remote working.⁵ Nearly 60 per cent of workers in London, and more than 50 per cent in the South East, are in occupations which are amenable to home working, compared to only around 40 per cent in the North.⁶

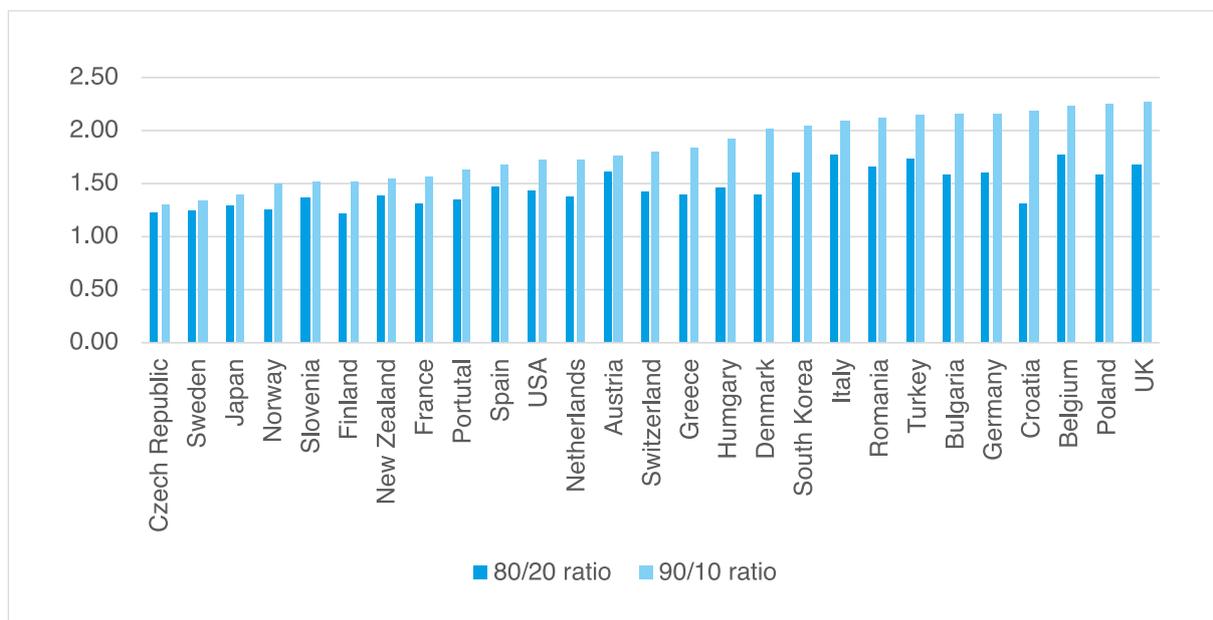
Analysis by KPMG a few months into the pandemic, which looked at regional Gross Value Added statistics, backs up these conclusions. KPMG found that London's service-heavy economy would be the least affected, while those areas which rely on

manufacturing would be harder hit. They predicted that as a result, 'the gap between performance in London and the rest of the UK will widen this year.'⁷

Covid-19 is only making a bad situation worse. The root causes of the current imbalance are historic and well-entrenched – and they're also about as bad as it gets when compared internationally.

Recent analysis by the Institute for Fiscal Studies (IFS) concluded that, based on a range of indicators of regional inequality, the UK was the most geographically unequal economy of the 27 OECD members that they looked at, with the largest gap between its most and least productive areas. (The light blue bar shows per capita GDP gap between areas in the 90th percentile and the 10th; the dark blue bar shows the 80th vs the 20th.)

Ratio of GDP per capita between regions at different percentiles, by country



Source: IFS analysis of OECD regional GDP data. See Davenport and Zaranko, Levelling up: where and how?, IFS, October 2020, data tables, [link](#)

5 <https://blogs.lse.ac.uk/politicsandpolicy/local-economic-impact-covid19/>

6 <https://www.ifs.org.uk/publications/14829>

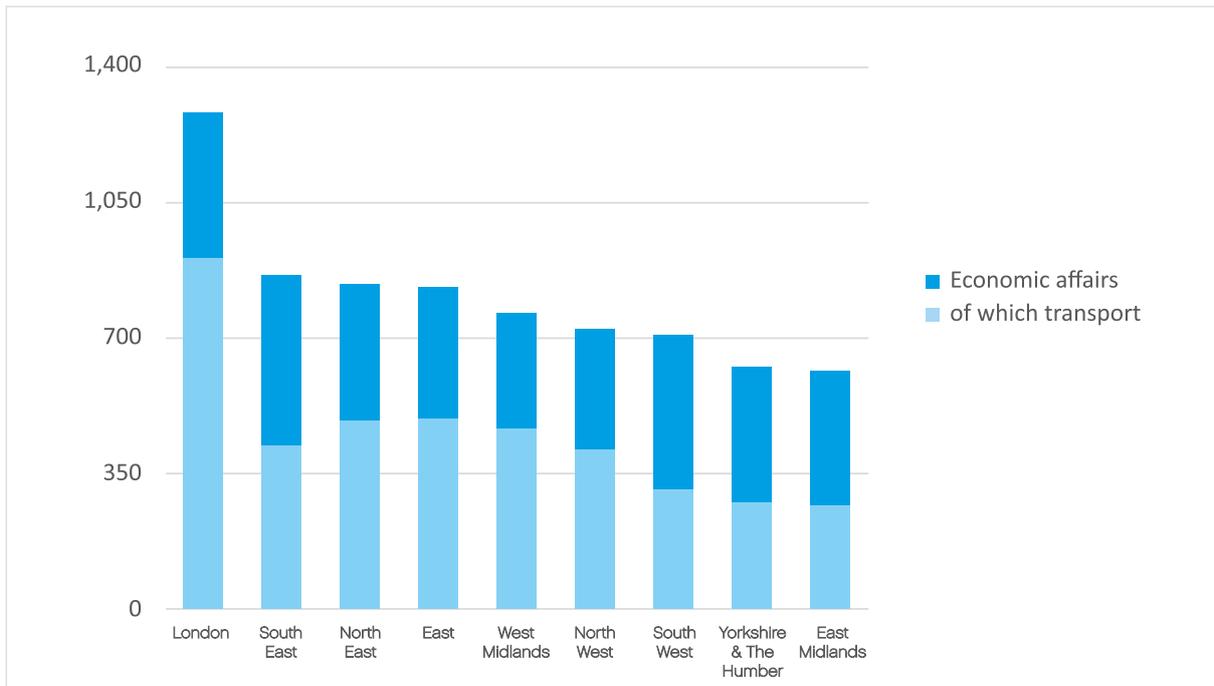
7 <https://home.kpmg/uk/en/home/insights/2020/04/chief-economist-s-note-levelling-up-and-covid-19.html>



This problem is made worse by the fact that public investment is heavily tilted towards regions which are already thriving. For example, public spending per head on 'economic affairs' (an umbrella category

of government spending which includes things like employment policies, research and development, and transport and infrastructure) is higher in London and the South East than any other English region.

Spending on economic affairs per head in England by region, 2019-20



Source: HM Treasury, *Country and regional analysis: 2020*, Table A.15, November 2020, [link](#)

In fact, London has the highest per head spending within almost all categories, including health, education and housing. There is an extent to which this makes sense from the point of view of the Treasury as an investor. When the South is already much more productive than the rest of the country, spending there will generate a greater return for every pound spent. Cutting half an hour off the commute of a worker is more valuable if they have a high value-added job.

But the cold logic of traditional Treasury cost-benefit analysis dooms left-behind regions to a downward spiral, as their weak economies mean they are starved of investment.

The Government has, as we discuss below, taken laudable steps to change its principal tool of assessment, the Green Book, to redress the balance. Of course, it is ultimately

private sector investment that is needed rather than just state spending – but the two are intrinsically linked. Not only can the state play an important role in risk-bearing and leveraging-in additional capital from the private sector, but it can also create the conditions to make a place more investable.

When both the public and the private sector are heavily focused on London and the South East, it is little wonder that the gap between North and South has continued to widen in recent decades. The risk now is that Covid-19 means the gap widens even further.

People in our Northern towns and cities have felt for some time that those making the decisions in Westminster, and spending their taxes, are leaving them behind. The figures suggest they have every right to feel aggrieved.



Our Solution

It was inventions like the Spinning Jenny, the flying shuttle and the spinning mule which powered the growth of the North, and of the world, during the 18th and 19th centuries.

But these innovations would have come to naught without the injection of private capital which led to their widespread use. The Industrial Revolution was powered by investment – and it is that investment which will be necessary if the North of England is to become resurgent.

Positive steps have already been taken in terms of delivering more public investment. Successive Chancellors have pinpointed infrastructure investment as a means of unlocking the potential of left behind areas, and the recent changes to the Green Book methodology should help ensure that more capital spending is directed to those areas which have historically missed out. The recent announcement of a new Levelling Up Fund,⁸ and the decision to place the new UK Infrastructure Bank in the North of England,⁹ are both to be welcomed.

Yet while the Levelling Up Fund is a great start, it does not come close to what is required. It is smaller than the anticipated Shared Prosperity Fund, and the European Structural Funds which have been invested

in England over the last five years. But more importantly, these funds in turn don't come close to the amounts that institutional investors are able to commit. In recent years, Manchester has received far more investment from the Abu Dhabi United Group, for housing alone, than via European funds.¹⁰

“What the North needs is the scale of investment – and the dynamism – that only the private sector can bring.”

The limits of what can be achieved through public funding alone were made abundantly clear during Tony Blair's years in power. Billions of pounds of taxpayers' money were spent in the regions, alongside increased public sector pay and a generous system of tax credits. Yet Blair's own constituency was one of those that defected to the Conservatives in 2019. The same lesson can be learnt from abroad: in Germany, for example, tens of billions of euros have been spent to try to improve the economy of the former East Germany, but the productivity gap with the West remains stubbornly high.

What the North needs is the scale of investment – and the dynamism – that only the private sector can bring. Only private sector investment can create jobs and stimulate sustainable growth in the

8 <https://www.gov.uk/government/news/spending-review-to-fight-virus-deliver-promises-and-invest-in-uks-recovery>

9 Ibid

10 <https://www.manchestereveningnews.co.uk/business/manchester-city-etihad-stadium-adug-7313788> and p8 of https://www.greatermanchester-ca.gov.uk/media/1334/gm_eu_investment_plan_2014_2020_feb_2016.pdf



long term – a far better way of making our way out of this pandemic than taxing investment, capital or jobs.

“ The steps we outline amount to an ambitious plan for the North to become a global destination for capital investment, which will help increase economic growth across the region.”

We are competing internationally for global capital and other countries are making enormous – and highly successful – efforts to attract it. As a country we need to respond. The argument of this paper is that the North of England can be at the centre of that response. The steps we outline amount to an ambitious plan for the North to become a global destination for capital investment, which will help increase economic growth across the region.

Of course, not all parts of the North need help, and not all places which need help are in the North. But we believe it is helpful to view these issues, and consider possible solutions, through a Northern prism – and at the scale of the region as a whole.

That is not to say that applying these recommendations across the North, in blanket fashion, is the only option. Ministers certainly could deploy them in this fashion. Or the measures could be more narrowly focused, in terms of sectors or places. They could also be more widely applied than just in the North – for example across the Midlands, in the UK’s coastal communities (which tend to be among the most deprived) or within the devolved administrations. Some measures, especially

those designed to encourage business investment, could be applied nationwide. But the benefits of such proposals are likely to be particularly effective in the North, where there is more manufacturing and most ground to make up.

The wider point we are seeking to make is that encouraging investment, and unlocking growth, in those places that need it most, is an essential and legitimate approach – not least because, as we set out in ‘A Rising Tide’, the economic playing field has been tilted against the North over decades by the decisions of the state.

It was Margaret Thatcher, the CPS’s co-founder, who authorised a bespoke, highly competitive regime to regenerate the impoverished Docklands – and who signed off on investment incentives to encourage Nissan to invest in their Sunderland plant in the 1980s. Both measures have proved extraordinarily successful. The Centre for Policy Studies backed the first Enterprise Zones, and more recently advocated Opportunity Zones as a means of encouraging investment into disadvantaged areas.

This paper is a natural extension of that same principle. It is also one that the current Chancellor will be sympathetic towards. The idea that private sector investment is best able to regenerate deprived areas was at the heart of his 2016 paper for the CPS, ‘The Free Ports Opportunity’,¹¹ and he reconfirmed his belief in this principle in giving evidence to the Treasury Select Committee a few months ago.¹²

He is not alone in highlighting the need for investment, in the North and elsewhere. The Institute for Fiscal Studies has warned that ‘low investment now will lead to low growth in productivity and earnings

11 <https://www.cps.org.uk/files/reports/original/161114094336-TheFreePortsOpportunity.pdf>

12 <https://committees.parliament.uk/oralevidence/715/pdf/>



in the future' and the Bank of England has consistently warned that low levels of business investment will hamper productivity gains.

“ Today, with the signing of a free-trade agreement with the European Union, our post-Brexit future is a more certain one.”

In November, the Government announced the creation of a new Office for Investment, headed by Lord Grimstone, to attract foreign capital to Britain.¹³ Yet the Treasury – perhaps due to the distractions of the pandemic – has yet to fully outline how it intends to unlock private sector investment in the name of the levelling up agenda.

The time has come to set out such an agenda. Today, with the signing of a free-trade agreement with the European Union, our post-Brexit future is a more certain one. And the widespread rollout of various Covid-19 vaccines, means we are all looking forward to a brighter 2021. It is therefore time to make good on the promise to level up the economy – and to produce a Northern Big Bang focused on investment.

Margaret Thatcher's 'Big Bang' in October 1986 took the City of London from a regionally significant financial centre to a global powerhouse and spread prosperity across the South East of England. We need a new Northern Big Bang that puts the North at the heart of the post-pandemic recovery – by making it an irresistibly attractive destination for investment.

¹³ <https://www.gov.uk/government/news/new-office-for-investment-to-drive-foreign-investment-into-the-uk>

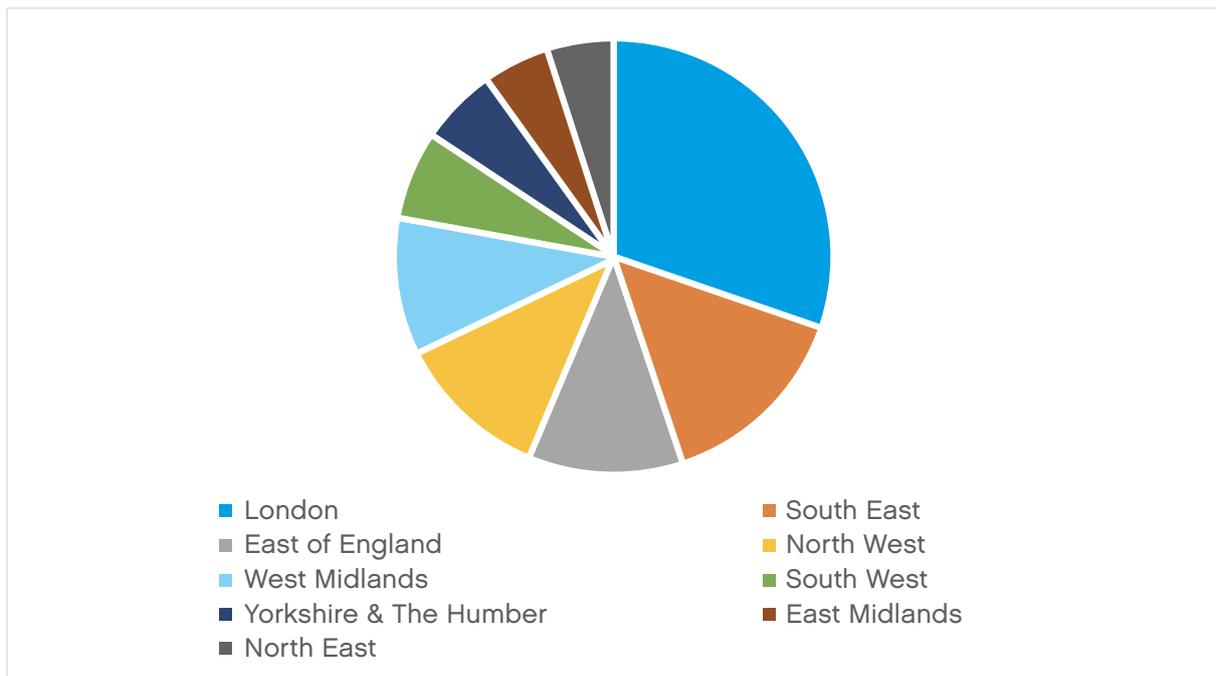
Our proposals

1. Unlocking more private capital into infrastructure

Successive Chancellors, and the current Prime Minister, have made it abundantly clear that they see infrastructure playing a vital role in equipping our country for the future – and in particular in supporting the economy of the North.

These commitments are welcome – and long overdue. As the chart below demonstrates, capital spending on transport, a major focus for the levelling up agenda so far, is weighted towards London and the Greater South East, to the detriment of those in the North (and in the East Midlands in particular). Almost half of all transport spending in England goes to London and the South East.

Regional share of transport spending in England, 2018-19



Source: ONS, *Country and regional public sector finances expenditure tables, December 2019*, [link](#)

The steadfast commitment to HS2 from both the Prime Minister and the Chancellor – including to the vital 2b line which will provide fast links, and extra capacity, for Yorkshire and the North East – has been welcomed by those in the North, as has their support for the East-West connectivity which

will be delivered by Northern Powerhouse Rail, or HS3 as it is often known.

More recently, the decision to put the new UK Infrastructure Bank in the North of England,¹⁴ ideally working alongside the Treasury's new Northern outpost, has

¹⁴ <https://www.gov.uk/government/news/spending-review-to-fight-virus-deliver-promises-and-invest-in-uks-recovery>



further demonstrated the Government's commitment to investing public money in the North. The specific commitments to transport infrastructure – like the dualling of the A66; digital infrastructure to support the Government's gigabit ambitions; and bus and rail networks across the North in the National Infrastructure Strategy – will all help address longstanding issues.¹⁵

Yet there are limits to what can be achieved through Government investment and taxpayer-funded largesse. Most of this report concerns itself with how we might unlock more private investment into the Northern economy. But there is a specific need – and opportunity – to do that around infrastructure.

The UK is in an enviable position when it comes to the assets held, and managed, by pension funds and the wider asset management industry. It is consistently one of the most favoured countries in the world when it comes to attracting Foreign Direct Investment. The challenge is to get this investment deployed, at scale, into the North and those other parts of the country which need levelling up.

This is particularly important given the impact that spending on infrastructure can have, delivering a greater return per pound spent than almost any other form of fiscal stimulus or other public spending.¹⁶

Success stories in this regard already exist, of course. In Greater Manchester, foreign governments, sovereign wealth funds and international investors have put billions of pounds into major infrastructure like the redevelopment of Manchester Airport and the creation of thousands of new homes. But there is more that can be achieved.

The UK is already seen as a safe haven for global capital, providing security and opportunity and backed by one of the most secure legal systems. The North's appeal, moreover, is all too obvious – with a historic infrastructure deficit, affordable land and a determined Government with a policy agenda to fulfil.

“ The UK is in an enviable position when it comes to the assets held, and managed, by pension funds and the wider asset management industry.”

What is lacking are the easy routes for institutional investors to finance the capital projects which are needed. And small changes from the Government could help solve this problem.

We therefore recommend **three steps to unlock a deluge of investment into Northern infrastructure:**

1. A requirement that all projects funded by the new UK Infrastructure Bank operate on a 'private sector unlock' investment basis where possible
2. The creation of a new Northern Infrastructure Bond, issued by the Government and aimed at global investors
3. Updating rules around UK pension schemes, particularly Defined Contribution schemes, and developing approaches to make investment into Northern infrastructure more commonplace

¹⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938049/NIS_final_web_single_page.pdf

¹⁶ See Box 2.1 relating to fiscal multipliers: http://cdn.obr.uk/CCS1020397650-001_OBR-November2020-EFO-v2-Web-accessible.pdf



Each of these ideas needs to be developed in more depth than the restrictions of this paper permit, but there is a strong *a priori* case for them individually and collectively.

“Providing a Government guarantee for institutional investment which can be ploughed into the North should unlock tens, if not hundreds, of billions of pounds which can be put into infrastructure investment.”

The first reflects a general principle that Government money should always aim to unlock private sector investment and activity, not least given the multiple competing demands for public investment.

With government not funding the entirety of a project, the cost to the taxpayer is obviously reduced, but this arrangement also reduces both the risks and the costs for the private sector, making the investment more attractive. The Bank should consider operating a system akin to the ‘reverse auctions’ often used as part of procurement exercises, to see how they might lower the cost to the taxpayer whilst unlocking, or ‘crowding in’, maximum private sector investment.

Of course there will be some circumstances in which private investors cannot generate returns, but where a revenue stream can be generated, the state should try to get the private sector to take on the investment and as much of the risk as possible.

The second idea is predicated on the low cost of capital for countries like the

UK in the current environment. Providing a Government guarantee for institutional investment which can be ploughed into the North should unlock tens, if not hundreds, of billions of pounds which can be put into infrastructure investment, which in turn will unlock economic benefits.

Some might question the need for a specific Northern Infrastructure Bond, given that the Government can borrow money and direct it towards such spending in any case. But its value comes from its specificity of purpose: in much the same way as the recently announced ‘green gilts’ have to be spent on environmental projects, this Bond would be focused entirely on the North and its infrastructure.

The final idea emanates from the ‘straitjacketing’ of most pension scheme investments – in particular the way in which Defined Contribution (DC) schemes are forced to prioritise liquid assets rather than investments which might deliver longer-term value. The Government has recognised this issue, promising in its 2019 manifesto to ‘unlock long-term capital in pension funds’ but it still needs to make good on this promise.

Of course, pension funds must be run in the interests of the savers concerned, not as a tool of Government policy. But they are currently artificially restricted from making investments which would deliver a consistent return over decades while boosting the wider economy. Given the amount of investible capital that sits within UK pension funds, the prize here is a significant one if the rules can be tweaked to more readily permit investment into illiquid assets like infrastructure.



2. Encouraging Business Investment

Just as there is a limit to what public investment can achieve by itself – and the burdens we can put on the taxpayer – there is also a limit to what can be achieved through investment in infrastructure. Yes, this is an important enabling factor for growth – all too necessary, in fact, if the conditions for investment are to be created. But its necessity does not equate to its sufficiency.

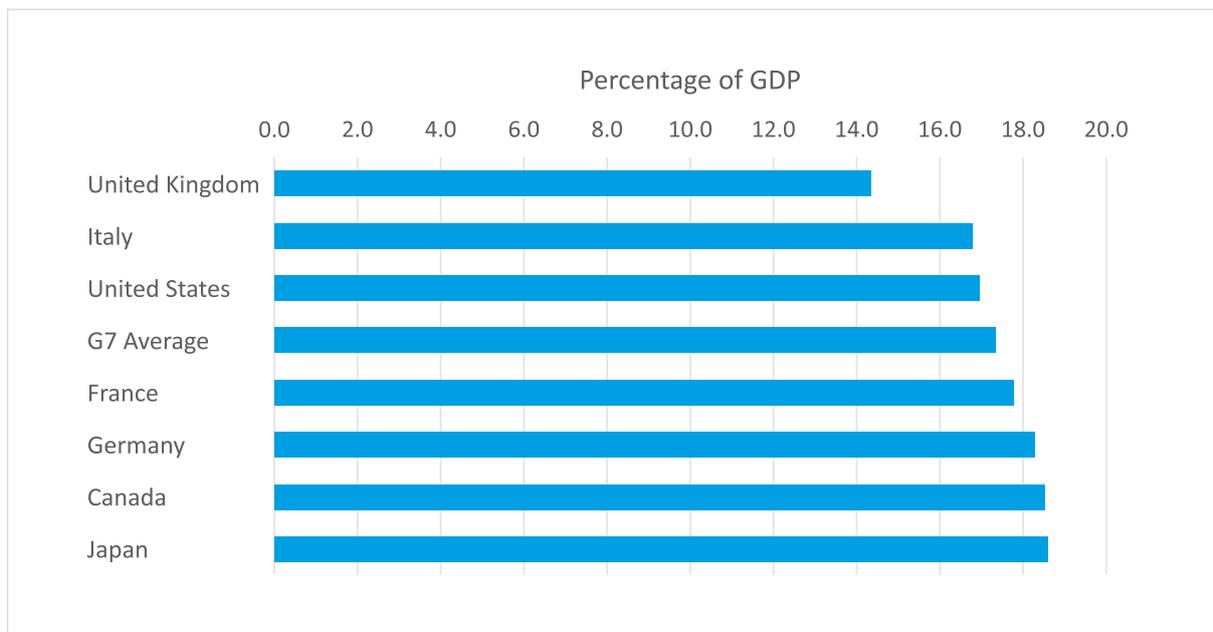
Alongside putting the right infrastructure in place, we need to make sure that the right regime exists to encourage companies to invest – especially in buildings, new equipment and those things, more generally, which fall under the opaque title of ‘plant and machinery’.

By encouraging businesses to invest more in their facilities and equipment,

we encourage them to become more productive, thus creating a high-wage, high-skilled economy. The UK has fallen behind in terms of its productivity performance over recent decades – and low levels of business investment have been recognised as a critical factor in explaining that.¹⁷

Private sector business investment in the UK is below that of similar advanced economies, as the table below shows. But the issue particularly affects the North, given its relative reliance on manufacturing businesses. While depressed private investment levels have been exacerbated by Brexit uncertainty in recent years, the phenomenon is not new. The chart below shows that between 1997 and 2017 levels of spending on gross fixed capital formation (a measure of net investment) by the private sector were lower in the UK than in any other G7 economy.

Average non-government spend on Gross Fixed Capital Formation, 1997-2017



Source: ONS, *An international comparison of gross fixed capital formation, November 2017, Table 2*, [link](#)

¹⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/443898/Productivity_Plan_web.pdf



In 2018 gross capital formation made up 17.4% of UK GDP compared to 24.3% in Japan, 23.9% in France, 21.8% in Germany and 21% in the United States (in expanding Asian economies such as India and South Korea it is above 30% and in China above 40%). In the OECD only Greece has a lower level of investment as a percentage of its economy.¹⁸

Of course, the tax treatment of capital expenditure can only explain part of this divergence. But it is unlikely to be a coincidence that the Tax Attractiveness Index, compiled by the Institute for Taxation and Accounting at LMU Munich, ranks the UK 98th out of 100 on its depreciation regime for fixed assets.¹⁹ The US-based Tax Foundation, similarly, ranks the UK 33rd out of 36 in terms of its capital allowances, with average cost recovery of 57.1% compared to an OECD average of 68.6%.

The system used in the UK, where businesses account for relevant expenditure through a variety of capital allowances, is outdated, complicated and ineffective – as the Centre for Policy Studies, and various other think tanks, have pointed out on a regular basis over recent years. It is also another example of Government decisions tilting the playing field: George Osborne's decision to fund wider corporation tax cuts by cutting investment allowances rewarded services-based firms in the South at the expense of manufacturing firms in the North.

The annual limits currently in place disincentivise the sort of investment which productivity enhancements and economic growth rely upon. It is not just the threshold at which the 'Annual Investment Allowance'

(AIA) is set that is the problem, but its constantly changing level and nature of the allowance are serious drawbacks to its successful application.²⁰

“ The US-based Tax Foundation, similarly, ranks the UK 33rd out of 36 in terms of its capital allowances, with average cost recovery of 57.1% compared to an OECD average of 68.6%.”

The countries at the top of the Tax Foundation's Capital Cost Recovery Index, Estonia and Latvia, are ranked so high because they operate a system of 'full expensing'. This effectively amounts to an unlimited AIA, meaning companies can immediately recoup 100% of their investment spending that financial year.

Capital allowances can have a much more positive impact on growth than a simple cut in corporation tax rates because they specifically incentivise investment spending. The Tax Foundation has found that, per dollar of forgone revenue, full expensing for capital expenditure can have a growth effect double that of cutting the headline corporate tax rate. A UK study in 2016 from the Oxford University Centre for Business Taxation found that access to more generous capital allowances for SMEs pre-2008/9 increased the investment rate by 11%.²¹ Work by economist Eric Ohrn, using evidence from US states, suggests that full expensing led to 18% higher business investment and around 2% higher wages per worker.²²

18 https://data.worldbank.org/indicator/NE.GDI.TOTL.ZS?end=2019&locations=GB-OE-DE-FR-US-JP-CN-KR-IN&most_recent_year_desc=false&start=1970

19 <https://www.tax-index.org/>

20 There have been at least seven changes to the level of the AIA over the last decade and many more changes to some of the specifics which exist within the scheme

21 <https://wayback.archive-it.org/org-467/20200808020947/http://eureka.sbs.ox.ac.uk/6145/1/WP1601.pdf>

22 http://ericohrn.sites.grinnell.edu/files/State_Bonus/Ohrn_JPubE_Manuscript.pdf



The Centre for Policy Studies' clear preference is for a nationwide application of full expensing, recognising the huge impact it can have on long-term investment levels by UK companies. But we recognise that the Treasury might have concerns about the cost implications of such a move and that it might prefer to trial it, or only apply it, on a geographically limited or a time-limited basis.

In those circumstances, we would recommend **allowing writing off of all investment against corporation tax for businesses in the North of England between now and 2025.**

Applying full expensing in the North would help drive investment and, through capital intensification, deliver increased productivity growth and, ultimately, higher wages. It will also hopefully prove the merits of the idea more widely and more permanently.

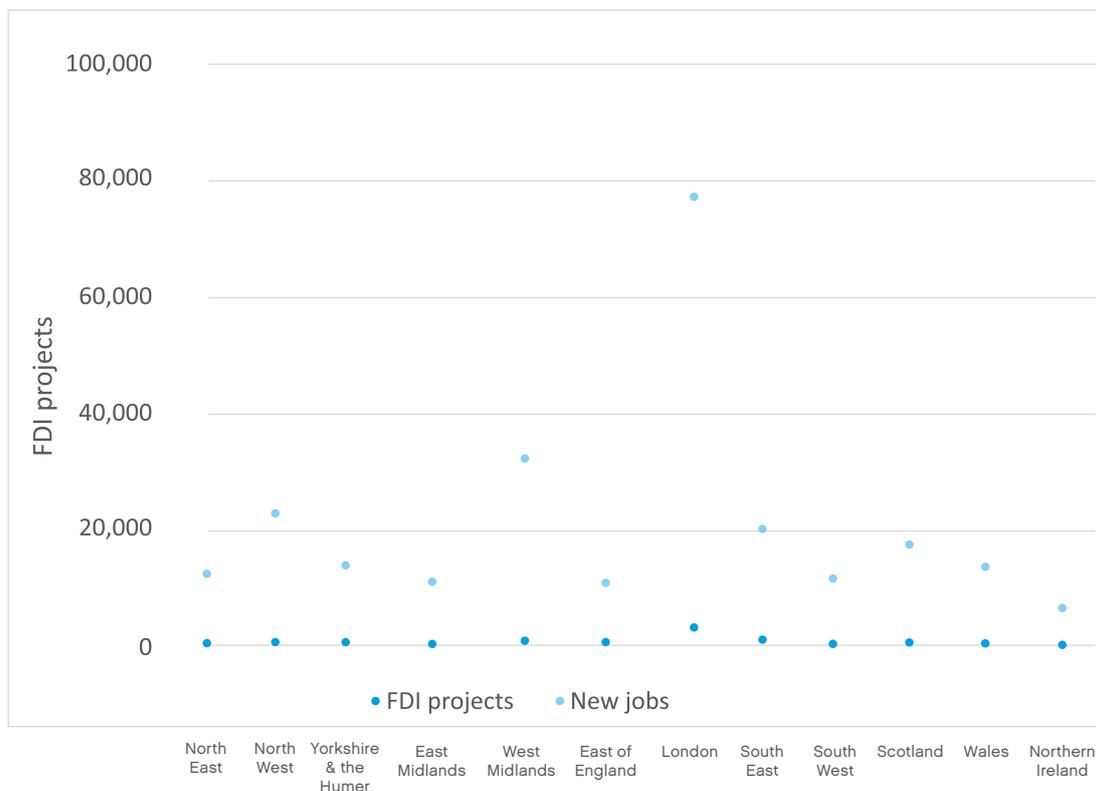
3. Lighting the touchpaper

The previous recommendation is designed to make a demonstrable difference to the incentives for businesses located in the North of England to invest in their own premises and their own success. But to really make a difference – and to create the impact we are looking for – a yet more radical approach is needed.

Foreign Direct Investment has long been a success story for the UK, but the uncertainty following our vote to leave the European Union, compounded by the recent impact of the Covid-19 pandemic, has reduced capital inflows.

Moreover, the North has consistently fared less well in attracting capital, with the three Northern regions combined receiving a fraction of the overseas investment seen in London over recent years, as the table below shows.

Inward FDI, by region (2015-2019)



Source: Department for International Trade, *Inward Investment Results 2015/16*, [link](#); Department for International Trade, *Inward Investment Results 2016-17*, [link](#); Department for International Trade, *Inward Investment Results 2017-18*, [link](#); Department for International Trade, *Inward Investment Results 2018-19*, [link](#).



We therefore recommend the adoption of a more radical approach, one which unlocks a Big Bang of both investment and growth across the North, in the form of **a new, time-limited, Initial Investment Incentive**.

The Initial Investment Incentive – or ‘the Triple I’ – should be available to any business making a material new investment in the North and would offer a Government-funded incentive of 10 per cent of the capital costs of new investments to reduce risk and increase potential profitability margins. The Triple I should have a ceiling – perhaps offering a maximum of £25 million per investment – and would need a floor investment level of, say, £20 million to ensure it is targeted at the most significant of investments. We would recommend that the Triple I was put in place for the next five years to incentivise investment spend as soon as possible.

Incentives of this sort might seem like a slippery slope towards the state picking winners, or at least distorting the playing field. But as we have pointed out, successive Governments have created the conditions which overly favour London and the greater South East. Tilting the balance in favour of the North, and other parts of the country which need levelling up, is not only justified, but a matter of urgent necessity.

In an ideal world, the Triple I would apply across the geography of the North and in all sectors – but if the Government is worried about the potential cost of the introduction of this measure it could restrict its application to certain geographies (e.g. those with high unemployment or with a high level of deprivation) or certain sectors.

Alternatively, if there is concern about the idea of spending money incentivising

these sorts of productive investments, the Government could instead look to provide a more sympathetic treatment for them in the tax system, along the lines suggested in ‘A Rising Tide’, or the measures adopted by Margaret Thatcher when she incentivised Nissan to invest in Sunderland.

If this proposal were to be limited to certain parts of the economy, we would suggest it should be focused on delivering Net Zero and green growth – helping ensure the North of England is in the vanguard of taking forward the Green Industrial Revolution which this Government has made clear its determination to bring about.

“ Just as the 1980s Big Bang helped the City become a global leader in finance, and billions of pounds in research spending helped create the globally leading life sciences cluster around Cambridge, a concerted effort can now put the North of England at the heart of our Green Industrial Revolution.”

The recent publications of the Government’s 10 Point Plan,²³ its Energy White Paper²⁴ and the Treasury’s Net Zero Review interim report²⁵ each signal the direction for Government policy in this regard, and act as staging posts in the journey to COP 26 specifically and to Net Zero more generally. But our efforts to lead the way on green issues and to build the green jobs and industries of the future need to be rooted in place as much as in policy.

23 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/936567/10_POINT_PLAN_BOOKLET.pdf

24 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945899/201216_BEIS_EWP_Command_Paper_Accessible.pdf

25 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945827/Net_Zero_Review_interim_report.pdf



Just as the 1980s Big Bang helped the City become a global leader in finance, and billions of pounds in research spending helped create the globally leading life sciences cluster around Cambridge, a concerted effort can now put the North of England at the heart of our Green Industrial Revolution. Because many of the companies and industries which will help deliver Net Zero will be new, they can be incubated in a new place. These companies can benefit from networking benefits and agglomeration effects like those which exist in any other sector – but for that to happen they need to be rooted in a place.

“ The North led the world during the Industrial Revolution, cradling the innovation, attracting the investment and implementing the approaches which would lead to widespread growth, jobs and opportunities.”

Those clusters of development and excellence should find a natural home in the North of England. It seems to us, capitalising on the research strengths of its universities, the manufacturing base which already exists there and various other pre-existing factors, it would be an obvious place to develop, for example, the gigafactories which are so important to the future of the UK automotive industry and the hydrogen technologies which can help unlock our future green growth.

The North led the world during the Industrial Revolution, cradling the innovation, attracting the investment and implementing the approaches which would lead to widespread growth, jobs and opportunities. It can also

lead the way on the transition to Net Zero – developing the innovation and technology needed whilst being propelled by the private sector investment which is so clearly necessary.

This can create a new economy, which will be able to take advantage of the North's relative advantages – more affordable land, its industrial heritage, and the investment incentives of the sort outlined in this report – and which can compete in global markets for talent and capital for decades to come.

4. Planning success and successful planning

It is all well and good offering to create the conditions for investment, but if the activity which that investment seeks to unlock is stymied from the outset then it will come to nothing. That is why the UK's sclerotic and ineffective planning system deserves further attention.

The inherent issues within the planning system have been recognised by this Government. Its recent planning reforms are an important attempt to address some of those issues.²⁶ Despite the disappointing suggestion that there will be moves away from the more radical parts of the paper, the Government's intention to introduce a new zonal system, with large tracts of land designated for 'growth', is likely to unlock new development and commercial opportunities right across the country.

But we remain concerned that the local planning system will remain open to delay, exaggerated politicking and a prevailing sense of NIMBY-ism, including around important industrial developments. Speaking to those who have tried to get permission for schemes off the ground, there is astonishment at how long it takes to start

²⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/907956/Planning_for_the_Future_web_accessible_version.pdf



building foundations in the UK compared to other countries, in particular because decisions are often made by low-level council bodies which prioritise peace and quiet over the economic needs of the wider area.

It is true that there is a separate regime for 'Nationally Significant Infrastructure Projects' (NSIPs) in England and Wales. But its application is limited, as it is set up to consider infrastructure projects relating to energy, transport, water or waste. Moreover, a rudimentary glance at the website outlining projects being taken through the NSIP regime shows that many of the applications take well over a year to determine. This is despite the fact that one of the fundamental purposes of the regime is to 'streamline the decision-making process for major infrastructure projects'.

The flaws in the system were recognised by the Government's recent 'National Infrastructure Strategy' which said that 'the NSIP regime... is currently not being implemented as effectively as possible, leading to slower delivery times and more uncertainty.'²⁷

“ Speed should be of the essence when it comes to planning decisions, and to the wider economic rejuvenation we seek.”

The simplest thing to do, therefore, would be to **improve the NSIP regime** to ensure it is working as effectively as it is meant to, but also to **extend its reach so that it also covers large commercial planning applications**.

However, we remain concerned that the NSIP might take some time to improve its performance, especially if it has a new remit to adapt to. We also think that certain applications might be best considered outside of the NSIP regime, especially where there are particular local issues or interests which should be taken into account. We would therefore recommend that **applicants can opt out of the NSIP regime and take their application through a local authority's planning system where they choose** to do so.

One of the most important factors in considering which regime would be the most suitable for an application is speed. Speed should be of the essence when it comes to planning decisions, and to the wider economic rejuvenation we seek.

We therefore recommend that a new set of expectations, rules and regulations is introduced for planning applications which represent developments of a certain size or scale. The new system should provide the short-term certainty which investors will be looking for. At its simplest level, there should be a guarantee of speedy determination by a local planning authority for any application which is set to create more than 100 permanent new jobs.

There is currently a requirement that councils determine major commercial decisions within 13 weeks. But there are few sanctions if this deadline is not met.²⁸ We therefore suggest both speeding up the process and taking a more radical approach still.

We recommend that any application which will create more than 100 permanent new jobs should have decision-making guaranteed within two months and that any application which is not determined in that time should be automatically approved.

²⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938049/NIS_final_web_single_page.pdf

²⁸ The Local Authority is meant to lose control over all applications if this requirement is not met at least 40 per cent of the time, which obviously doesn't force widespread compliance



In the latter case, subsequent subsidiary applications should be handled by the Planning Inspectorate to ensure the local authority cannot thwart the development.

“Something needs to be done to bring economic development and strategic planning closer to the people of the North.”

For any applications which would constitute a **new investment of more than £20 million, or which might create more than 250 permanent new jobs, there should be the option for the investor to instead have the determination made by another body**, whether that is the upper tier authority which exists in a particular place, by a new planning authority which oversees the whole of the North or by a Government minister. The same timetable for a determination should prevail in these circumstances, with decision-making guaranteed within two months.

We would also urge the Government to **look again at the system of Permitted Development Rights (PDRs)** and see how it might be extended to more usefully support commercial projects and business growth. The introduction of commercial use class E has created flexibility and is to be welcomed, but there is more that can be done. The emphasis put on PDRs to support residential development has been highly effective – but it has created inconsistencies which don't support economic growth. For example, the PDR to demolish and rebuild only applies to the building of new flats or homes. Why not extend this to commercial projects, too?

These sorts of changes would be as explicit and obvious a commitment to 'Project Speed' as the Government could possibly make.

5. Masters of their own destiny

The UK is one of the most centralised nations in the world. The fact that it also has some of the deepest regional imbalances in the world is not mere coincidence. There are, of course, devolved administrations, but the fact is that the population of the North is greater than that of Scotland, Wales and Northern Ireland combined – yet no democratically elected polity exists across this geography.

This paper does not seek to make the case for the creation of such a function. The strengths and weaknesses of a Northern Assembly would require careful consideration which go beyond our remit here. Indeed politicians, both local and national, have often been the cause of, not the solution to, the North's problems.

Yet something needs to be done to bring economic development and strategic planning closer to the people of the North – particularly around how best to encourage investment and to ensure that investment is put to best use. It is striking that the original Northern Powerhouse agenda was one of the few political innovations which has cut through beyond the political class. We need to build on that success.

We therefore recommend the creation of a new Growth Board for the North, with private and public sector representation and an explicit mandate to come forward with the ideas, policies and initiatives which will help deliver growth across the North.

This Growth Board would not have executive functions, but should act as an independent advisory board, working with local politicians, national government and international third-parties on driving economic growth in the North. To do that, it needs to be plugged into the



businesses of the North, working at a level above the narrower focus of Local Enterprise Partnerships, to ensure their concerns, ambitions and priorities are factored into its thinking. It should be tasked to work with institutional investors, domestic and international, to help identify, develop and deliver investment into projects across the North.

“ The economic success of the North is too important to those who live there to be left in the hands of those who do not.”

As mentioned earlier, regeneration attempts in the past have often been at too small a scale to really drive results. Allowing this new body to consider economic development at the scale of ‘the North’ will mean it has the geographic size, the population size and the regional strengths and specialisms with which it can help contribute to economic growth. Moreover, both this scale, and the Board’s majority private sector make-up, should elevate it above the narrow interests and political squabbling which can adversely affect decision-making at a local level – whether in the North or elsewhere.

However, its principal benefit would come from being rooted in the North and comprised of people whose personal, political and professional lives rely upon the North being successful. The economic success of the North is too important to those who live there to be left in the hands of those who do not – so it is time that the North was allowed to dictate its own future.

This is a principle which has been recognised by this Government, which stated in the 2019 General Election manifesto:

‘We need to get away from the idea that ‘Whitehall knows best’ and that all growth must inevitably start in London... we as Conservatives believe you can and must trust people and communities to make the decisions that are right for them.’²⁹

A new Growth Board for the North would be the right place to start. But we can go further in terms of putting the future success of the North in the hands of the people who care about it most: those who live there.

The various measures outlined above are all aimed at dramatically enhancing the North’s appeal as a place for investment. But most rely on the idea of external investment – asking organisations and people outside of the North to invest in its future prosperity.

Equally, if not more important, is for the people of the North to be able to take a stake in their own future success. We know that there is a huge amount of capital sitting in individual citizens’ hands, particularly off the back of a 2020 which has led to a fall in consumer spending and a corresponding increase in personal savings. The Bank of England recently estimated that as much as £100 billion of ‘excess savings’ has been accumulated during the pandemic.³⁰

We therefore recommend the introduction of a new Northern Recovery Bond which can unlock this capital to invest in the productive economy of the North. By making this Bond available to people and

29 https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba__Conservative%202019%20Manifesto.pdf p26

30 <https://www.reuters.com/article/uk-britain-boe-haldane/boes-haldane-says-consumer-spending-has-come-back-at-a-real-pace-daily-mail-idUKKBN28H02Q>



investors based in the North initially, we would be providing the means for those in the North to take a stake in its future – and its future success.

“A new Growth Board for the North would be the right place to start. But we can go further in terms of putting the future success of the North in the hands of the people who care about it most: those who live there.”

Rather than being targeted solely at infrastructure spending, like the Northern Infrastructure Bond discussed earlier in this paper, the Northern Recovery Bond (NRB) could be aimed at providing growth capital for businesses based in the North. If preferred, the Bond could be targeted at specific areas or sectors, such as underpinning the green industry

which the North is well positioned to lead on in the future.

There are various options for how the proceeds from the NRB could be collected and invested – and how the Bond can be serviced. One option would be to run it through National Savings and Investments, providing a Government guarantee for money invested by individual savers. Alternatively, it could be overseen by the British Business Bank (BBB), invested via its existing, and successful, Northern Powerhouse Investment Fund, and with investors serviced either by the BBB or by a third-party.

Whatever the final servicing arrangements, the real argument for this is in what it unlocks for the North. The ambition is to have a vehicle that not only unlocks existing capital, relying upon the regional pride which is more readily demonstrated in the North than anywhere else in the UK, but which finds its way to supporting the future prosperity of the region. The Northern Recovery Bond can fulfil those aims.



Conclusion

That regional imbalances exist within our country is beyond doubt.

But acknowledging that simple reality leads to difficult questions: should we do something about this imbalance and, if so, what?

There are plenty of people in the UK generally, and the Conservative Party specifically, who think that we should let competition, free markets and free enterprise decide economic realities. But that ignores the way in which successive Governments, as well as the tides of history, have caused things to be the way they are. Matters like where capital cities are located, which centres of learning are prioritised, into which regions public spending is concentrated, can and have led to economic consequences, intended or otherwise.

Following the 2019 General Election there is not just an economic but an equally strong political case to be made, centred on repaying the faith shown in the Conservative Party by the electors of the North of England. They voted for the Conservatives in their millions because they thought this was their best chance of getting Brexit done and of improving their lives and their communities.

These voters acted to topple the so-called Red Wall of Labour seats because they thought the Conservatives would help make their lives better – so now they need to see that happen.

This paper has focused on encouraging investment into the North of England. The recommendations it makes are deliberately

radical in places. But that is merited given the scale of the challenge which stands before us.

“ Investment is, to our minds, the single most important focus for this Government as it tries to repay the faith the shown in it by millions of voters, as it seeks to level up the economy and as it looks for growth post-pandemic.”

Investment is, to our minds, the single most important focus for this Government as it tries to repay the faith the shown in it by millions of voters, as it seeks to level up the economy and as it looks for growth post-pandemic. The recommendations we make within this paper can help unlock that investment, creating jobs, opportunities and growth right across the North.

If that happens, not only will people's lives become markedly better, with improved wages, more opportunities and a higher quality of life, but it can help turn the Red Wall into a Blue Barricade.

For that to happen, this Government needs to adopt the spirit of radicalism which Red Wall voters did a little over a year ago – by putting the North at the heart of our recovery efforts post-Covid. The first Big Bang, focused on London and the South East, saw the Conservatives bring wealth and jobs to impoverished areas and create world-beating clusters of jobs and productivity in the process. It is time for a similar undertaking in the North: it is time for a Northern Big Bang.



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