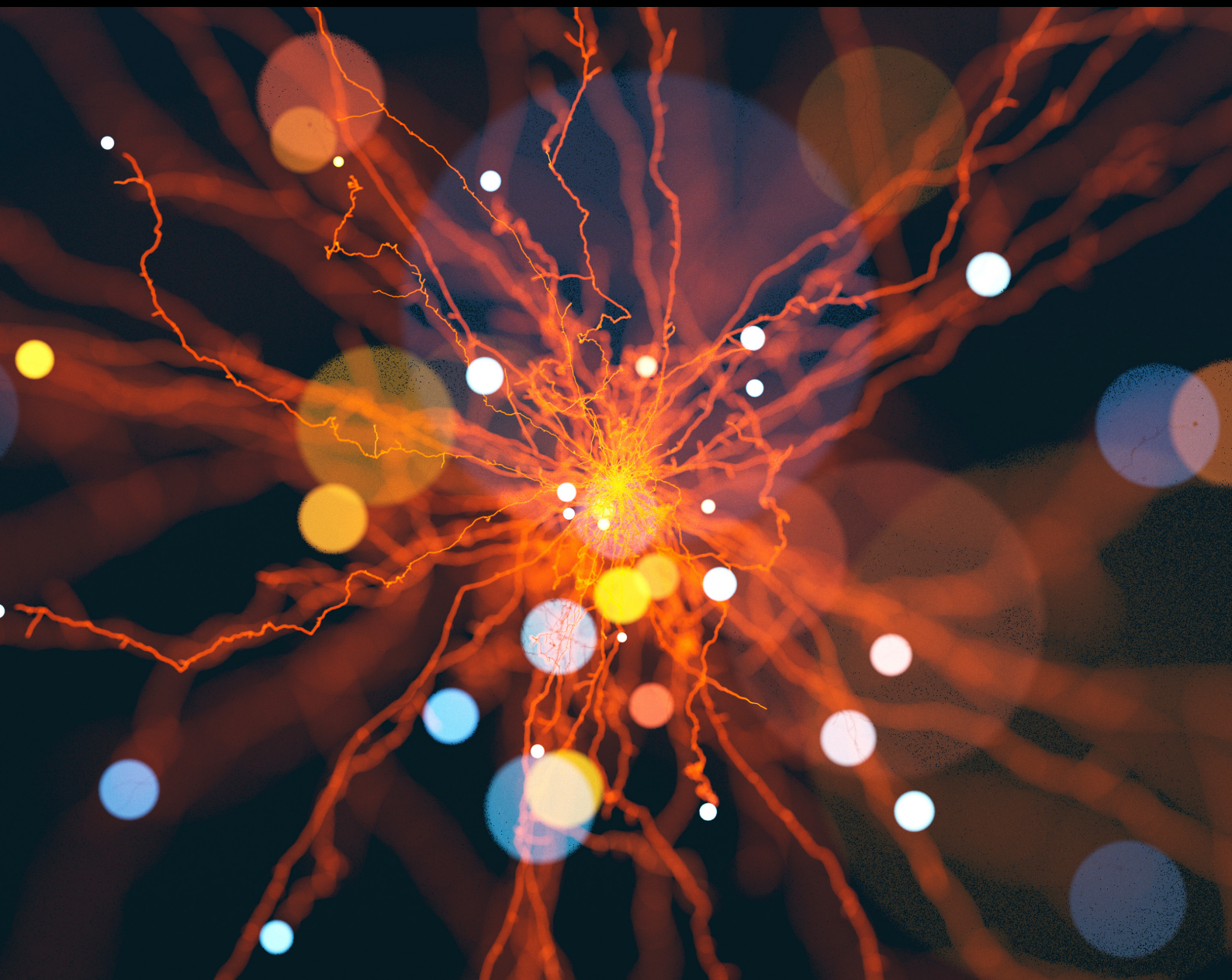


The Power of the North

The State of the Region





Foreword

I am delighted to have been invited to author the foreword for this report. The North is a genuine economic unit in its own right and I am proud to not only represent the North as an MP but as the Minister for the Northern Powerhouse and Local Growth. Since the announcement of the government's Northern Powerhouse initiative in 2014, the North has seen inward investment increase faster than the UK average. On its own, it has an economy equivalent to the ninth largest in Europe.

For me, building a Northern Powerhouse is about boosting local economies through investing in skills, innovation, transport and culture, as well as devolving significant powers and budgets to directly elected mayors to ensure decisions that affect the North are made by the North for the people who live and work here.

This is the first government for over 100 years to take power and influence from the South and return it to the North; we need to ensure that we take full advantage of this once-in-a-generation opportunity.

As the figurative voice of the North in Westminster, I am delighted to have been involved in the State of the Region project, devised by Squire Patton Boggs, *TheBusinessDesk.com* and KPMG.

This six-month, in-depth project has looked at how individual business sectors drive the northern economy to attract investment and help successfully navigate a complex external environment. It has included accumulating expert analysis and commentary, conducting interviews with leading firms in Yorkshire and the North West, and organising events featuring those key influencers in the marketplace.

From all of this research, *The Power of the North Report* has been produced. It examines six sectoral strengths in the North: retail, manufacturing, real estate and construction, energy, technology, and financial services. It analyses how these sectors are driving the northern economy, attracting investment, and helping to bolster this prosperous region.

There are undoubtedly still areas for improvement within the region, too. The report also looks at the challenges for the North, both in general and over the course of 2019. Infrastructure, education and training, and retaining skills need to remain areas of focus, if the North is to build on its strong economy and help businesses seize the opportunities presented to them.

Through collaboration across and within industries, and between the private and public sector, we can continue to invest in, empower and grow the North. It is important that we continue to attract and retain the best talent and ensure long-term sustainable increases in productivity and growth in the North for generations to come.

By returning power and investment to the North, we can help business growth across the region, and give our great cities, conurbations and regions the power and resources that they need to reach their untapped potential.

Jake Berry MP

MP for Rossendale and Darwen

Minister for the Northern Powerhouse and Local Growth



Retail

Despite the well-publicised struggles of the high street, there are many positives for retailers in the North as they adapt to a challenging marketplace. Though retail growth is slowing as predicted, there is serious growth potential for dynamic companies that embrace change in the retail sphere.

Positives in a Tough Environment

Retail is a tough sector to be in at the moment. However, there have been success stories for northern businesses in the last year.

For instance, Bradford-based Morrisons saw pre-tax profits grow nearly 18% in the last financial year. Elsewhere, Co-op is to invest £15 million in Yorkshire in 2018, creating 10 new stores, upgrading another 11 and creating 250 jobs in the county. It is also to open eight new stores in the North West.

Retailers are realising the opportunities that investment in the North can bring, particularly in such a volatile market. As a result, there is huge demand for primary space across the North, although secondary and tertiary sites are seeing less demand.

As cost pressures increase, we are seeing brands move north to address overheads and ease trading conditions. In the last year, Burberry relocated its headquarters from London to Leeds, bringing approximately 400 jobs. It is likely that other retailers will follow suit in these testing economic times.

The Rise of the Retail and Leisure Destination

Research suggests that shoppers are increasingly looking for combined retail and leisure destinations.

Centres such as the Trafford Centre in Manchester, Trinity in Leeds and Liverpool One are becoming popular destinations for locals and tourists alike, because of the mix of vendors and leisure opportunities.

In Leeds and Liverpool, these developments have been integral in the regeneration of the city centres, encouraging people back to the high street. In Manchester, intu (the owners of Trafford Centre and Arndale) has reported a 1.5% increase in footfall year-on-year, and record levels of retailer demand.

Businesses are successfully using mixed-use destinations to provide a different experience to online-only retail. To further combat the online threat, many retailers – large and small – are embracing digital and providing a “multichannel” retail offering to consumers.



Northern Retailers Embrace Multichannel

With retailers realising that the disruptive force of online retail (now at roughly 20% market penetration) is an opportunity to offer a multichannel experience to customers, stores are becoming “showrooms” for consumers to test products before they buy online.

Consumers now expect interaction with brands, through social media, blogs and gaming, for example. Perceptive retailers are realising that their workers are essential for this interaction. They are increasingly using more tech-savvy (often younger) employees to challenge the status quo, embrace social media and act as brand ambassadors and influencers. This double-edged sword helps to improve connectivity with customers and brand investment with employees.

Independent Stores Booming in the Region

Lower rental rates and cheaper costs are luring independent stores to the North in increasing numbers. In 2017, for instance, the North West region alone saw 230 independent stores open. Over the same period, Yorkshire and the Humber was the only region in the UK to avoid multiple store closures.

With the North West, Yorkshire and the Humber, and the North East currently holding the highest retail vacancy rates, independent brands have a huge opportunity to exploit vacant spaces in the North and prop up bricks-and-mortar retail.

Pop-up shops are increasing in popularity across the region, allowing retailers to utilise vacant retail units to showcase their goods.

Independent retailers are also looking to alternative venues across the region, to give customers a unique experience. Take, for example, the Grade I-listed Piece Hall in Halifax. A £19 million restoration has attracted a host of independent retailers, which has led to an increase in footfall in surrounding shops by 20-30% and an increase in house prices in the area. The economic benefits to a town centre from this type of retail are already evident.

Regenerating the North

Retail is helping to regenerate the North. Liverpool’s Albert Dock shows how a high-quality retail and leisure offering can entice investment into neglected areas. With retailers still clamouring to move into the area, or as nearby as possible, it has led to a re-engagement with the city and the wider region.

Albert Dock is not the only example. Other redevelopments of previously neglected sites include Hull’s Fruit Market, land around Manchester’s Ship Canal, and Wigan Pier. The latter is an ambitious multimillion-pound plan to transform the derelict pier into a multi-leisure destination, complete with retail outlets. The regeneration is being used as a catalyst for wider investment and development in the region.

Investment in Northern Retail Developments

The success of the retail sector in the North is leading to substantial investment in the region. There are several projects at various stages of development across the North.

Waverly is a £50 million retail, leisure and office scheme – situated between Sheffield and Rotherham – that will create 700 jobs. It is an important part of the regeneration of the 740-acre Waverley site, located near junction 33 of the M1.

The Cuerden Strategic Site is another project currently underway – a huge retail development announced in April, to be located off the M65. The development would create some 4,000 jobs, provide new commercial development space to encourage new businesses to the area, and bring sustainable infrastructure improvements to the region. It is estimated to bring around £241 million a year to the area's economy. Despite the withdrawal of a flagship Ikea store, the council is still extremely positive about the future of the project.

Axiom is a £135 million, 106-acre mixed-use development that will create more than 75 retail and leisure outlets and a 10,000-capacity community stadium. It will be built on land adjacent to the J32 shopping centre and Xscape, just off the M62. Leading high-street retailers have already signed leases for flagship regional stores, which should attract further investment into the area.

Challenges to the Sector in 2019

- **Retail growth** – Expected to “flatline” in 2018 at best, consumer spending is a concerning area of weakness as household income is squeezed. Customers just do not have the resources to spend at the moment, which is likely to impact on retail figures.
- **Threat of online retail** – Already at 20% market penetration, online retail is adversely affecting traditional bricks-and-mortar retail, requiring the sector to undergo fundamental structural changes. However, the move to online retail will also provide opportunities for forward-thinking, innovative companies that can embrace both channels.
- **Costs** – General overheads are increasing for retailers, which are unable to pass these increasing costs on to consumers. This is likely to lead to businesses looking at cost-saving measures going forwards or accepting lower profits in the short term.

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Manufacturing

Historically, northern towns and cities were built on the foundations of manufacturing. The North is renowned for this industry.

Over the next decade, the manufacturing sector could provide as much as £455 billion to the UK's economy, and create thousands of jobs. The North is likely to have a significant role in the success of the sector. By investing in skills and education, and working with policymakers to improve infrastructure and attract external investment, the region has an opportunity to make itself an international player in the manufacturing sector.

The Fourth Industrial Revolution

Early this year, the government announced £20 million of funding for a pilot scheme in the North West to increase the use of digital technology in manufacturing supply chains.

The government's Industrial Strategy has already highlighted that it is essential for the industry to adopt emerging technologies, invest in training and development, and identify sectors that will drive growth. Manufacturing and engineering companies in the North need to figure out how to embrace "Industry 4.0" to benefit fully from this opportunity.

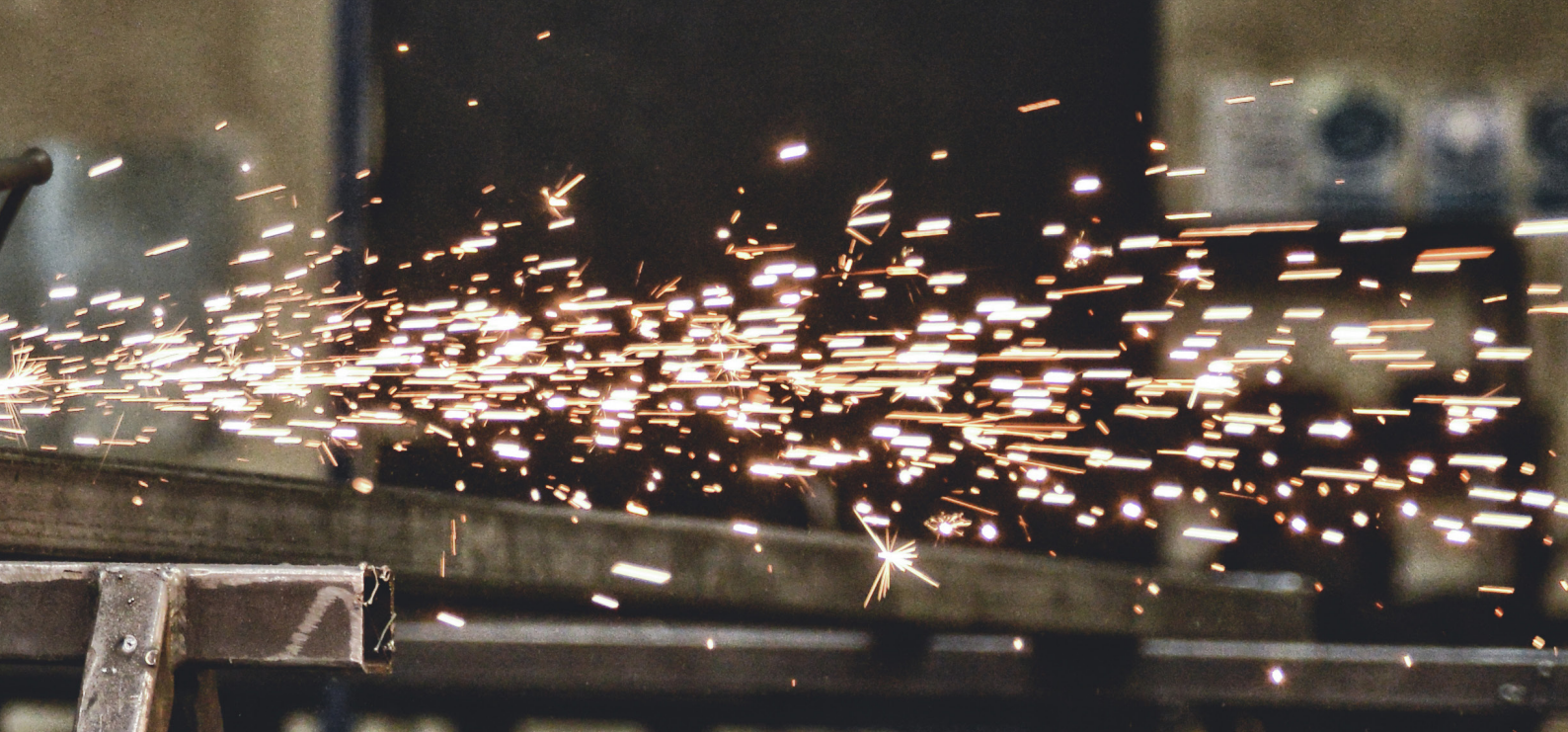
Jürgen Maier, Siemens chief executive, believes northern companies need to collaborate to take advantage of this new revolution. He is to lead a Made Smarter scheme in the North West, which will be given £20 million of government funding aimed at getting businesses to uptake digital technology among manufacturing supply chains.

Impressive Manufacturing Contracts for Northern Businesses

The last 12 months have seen a number of huge manufacturing contracts – traditional and advanced – awarded to northern businesses, highlighting the strength of the region's manufacturers.

Shipbuilder Cammell Laird in Birkenhead recently started work on a new 74-metre roll-on roll-off ship for Red Funnel ferries. This £10 million contract followed the prestigious contract for the £200 million RRS Sir David Attenborough, the world's most advanced polar research vessel.

Other shipbuilders in the region are also thriving, with BAE Systems – a multinational defence, security and aerospace company in Barrow – being awarded a £1.5 billion submarine contract and a £900 million Dreadnought submarine programme. This contract will support 8,000 jobs in submarine building and thousands more through the supply chain. BAE recently invested in a state-of-the-art manufacturing line to meet the demands of the world's largest defence programme. BAE is also responsible for the production of the F-35 Lightning combat aircraft. Its operation in the North West has almost 9,000 companies in the supply chain across the UK, and contributes roughly £11 billion to the economy.



Elsewhere in the North West, HMG Paints – a family firm and one of the largest independent paint producers in the UK – utilises new technologies to supply myriad customers, including Aston Martin. It manufactures more than 3 million litres of paint a year, is committed to equipping its people with the right skills for the future, and develops innovative products for the sector.

Pro-Roll – a high-value metals specialist based in Sheffield – is expanding as a major supplier to the aerospace, civil, nuclear, motorsport and biomedical industries. With a £400,000 grant from Sheffield City Region Growth Hub, it produces low-volume specialist alloy products from its premises at Pluto Works in Wadsley Bridge.

Food manufacturing in the North is also booming. Earlier this year, Nomad Foods acquired Hull-based food maker Aunt Bessie's for £210 million. Staying in the food-manufacturing sector, Bedale-based Heck Foods employs 106 people and recently opened a state-of-the-art £3.5 million production facility. Founded only five years ago, its products are available in a range of supermarkets nationwide and its turnover is in the region of £24 million per year.

A World Leader Based in Sheffield

South Yorkshire is establishing itself as a hub for advanced manufacturing.

Sheffield University's Advanced Manufacturing Research Centre (AMRC) is a network of world-leading research and innovation centres that works with advanced manufacturing companies around the globe. Notable participants include Boeing, Rolls-Royce, BAE Systems and Airbus. It is a place where digital meets manufacturing, with world-class expertise in fields such as augmented and virtual reality, robotics and automation, intelligent machines, digital twins and data analytics. It is a genuine industry leader, and has serious potential for future initiatives in the North.

Early this year, AMRC announced it was expanding to a site close to Preston, to locate itself near to the largest cluster of aerospace production in the UK. Work has also started on a £20 million facility in Deeside, further strengthening manufacturing innovation in the North.

AMRC shows the power of linking research and innovation assets to universities in order to shape the future of manufacturing. The location in South Yorkshire, for instance, is home to Boeing's first production facility in Europe. It is also where McLaren is developing its £50 million Composites Technology Centre – McLaren's second production facility, which will produce and innovate ultra-lightweight carbon fibre tubs for its sports and super cars.

AMRC is working with partners to improve productivity, de-risk investment decisions and accelerate early adoption of Industry 4.0 technologies to improve the performance and quality of manufacturing.

Investment in Northern Manufacturing

A number of globally renowned manufacturers are committed to long-term investment in the North. Siemens, for example, employs around 15,000 people in the UK. In March, it signed a long-term agreement to lease a 67-acre site in Goole, as part of its plan for a state-of-the-art factory to manufacture and commission trains. This investment in the North could be in the region of £200 million, and create around 700 jobs in the engineering and manufacturing sectors, with a further 1,700 jobs created (indirectly) throughout the UK supply chain.

Although a UK-wide investment, the government announced a £2 billion research and development fund for emerging technology, including artificial intelligence and robotics. With more and more firms in the North exploring automation and robotics, and partnering with world-leading universities in the North to conduct their research, there is a real opportunity to secure significant funding for the northern manufacturing community.

Lack of Skills Provides Opportunities

There are many (largely digital) roles in this new era of advanced manufacturing that did not exist 20 years ago – roles in areas such as digital science, digital engineering and cybersecurity. This gap between supply and demand of talent will provide a real opportunity for those northern manufacturers that can move quickly to properly equip the sector. Science, technology, engineering and mathematics (STEM) talent is essential to filling the skills gap. There needs to be a real focus on investing in skills and continuous development for those businesses that are looking to thrive.

Challenges to the Sector in 2019

- **Infrastructure** – The transport system in the North, in particular, must improve to aid the manufacturing sector. Appropriate infrastructure must be in place before the North can be a genuine international player in the manufacturing sector. Announcements are not actual investment, and we need to see real investment into the North, which still pales compared with London.

- **Education and skills** – There is concern that the skills needed to advance the manufacturing sector will be increasingly difficult to find after Brexit. With many EU nationals relocating to mainland Europe, there may be a skills gap in the sector, particularly in relation to Industry 4.0. A possible solution is for companies to form strong partnerships with universities, as shown by AMRC.
- **Supply chain** – Many supply chains could be hit hard by Brexit, which will almost certainly affect tariffs and regulations. This could mean businesses having to find more components in the UK, which would create opportunities for the North, but it could also mean a decline in manufacturing.

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Real Estate and Construction

The construction sector in the North is buoyant at the moment. Substantial projects are popping up all over the region, highlighting the current level of investment.

According to the Lancashire Enterprise Partnership, there are some 32,500 people already employed in construction in the county alone.

Currently, office space is in particularly high demand in the region, which is helping to drive the sector. Growing industries in the region – such as healthcare, technology and media – and “north-shoring” (the relocation of a business from the South to the North) from London companies are driving the need for commercial property. In Manchester, Bruntwood’s Neo and One and Two St Peter’s Square are almost fully let. In Yorkshire, Thorpe Park Leeds is similarly popular, highlighting the demand for purpose-built “out of town” developments.

Away from commercial property, additional student accommodation is increasingly necessary. Northern university cities – Newcastle and Liverpool, in particular – are experiencing a boom in this type of construction.

Huge infrastructure projects are underway all across the North, which will likely drive a demand for skilled workers in the region and contribute to the economy. Improvements in construction technology – such as automation – are helping the region’s contractors to increase productivity and meet this increasing demand.

Construction Demand Boosting the Economy

High demand for new housing, infrastructure and commercial development is driving economic growth across the North.

Leeds City Council’s local plan strategy includes the construction of more than 50,000 new homes over the next 15 years. Elsewhere in Yorkshire, Barnsley will need more than 21,000 homes over 20 years to meet the needs of its growing population.

Sheffield has built 6,200 homes in the last year – twice what it was building just three years ago. It is part of the council’s bold housing initiative, which has also launched a £25 million affordable housing development. Sheffield has also set up “Housing Fund” to deliver a fast-tracked housing development, which aims to help bring forward stalled developments, and create 3,200 new homes and 2,000 construction jobs.

With such demand across the region, there is little wonder there are so many success stories from the sector.

In 2013, GRAHAM opened its North of England division (in Manchester) with just three employees. It now directly employs more than 100 people and turns over £64 million, working across the region in projects in Leeds, Liverpool, Manchester, Sheffield and York.



Other successes include Bardsley Construction, based in Tameside, which increased its annual turnover by 33% in 2017. It has secured contracts worth more than £60 million, with further funding to come, on projects that include construction of an office development, student accommodation, a new aparthotel and a 172-room hotel complete with facilities.

Ambitious Regenerations Boost Northern Regions

“City Living” schemes have been extremely successful in regenerating many northern towns and cities. The region has already seen projects in Leeds, Manchester and Sheffield bring huge investment and economic benefits. Smaller towns and cities are following these ambitious projects, with Preston being one of the latest to follow.

Preston’s City Living strategy launched last year. The council is bidding for some of the government’s £2.3 billion Housing Infrastructure Fund (HIF), to create a development that mixes housing, creative industries and business opportunities. Building work has already begun on the £3.5 million GDV mixed-use scheme in the Winckley Square Conservation Area.

Hull’s Fruit Market region is another strong example of ambitious regeneration positively impacting an area. With commercial regeneration underway, there is now a £17 million residential development expected to complete by 2020. This is a major part of Hull’s “urban village” concept for its historic waterfront, which is transforming this once-derelict district into a new community, featuring independent businesses, restaurants, bars, galleries and shops.

Future Infrastructure Projects

Infrastructure across the North remains a challenge for many industries, but for the construction industry, it provides a huge opportunity.

In West Yorkshire alone, for example, the *Leeds Inclusive Growth Strategy* earmarked a number of future infrastructure projects as huge opportunities for the region. These include the £1 billion West Yorkshire Plus Transport Fund, the HS2 rail project, a HS2 hub station in Leeds, and around £600 million of further development across the Leeds City Region, including modular housing initiatives.

Outside of West Yorkshire, the £434 million infrastructure investment in Preston and South Ribble continues. Delivering more than 11,000 jobs and 2,500 new homes, the project is looking to see the construction of the new homes, the creation of a new bypass, improvements to existing road infrastructure, and a huge mixed retail and office space development nearby. It is estimated that the total investment for the projects will be in the region of £1 billion.

Challenges to the Sector in 2019

- **Skills** – An increase in demand for skilled workers and the lack of them is creating a skills gap. For example, the Construction Skills Network estimates that the next five years will need an additional 1,900 bricklayers and 3,250 electricians. This may be a cautious estimate, considering the anticipated increase in new homes, improved transport links and other major building projects. A report from Sir Oliver Letwin suggests a shortfall of 15,000 bricklayers across the region to meet high demand for new homes.
- **Brexit** – Without skilled labour from the EU, there could be significant skills shortages. There will also likely be supply chain complications from leaving the single market.
- **Costs** – Interest rate rises, inflated land prices and political uncertainty could all squeeze contractors in the future.

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Huge infrastructure projects are underway all across the North, which will likely drive a demand for skilled workers in the region and contribute to the economy. Improvements in construction technology – such as automation – are helping the region's contractors to increase productivity and meet this increasing demand.



Energy

The energy sector in the North provides approximately £2 billion of revenue and roughly 32,000 jobs.

In 2017, the North accounted for more than 25% of the UK's installed electricity capacity, with more than half of that energy coming from the Yorkshire and Humber region. To add to this, the British Geological Survey estimates that there is approximately 1,300 trillion cubic feet of gas below the North West, Yorkshire and East Midlands.

Diversification Brings Opportunities to the North

Climate change is bringing opportunities to the region. Traditional fuels have led the North to become one of the UK's most important energy hubs, but the industry needs to evolve to ensure a sustainable future. The North is well positioned to be the driving force behind new technologies that will power the UK in the future. Government support for renewable power has incentivised the development of new technologies at the expense of coal generation.

The drive to decarbonise power systems in the North has led to a huge growth in renewables – such as biomass, wind and tidal – which are technologies now synonymous with the region.

Take Drax as an example. It contributes more than £500 million a year to the northern economy and provides 6,000 jobs. Once the largest coal-fired power station in the UK, it is now home to the largest decarbonisation project in Europe.

This ambitious conversion has seen millions of pounds invested into the North and the creation of a completely new global supply chain, which has led to new ports being built at Liverpool, Newcastle, Immingham and Hull.

This type of innovation could see the North lead the way in energy provision. Drax recently announced a partnership with C-Capture (a Leeds University spinout), to run a £400,000 bioenergy carbon capture and storage pilot using the technology that Drax has already developed.

Strong Reputation for Offshore and Wind

Long renowned for oil and gas production, the North East is building a worldwide reputation for excellence in subsea technology and offshore renewables. Diversifying through new technology, the region has tapped into the renewables market – predicted to be cheaper than fossil fuels by 2020 – and the growing independent energy providers market. According to North East England Works, the region has seen a 60% growth in energy-related companies in just four years. Building on this, the region now boasts some of the best higher education institutions in the UK for this area, including exceptional facilities at the National Centre for Subsea and Offshore Engineering in Wallsend.



Danish company Orsted has invested heavily in UK offshore wind power, opening an 87-turbine, 659-megawatt project off the Cumbrian coast, which involved more than 50 local producers and suppliers. These large-scale projects bring other benefits to the northern economy by filtering down the supply chain – for instance, Siemens (in Hull) manufactures the blades for these turbines.

Elsewhere, the Burbo Bank Extension is located 7 kilometres off Liverpool Bay. Its 32 wind turbines can power 230,000 homes and it is served by a £6 million operations facility in Merseyside, which covers the extension and the existing Burbo Bank wind farms.

Hard Cell Technology – Leading the Tech Race?

An ambitious decarbonisation project is taking place in the North West. The Manchester Fuel Cell Innovation Centre (MFCIC), part of Manchester Metropolitan University, aims to be at the forefront of this innovation with its £4.1 million facility in Manchester, which is developing new sources of green, emission-free energy. The technology is intended to power homes, offices, factories, cars and public transport, making them more efficient and independent from the main power grid.

MFCIC researchers are planning to share expertise and dedicated specialist equipment with local SMEs in an effort to help the region discover and harness commercial and environmental benefits.

Nuclear Energy

Nuclear energy has long been earmarked as a viable energy alternative in the North. In 2017, the Northern Powerhouse Partnership placed energy at the heart of its Industrial Strategy, calling for the government to invest £1 billion to create a new northern industry in small nuclear reactors, capable of being manufactured at a plant and brought to a site to be built, as well as allowing for better nuclear security.

The Institute for Public Policy Research's Northern Energy Taskforce has created a vision where it sees the North as the leading provider of low-carbon energy by 2050, with an energy economy worth £15 billion a year, delivering 100,000 jobs and providing affordable, clean energy.

Saving Energy

Away from power generation, energy saving initiatives are hugely beneficial to the northern economy. The industrial sector in Leeds alone could save £6.3 million if firms adopted technologies such as solar power and battery storage. In the North West, businesses could save up to £62 million on annual turnover.

Centrica reports that if just 50% of businesses in the sector adopt energy improvement technology, the Leeds City Region's productivity and growth could be boosted by £159.7 million.

Substantial Foreign Investment in the North

Despite the threat of Brexit – and the uncertainty that comes with it – there has been substantial foreign investment in the sector. In addition to Orsted's investment in UK wind power, EDF and China General Nuclear are significant foreign investors in nuclear and renewables. There is also investor interest in Wylfa and other large-scale energy sites in the North, as well as waste-to-energy, microgeneration, solar and battery technology.

Challenges to the Sector in 2019

- **Brexit** – Uncertainty surrounding the UK leaving the EU and Euratom, as well as changes to exemptions and tariffs, could scare away further investment, particularly in relation to green energy.
- **Education** – We need to invest in education to ensure that the next generation has the correct education and skills, particularly in STEM subjects.
- **Infrastructure** – As with many other industries, the creaking infrastructure in the North needs addressing if ambitious plans are to be fulfilled. Improvements in transport and logistics infrastructure would seriously help the supply chain across the North.

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According to North East England Works, the region has seen a 60% growth in energy-related companies in just four years. Building on this, the region now boasts some of the best higher education institutions in the UK for this area.

Technology

The technology sector in the North is thriving. The digital sector is the fastest growing in the UK, with digital companies' turnover up 4.5% between 2016 and 2017, and the North is profiting from this upsurge in growth.

Standout examples of tech successes in the North include Liverpool's Knowledge Quarter, Manchester's MediaCity and Leeds' government-backed Tech Hub.

Huge Investment in Northern Tech

There is high demand for investment in northern tech companies. From 2007 to 2017, there has been a growth in investment in northern tech companies, year-on-year, of more than 2,000%.

According to the *Tech North Investment Index Report*, 2017 was the strongest year on record for northern tech investment, with a total of £432 million raised and 113 individual deals made.

The Northern Tech Investment Barometer showed that in the last six months of 2017, more than £260 million was invested in the northern technology sector. Much of it was from abroad, which is often a sign of the strength of an industry.

There is also further reason for optimism in the sector with the coming to market of specialist local funders and investors.

Manchester Tech Trust and NorthInvest are just two examples of initiatives that are connecting entrepreneurs and start-ups across the North. Other recently established investment vehicles include the Accelerated Digital Ventures in MediaCity and the Northern Powerhouse Investment Fund (NPIF). The NPIF itself has some £400 million available to support northern businesses.

In the Leeds City Region, funding is available for SMEs that want to upgrade their digital infrastructure, technology and connectivity. The Digital Enterprise programme – backed by the Leeds Enterprise Programme, government and the EU – has invested £1.7 million already in digital projects, boosting the economy by £5 million and creating 1,200 jobs.



The Rise of the North

The figures speak for themselves. *Tech Nation 2018* is a report that highlights the value in the “silicon suburbs” and tech towns across the UK, and northern areas post strong results in the report.

Although London still leads the way, the report names 16 northern towns and eight cities profiting from the tech revolution. Manchester and Leeds are expected inclusions on the list, but Middlesbrough, Newcastle, Liverpool and Sheffield also make the list. According to the report, Newcastle’s digital businesses turnover a total of nearly £1 billion, £1.3 billion GVA and 25,000 jobs. Elsewhere, Hull also posts strong figures, with turnover of £568 million and the sector responsible for more than 7,000 jobs.

Cities such as Leeds are helped by “unicorns”. For example, Sky Betting & Gaming continues to invest in the Yorkshire region, creating 230 jobs in 2017-18. The Yorkshire-based business was recently acquired for £3.4 billion, and employs around 1,000 people across the UK. Also based in Leeds is the digital arm of the NHS, which is responsible for all NHS patients’ records in the UK and is driving the NHS’ digital transformation.

Over the Pennines, Manchester’s MediaCity is set to double in size over the next decade, with a constant stream of investment and increasing numbers of established and start-up tech companies pouring into the city centre hub.

Collaborative Sector Reaping Rewards

The cooperative nature of the northern tech sector is a major reason for its success. Traditionally, tech businesses have been good at collaborating and supporting each other, and a recent trend has been for firms to band together to create their own commercial ecosystems.

Sage Marketplace is a prime example of a system that northern firms benefit from. This global network allows smaller and growing tech businesses to operate under the Sage name, making them more recognisable, giving them increased credibility and allowing them to concentrate on providing their services, instead of spending time and money on marketing or operational costs.

Many tech firms are moving north, not just to make cost savings, but also to be part of a burgeoning community.

The Albert Estate in Manchester is another example of this community approach – a physical community in this instance. Shared hubs and work environments such as this are helping start-ups to create partnerships and aid growth. This type of format is particularly popular among young graduates at the moment and is, in turn, attracting young professionals to the North.

Initiatives such as Leeds Digital Festival – the largest digital festival in the North – help to solidify the collaborative working environment and attract interest in the industry. Last year’s festival saw 170 events, 650 speakers and 2,000 attendees across 75 venues.

Northern Firms Leading the Way in Fintech

The market for northern-based software companies, especially fintech providers, remains strong, and Manchester is considered a leader in the blockchain revolution. With the financial services industry spending an estimated £1.3 billion on blockchain technologies last year, there are huge future opportunities across the North in this niche sector, which is still in its relative infancy.

Challenges to the Sector in 2019

- **Education and skills** – Accessing and attracting the right talent is essential in the tech sector, not just at graduate level, but also alternative education routes, such as apprenticeships. Retention of skills is another challenge, particularly against the ever-present draw of London’s tech sector.
- **Infrastructure** – To remain competitive, particularly internationally, investment in infrastructure is crucial. There is an abundance of talent across the region, but they need to remain connected – whether virtually or physically. The UK telecoms network needs to keep up with tech – in particular, full fibre network coverage is essential.
- **Investment** – Despite record levels of investment in the last few years, finance is still one of the main obstacles to any tech company. Access to investment will remain an issue going forward, particularly attracting finance from overseas sources with Brexit looming.

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There is high demand for investment in northern tech companies. From 2007 to 2017, there has been a growth in investment in northern tech companies, year-on-year, of more than 2,000%.



Financial Services/ Fintech

The financial services sector in the UK is not just confined to London; financial services is big business in the North, too.

In Leeds alone, there are more than 30,000 people employed in a sector that accounts for roughly 7.3% of regional GVA. The Leeds City Region is one of the UK's largest centres for banking. It is home to 30 national and international banks, and is the location for the headquarters of three of the five largest building societies.

Across the Pennines, in 2016, the North West exported more than £6.6 billion of financial and related professional services. Estimates suggest there are nearly 450,000 people in financial and related professional services in the North. In Manchester, the sector is equivalent to 7.6% of GVA and hosts Barclays, BNY Mellon, HSBC and RBS.

In the North East, there are around 13,000 people employed in financial and related professional services in Newcastle (7.6% of the city's workforce).

Although the figures for the financial services sector are encouraging, it is in the fintech sector where the northern regions really excel.

Innovators Moving North

The financial services industry in the North is growing. Buoyed by a positive economic outlook, the region is seeing an influx of innovators looking to buck the trend of traditional banking.

Technology has made financial services more accessible than they have ever been, and consumers want to be able to access services quickly and conveniently, with personalised interactions. With the North's regions renowned for technological innovation and excellence, many businesses are benefitting from the relentless pace of financial services technology.

The North West, in particular, is an attractive location for financial services and fintech companies. Second only to London for financial services, the quality of the North West's infrastructure and access to talent has attracted investors to a location that can deliver a consistent level of service to its international client base.



Fintech Sector Driving the Industry

Technology is the catalyst behind the financial sector's rapid evolution.

Fintech is a rapidly evolving sector that is worth some £6 billion to the UK economy and employs nearly 60,000 people. The North is leading the fintech revolution and, as a result, is becoming a major player in the financial services sector, in the UK, Europe and worldwide.

A strong example of this is Manchester-based AccessPay. Named one of the 50 fastest-growing tech companies in the UK, it recently secured a £1 million investment for further growth. A world-leading company for payments and cash management for companies, its story is indicative of the sort of innovation and success for fintech companies in the North. It moved to Manchester in 2017, lured by the city's talent pool and large financial sector.

One important reason fintech companies choose to locate in the North is cost. It is an important consideration for start-ups and major banks alike. Put simply, it is cheaper to start and build a business in the North than it is in London and the South East. Although banks are often headquartered in London, most of their onshore tech operations are in the cities of the North.

In addition, the North has a number of top-ranked universities and business schools. Recognising this, the northern fintech sector is seeking to strengthen its relationship with these institutions to find graduates with the right skills and access a broad pool of talent.

Open Banking – A Northern Revolution?

Another fintech innovation, "Open Banking", is a new secure way for customers to take control of their financial data and share it with third-party organisations, which can then complete transactions for them. The intention is to make banking simpler, faster and more convenient for individual customers and businesses alike. Businesses in the North are leading the innovation in this area, too.

Yorkshire Bank, for instance, is already considered a leader in Open Banking technology, and is working with a number of fintech partners in the North to enhance its customers' experience with API-based services.

Digital Wealth Management

The North is also making a name for itself in the area of wealth management. The North West, especially, is a centre of expertise for asset and wealth management.

"Robo-advisers", for instance, are proving popular with consumers. Many of these are developed and supported by northern tech firms, which are responsible for the digital-only platforms. Elsewhere, personal saving is also becoming more app based, with individuals wanting to control all of their finances through one portal. Again, northern tech companies have been involved from the start, creating and offering innovative products to small and large industry players, reinforcing fintech credentials in the region.

In the rush to embrace digital, many financial services providers, particularly larger banks, are reducing the number of branches without thought to how to replicate the face-to-face experience online. This is presenting an opportunity for northern fintech firms to provide sophisticated digital solutions that replicate the customer service experience.

Is the North the Future of Banking?

More generally, financial services and fintech growth is likely to come from existing financial services businesses in the region bringing new offerings to the market, despite the emergence of a new wave of challenger banks. The trend of established businesses embracing the tech and cost advantages of relocating to the North looks likely to continue.

Challenges to the Sector in 2019

- **Collaboration** – Traditional banks and financial organisations need to work together with fintech companies. In addition, the regions need to work together. Individually, northern cities and regions cannot compete with London, but collectively they may be able to.
- **Infrastructure** – To aide collaboration, transport links need to improve across the regions. There is a fintech cluster both sides of the Pennines, stretching up to the North East.
- **Retention** – It is important that businesses work out how they can offer apprentices and graduates more than just a first job, but genuine prospects for progression and the promise of a career. This extends to education and continuing education.

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The financial services industry in the North is growing. Buoyed by a positive economic outlook, the region is seeing an influx of innovators looking to buck the trend of traditional banking.



The Power of the North Events

Unlocking the Full Potential of the Northern Powerhouse

To mark the end of this large-scale, six-month project, we held closing events to celebrate the northern economy and look at how businesses and government can unlock its full potential. Held in Manchester and Leeds, the seminars featured a number of high-profile speakers and looked at several important target sectors and areas of focus.

Both events signified the importance of
“collaboration, empowerment and skills”.

Manchester – Friday 12 October 2018

At the breakfast event in Manchester, speakers included Northern Powerhouse Minister Jake Berry, MP, Bruntwood Chief Executive Chris Oglesby and KPMG Senior Partner Nicola Quayle.

After a welcome from Alex Turner, joint managing director of *TheBusinessDesk.com*, Jake Berry positively noted that it is “the first time in my life that the North is being taken seriously by the government”. He continued that he sees the North as an economic unit; that on its own, it is the ninth largest economy in Europe.

The conversation saw a running theme: the North is making itself a destination for innovation and investment, and organisations are collaborating to drive economic success across the region. Devolution was seen as a catalyst for many of the positives coming out of the region, with the mayors of Manchester and Liverpool singled out for praise for helping to boost the northern economy. Some speakers took it further, suggesting that the government should devolve powers to the North as much as possible, albeit conceding that some issues simply need to be governed centrally. There is a plan to release a roadmap on areas that have devolution potential.

Positives raised at the event included the impressive growth shown across the region, with £22 billion added to the northern economy between 2014 and 2016, foreign direct investment in the North being twice the national rate, and that the real estate, technology and financial services industries are booming. In education, Manchester’s universities are now challenging world leaders in areas such as bio and medical technologies.

Speakers agreed that the main challenge to the potential of the North is its substandard transport infrastructure system, and that improving links from the East to the West is essential for continued development. While the creation of Transport for the North (TfN) – the first subnational transport authority in England – is welcome, there is still a way to go to improve the transport networks to the level of the South East, particularly in relation to rail transport.

To end the event, it was suggested that businesses need to work with government to improve skills to meet the needs of growing sectors, improve the current transport infrastructure and invest in local services to ensure connectivity among cities and towns.

Leeds – Tuesday 16 October 2018

Hosted by Kayley Worsley, *TheBusinessDesk.com*’s Yorkshire editor, the Leeds event was attended by nearly 100 senior business representatives. Speakers included Leeds City Council Leader Judith Blake, Drax Power Chief Executive Andy Koss, and Squire Patton Boggs Leeds Office Managing Partner John Alderton.

The event focussed on a range of positives for the North, and looked at areas where the region can improve and continue to maximise its output.

Building on points from the Manchester event, it was noted that, if an independent country, the North of England would have the 21st largest economy in the world. Other economic calculations projected that the region generates approximately £390 billion GVA per annum, a fifth of the total economy of Great Britain, and employs approximately 6.5 million people. With the Leeds City Region estimated to contribute approximately 5% of the UK’s economic output, contributors agreed that the outlook for the North is extremely positive. Other factors highlighted included the strong creative, technology and fintech sectors leading investment and innovation in the North, and the presence in the region of leading companies such as Siemens, Rushbond, Yorkshire Bank and the Yorkshire Building Society.

To realise the full economic potential of the northern region, speakers discussed that it is vital for cities in the North to collaborate. Following Brexit, in particular, it will be essential for the region’s major cities and towns to work together to create sustainable, inclusive growth. The challenges to delivery – both pre- and post-Brexit – are likely to be transport, infrastructure, education and retaining skills within the region.

The event ended with a look forward, with speakers agreeing that the North is more collaborative now than it has ever been. Councillor Judith Blake perhaps best summed up the positive outlook for many across the region when stating, “I don’t think we’ve ever had the spirit of collaboration that we are now experiencing across the North. It might be difficult to put your finger on exactly what the Northern Powerhouse is, but I can tell you that in terms of transforming relationships, it is very real indeed.”

Conclusion

The potential of the Northern Powerhouse remains huge.

The sectors covered in this report are performing admirably – some in particularly precarious times – and highlight the widespread successes across the North. An influx of foreign and national investment into these areas is generally a positive reflection of the state of the northern economy. With overseas companies also committing resources to the North, despite the potential economic and logistical difficulties arising from Brexit, it is apparent that there is optimism across the region.

This report highlights that across the North, there is a productive workforce, an affordable economy and an intention to specialise in certain areas. The “Core Cities” in the North – Manchester, Liverpool, Leeds, Sheffield, Hull and Newcastle – should continue to focus on the areas that they are renowned for, but also collaborate and assist each other to help unlock the region’s full potential. They need to realise that they are not competing with each other, but with international cities. By becoming “regional capitals” that control the flow of funds, the Core Cities, “Key Cities” (such as Bradford and Sunderland) and surrounding towns should work together to ensure the North can create, manufacture and export goods and services on a global scale.

Across the sectors covered, one observation stands out: the North’s enthusiasm to embrace technology. This could be fundamental to its success. Fintech and advanced manufacturing, in particular, are areas that are thriving across the region. With the right support, further investment and improvements to infrastructure, the North could become a genuine global force in these (and other tech-reliant) sectors. With a little collaboration, for example, Leeds and Manchester have the expertise, staff and resources to feasibly be the global fintech hubs – or collective hub – of tomorrow.

However, despite the positives covered in this report, there is still much work to be done in the future.

What to Expect in 2019

North-shoring to Continue?

North-shoring is a growing trend. One of the most recent high-profile examples is the announcement of Channel 4’s national HQ relocation to Leeds. The government is embracing north-shoring, too, housing 6,000 HM Revenue & Customs staff in Wellington Place, Leeds. Burberry also relocated to the North recently.

Increasing labour and office costs in the South are leading many businesses to relocate to the North, creating skills hubs in many towns and cities across the region. MediaCityUK in Salford, for example, has seen businesses such as BBC, ITV and Kellogg’s – and other creative and digital businesses – relocate to the area, establishing an international hub for technology, innovation and creativity.

The next few years will likely see some larger, traditionally south-based businesses explore the options of north-shoring. Usually, this involves setting up a satellite office in the interim, to test the water. If this “test run” goes well, they will then consider a more large-scale relocation. This approach allows a business to retain all of the strategic benefits of a London “hub”, with the value-added benefits of operating from a less expensive location.

With City Living projects in towns and cities across the North, there will be plenty of rental spaces for relocating businesses. With many expecting London to bear the brunt of any Brexit-related pains – for certain industries at least – will more companies consider north-shoring to protect their profit margins?

How Will Brexit Affect the North?

Clearly, over the course of next year (and beyond), Brexit stands as one of the biggest obstacles to growth and investment in the North. There are many issues to contend with, but some of the likely ones will include:

- **Shortages in the labour market** – The effect of Brexit is seeing many EU nationals returning to mainland Europe. According to the Chartered Institute of Personnel and Development, employers are already finding it difficult to fill these vacancies. As net migration from the EU falls for low-skilled jobs, the number of applicants per vacancy has also fallen for medium and high-skilled jobs. This includes construction workers and hospitality industry employees, as well as engineers, manufacturers and industry specialists. How this lost expertise is replenished will be vital going forwards.
- **Supply chain problems** – Brexit will have an impact on most supply chains. Larger manufacturers' supply chains, in particular, could be hit hard by Brexit, which will also almost certainly affect tariffs and regulations. This could lead to a decline in manufacturing, but it may also create opportunities for northern businesses to step in and provide components in the UK. The next year will see businesses in several sectors – particularly in the construction, manufacturing and infrastructure sectors – take measures to reduce their supply chain risk.
- **Increased costs/customs implications** – We will not know the full effect of Brexit until we know what form it will take. Hypothetically, for example, a “no deal” scenario may lead to trade under World Trade Organization rules, with businesses facing increased tariffs on exports and imports. Even with a deal, it is likely that there will be an increase in costs and customs red tape. Again, it is likely that 2019 will see businesses looking to mitigate these factors in advance.

Despite any issues that Brexit may cause, there is a possibility that it could actually provide opportunities for the North. Will it have an impact on devolution, with local governments scrambling to secure reassurances and funding streams for regions in the wake of EU funding withdrawals? This scenario raises a possibility – admittedly small – that the government may need to adopt a pan-northern approach to the Northern Powerhouse, reallocating once-central funds to the regions. A devolution of powers and funds of this nature could be hugely significant for the region.

Investment in (Transport) Infrastructure

Investment in northern infrastructure is essential for the future success of the Northern Powerhouse, with almost every sector complaining that current infrastructure must improve.

Transport infrastructure, in particular, is one area that needs substantial investment over the next few years. With an unsatisfactory network between major cities in the region and a reliance on Victorian infrastructure projects, investment is long overdue.

TfN was created to remedy this. Earlier this year, TfN unveiled its ambitious £70 billion project to transform northern infrastructure over the next 30 years. The Northern Powerhouse Rail network would link the region's six major cities and its largest airport with faster, more frequent high-capacity services.

However, with the government previously cancelling rail electrification projects in the Midlands and the North, while backing Crossrail 2, critics suggest that TfN needs full control over budget to ensure the continuity of the project. The next 12 months should paint a clearer picture of the entire initiative.

The Department for Transport has claimed that, over the next two years, it will spend more per head in the North than London and the South East. It will spend more than £1 billion on improving the rail network in the North, through the Northern and TransPennine Express services. This is estimated to deliver room for 40,000 more passengers on 2,000 more services a week.

Other major projects being considered include the construction of a trans-Pennine road tunnel, upgrades to the M62 between Leeds and Manchester – to create quicker, safer and more reliable smart motorways – a new tram-train project in Sheffield and the A6 Manchester Airport Relief Road.

Over the course of 2019, it will be interesting to see how infrastructure project developments progress, and what effect they have on the northern economy.

