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ICE written submission - BIS Select Committee: Powerhouses and engines inquiry

Institution of Civil Engineers

Please find below the Institution of Civil Engineers' submission to the BIS Select Committee: Powerhouses and engines inquiry call for evidence.

The ICE is a UK-based international organisation with over 90,000 members ranging from professional civil engineers to students. It is an educational and qualifying body and has charitable status under UK law. Founded in 1818, the ICE has become recognised worldwide for its excellence as a centre of learning, as a qualifying body and as a public voice for the profession.

ICE is at the heart of the infrastructure debate. It is leading on the National Needs Assessment, providing a cross-sector assessment of the UK's national economic infrastructure and helping influence the National Infrastructure Commission. In addition, our State of the Nation: Devolution report, to be published in June 2016, will examine the challenges overcome and opportunities presented by the development of combined authorities.

ICE would like to thank the BIS Select Committee for the chance to take part in this inquiry. We would welcome any opportunity to provide further insight at subsequent stages.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'GM' followed by a long horizontal stroke.

Gavin Miller
Policy Manager

Executive Summary

The Northern Powerhouse, Midlands Engine and emerging combined authorities place the development of infrastructure at the heart of driving forward economic growth and rebalancing of the country's economy.

Effective infrastructure drives growth, supports job creation and creates thriving, sustainable societies. However, it can also be expensive, be disruptive during construction, and requires fine political judgement so resources are best used to meet the country's needs.

As the devolution agenda progresses, ICE believes that three enablers will help deliver effective and thriving economies across England. These are:

- i. Effective local leadership that can operate at a national level

ICE considers that to maximise the opportunities presented by devolution there is a need to clearly define the roles and desired outcomes of the Northern Powerhouse and Midlands Engine and how they relate to both national and local government, and businesses. Through their Prospectus the Midlands Engine has gone some way to do this and we would encourage its Implementation Plan to be followed through and a similar process applied to the Northern Powerhouse.

- ii. Fiscal devolution which provides devolved authorities with the means to raise third party investment

The devolution agenda presents opportunities for at-scale realising of efficiency savings when powers / service delivery are transferred upwards from local authorities. However, the delegation of powers from central government is unlikely to result in fully realised benefits of unless they are matched by greater control over funding and financing investment.

- iii. Devolved infrastructure strategies and pipelines that provide foresight on skills and education requirements

In order to ensure successful economic benefits to the North and Midlands, there is also a need to put in place both regional infrastructure strategies (which determines the economic and infrastructure needs that will drive sustainable growth) and regional infrastructure pipelines (with the intention of identifying specific upcoming projects and provide foresight on skills/education requirements). Developing both regional strategies and pipelines would help business and other stakeholders by giving a clear picture of the type of work becoming available and the skills needed to deliver them. As the Northern Powerhouse and Midlands Engine evolve they should become ideally placed to manage their development.

These recommendations are developed further below and in ICEs forthcoming (June 2016) State of the Nation: Devolution report.

1. What do initiatives such as the "Northern Powerhouse" and "Midlands Engine" mean in practice for business? What evidence is there that they will bring tangible economic benefits and improve UK productivity?

- 1.1 Both the Northern Powerhouse (NP) and Midlands Engine (ME) provide a framework for a multi-city approach to building globally competitive economies in the North and Midlands. While conceptual at this stage, they begin a process of shared dialogue and collaboration, which enables delivery of ambitious economic and societal progress.
- 1.2 While Northern and Midland cities can be viewed as individually successful, their ability to share knowledge, realise economic growth and regenerate communities is hampered by lengthy and infrequent journeys from one city to another. In addition, this is a disincentive for people to commute from one major city to another and realise job opportunities elsewhere. By connecting cities and towns, transport investment facilitates the interchange of goods, services, knowledge and skills, and builds 'agglomeration economies' around areas of commercial specialisation.
- 1.3 For continued economic growth and a good quality of life, the North of England and the Midlands need sustained, targeted investment not only in high quality, resilient infrastructure and services but also in people so that they have the cross-sectoral skills required to deliver and maintain them.
- 1.4 There has been significant investment in infrastructure in both regions over the past few years and the labelling of these as part of the NP and ME will increase their respective profiles. However, on closer examination these investments appear disparate, with the only commonality being the regions they are taking place in.
- 1.5 A Northern Powerhouse Minister has been appointed with particular responsibilities for European Regional Development Fund and local Enterprise Zones. In addition, several reports on particular aspects including Transport the North's in March 2015¹. However, Due to its current stage of development a single publication on the goals of the NP has yet to be published, there are no publications setting out what the NP is or what its goals are.
- 1.6 ICE considers that such a publication specifying the vision and goals of building a NP is essential for businesses and other stakeholders to engage in the project and to attract inward investment.
- 1.7 In contrast, the ME has set out a vision in its Prospectus published in December 2015², and allocates funding to help achieve it. While this can be an example for the NP to be of maximum benefit to business, it also needs to indicate how outcomes will be measured.
- 1.8 It is accepted that the NP and ME are still developing. With the right strategies and investment they can become bodies with clearly defined objectives and plans to boost economic growth and improve quality of life in England's North and Midlands.

¹ HMG / TfN Partnership Board (2015) [The Northern Powerhouse: One Agenda, One Economy, One North](#)

² Midlands Engine (2016) [The Midlands Engine for Growth Prospectus](#)

- 1.9 For the NP and ME to bring economic benefits and to gain the support of business there needs to be clearer definitions of what both concepts are, the areas they cover³, the public bodies involved and how they will work together. In addition, there should be clearly articulated, measureable outcomes.
- 1.10 Economic success and improved productivity is often underpinned by integrated and coordinated economic policy. The OECD has demonstrated that regional economic success is best realised through aligning stakeholders interests to ensure contradictions and replication are minimised⁴.
- 1.11 With Transport for the North and Midlands Connect, the transport sector points to what can be achieved. Both are clearly defined strategic bodies, bringing together organisations such as councils, combined authorities and LEAs into 'one voice', to enable an evidence-based approach to develop unified positions on strategic transport need, investment and priorities.
- 1.12 The NP and ME have resulted from the Government's recognition that infrastructure is an enabler for economic growth, and infrastructure ultimately helps deliver more jobs, greater productivity and helps rebalance England's economy. However, beyond transport, other infrastructure sectors and the skills to provide and operate them do not have similar bodies operating across such wider regional geographies. In order for more effective economic growth in the North and the Midlands there is arguably the need for the coherence and co-ordination emerging in the transport sector to be replicated for other sectors.
- 1.13 Investment in people and training is needed to allow the engineering sector to deliver large-scale projects such as NP Rail and major road schemes. These projects, underpinned by the Northern Transport Strategy, offer opportunities for the engineering industry and will in the longer-term drive economic growth across the region and make the North a more attractive place to live, work and do business.
- 1.14 With the NP and ME's emphasis on infrastructure, engineers and the competencies they possess are in great demand. This is both in terms of the number of engineers needed and extending the breadth of their capabilities. Engineers' transferable skills – including numerical modelling, project management and risk analysis – are vitally important in other sectors crucial for the ME and NP, such as manufacturing.
- 1.15 The focus on infrastructure and desire to attract investment provides the NP and ME with excellent opportunities to grow the skills of the domestic workforces to help meet the demands from increased capital and maintenance infrastructure projects.
- 1.16 A blend of skills will be required to deliver infrastructure meaning more entrants with STEM related skills, especially in the rail sector and other engineering construction industries. The

³ According to a new BIS video the NP now also includes 'north Wales': DCLG (2016) '[Gunning for Growth](#)'

⁴ OECD (2015) '[Promoting Growth in all Regions](#)'

National Infrastructure Pipeline for Skills identifies potential skills gap in the infrastructure and built environment sectors of 16% in the NP region and 30% in the Midlands by 2020⁵.

1.17 Clear and committed pipelines of regional infrastructure projects should be used to identify where these opportunities exist and enable government, industry and academic institutions to invest in the training needed to deliver a vast range of infrastructure projects.

2. What is the Department for Business, Innovation and Skills' role in delivering the Northern Powerhouse and Midlands Engine? What responsibilities will/should it devolve?

2.1 At present, powers are being devolved only to combined authorities (CAs). The specific functions and terms of each devolution deal differ and are negotiated individually based on bids received from prospective CAs.

2.2 This said, there are common themes in the deals. All include an agreement on devolved responsibility for substantial aspects of transport, business support and further education. In addition, most of the deals include agreements relating to skills and regeneration including the establishment of development corporations to support complex regeneration schemes⁶.

2.3 While the intention to provide 'bespoke' arrangements for CAs suiting their individual demographic and geographic scales should be applauded, to ensure businesses engage in the process there is a need for coherence around infrastructure skills, which cut across all sectors and regions. Constituent councils within the CA need to pursue common objectives and to engage with businesses so they can benefit from opportunities across a wider geography.

2.4 For example, CA settlements will see responsibilities around post-19 skills devolved. BIS should ensure this is across the board and provide suitable funding and co-ordination between the new bodies. As ICE will set out in our forthcoming report State of the Nation: Devolution, while it makes sense for post-19 skills to be looked after on a devolved basis and by bodies that are primarily responsible for infrastructure and spatial planning, this will only truly work if areas are not in competition.

2.5 The CAs should ensure that they co-ordinate not only with each other, but also work as closely with industry and infrastructure developers as possible to improve uptake of STEM subjects in schools, the creation of clear pathways between school and further/ higher education and the workplace.

2.6 To enable this there is a strong case for further development of regional infrastructure pipelines. These could be similar to the regularly updated National Infrastructure Pipeline⁷ but developed by the NP and ME to cover infrastructure sectors in their areas, with the intention of identifying specific projects on a five year plus horizon. Doing so would help business and other

⁵ HMT (2015) '[National Infrastructure Plan for Skills](#)'

⁶ National Audit Office (2016) '[English Devolution Deals](#)'

⁷ HMT (2016) '[National Infrastructure Pipeline 2016](#)'

stakeholders by giving a clear picture of the type of work becoming available and the skills needed to deliver them.

2.7 To help inform this work ICE and wide-ranging executive group of stakeholders is progressing a National Needs Assessment.⁸ The outcome will be a cross-sector assessment of the UK's national economic infrastructure needs to 2050 with an accompanying suite of options for how they can be met. The report is due to be published in October 2016.

3. How effectively do umbrella terms such as the Northern Powerhouse unite potentially disparate business communities, local authorities and Government departments? How effectively are business interests represented and engaged in decisions? How do the different devolution deals in the North and relationships between local authorities impact on business?

- 3.1 ICE recognises that both the NP and ME are in the early stages of developing beyond concepts and towards fully realised strategic visions. We welcome the Midlands Engine for Growth Prospectus intention to develop an Implementation Plan led by a permanent senior leadership group that will hold the Midlands Engine partners (including local authorities, Government departments) to account for its delivery. We recommend that the NP take a similar route to evolve beyond its current conceptual form to bring together business and public sector stakeholders to drive forward economic growth and increased productivity
- 3.2 In the Midlands Engine for Growth Prospectus there is a clear desire for regional stakeholders - including CAs - to work more closely to deliver economic growth, jobs and skills and to improve quality of life. The intention is for local authorities and LEPs to continue to work together (and with other bodies like Midlands Connect) to progress an implementation plan with oversight by a senior leadership group and business advisory group, with regular summits on progress⁹.
- 3.3 The approach by ME is welcomed as a good initial step. As the implementation plan evolves, ICE recommends consideration is given to a formalisation of arrangements and relationships with stakeholders, particularly businesses that might not be represented by the LEPs, alongside skills providers. This would allow for a more coherent approach, making it easier for businesses to engage.
- 3.4 Thought should also be given to how the ME could draw together its strands – promotion, Midlands Connect, innovation, business finance and skills – to develop a regional infrastructure strategy – a strategy which determines the economic and infrastructure needs that will drive sustainable growth and enhance the Midlands' position in the national and international economies.
- 3.5 For the NP, ICE recommends the ME prospectus is used as an illustration of how to develop a regional approach to help the public and private sectors work together to meet the regions own

⁸ ICE (2016) '[National Needs Assessment](#)'

⁹ Midlands Engine (2016) '[The Midlands Engine for Growth Prospectus](#)'

priorities, for example around driving forward productivity in life sciences and advanced manufacturing, enhancing connectivity and related skills development.

4. Does Government have effective systems in place to measure the return on investment in the Northern Powerhouse and Midlands Engine? How should Government evaluate the impact of these schemes?

- 4.1 Transformational projects, such as HS2 and HS3, can help to unlock economic growth in both the North and the Midlands; however, the full potential of these projects will not be realised without targeted investment in medium to small scale projects throughout the NP and ME. Government should not measure return on investment in terms of individual projects, but on the wider benefits that a programme of large, medium and small projects over a period of time can deliver.
- 4.2 It is understood the leaders of authorities and LEPs involved in the NP have commissioned an independent economic review to help provide an evidence base and guide investment decisions and delivery plans¹⁰. This should help provide a clearer strategy for investment and hopefully pave the way for a more holistic approach, with defined assessment of return not only on individual projects but also as a whole.
- 4.3 One of the largest investments for the Midlands announced in the 2016 Budget was the Midlands Engine Investment Fund of £250m, run by the British Business Bank to invest in association with LEPs. This followed the 2015 Autumn Statement announcement of a £400m Northern Powerhouse Investment Fund, again through the British Business Bank and LEPs.
- 4.4 The intention is for investment and lending to be aimed at creating sustainable economic activity and to support new and growing businesses. It will be monitored using European Structural Investment Fund KPIs. Strategic oversight of the Investment Funds, their direction and key decisions will be by boards made up of LEP and Government department representatives¹¹. This is a sensible approach, giving a degree of investment coherence and evaluation to help structure investment to stimulate economic activity and support businesses. However, as there are 11 within the NP region and seven covering the ME, several with overlapping boundaries and differing resources and priorities, there is also a need for regional co-ordination. Here, if developed beyond their current conceptual stages, the NP and ME would seem ideally placed to provide this, bringing together as they will councils, CAs, sub-national transport bodies etc.
- 4.5 For CAs, their success in managing individual investment funds will be decided by an appointed panel of independent experts who, at each funding gateway will assess effectiveness and make recommendations to Government on the next five-year tranche of funding. The criteria the panel will use is currently unclear, but is understood to be less rigidly numeric than the

¹⁰ What Do They Know (2015) '[Northern Powerhouse Independent Economic Review Specification](#)'

¹¹ FI Compass (2016) '[Northern Powerhouse Investment Fund](#)'

originally proposed formula-based approach. Ministers will take account of this assessment in deciding whether to release the next five-year's funding¹².

5. What are the implications of the focus on the Northern Powerhouse and Midlands Engine for the South-west and the South-east outside of London? Are there lessons that can be learned that could be applied to these regions?

5.1 The experience of the North and the Midlands point to the need for greater planning and coherence in if concepts similar to the NP and ME are to be established for the rest of England. The concepts of the NP and ME are predominantly led by the development of Transport for the North and Midlands Connect as sub-national transport bodies, which will be made statutory in 2017 and 2018 respectively. The three other regions of England – South West, South East and East of England – do not yet have sub-national transport bodies. Nevertheless, some smaller areas such as England's Economic Heartland covering Oxfordshire, Northamptonshire and Buckinghamshire, have ambitions to develop in this direction¹³.

5.2 The NP covers three of the old Regional Development Agency (RDA) areas and the ME two. It is difficult to see how the South West, South East and East of England could be merged in a similar way, nor how much of the South East and East can be separated from London (particularly for transport).

6. Is there a risk that some areas can lose out as a result of devolution? How can this risk be managed?

6.1 To ensure the economy is rebalanced, there is a need to consider asset-to-asset connectivity rather than city-to-city connectivity as emphasised at present. Assets include the region's ports and airports, science parks, universities and population centres, whether urban or rural.

6.2 A range of investments are is required to address asset the North and the Midlands' relatively poor connectivity. While capital investment is important, 89% of respondents to the City Growth Infrastructure Survey highlighted maintenance of current infrastructure as a key future pressure in their cities¹⁴. However, maintenance is often ignored when investment decisions are being made.

6.3 As devolution progresses there is a good opportunity to reevaluate how investment priorities are determined. For example, with transport most appraisal is based on the aggregate time saving to users of a transport investment. This potentially ignores the wider economic benefits of transport schemes. The investment priorities should be determined by appraisal techniques which seek to value the real economic impact of transport networks¹⁵. In order to maximise the benefits from the transformative infrastructure required across the North and Midlands, it is

¹² National Audit Office (2016) '[English Devolution Deals](#)'

¹³ Infrastructure Intelligence (2016) '[England's Economic Heartland' latest to push for transport powers](#)'

¹⁴ Cities and Growth Commission (2014) '[Connected Cities: The Link to Growth](#)'

¹⁵ HMG / TfN (2015) '[The Northern Powerhouse: One Agenda, One Economy, One North](#)'

essential to support CAs and councils to develop Local Growth Deal packages of work to "plug into" regionally determined priorities.

7. How does the level of government investment in the Northern Powerhouse and Midlands Engine compare to London and the South-East? Is it sufficient to enable a stronger economy in the North that can offset the pull of London?

- 7.1 The North has seen comparative underinvestment in sectors such as transport and skills for many years. For example, capital expenditure per head in the North was £166 in 2013/14, compared to the UK average of £189 and London average of £332¹⁶.
- 7.2 Skills attainment tends to be lower in the north of England than nationally, which acts as a drag on economic growth. This is especially important because it is projected that in the 10 years to 2022, well over half of new jobs created in the North (58%) will require a qualification at level 3 (A-Level) or above, with only one in 20 new jobs (6%) requiring no qualifications at all¹⁷.
- 7.3 The most recent ONS figures¹⁸ show that unemployment rates are highest in the North East (7.8%) and lowest in the East of England (3.6%). Furthermore, the largest increase in UK workforce jobs, for December 2015, was in the South West, at 30,000. The largest decrease was in the North West, at 15,000.
- 7.4 The programme of devolution to CAs, which includes transfer of responsibility of post-19 skills will hopefully go some way to address this. Nevertheless, as described above in Section 2, there is a strong case to go further and enable a more joined up approach by also handing powers over skills for 16-19 year olds to CAs. This should also help rebalance the economy by helping find regional solutions to regional skills gaps.
- 7.5 Clearly, investment is important for the NP and ME to act as effective counterbalances to London. Devolution deals announced so far will see around £3bn over five years in the first six mayoral devolution deals for Greater Manchester, Sheffield the North East, Tees Valley, Liverpool and the West Midlands¹⁹. However, this has to be weighed against the 25% cut in funding to local authorities between 2010 and 2015.
- 7.6 Nevertheless, investment itself is only one part of developing a stronger economy that can offset the pull of London. To make the most of current and future investment in the North and Midlands, there is a need for functional agglomeration. London is a defined geographic and political entity. While the NP and ME would not need to go as far as having mayors and assemblies, there are clear benefits from them growing beyond the conceptual structures currently in place.
- 7.7 Both the NP and ME should develop overall strategies across demarcated boundaries with priorities, objectives and aims to provide a co-ordinated approach to realising economic growth.

¹⁶ IPPR (2015) '[Rhetoric to Reality](#)'

¹⁷ UK Commission for Employment and Skills (2014) '[Working Futures 2012 to 2022](#)'

¹⁸ ONS (2016) '[Regional labour market: March 2016](#)'

¹⁹ National Audit Office (2016) '[English Devolution Deals](#)'

7.8 ICE's forthcoming (June 2016) report, *State of the Nation: Devolution* will set out recommendations in the areas discussed above. The report will analyse the challenges and opportunities of devolving infrastructure policy across the UK, including in the North and Midlands and address governance, institutional frameworks, investment and engineering capacity issues.

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