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## **SUBMISSION TO BUSINESS, SKILLS, AND INNOVATION COMMITTEE, NORTHERN POWERHOUSE AND MIDLANDS ENGINE INQUIRY**

Professor Martin Jones and Dr David Beel, The University of Sheffield  
[martin.jones@sheffield.ac.uk](mailto:martin.jones@sheffield.ac.uk); [d.e.beel@sheffield.ac.uk](mailto:d.e.beel@sheffield.ac.uk)

&

Dr David Etherington, Middlesex University  
[d.etherington@mdx.ac.uk](mailto:d.etherington@mdx.ac.uk)

### **Introduction and background**

This submission and evidence is based on research undertaken by the University of Sheffield and Middlesex University, funded by the Economic and Social Research Council (ESRC)<sup>1</sup>. The research has been concerned with addressing the gap in our knowledge in terms of how City Region Growth strategies, welfare to work programmes and employment and skills initiatives facilitate access to employment and skills by disadvantaged groups and geographical areas. The research has involved stakeholder mapping and semi-structured interviews with key actors operating across the Sheffield City Region, as well the analysis of secondary data and policy analysis. The context to these questions is the Northern Powerhouse opportunities currently being created for further devolution of employment and skills policies for the Sheffield City Region through the 'Devo- Sheffield' Devolution Agreements.

**In many respects our research addresses Iain Wright's (Chair of BIS Committee) principal concerns when he asks whether the "Northern Power House and the Midlands Engine deliver business and enterprise growth with economic benefits to their communities?"**

### **Inquiry terms of reference**

**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?**

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<sup>1</sup> ESRC Grant for *WISERD Civil Society: Spaces of New Localism* (ES/L009099/1) and ESRC IAA Grant for *Making City-Regions Work: Inclusive Governance, Skills, and Labour Market Disadvantage*.

The major observation that we wish to offer through our research is those questions around what sort of growth is being promoted by the Northern Powerhouse and who will benefit from economic agglomeration approaches to creating and growing city-regions? The evidence from our research shows that inequality and social disadvantage actually hinders growth. The converse is that those policies, which promote labour market inclusion, will contribute to sustainable growth and also productivity. The current Northern Powerhouse model of growth though restricts access to employment and skills initiatives and city regions will accordingly struggle to meet and sustain grow targets. We would, therefore, encourage the Inquiry to consider a more socially inclusive growth model for the Northern Powerhouse and Midlands Engine.

Key issues for the Sheffield City Region economy and in fact elsewhere in the UK is the low pay low skill cycle which impacts on productivity and regional inequality. The UK as a whole underperforms compared to countries such as Germany, France, the Netherlands and Belgium by between 23 and 32 per cent but the North underperforms the UK's national productivity rate by 11.1 per cent.<sup>2</sup> Gross Value Added (GVA) measures the contribution to the economy of each individual producer, industry or sector. The Sheffield City Region (SCR) is in 15th place out of 39 LEPs in England, and GVA per head in SCR is only £16,786—a ranking of 38 out of 39. This implies relatively low productivity gap between the U.K.'s productivity and that of other major economies now the largest since 1992. Furthermore, in work poverty is a key issue and a major policy challenge is to address this. We contend that the living wage will play a part but there is much work to be done in terms of raising real incomes of people who work in the SCR. It is estimated (see above) that an additional 70,000 jobs will need to be created within the SCR to “narrow the gap” with other parts of the country. However, it is important to view this challenge in the context that other comparator areas will also grow. Based on the forecast growth in other parts of the country the SCR would need to create around 120,000 jobs to have closed the gap with the national average in 2024. This would require GDP growth of almost 5% and as the Local Enterprise Partnership acknowledges “nowhere in the UK grows at this rate for such a sustained period of time.”

This is the challenge ahead and there is a question about how governance structures and resources will effectively regenerate Northern economies. By privileging business interests, there is a danger that city region governance arrangements do not involve civil society groups and decision making processes accordingly lack local legitimacy in terms of transparency and scrutiny. This is critical in the context of a significant reduction in central government spending on local economic growth as part of the Government's deficit reduction programme. The National Audit Office reports that over the five-year period 2010/11 to 2014/15 the government will have spent £6.2 billion on local growth programmes, including that spent via RDAs and their legacy, and spend on new funds and

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<sup>2</sup> IPPR (2015) *State of the North: Four Tests for the Northern Powerhouse* (Newcastle Institute for Public Policy Research: Newcastle).

structures. By comparison the RDAs spent £11.2 billion over the preceding five-year period 2005/06 to 2009/10<sup>3</sup>.

Local authority cuts in support services for disadvantaged groups are undermining and hindering the effectiveness of welfare to work and skills programmes – this can undermine growth and raising GVA levels. Local authority spending has been reduced by over £400m between 2010-2014. Collectively, the cuts to local authority funding and welfare benefits in SCR massively out-weight any incoming ‘Devo-Sheffield’ protected funding for employment and skills. Local authorities are pro-active in developing their own employment and skills strategies and provide important services, which assist disadvantaged groups access the employment and skills system. In this way austerity is actually undermining growth, as GVA targets are dependent on raising overall incomes in the SCR and North.

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

There are three aspects to this. **First, the current proposal to relocate BIS office functions to London from Sheffield seems to undermine the purpose and spirit of devolution.** The loss or potential loss of experienced staff adversely will impact on the quality of policy making particularly in relation to the role of Higher Education. Relocation seems to go against the purpose of devolved governance of northern economies and it will undermine the Northern Powerhouse concept.

**The second issue relates to delivering skills that will contribute to growth.** The Government national target of 3 million apprenticeships along with the Apprenticeship levy represents a potential significant increase in opportunities to access in work skills and training. However, there may be problems for meeting these targets in the North and in those areas, which are characterised by large numbers of people on low skills and at the margins of the labour market. There are significant numbers of people with low-level qualifications in the SCR “The number of people of working age who hold no qualifications has fallen sharply in recent years. However, there remain nearly 127,000 people of working age within SCR with no formal qualifications and a further 150,000 with qualifications below Level 2. There are also a significant proportion of residents (a higher proportion than in other northern LEP areas) who have poor or low level literacy, numeracy and ICT skills. There are doubts that current resources are commensurate to addressing these challenges (see below).

**The third issue is that not all groups in the labour market will be able to access apprenticeships.** Stakeholders have highlighted a number of other specific barriers identified to the potential routes to apprenticeships for disadvantaged groups: *Information Advice and Guidance* Policy changes in terms of the National Careers Service may have reduced its quality of provision according to a number of stakeholders.

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<sup>3</sup> NAO (2013) *Funding and Structures of Local Economic Growth* (NAO: London)

*There are real challenges in improving the IAG delivered within the City Region, given the devolution of funding and responsibility for IAG to individual schools and the reduction in support available for work experience and education business link activity.<sup>4</sup>*

This point is underlined by Ofsted, which commented on the poor promotion of apprenticeships within schools reflected by the low take up of apprenticeships in 16-18years age group.<sup>5</sup> *Low take up of Apprenticeships by SMEs*: widening the demand for skills among SMEs within the city region is seen as important in order to achieve economic growth as well in order that it can open up opportunities for disadvantaged groups to access higher-level skills. SMEs are reluctant to undertake apprenticeships because of cost factors however.<sup>6</sup> One of the key issues identified by stakeholders is that the Levy involves a two-tier system and that larger employers may resent those that do not have to pay a levy. Also how smaller employers actually invest in apprenticeships in the context of this policy to increase their numbers and targets is unclear given that adult skills budgets are being cut back—a source of funding to support SME investment in Apprenticeships.<sup>7</sup> This was point was emphasized in the Ofsted Report on Apprenticeships suggesting that people who have poor experiences of education and training failed to sustain employment in their chosen industry and sector. Furthermore the quality of apprenticeships varied between sectors with the weakest in the care, customer service and administration<sup>8</sup> – sectors which tend to attract the second highest cohort of apprenticeships in the SCR.<sup>9</sup> A further factor identified is pay – although anecdotal some stakeholders had stated that to their knowledge many apprenticeships were on very low pay rates—below the National Minimum Wage— an issue also raised in a Business Innovation and Skills survey.<sup>10</sup> A recent BIS survey found that around 30% of apprentices do not complete their apprenticeships.<sup>11</sup> **Funding:** Adult skills funding budgets have been reduced and impacted on the role of Further Education Colleges within the SCR in terms of providing vocational training which can lead to routes to apprenticeships There is a question not only how the cuts can be sustained by FE Colleges

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<sup>4</sup> Sheffield LEP (2013) *Sheffield City Region Independent Economic Review* p 56.

<http://sheffieldcityregion.org.uk/wp-content/uploads/2013/10/Independent-Economic-Review.pdf>

<sup>5</sup> Ofsted (2015) *Apprenticeships: Developing skills for future prosperity*, p18

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/469814/Apprenticeships\\_developing\\_skill](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469814/Apprenticeships_developing_skill)

<sup>6</sup> Sheffield LEP (2015) *Sheffield City Region EU Investment Strategy*, p46

<http://sheffieldcityregion.org.uk/wp-content/uploads/2013/05/SCR-EUIS-Narrative-FINAL.pdf>

<sup>7</sup> TUC (2015) TUC Response to the Apprenticeship Levy

[https://www.google.co.uk/search?q=TUC+response+to+Apprenticeship+Levy&ie=utf-8&oe=utf-8&gws\\_rd=cr&ei=](https://www.google.co.uk/search?q=TUC+response+to+Apprenticeship+Levy&ie=utf-8&oe=utf-8&gws_rd=cr&ei=)

<sup>8</sup> Ofsted (2015) *Apprenticeships: Developing skills for future prosperity*, p10

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/469814/Apprenticeships\\_developing\\_skill](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469814/Apprenticeships_developing_skill)

<sup>9</sup> REIU (2015) *Sheffield City Region Labour Market Review 2015* (Sheffield LEP: Sheffield) p25.

<sup>10</sup> Winterbotham M Davies B Murphy L Hewitt JH and Twedle M (2014) *Apprenticeship Pay Survey 2014*: BIS Research Paper No. 207.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/387319/bis-14-1281-apprenticeship-pay-s](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/387319/bis-14-1281-apprenticeship-pay-s)

<sup>11</sup> <https://www.unionlearn.org.uk/news/nearly-one-third-apprentices-do-not-complete>

but also how this will impact on College users (a large proportion from disadvantaged groups) in terms of their access to apprenticeships.<sup>12</sup> Last, the proposed Institute of Apprenticeships and the new Digit Apprenticeship Service online portal are disconnected from LEP skills and employment strategies and are consequently being launched without consideration being given to how to secure brokerage with local employers.

### **What responsibilities should be devolved?**

*Joining up the employment and skills system at the level of the City Region with commensurate levels of funding (i.e. BIS and DWP programmes), which facilitate accessing employment and providing in- work support is essential. Whilst welfare to work programmes are important we suggest more emphasis is required on demand side approaches which facilitate employer engagement with skills and career progression. Skills support programmes operated by BIS and funded by ESF (which have now come to an end) provide a possible model; it was designed to target employees with low skills and provide funding to support participants to achieve intermediate and higher level skills to respond to local employment needs and LEP priorities. In this way policies can respond to local skills priorities, meet the needs of employed adults in the local workforce and increase participation by employed adults in education, employment or training.*

This business, education, skills and jobs match approach, would be pursued through key programmes of apprenticeships, job brokerage, skills escalator and sector partnerships, operating across City Regions. This would enable just-in time local training and recruitment alongside strategic longer-term training and employment planning.

This model will require: (a) strong engagement with business and understanding of business need (b) routine engagement with educational institutions; (c) better co-ordination of employment and skills activities within local authorities and between Local authorities and Local Enterprise Partnerships through putting in place a structure to ensure routine joined up activity between Education and Skills, Family Services and Regeneration Business and Enterprise; (d) reformed co-ordination and delivery of government programmes; to ensure central government agencies (such as Job Centre Plus) deliver employment and skill programmes tailored to local need.

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

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<sup>12</sup> Wolf A (2015) *Heading for the Precipice: Can Further and Higher Education Funding Policies be Sustained?* (Kings College London: London) <https://www.kcl.ac.uk/sspp/policy-institute/publications/issuesandideas-alison-wolf-digital.pdf>. See also University College Union assessment [https://www.ucu.org.uk/media/7108/FE-England-budget-cuts-2015-16---a-UCU-briefing/pdf/ucu\\_fecutsbriefing\\_feb15.pdf](https://www.ucu.org.uk/media/7108/FE-England-budget-cuts-2015-16---a-UCU-briefing/pdf/ucu_fecutsbriefing_feb15.pdf)

Our research is demonstrating that a combination of groups and areas will lose out. Devolution needs to take account of the way welfare reforms combined with austerity cuts are disproportionately impacting on disadvantaged groups and areas. The greatest loss in the income of working age adults as a result of welfare changes occurred in the more deprived local authorities. For example two local authority districts within the SCR, Bolsover and Barnsley are in the top 50 Districts in the UK worst affected by the reforms. Substantial elements of the welfare reform package focus on reducing eligibility for incapacity and disability benefits, so northern industrial areas are being hit especially hard.

### **Managing the risk: (1) the cost benefit case for public investment in employment and skills**

There is strong evidence that employment and skills initiatives can represent value for money. The estimated savings for the Exchequer of an Incapacity Benefit claimant sustaining work comprise £5,900 savings on benefit expenditure, with wider exchequer gains of a further £3,000 a year. These gains depend upon sustained employment for a period of 12 months which emphasises the need to focus on interventions that also include in-work support and close employer engagement. Furthermore the costs of non-intervention are substantial. In 2012, youth unemployment was estimated to cost the Exchequer approximately £4.8 billion (more than the 2011-12 budget for further education for 16- to 19-year-olds in England) and £10.7 billion in the wider economy in terms of lost output.<sup>13</sup>

### **(2) Distributional aspects to growth strategies**

The Northern Powerhouse economic strategy is largely fostered on supply-side economics and its trickle-down approach, whereby jobs can be created in 'innovation districts' and accessed eventually by disadvantaged groups and disadvantaged places<sup>14</sup>. Rather than posing geographical questions around the 'implications of the focus on the Northern Powerhouse and Midlands Engine for the South-west and South-east outside of London', we would encourage this Inquiry to also focus on issues of more localised distributional concerns within England's city regions. Our research has previously revealed that uneven development (unequal growth and its distribution) and geographical inequality have been increased through government intervention in the economy through city regions<sup>15</sup>. Our current research is revealing increasing social and spatial disparities, which is supported by the research findings of others<sup>16</sup>.

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<sup>13</sup> ACEVO (2012) *Youth unemployment: the crisis we cannot afford*, AVECO  
[http://www.acevo.org.uk/leadingtheceoandchair?&nccsm=21&\\_\\_nccscid=28&\\_\\_nccsct=Free+Downlo ads&\\_\\_nccspID=935](http://www.acevo.org.uk/leadingtheceoandchair?&nccsm=21&__nccscid=28&__nccsct=Free+Downlo ads&__nccspID=935)

<sup>14</sup> B Katz and J Wagner (2014) The rise of innovation districts: a new geography of innovation in America. *Brookings*, May, 1-33

<sup>15</sup> D Etherington and M Jones (2009) City-regions: new geographies of uneven development and inequality. *Regional Studies* 43, 247-265.

<sup>16</sup> Joseph Rowntree Foundation (2016) *Uneven Growth: Tackling City Decline* (JRF: York)

For instance, between 2014 and 2024 the scenario employment forecasts, being used by the Sheffield City Region to inform the distribution of planning and development, show an overall increase projected at 8%, but with the exception of Bolsover, growth gaps are increasing between Sheffield and the other 8 local authorities. The developing core of Sheffield is projected to grow by 11%, which has to be seen alongside economic contraction in North East Derbyshire (projected at -2%) and slow growth in Rotherham (3%) and Derbyshire Dales (5%). This raises the question of where to geographically allocate housing and connect this through transport investments. In turn, we would encourage this Inquiry to consider the critical issues of sustaining and managing growth (and dealing with possible issues of labour market overheating and residential congestion) and also dealing with absolute decline elsewhere. Unless these geographical tensions are managed, the likes of Devo-Sheffield and the Northern Powerhouse will be undermined.