The Economic Rationale for Devolving to Yorkshire – Executive Summary

This study was commissioned in Summer 2018 on behalf of the 18 Yorkshire Councils which work together under the banner of 'One Yorkshire'. The work was delivered by Steer Economic Development, supported by Les Newby Associates Ltd.

The work's intent was twofold, namely to:

- Assess the overall economic and strategic rationale for devolving (powers and budgets) to the Yorkshire-level; and
- Identify key opportunities and tangible benefits which could be secured by, and for, all people and businesses in the region's urban, rural, and coastal areas.

Headlines

Based on a wide range of data analyses, observations, document reviews, and business engagement, there is strong evidence that **Yorkshire (and Humber) is a *coherent and interconnected economic area.*** The overall geography includes several functional economic areas, which have strong interconnections, and similar/shared issues, priorities, and networks.

Currently, the region's GVA per head, at £20,678, is 27% below the UK average. The area's total GVA would rise to £144bn – £31bn more than currently – if it matched the UK average. The study investigated how far, and in what ways, devolution could contribute to reducing this gap. It concluded that:

- **Yorkshire-level devolution will create opportunities to reduce significantly the sizeable gaps in productivity and Gross Value Added (GVA) which exist between Yorkshire (and Humber) and the UK average**; and
- Depending on the levels of ambition and activity, **total GVA uplift from devolution at the Yorkshire-level could be as high as £9bn-£30bn a year** over a 20-year timeframe. This amounts to £1,600-£5,400 per head.

Raising GVA and performance in specific policy areas

The study took account of strategic issues and opportunities relevant across Yorkshire and assessed what could be done better/collaboratively through Yorkshire-level devolution to reduce GVA gaps in a mix of relevant policy areas such as Exports, Enterprise, and Skills – all of which are essential for the development of effective responses to inequality, slow pay growth, and the risks and opportunities associated with Brexit.

Table 2 presents findings for the contribution that each policy area might make to closing the GVA gap between Yorkshire and the UK, based on three scenarios – *cautious* (30%), *mid-range* (65%), or *ambitious* (100% closure). The results cannot be added together to produce a 'total' because of interrelationships and double-counting. However, subject to caveats and assumptions on the degree of devolution and levels of investment, illustrative figures for individual policy areas suggest that, over the long term, Yorkshire-level devolution could lead to:

- Uplift in export value, equivalent to GVA of £3.1bn-£10.4bn;
- Uplift in inward investment jobs, equivalent to GVA of £5.9m-£19.7m;
- Uplift in R&D investment of £0.4bn-£1.35bn, with additional long-term GVA spillovers;
- Improvement in skills to match the UK's skills profile could deliver GVA uplift of c.£1.56bn a year;

- Increases in the size of the business base and the number of rapidly growing 'Scale-Up' businesses, equivalent to a GVA increase of £4.6bn-£15.4bn; and
- Uplift in transport investment to the value of £39m-£130m (using latest year's spending data) or £0.5bn-£1.66bn (using data on the spending pipeline), with additional long-term GVA benefit.

Key findings across the research

The study investigated how far Yorkshire (and Humber) demonstrates internal coherence based on shared sector/industry specialisms, complementarities arising from economic variety, and sufficient distinctiveness from the UK to warrant devolution. Key elements and findings are as follows:

From the review of Strategic Economic Plans (SEPs) and Local Industrial Strategy . . .

- The four SEPs are similar in terms of the issues they address and approaches adopted.
- Five sector priorities are common to at least three LEP areas: Advanced Manufacturing; Energy/Low Carbon; Food and Drink/Agri-Food; Health and/or Care; and Digital/Creative – while other priority sectors are specific to certain LEP areas.
- There are good opportunities to present complementary offers at the Yorkshire-level which take advantage of shared strengths and distinctive assets as well as diversity.
- For some functions, e.g., local regeneration, the value of local proximity or distinctive need supports localised approaches, however, there are potential advantages in, joining-up activities across localities on 'higher level' functions, e.g., specialist business support.

From the Business Engagement consultations . . .

- There is strong business support for devolution of powers and budgets from central government – this is in and of itself *the* priority for many businesses.
- There is a range of views on the geography for devolution, but on balance, the majority support devolution to the Yorkshire-level, provided local needs can still be met.
- Reasons for supporting devolution include strong leadership, prioritisation, brand and international business, as well as issues including strategic transport and labour markets.
- Worries in relation to devolution include bureaucracy, uncertainty about functions to be undertaken, risks of smaller areas losing out to larger ones, and locally-specific issues (such as concerns about split governance in the Humber or a step-by-step approach to devolution in South Yorkshire).

On Sector and Specialisms analyses . . .

- There is a degree of coherence in terms of sectors and industries which provide significant employment in multiple local authority districts in Yorkshire, suggesting arrangements at this level could achieve economies-of-scale in supporting growth.
- Manufacturing is relatively pronounced across all Yorkshire sub-regions, but (as in the UK in general) only accounts for a modest proportion of overall jobs and GVA.
- Service industries are more significant for employment and GVA across Yorkshire, and 13 such industries provide at least 2,500 jobs in three districts or more.

On Business Start-ups, Deaths, Survivals, Density and Scale up . . .

- Data on Business Density, Start-Ups, Survival Rates, and Scale-Ups suggest there is a significant entrepreneurial challenge in Yorkshire. But, there is clearly scope for Yorkshire to improve its Scale-Up performance, as Distribution, Manufacturing & Engineering, and

Food & Drink Processing, in which it has clear specialisms, are delivering significant numbers of Scale-Ups elsewhere.
- Variations in business performance across LEP areas and local districts within Yorkshire point to opportunities for greater knowledge exchange/transfer, including on the challenges shared by multiple districts (such as responding to the impacts of automation).

On R&D, Innovation and Ideas . . .
- There is under-investment in R&D, and potential for greater innovation across the region.
- There will be value in identifying and utilising strategic innovation assets that support innovation across Yorkshire, working better with multi-national businesses, which act as entry points for firms to global supply chains, and capitalising on the extensive Higher Education provision and strengths across the region.

On International Trade and Investment . . .

- Yorkshire and Humber has the lowest proportionate export levels of any UK region.
- Devolution to the Yorkshire-level may improve the impact of efforts to promote exports and foreign investment through intensification of activity, utilising Yorkshire's positive profile/identity and developing ambition related to it; and by capitalising on complementary strategic assets, such as the Humber ports complex.

On Skills and Ambition . . .

- The significant gap between Yorkshire and Humber and the UK in the percentage of the workforce qualified to NVQ4 (or above) is acting as a drag on productivity and earnings.
- The coordination of effort on higher-level skills (including Degree-level Apprenticeships) at the level of Yorkshire can add value, and raise employers' use of universities.
- There is a need to improve attainment at NVQ3, but business engagement highlighted the importance of local arrangements for delivery of most vocational skills.

On the Yorkshire Identity . . .

- The Yorkshire 'brand' is well recognised.
- Research by the BBC shows that 75% of people in Yorkshire feel 'allegiance' to their county – more than anywhere else in England.
- Yorkshire identity is associated with positive values: straight-talking, hard-working, friendly, supportive.
- Yorkshire identity is considered an asset by many businesses, both in terms of local and national markets and in international/outward-focused activities, such as international trade and investment, and in sectors such as tourism, food and cultural industries.

On Transport and Connectivity . . .

- Commuting patterns in Yorkshire and Humber's four main sub-regions suggest that these areas are functional economic areas. However, there is significant commuting between sub-regions from some districts (e.g. Harrogate and Selby to Leeds) and a case that commuting levels between areas (e.g. Sheffield and Leeds) may be being suppressed by fare structures and service offers. These could be addressed effectively at regional level.
- Yorkshire has notable strategic transport assets, such as the Humber Ports. LEPs and SEPs tend to focus their attention on local assets, which limits the potential for wider promotion and development of strategic assets that are both regionally and nationally significant.

Conclusions

The study identified opportunities across six policy domains where devolution to Yorkshire could deliver significant economic impact (Table 2). However, the study does not present an 'all or nothing' case for Yorkshire-level devolution, suggesting some activities may be best-led more locally (e.g. employment, inclusion, and place-based regeneration), while others (notably strategic transport) are best covered at the pan-Northern level. But, there are potentially considerable advantages from devolution to the Yorkshire-level in a significant number of policy areas: higher-level economic functions such as Innovation, Exports, Higher-Level Skills, specialised Business Support to enable Scale-Ups, and specific elements of Transport, such as ports and ticketing. Table 1 summarises the key conclusions in relation to the main research questions.

Table 1: Summary of research findings

Over-arching research question	Findings
• Is Yorkshire an *economically coherent area?*	• There is strong evidence that Yorkshire (and Humber) is a coherent economic area, based on a range of data and observations • The region includes several functional economic areas, which have strong interconnections, and often similar or shared issues, priorities and networks • There is a strong degree of similarity in priorities at broad sector level • Strategic assets, e.g. ports, HE, rail/road routes, serve Yorkshire-wide needs • While each LEP area is functional, there are significant travel flows across sub-regional boundaries • Sizeable business and HE networks operate at Yorkshire-level, and many businesses believe that Yorkshire identity is an asset e.g. in branding
• Is the Yorkshire-level capable of maximising the opportunities and benefits of devolution?	• Reviews of SEPs and emerging Local Industrial Strategy priorities in the four LEP areas show similar overall priorities. All cover productivity, business growth and support, skills and employment, and infrastructure • There are locally distinctive (but not contradictory) variations in visions • Similar challenges are identified in the majority of LEP areas and key assets/strengths cited by LEPs tend to be locally specific not strategic – indicating the potential to deliver greater benefit from devolution
• How does and might Yorkshire fit within Northern Powerhouse arrangements?	• Key sectors identified by LEPs overlap with the prime capabilities at Northern level, but not with the 'enablers' (e.g. finance & professional) • There are similarities between opportunities and threats for wealth generation and employment in Yorkshire (and Humber) and across the North • However, while there are shared issues, there are in practice few mechanisms for dealing with these collectively across the North
• What might be the economic uplift from One Yorkshire Devolution?	• An illustrative total uplift figure would be in the region of £9bn to £30bn per year over a 20-year time frame, subject to caveats and assumptions, and based on three scenarios for closing gaps with the UK • This amounts to £1,600-£5,400 per head
• Is there a case to establish a directly-elected Mayor (as enabled under the Cities and Local Government Devolution Act 2016)?	• There are similarities in economic structure across Yorkshire (and Humber) and shared challenges/opportunities/ approaches present potential economies of scale in some (but not all) of these areas at Yorkshire-level • Yorkshire (and Humber) is different from the UK economy: it faces greater challenges on many economic indicators and its sectoral mix is different • Limited coordination of economic development activity because barriers often limit projects/activities to a single LEP area, even where there may be economies of scale/scope or greater impact from a coordinated approach

Table 2: Indicative Potential GVA uplift enabled by Yorkshire-level devolution by Policy Area

Strategic Case - what's the issue/opportunity?	Data/Baseline	How far is it a shared issue across LEP areas?	What could be done better/collaboratively via Yorkshire devolution?	Estimated Added Value/under-investment (based on extent to which gap to national average is closed)		
				Cautious 30%	Mid-range 65%	Ambitious 100%
Exports – are much lower than UK average per head	Yorkshire and Humber exports are £16.8bn, 5.1% of the UK total of £328bn A proportionate Y&H figure would be £27bn	All four LEPs identify exports as a priority and similar barriers exist in each LEP area	Better use of assets across Yorkshire (e.g. ports), capitalise on Yorkshire brand to raise ambitions and promote exports; more intensive and tailored promotion and business support	£3.1bn	£6.8bn	£10.4bn
Inward Investment – has improved but is below the UK average	4,600 Yorkshire and Humber FDI jobs in 2017 is 92% of the proportionate figure – a gap of 435 jobs This equates to GVA of £20m	Inward Investment is of interest to all LEPs and similar approaches are used – implying scope for joint work	Capitalise on strong and improving Yorkshire profile, intensify effort through further joint promotion and take advantage of international 'Yorkshire alumni' connections	£5.9m	£12.8m	£19.7m
Investment in R&D – per head is low: raising R&D and innovation will have a positive short-term impact and deliver long-term benefits	Yorkshire and Humber's R&D investment per person is £258 – only slightly more than 50% of the UK average A proportionate Yorkshire and Humber figure would be £2.75bn	All LEPs see innovation as important, there is a regional HE network, and there are shared issues and assets which could benefit from coordinated leadership	Better connections to global supply chains and global innovation networks; work through Yorkshire Universities HEI network; specialised business support and signposting, and pooling of effort and influence to attract new expertise and assets	£0.41bn R&D	£0.88bn R&D	£1.35bn R&D
High level skills – Yorkshire (and Humber) has a relatively low proportion of its workforce qualified to NVQ4+ – which is a affects productivity and earnings	Yorkshire and Humber's workforce is c. 2.5m a higher proportion has no or low qualifications/skills and a concomitant lower proportion has higher level skills (see table).	Skills are consistently highlighted as a significant issue by businesses in all four LEPs The low proportion of workers with NVQ4+ is a	Business engagement indicates lower-level and vocational skills are likely to be best addressed at the local rather than regional level – except where niche specialisms are concerned	£0.46bn	£1bn	£1.56bn

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	<table><tr><td></td><td>Y&H%</td><td>UK%</td></tr><tr><td>No qualifications</td><td>7</td><td>2</td></tr><tr><td>NQF Level 1</td><td>17</td><td>8</td></tr><tr><td>NQF Level 2</td><td>22</td><td>25</td></tr><tr><td>NQF Level 3</td><td>20</td><td>23</td></tr><tr><td>NQF Level 4</td><td>27</td><td>32</td></tr><tr><td>NQF Level 5</td><td>8</td><td>10</td></tr></table> Experian's Regional Economic Model shows an annual GVA gap of c. £1.56bn	common issue faced in three LEP areas	While, higher-level skills, requiring more specialised resources, are more likely to generate economies of scale and therefore benefit from pan-Yorkshire leadership and arrangements			
Business base and scale ups – Yorkshire and Humber has a relatively low business density	Yorkshire and Humber has 7.3% of the UK business population A shortfall of 56,700 businesses	While there is variation in LEPs' achievement in terms of business density	Supplement local support on enterprise formation with greater provision in relation to high-growth businesses, which may benefit from	£4.6bn (17,000 businesses)	£10bn (36,900 businesses)	£15.4bn (56,700 businesses)

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which limits employment and the flow of scale-up businesses	Given average business size and GVA per employee (£45,200) this equates to a GVA gap of c.£15.4bn	and scale-ups, the issue is pan-regional	pan-Yorkshire leadership and coordination to spread understanding/best practice and provide expertise and specialisms that smaller geographies may be unable to provide			
Transport – business consistently highlights transport as a barrier to growth, but investment per head is low	Based on the most recent year's spend, investment in Yorkshire and Humber is £130m below a proportionate level; this rises to £1.66bn based on analysis of future transport spending plans	LEP strategies and investments have focus on local transport issues; there is a need for strategic leadership to identify strategic assets and cross-LTA issues (other issues are covered at northern level)	Strategic leadership and coordination to identify an intra-regional road network, simplify/reduce cost for cross-LTA rail journeys; prioritise local public transport and rail in spending decisions, in response to current under-investment; greater shared use of the Humber Ports asset	£39m (£0.50bn using pipeline data)	£84.5m (£1.08bn using pipeline data)	£130m (£1.66bn using pipeline data)