

*Prosperity Prosperity Prosperity*

*February 2016*

## **Ticket to Ride:**

*How high speed rail for Liverpool can realise  
the Northern Powerhouse*

*Phillip Blond,  
Bridget Rosewell & Duncan Sim*



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Figure 1: Proposed HS2 Route



Source: Department for Transport / HS2 Ltd



# Executive Summary

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*"Liverpool is a city ready to help itself, and pay its way. If the City Region makes the reforms we recommend – including, but not limited to, the construction and part-funding of the high speed link out of Liverpool city centre – we believe it has the potential to drive growth in the Northern economy."*

## ***High speed rail and the economic future of the North***

HS2 represents one of the most significant infrastructure projects ever undertaken in the United Kingdom. It is potentially hugely beneficial, both to the country as a whole and to the North of England in particular. For example, Greater Manchester, West Yorkshire and South Yorkshire are projected to see an estimated annual productivity gain of around £3 billion (20% of the gain to the UK as a whole) as a result of this investment by 2037.<sup>1</sup>

HS2 is then an important if not vital complement to the Government's 'Northern Powerhouse' programme, a whole-region vision with the potential to tackle the structural and functional imbalances that have kept the North depressed and denied it for so long the crucial investment it needs to recover and restore its fortunes. The Northern Powerhouse itself forms an integral part of the wider agenda to rebalance and diversify the UK's economy, away from financial services in London and the South East. We therefore welcome the Government's determination in driving this project forward to secure the benefits it promises.

However, the route plans currently being proposed encompass only limited linkages beyond favoured locales, risking the creation of further economic divisions between those cities which are directly connected to HS2 via dedicated high speed track and those which are not. International evidence suggests that using high speed rail to connect selected domestic

cities reinforces those cities' pre-existing advantages, and generates insufficient spillover effects to allow other nearby cities without a direct dedicated link to catch up.<sup>2</sup> There is thus a danger that HS2, if left 'unextended', will widen inequalities between linked and unlinked cities.

This outcome is desired by nobody. But should such uneven development transpire, it is London rather than the Northern cities which will benefit. Without region-wide growth across the whole North, the incentive remains for the North's most enterprising businesses to focus their attention and ambitions on the South of England rather than concentrating on local markets and developing a Northern base.

In this scenario, HS2 risks simply providing a swifter path for economic flight to the South East for the North's most talented individuals and most innovative firms, negating the important regional benefits HS2 will undoubtedly bring and hampering efforts to realise the vitally important sectoral and geographical rebalancing of the UK economy. Evidence from abroad again backs up this claim: Spain and South Korea are two examples of countries where a high speed link connecting the capital city to second-tier cities has failed to close the economic disparity between these cities.<sup>3</sup>

We suggest that the aims of the Northern Powerhouse programme require the extension of HS2 to more of the North's major centres of population. We recognise that progress is by necessity incremental, and it is of course impractical to suggest that every city should have a direct link

into the HS2 network. Yet we remain concerned about the potential for the social and economic marginalisation of areas not served by a direct link to HS2. This is especially true of the cities of the North of England, where poor connectivity has already been identified as a significant and enduring inhibitor of economic progress.

We believe politics will eventually take high speed rail everywhere it needs to go. This process will however take time and individual and shared cases for further investment will need to be put forward in the intervening period on behalf of those places where high speed rail could have a significant catalytic impact on the local economy. We present here such a case on behalf of the city of Liverpool and the wider Liverpool City Region.

### *The position of Liverpool*

In this report, we argue specifically for the westward extension of HS2 into the vital port city of Liverpool, beyond its current northern Y remit which serves Manchester via Crewe in the West, and Leeds via the East Midlands and Sheffield in the East. This extension, we argue, would benefit not only the people of Liverpool, but all the people and cities of Northern England, because it would represent the first stage of 'HS3' – the vision of a dedicated high speed rail route providing East-West inter-city links in the North from Liverpool to Hull. Crucially, we believe that without some form of HS3 being delivered, HS2 will deliver lower and less geographically balanced economic returns.

The vision we present sees HS2 as only the beginning of a high speed network reconnecting the country. Further high speed rail links across the North, complementing HS2, would provide a crucial boon for the economy of the North of England, and will help to develop its diverse assets and drive UK prosperity in the decades to come. In the interests of both the regional and national economy Scotland too should be included in this ambitious plan ensuring its continued economic and social connection to the rest of Britain.

To argue for extending HS2 to Liverpool is not to deny the improvements already being made. We acknowledge and welcome the Northern Powerhouse Rail

network, a range of improvements and electrifications that will upgrade the connections of Northern cities to HS2, as well as the emerging plans for Northern rail connectivity being advanced by Transport for the North. However, second class lines, even if bolstered with interim connections to first class lines, are insufficient to prevent a slow, asphyxiating marginalisation of cities with this inferior connectivity. There is a better and more ambitious alternative – to extend the advantage that high speed rail bestows to more cities and more regions.

We make the case herein for Liverpool to be connected with the emerging high speed network via its own dedicated high speed line, and via an adapted Lime Street station linking Liverpool city centre directly with HS2. This will provide the city with a high speed link down to and up from London, which also connects to Manchester Airport, the city of Manchester, and beyond.<sup>4</sup> In this way, the Liverpool link will be both HS2 and HS3 at the same time, laying down the first stage of the much needed East-West high speed line that can finally unlock the economic potential of the North of England.

Liverpool will of course, benefit under the existing plans in a number of ways. High speed HS2 trains will arrive in Liverpool from 2026, even if they do not run on high speed tracks all the way ('classic' lines will be used to reach Liverpool from Birmingham in 2026, then from Crewe in 2027 – six years earlier than initially planned), improving the city's connections to London and the Midlands. And there is the potential for Crewe to develop into a transport hub, which would offer Liverpool, as a relatively close neighbour, considerable further connectivity benefits.

But we believe that the possibility to directly connect Liverpool via a dedicated high speed line and track into the emerging high speed network is an opportunity which should not be missed. The link we propose would for much of its journey make use of infrastructure which is already planned, and – given Liverpool's strong economic performance over the past decade and its growth potential in the years to come – we believe the Liverpool City Region could undertake a considerable proportion of the financial burden associated with construction of what new infrastructure is required.

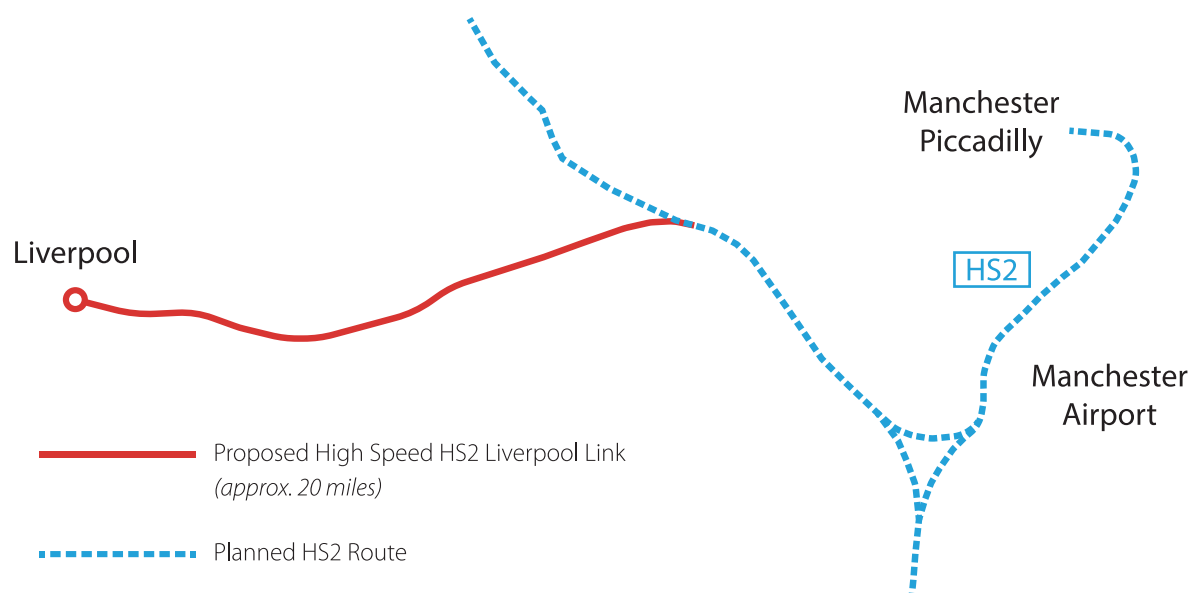
Moreover, as we have already noted, this is not just a parochial case made for Liverpool alone. We believe that Liverpool is a city whose economic success is closely intertwined with that of the wider North, due principally to its investment in its port but also its recent employment and business growth figures, which have increased the City Region's growth potential and its wider strategic and commercial importance. As such, local gains for Liverpool will scale up to become regional gains for the North and national gains for the country.

The newly redeveloped 'post-Panamax' Port of Liverpool is the only port on the west coast of Britain which can accommodate the vast new container ships that can now negotiate the widened Panama Canal. This infrastructure will broaden the UK's trade links with the Americas and Asia, complementing the Port's important existing links with Ireland and creating significant opportunities for Northern exporters, including major companies such as Jaguar Land Rover in Liverpool and Nissan in Sunderland. Estimates suggest that the development of the 'Liverpool 2' deep sea berth will initially see the Port of Liverpool double, and eventually treble, its handling capacity.<sup>5</sup>

The rise of freight transport is one of the unheralded successes of UK rail: freight volumes have increased by 70% over the past 20 years.<sup>6</sup> The growth in the Port of Liverpool's capacity is outstripping even that rate of increase, yet currently there is no rail provision that will allow this expansion. Even once planned upgrades are taken into account, there will be insufficient capacity on existing lines to transport the anticipated volumes of freight the Port will handle. By contrast, a dedicated line high speed line into Liverpool would free up capacity for an additional 21 daily freight journeys on the West Coast Main Line alone, and detailed assessment is required to gauge the value associated with these journeys.

We see addressing the question of freight capacity as a key element of any strategy for economic and social prosperity for the North of England. It would, of course, be possible to upgrade the existing network to allow for increased freight transport by means other than a high speed line into Liverpool; it is in our view questionable that the savings produced

Figure 2: A High Speed Line Out of Liverpool



would outweigh the additional and wider benefits that a dedicated high speed line into Liverpool city centre would bring. With this holistic view in mind, on balance we believe that a dedicated high speed link is the best answer to the question of future freight transportation into and out of Liverpool.

For example, high speed rail will further boost impressive recent employment growth rates within the Liverpool City Region. Liverpool's employment growth between 2010 and 2015 outpaced leading global cities including Paris and Tokyo, and its growth to 2020 is predicted to exceed that of major international centres including Berlin.<sup>7</sup> The city has the right profile for business growth – and has delivered on this in recent years.

During the 12-month period to September 2014, the City Region's private sector job count grew by 5.4 per cent, outpacing the national average for England as well as the equivalent figures in Greater Manchester and the Leeds City Region, and there has been a net rise of 44,000 private sector jobs in the Liverpool City Region since 2010.<sup>8</sup> In order to sustain this encouraging trend however, a long-term catalyst is required. High speed rail, providing modern inter-city connectivity, can act as such a spur.

The Liverpool City Region also has strength in industries which could significantly benefit from high speed rail, including its knowledge economy and visitor economy, which could become assets of significance to the national economy if the catalyst of high speed rail is applied. And Liverpool is only some twenty miles or so from the HS2 route, across some of the flattest and least challenging terrain for engineering works in the entire North.

Liverpool is a city ready to help itself, and pay its way. If the City Region, in conjunction with Government and others, makes the reforms we recommend below – including, but not limited to, the construction and part-funding of the high speed link out of Liverpool city centre – we believe it has the potential to drive growth in the Northern economy, and help to rebalance the UK's economic geography away from London and the South East. We urge Government, HS2 Ltd, Transport for the North and the National Infrastructure Commission to recognise this shift in the City Region's prospects, and allow Liverpool the opportunity to take control of its own destiny.

### *The role of this report*

This report challenges the initial decision not to extend HS2 into Liverpool, through an assessment of the region's economic possibilities, the role high speed rail can

play in helping it to fulfil that potential, and a series of original proposals designed to realise that potential and bring it to the fore. We highlight existing evidence of the city and City Region's strong performance; but we also outline a complementary approach and strategy that we believe can better accelerate the region's economic growth and help it to overcome the challenges it undeniably still faces – as well as ensuring that it is maximally well-prepared to make the most of the opportunities a high speed link would provide.

A direct high speed rail link from Liverpool city centre to the HS2 network is a necessary but not sufficient condition for completing the renewal of Liverpool and its City Region – a project which, if successful, would significantly aid efforts to rebalance the national economy and strengthen the Northern Powerhouse. First rate connectivity is a vital constituent of transformation, but is only one part of the required mix of institutional and cultural changes. We therefore propose a series of measures which we believe can help Liverpool and its City Region achieve transformative levels of growth. Moreover, we believe that many of the changes we recommend in this paper should be seen as a blueprint that can be adopted by other cities keen to achieve economic, political, and social change.

Although some of our recommendations will require the region's political authorities to work closely with other partners (including national Government), the capacity to carry them through to completion lies primarily with its local elected representatives. Our proposals are therefore in line with the message we seek to promote throughout this report: that Liverpool is a city on the verge of a breakthrough of its own making, which – if it is given the freedom to make the required investments and changes – will deliver economic benefits at a local, regional, and national level.

Liverpool's business community is vibrant, diverse – and growing. Making use of its business leaders' knowledge and experience through better engagement with local politicians can help to inspire a more dynamic local economy, and to this end we recommend a new consultative City Region Business Senate. We propose a further reform to City Region governance with the establishment of a new body to support the City Region Mayor (to be elected in May 2017), with responsibility over public service reform, local economic strategy, and innovative policy development and implementation at a City Region level.

Liverpool's city centre is a thriving hub of commercial, retail, and research activity, with strong presence in new and flourishing industries including the creative and digital sector, and a number of higher education establishments located nearby. Our proposals to cultivate these advantages include a series of recommendations designed to enhance the economic benefits the region draws from its universities – including the establishment of a new Marine Technology Catapult Centre and Enterprise Zone status for the city centre, to give the knowledge economy businesses located there, the help they need to definitively establish themselves as national leaders in their field.

The City Region must also look beyond its own boundaries in the long-run to realise its full economic potential. An independent economic review should form the basis for the region's economic strategy going forward, and must consider the assets of the wider Liverpool Bay area and beyond as well as those in the six existing local authority areas. Long-term flexibility on local boundaries and

relationships – including formal expansion of the Liverpool City Region area – must be a key tenet of that strategy; and closer links and joint branding with Manchester must be part of Liverpool's ambition to develop its visitor economy and raise its leisure and business tourism numbers.

Our recommendations seek to increase the value the City Region can draw from its significant economic assets, and will help it to fulfil the promise shown by recent employment growth figures and the investments it has made. Many of our proposals – including the need for public service reform, the importance of defining and communicating Liverpool's distinctive contribution to Northern and national growth agendas, and greater executive capacity to deliver programmes and projects at a City Region level – echo frequent findings from others.<sup>9</sup> That these governance reforms still remain elusive only increases the urgency of the need for them to be realised. We remain convinced however that a high speed line, promoting synergy with other population centres, is a 'tipping point' investment for the City Region, necessary if its other assets are to deliver their true maximal benefits.

Finally, we present a series of projections for the additional jobs that our recommendations and an HS2 link could deliver for the City Region. We estimate that, if our recommendations are put in place, the Liverpool City Region will generate a further 54,400 jobs by 2030 – though this figure could rise to up to 84,000 in a less conservative scenario. On the basis of this projection we propose an innovative Tax Increment Financing (TIF) mechanism that, together with the capitalised revenue from the Mersey Tunnels toll, will enable Liverpool's high speed line to be up to two thirds funded by the City Region.

We propose that the Government allows Liverpool's City Region to step up to the plate and fund £2 billion of the estimated less than £3 billion cost of a high speed link from Liverpool city centre to the HS2 track, reducing the cost to central government of such an investment to less than £1 billion. This measure has the support of the Mayor of Liverpool and the Chair of the Liverpool City Region Combined Authority, and would – if agreed and followed through by the City Region and Government – represent a step change in the funding of UK infrastructure.

We urge the Government to fulfil its own vision and allow Liverpool to help make the Northern Powerhouse a reality. Liverpool's economy is on an upward trajectory, which our recommendations look to help to consolidate. This positive trend hands the City Region a vital role in helping to secure the success of the Government's Northern vision; we urge local and national decision-makers to take the actions needed to allow the Northern Powerhouse to deliver on its promise.

Our recommendations are targeted at both local and national government, HS2 Ltd, the National Infrastructure Commission and Transport for the North.

## *Summary of Recommendations*

- 1. Start the Northern Powerhouse in Liverpool by connecting the city into HS2. This single, short piece of dedicated high speed track, some 20 miles more, will also be the start of HS3, the East-West connection which will unlock the economic potential of all the Northern English cities.**
- 2. Establish a local payback mechanism, via the Tax Increment Financing scheme based on National Insurance contributions proposed in this report, which would allow the City Region to fund 50% of the new high speed rail infrastructure we propose. We also show that with an additional contribution from the Mersey Tunnels tolls, the region can self-fund and self-finance up to 66% of the approximate £3 billion cost of a dedicated high speed line into Liverpool.**
- 3. Create a new City Region Business Senate. This advisory chamber should be comprised of representatives from the region's private sector employers, civil society and social enterprises, to reinvigorate local political relationships and engagement with the private and civic sector.**
- 4. Facilitate City Region level policymaking by forming a new institution, 'TRANSFORM Liverpool,' to support the Metro Mayor. This institution should be operationally independent of the new Mayor, but report directly to him or her, and should also advise the City**



Region and its constituent boroughs. Its independent but interlinked arms should be given responsibility over city region wide public service reform; economic strategy; and policy innovation, research and delivery. There should be a preference for the Chief Executive of TRANSFORM Liverpool, and the CEO's of its three branches, to be figures of national or indeed international standing with experience and achievements outside the City Region, to ensure new approaches and fresh thinking, and raise the quality and diversity of advice available to the new Mayor.

5. Implement place-based public service integration across Liverpool City Region via a City Region Public Services Commission, or REFORM Liverpool, as the first arm of TRANSFORM Liverpool. Early intervention in issues such as worklessness and physical and mental wellbeing will both improve the life chances of the City Region's population and ensure effective and impactful use of public funds.

6. Integrate existing City Region economic policymaking bodies, including the LEP, into a single Liverpool Growth Agency, or GROW Liverpool, as the second arm of TRANSFORM Liverpool. This body should both develop and act to deliver the region's economic strategy, and should receive powers over city region wide business support, skills, investment, and land purchase and assembly.

7. Establish INNOVATE Liverpool as the third arm of TRANSFORM Liverpool, to ensure the alignment and delivery

of policy agendas across the City Region. INNOVATE Liverpool should also conduct research and evidence gathering in major public policy areas such as education and health to inform wider policy innovation and the generation of policy proposals for the benefit of the City Region.

8. Undertake an independent economic review to evidence and identify the region's most promising economic assets against the national and international innovation benchmarks.

9. Capitalise on Liverpool city centre's economic potential, and establish an Enterprise Zone there, if necessary by removing the Enterprise Zone status currently enjoyed by the struggling Liverpool Waters development. The city centre is far better-placed to make use of the advantages Enterprise Zone status confers in order to boost local job creation. A vibrant city centre will create the business activity which can then spill over into Liverpool Waters to secure its long-term success.

10. Work with local universities and business to better nurture talent and entrepreneurialism. New institutions, including a Marine Technology Catapult Centre, and more effective measures and incentives targeted at retaining and attracting graduates, will allow the region's concentration of higher education establishments to thrive and contribute far more to the local economy.

11. Raise Liverpool's visitor numbers and become the UK's third most visited city. Focus on improving local marketing, leadership, and connectivity to achieve this goal. Appoint a Creative Director for the City Region with the power to unify, coordinate and curate existing activities and funding across all the constituent boroughs.

12. Think flexibly on local boundaries. The Liverpool City Region's social and economic footprint extends south, east and north to locations which are not formally part of the City Region structure; its formal and informal political and economic relationships with neighbouring local authority areas should take account of this and build better links and relationships to its wider economic area with a view to further integrating and enhancing public services and economic co-operation.

1 KPMG (September 2013), *HS2 Regional Economic Impacts* [Online]. Available at: <http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/Market%20Sector/Building%20and%20Construction/hs2-regional-economic-impacts.pdf> [Accessed 1<sup>st</sup> February 2016]

2 See for instance the Shinkansen rail network in Japan

3 Centre for Cities (October 2013), *HS2 Policy Briefing* [Online]. Available at: <http://www.centreforcities.org/wp-content/uploads/2014/08/13-10-30-HS2-Policy-Briefing.pdf> [Accessed 1<sup>st</sup> February 2016]

4 We acknowledge that there is still debate about how best to open up HS3: whether this is via Manchester Victoria or Manchester Piccadilly. In this paper given the current planned route of HS2 we argue for the southern link via Manchester Piccadilly, picking up Manchester Airport.

5 Liverpool City Region Local Enterprise Partnership (March 2014), *Liverpool City Region Superport: Market Analysis – Land and Property*. [Online] Available at: <http://www.liverpoollep.org/wp-content/uploads/2015/06/LCR-superport-market-analysis-03.2014.pdf> [Accessed 1<sup>st</sup> February 2016]

6 KPMG & Rail Delivery Group (May 2014), *Keeping the lights on and the traffic moving: Sustaining the benefits of freight for the UK economy* [Online]. Available at: [http://www.raildeliverygroup.com/files/Publications/2014-05\\_keeping\\_the\\_lights\\_on.pdf](http://www.raildeliverygroup.com/files/Publications/2014-05_keeping_the_lights_on.pdf) [Accessed 1<sup>st</sup> February 2016]

7 Oxford Economics (2015), *Beyond the City – Britain's Economic Hotspots*. [Online] Available at: <http://www.worksmanagement.co.uk/article-images/86597/Beyond%20the%20City%20-%20Britain's%20economic%20hotspots.pdf> [Accessed 1<sup>st</sup> February 2016]

8 Liverpool City Region Local Enterprise Partnership (14<sup>th</sup> October 2015), *ONS data reveals strong private sector job growth in Liverpool City Region* [Online]. Available at: <https://liverpoollep.org/articles/ons-data-reveals-strong-private-sector-job-growth-in-liverpool-city-region/> [Accessed 1<sup>st</sup> February 2016]

9 See for instance M. Parkinson et al (January 2016), *The State of Liverpool City Region Report: Making the Most of Devolution* [Online]. Available at: <https://www.liverpool.ac.uk/media/livacuk/publicpolicypractice/State,of,City,2016,FINAL,LR.pdf> [Accessed 1<sup>st</sup> February 2016]



# 1. Introduction

Liverpool's future prosperity will flow from connectivity – just as it has in the past

*"Faster, more frequent, and more direct connections to other major centres of population in Northern England and London would be the spark providing impetus to the many nascent economic strengths Liverpool has the potential to develop."*

## *The story so far*

In 1886 the London Illustrated News coined the phrase 'world city' as a description of Liverpool. The phrase referenced not only Liverpool's economic prowess, but also the breadth and value of the city's global connections. Liverpool's future is equally built on the quality and extent of its connectivity – the speed, frequency, and directness of its connections to other major cities in the North of England, and across a wider domestic geography, as well as its links to international centres of trade.

When Thomas Steers built the world's first enclosed dock in 1715 he not only radically expanded the capacity of Liverpool's port, but also revolutionised maritime trade across the world. In 1830 Liverpool entrepreneurs conceived and funded the world's first inter-city passenger railway to Manchester, and the world's first transatlantic passenger services from 1840 made Liverpool the first major embarkation point for generations of New World migrants.

Connections were the key to Liverpool's growth and they made the city open, fertile and entrepreneurial. Throughout the 19<sup>th</sup> and 20<sup>th</sup> centuries, Liverpool spawned a succession of pioneering initiatives in public health, social care, education, civic culture, transport, engineering and science. During the

19<sup>th</sup> century, Liverpool was the only British city ever to have its own Whitehall office, reflecting its staggering status.<sup>10</sup>

Yet since the Second World War, the city has fallen from its high place. During the 1970s and 1980s, it became a byword for failed militant politics and an extremism that did neither the city nor its inhabitants any good. Liverpool in the 20<sup>th</sup> century became increasingly disconnected – from the world, from Ireland, from London and from its immediate neighbours: Manchester in the East, North Wales in the South, and its own High North that stretches up to Preston, Blackpool, and beyond. Facing the wrong way for Britain's turn to Europe, from the 1960s to the 1990s, Liverpool experienced a slow and painful asphyxiation.

*"Liverpool's core population growth during the 19th Century mirrored its strategic and economic prominence, rising from 78,000 in 1801 to 870,000 in the mid-1930s, with over a million people living in its immediate urban area by 1900. From this peak, much of the 20th Century by contrast witnessed an accelerating reversal of fortunes, with the core population sinking to 430,000 by 2001. As a result of external economic circumstances (changes in the terms of trade to favour Britain's south and east coast ports, air transport and maritime containerisation), exacerbated by key planning decisions ... by the 1980s the core population fell below 500,000."<sup>11</sup>*



There is a powerful and instructive lesson to be learned in recognising the link between Liverpool's economic decline and its loss of global and national connectivity. Liverpool's economic rise, its culture, its fall from industrial and trading dominance into an enduring social and economic decline all combine to create a lasting negative impression.

### *A city on the rise*

The years since the turn of the century have however seen a change in attitudes and culture. While the full economic implications of the past two decades are yet to be fully understood and analysed, the decline in the city's fortunes has seemingly begun to reverse. Liverpool's employment growth between 2010 and 2015 was faster than that of cities such as Paris and Tokyo, and it is expected to see greater job creation than Berlin in the years to 2020.<sup>12</sup>

Cutting-edge manufacturing has reasserted itself with Jaguar Land Rover. Building on the internationally-renowned School of Tropical Medicine and a cluster of academic and health assets, the city has established a nucleus of world-class life science and bioscience businesses. Recently Liverpool has recorded (albeit from a low base) some of the best growth rates in the North of England. More people work in producing pharmaceuticals in Liverpool<sup>13</sup> than in any other EU city, and Liverpool was recently highlighted as the second fastest growing tech start-up cluster in the UK.<sup>14</sup>

The biggest business event in the world in 2014, the International Festival for Business, took place in Liverpool with delegates from 92 countries and more than 68,000 attendees. With 3,000 UK companies confirming they have secured or expect domestic sales as a result, this global event is set to be repeated in 2016.<sup>15</sup> Furthermore, in addition to the economic assets described above, Liverpool also has many cultural assets: its waterfront for example has been classified by UNESCO as a world heritage site,<sup>16</sup> and in December 2015 it was voted England's Greatest Place in a nationwide poll run by the Royal Town Planning Institute.<sup>17</sup>

Perhaps most crucially for the future of the city and the City Region, the Port of Liverpool is swinging back into global prominence. The post-Panamax development by Peel Ports will mean that Liverpool will be the only west coast port on the entire island equipped to take the new generation of super-container ships that will negotiate the now widened Panama Canal. Investment in 'Liverpool 2' will:<sup>18</sup>

- Enable 95% of global container vessels to trade through Liverpool;
- Create the most centrally located deep water container terminal in the UK;
- Form one of the most operationally efficient and modern terminals in Northern Europe;
- Put Liverpool at the heart of 35 million consumers within 150 miles of the port; and
- Reinforce local logistics infrastructure, with 28% of the UK's volume of large warehousing in a 70-mile radius of Liverpool – greater than any other UK region.

New routes and expanded cargo capacity will revolutionise Liverpool's economic position. The Port will offer a chance for the city to renew its global connections, helping to revive not only Liverpool's economy but that of the whole North and the wider UK. This is a vital piece of infrastructure, allowing Liverpool to broaden its trade connections to Ireland, the Americas, and to South East Asia among other important trading partners, and is critical to a national economic aspiration to reassert the UK's status as a global trading and manufacturing power.

History suggests that Liverpool's success is closely tied to the connectivity it can tap into, and the redeveloped Port will be able to serve, once more, as the city's major international link. With Manchester Airport in effect serving both Liverpool and Manchester, the city also has the use of the country's second largest global passenger and freight hub, which will help to augment the economic potential of the 21<sup>st</sup> century global port facility. These facilities offer the chance to see Liverpool restored to the leading centre of international connectivity it once was.

### *Challenges still to be faced, and the way ahead*

The picture of rise and fall is therefore now more nuanced, and Liverpool can no longer be described as hopeless. Yet the city continues to face many problems. Its investment in the Port and its city centre vibrancy create opportunities which remain untapped; but its small businesses and universities, the city and its economic hinterland, and its regional and city governance are not working together effectively enough. These factors continue to hold back the city and the wider region.

There remain economic challenges requiring radical responses. The Liverpool City Region's population has low economic activity rates, and there are disproportionately high numbers of workers in low skilled occupations, resulting in low earnings and low productivity across the city region. These problems are only compounded by the loss of graduates to other parts of the country and over-reliance on the public sector for employment.<sup>19</sup>

Structural employment projections suggest that if past trends continue then the Liverpool LEP area is forecast to have between 23,000 and 28,200 additional jobs by 2030, growth equivalent to just 0.2% per annum.<sup>20</sup> Although these projections do not take account of the most recent, more promising growth trends in the region, they indicate the fragility of the current positive trajectory the region is following, and the consequences if the present momentum is lost.

Liverpool desperately needs to build on its recent progress, and the North urgently needs it too. The plans to create a Northern Powerhouse to drive the UK economy in the decades to come provide the perfect opportunity for Liverpool not only to regenerate itself but also demonstrate its wider economic value to the country. Liverpool is now at a generational tipping point – as is the wider North as a whole. We believe the city must be an integral part of the Northern Powerhouse agenda if the longstanding national North-South divide is to be successfully bridged and widespread prosperity delivered to the country as a whole.

The answer to the current economic challenges faced by the city and its surrounding boroughs – Halton, Sefton, Knowsley, Wirral and St Helens – is what it has always been: to build its economic identity and future prosperity on the quality and breadth of its connectivity. Liverpool's domestic connectivity has not kept pace with the international facilities offered by the redeveloped Port of Liverpool and Manchester Airport. What Liverpool most evidently lacks at present is a 21<sup>st</sup> century inward connector to its own economic hinterland and its fellow Northern cities, to complement and link the international connection points that it already possesses. Faster, more frequent, and more direct connections to other major centres of population in Northern England and London would be the spark providing impetus to the many nascent economic strengths Liverpool has the potential to develop.

Moreover, the harm caused by Liverpool's lack of transport links extends beyond the city itself, and beyond even the wider City Region. The absence of quick and efficient East-West connectivity from Liverpool to Hull and all points in between inhibits growth across the whole of the North and contributes to an unbalanced and underperforming UK economy. There is increasing recognition that East-West connectivity is now of equal importance to North-South connectivity.<sup>21</sup>

### *Our proposals*

We recommend a dedicated high speed rail line linking the Liverpool City Region to the HS2 route, Manchester Airport, and Manchester. This in turn will also be the westernmost link of the proposed East-West 'HS3' route, the aspirational Northern high speed line running from Liverpool to Hull, reconnecting the great cities of the North. Since this link would serve a dual purpose, linking into both the North-South and East-West high speed routes, it provides a double benefit from a single investment. We therefore believe the national high speed network should be built outwards from Liverpool.

We believe Liverpool Lime Street station should be adapted to accommodate

high speed trains and to increase its capacity. This would have the additional effect of helping to address existing congestion, thereby capitalising on its strong existing connection to other City Region transport links and forming a vital transport interchange for the City Region as a whole. This would furthermore allow wider regeneration of the Lime Street area of the city centre, building on existing nearby retail and commercial activity to create further such opportunities.

We have argued that Liverpool's currently poor connectivity hampers growth both within the city, and – as one facet of a wider failure of broad Northern connectivity – across the whole of the North of England. Yet equally, improving this connectivity provides an opportunity to fuel prosperity at the level of the city, the City Region, and the wider North. Liverpool has economic assets which can deliver growth not only within its own urban and city region boundaries, but across a much more significant geography – if these are properly connected up with other areas of urban innovation.

From Liverpool's perspective, the link we propose would provide the city with a connection to the other great Northern cities, enhance the city's engagement with international markets by strengthening the link to Manchester and its airport, and increase local rail capacity for both freight and passenger transport. This will ensure the city is well-placed to maximise the returns on its investment in its Port, as well as to attract business and inward investment.

Liverpool wants high speed rail not because it enables a faster outflow of talent to London but because it connects the city and its people to a myriad of opportunities and markets. Recent years have seen a revitalisation of Liverpool's logistics sector, as well as its wider economy. In order to cement this, we now need to create the domestic interconnector that links freight and passengers from Liverpool to the other great cities of the North, and to the rest of the UK. The Liverpool to Manchester high speed rail link offers just such a piece of infrastructure.

With regard to wider Northern transport and growth agenda, we welcome the work of Transport for the North and its acknowledgement of the vital role of improved rail links across the North in stimulating regional prosperity.<sup>22</sup> We now propose that current plans for high speed connections north of Crewe as part of HS2 be reconsidered, and provision made for Liverpool to be included in these plans, in light of the proposals for a trans-Northern high speed rail link, in the interests of both value for money and faster, more balanced economic growth across the North of England and the rest of the UK.

The momentous traction behind the devolution agenda for English city regions also has profound implications for the high speed rail debate in Liverpool. We welcome the devolution deal announced for the Liverpool City Region in November 2015, and the recognition of the region's capacity for self-determination it implies. In accordance with the principles of devolution and localism, we make the case for Liverpool to plan and part-finance the high speed rail link we recommend.

We propose that the City Region can credibly make a contribution of up to £2 billion to the cost of this line, paid for by local retention of business rates (as announced by the Chancellor in October 2015) and employers' National Insurance contributions in the City Region from any additional jobs that are generated over and above the structural jobs growth trend for the City Region, together with the capitalisation of revenue from the Mersey Tunnels tolls.

### *Beyond connectivity: high speed rail at the heart of a renewed economic strategy*

Ultimately, improved connectivity represents only a means towards a broader goal – the economic and social prosperity of the city of Liverpool, and its contribution to the wider Northern Powerhouse. Yet we believe that it is a factor which cannot be ignored in the drive towards that goal. We

therefore regret the initial decision not to provide Liverpool with a dedicated high speed link, and the subsequent failure to reverse that decision.

There is a problem of circularity: without high speed rail, the claims of those who argue that Liverpool's economic profile cannot justify the investment required to connect it into the high speed network will never be disproved, because Liverpool will have been denied the very investment which would allow it to realise its full economic potential. Currently critics of Liverpool's case for a dedicated high speed connection claim that the City Region's population and employment growth plan lacks credibility and is too dependent on ambitious and seemingly problematic projects such as Liverpool Waters.

This report therefore advocates a series of intermediate steps that Liverpool can and should take, in order to nurture bottom-up growth and innovation. This will bolster the case for high

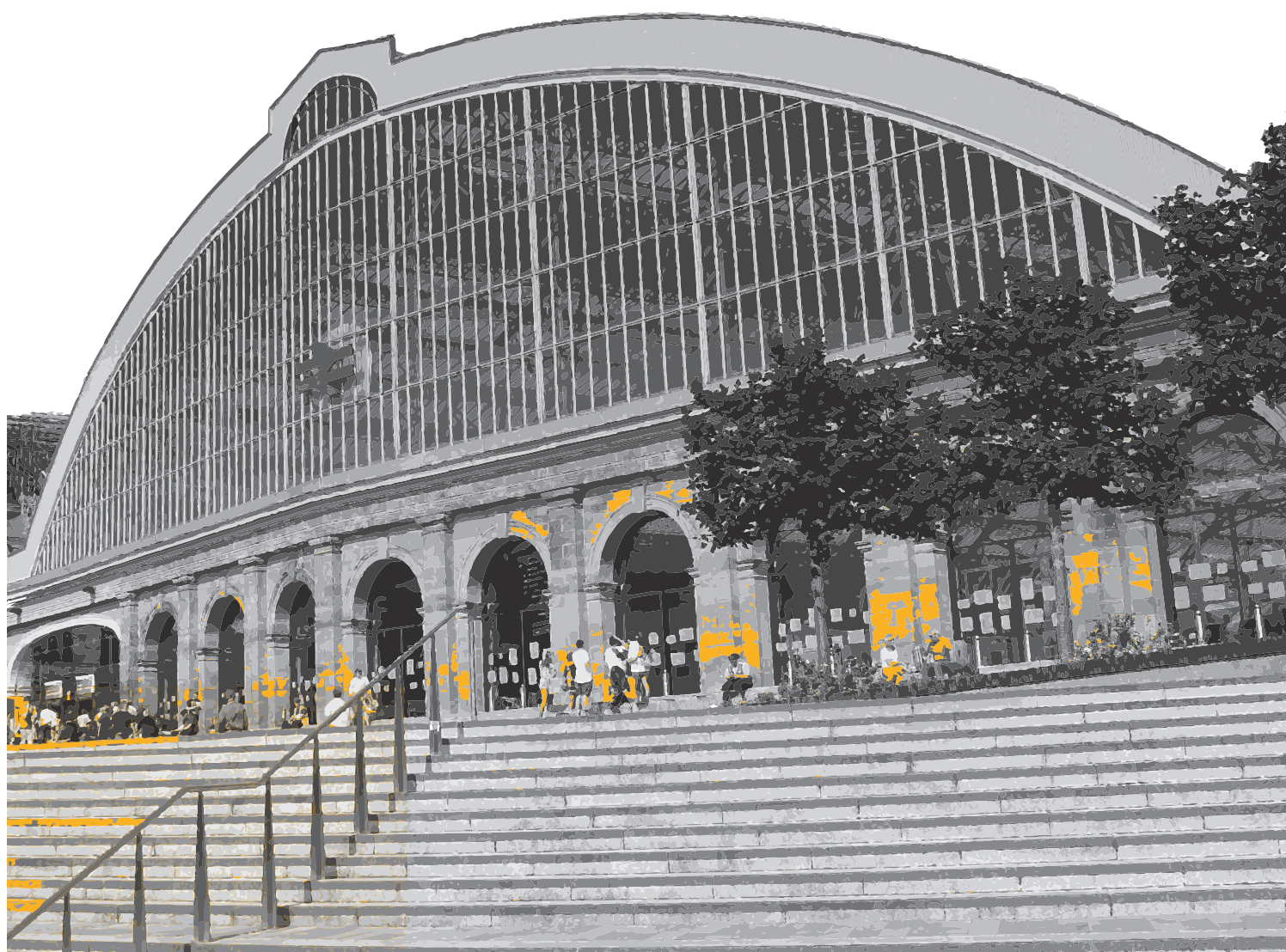
speed rail in Liverpool by raising the City Region's growth potential independent of improvements in its connectivity, sowing the seeds for the city to become an integral part of the Northern Powerhouse once it is properly connected.

Good governance, the repurposing of existing institutions, public service reform, and better skills training are just some of the other conditions required to accelerate growth, and our report recommends a series of innovative strategic interventions in these areas. Moreover, while we have targeted these proposals at the Liverpool City Region in this report, we believe that the aims which underpin them (support for City Region-wide policymaking; better engagement between universities, business and the public sector; a clear regional economic strategy) and the structural measures we advocate to achieve these aims could and should be adopted more widely. We see these proposals as a blueprint, which other

City Regions should look to implement and adapt to their local circumstances.

We propose a social and economic strategy oriented towards extracting the maximum possible economic gains from the catalyst of a dedicated high speed link in Liverpool city centre, incorporating feasible and credible incremental steps to build on the progress seen since the turn of the millennium. We argue for a range of measures to create a critical economic mass that can propel Liverpool and the North towards a more prosperous future, as well as strengthening the city's case for high speed rail. Our recommendations speak to Liverpool's distinctive potential economic and cultural contribution to the UK, and will help to put the prosperity of Liverpool, its surrounding region, and its Northern city neighbours on a firm and rising foundation.

Urgent and substantial investment is needed to unlock Liverpool's latent economic potential and its contribution



to growth plans across the North of England. Yet the ambition to restore Liverpool to its position as a first-tier city of the North is eminently achievable, and represents a critical potential economic catalyst for the UK as a whole. As the City Region's Devolution Agreement, signed in November 2015, states:

*"Liverpool City Region has the opportunity, through devolution, to ensure it is at the heart of the Northern Powerhouse. With the River Mersey and the integrated cluster of logistics and expertise through Superport, the Liverpool City Region has unique economic assets that can help transform the Northern economy."*<sup>23</sup>

As such, securing the City Region's economic renaissance is a goal which should be shared not only across the city and the City Region, but also by policy-makers and stakeholders across the country.

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## 2. Making Better Connections

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Genuine connectivity is not a sufficient driver for economic growth, but it is an integral precondition

### *2.1 How connectivity can catalyse the UK economy*

*"We remain concerned that there is a danger that the benefits of HS2 will accrue exclusively to the areas which form the nodes on the high speed network, and that cities and regions without a dedicated high speed station will suffer."*

While there are many factors that can contribute to economic growth, few are as important as a region's transport connectivity and its investment in new infrastructure. Comprehensive and efficient transport infrastructure makes travel within the region easier for its residents and increases the area's attractiveness to those considering visiting, investing in, or relocating to, the region. There is growing evidence that connectivity deserves a special – but not exclusive – focus in all city growth plans:

*"Visionary schemes such as Crossrail, HS2, and the One North proposals rest precisely on their ability to be game-changers for City Regions and the whole country; and they require complementary plans to be put in place to allow this to happen ... Major investment decisions must be shaped by a more holistic view of cities' needs ... rather than a narrow transport appraisal system that assumes the development of the economy is broadly independent of the transport system."<sup>24</sup>*

The role of transport in unlocking cities' growth potential is becoming increasingly evident. Several reports were published in 2014 from sources including the City Growth Commission,<sup>25</sup> Volterra and

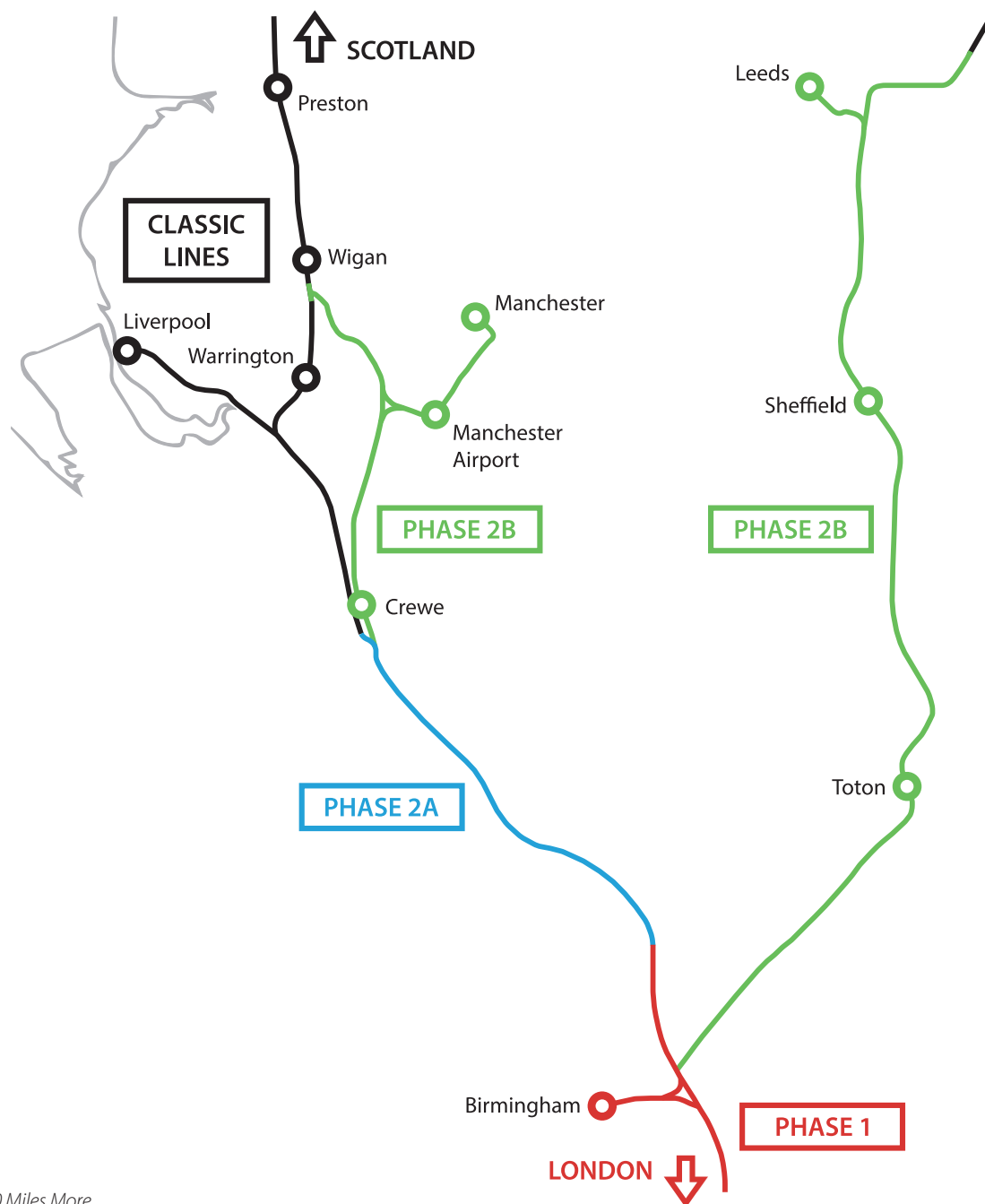
Transport for London,<sup>26</sup> and Core Cities,<sup>27</sup> all evidencing the role of transport facilities in determining the attractiveness of an area and the critical spur they can provide in supporting economic growth.

### *Investing in UK connectivity: High Speed Rail*

Connectivity's importance to economic growth on both a local and a national level makes investment in significant infrastructure projects such as High Speed 2 vital to plans for the UK's future economic expansion. Research by KPMG suggests that the annual productivity gain to the UK economy delivered by HS2 could total £15 billion by 2037.<sup>28</sup> Yet the Government is also clear that HS2 should deliver benefits to the country as a whole, driving geographically balanced economic growth. HS2 is therefore an important corollary to the Government's Northern Powerhouse programme.

Based on present plans, the first phase of investment in high speed rail will see a connection between London and Birmingham, to be opened in 2026. The first part of the second phase of investment ('Phase 2a') will see Birmingham and Crewe connected via high speed track by 2027, with Phase 2b, a Y-shaped construction from Birmingham to Manchester in the North West, and Leeds via Sheffield in the North East, completed by 2033. 'Classic'

Figure 3: Proposed HS2 Phasing



Source: 20 Miles More

lines (i.e. existing infrastructure) will link with the high speed route in a number of locations to improve connectivity to and from non-high speed enabled cities.

There are plans to develop a more wide-ranging high speed network. The Prime Minister and the Chancellor have both given

their backing to 'HS3', a high speed rail line designed to connect up the Northern cities.<sup>29</sup> Work to develop a route for this line is being undertaken by Transport for the North. This complements a series of upgrades to existing Northern rail infrastructure being undertaken to ensure Northern cities benefit fully from the delivery of HS2.

### *A good start, but an incomplete vision*

HS2 represents an important investment. It will deliver economic growth not only nationally but also, critically, will have significant regional impacts in the North of England. KPMG suggests that the regions of Greater Manchester, West Yorkshire and

South Yorkshire alone will see an annual productivity gain of around £3 billion (i.e. 20% of the gain to the UK as a whole), to name just three areas outside of London and the South East which will benefit.

Yet we remain concerned that there is a danger that the benefits of this project will accrue exclusively to the areas which form the nodes on the high speed network, and that cities and regions without a dedicated high speed station will suffer. In a survey of the effects of high speed rail abroad by Professor John Tomaney for instance, it was noted that “nodal cities gain the most from improvements to the high speed network while places between nodes or on the edge of the network do not make gains.”<sup>30</sup> In the UK, this would mean the creation of economic divisions between those cities which are directly connected to HS2 and those which are not.

International evidence suggests that using high speed rail to connect selected cities does not result in more equal growth across all cities. In Japan, cities connected to the Shinkansen network have experienced greater population and economic growth than those not connected. Although the network deliberately connected cities which were already performing above the national average, this example suggests that the benefits high speed rail generated outside of those cities were not strong enough to narrow economic disparities and generate greater equality of prosperity across the country as a whole.<sup>31</sup> If this result were repeated in the UK, it would mean a selective rebalancing of the economy, advantaging those Northern cities with a high speed link at the expense of those without.

Evidence also suggests that capital cities gain the most from connections to second-tier cities. In Spain and South Korea, high speed lines have been constructed to link the capital to another major city (Madrid and Seville, and Seoul and Busan respectively) with the intention of relocating economic activity away from the centre. In both cases there is little evidence to suggest this has been successful, and it has been suggested that in Spain this connection may simply have fuelled growth within the capital.<sup>32</sup>

In short, evidence from abroad suggests that there is a risk that while HS2 will deliver major economic gains for the North of England, it will not do so everywhere in the North, and that these gains may simply end up concentrated in cities such as Manchester and Leeds advantaged by dedicated high speed track and stations. There is also a risk that London’s pre-existing economic dominance of even these cities will reduce the aggregate benefit to the North of England.

Yet both of these outcomes could be mitigated or even avoided entirely by prioritising connectivity between Northern cities – specifically via a dedicated rail line, running at faster speeds than currently, to improve links between the cities of the North from Liverpool to Hull – i.e. the HS3 line referenced above. This would at once deliver both the potential for substantial and relatively evenly distributed growth across the North of England, reducing London’s dominance over the cities of the North, and would link cities currently facing marginalisation as a result of not being on the HS2 route into that same route, thereby allowing them to tap into the benefits HS2 will provide.

It is for this reason that we believe this improvement to Northern connectivity should be given at least equal priority to HS2. The revival of the North’s economy, in which Northern inter-city transport will play a very significant part, should be seen as an important prerequisite or at least corollary to the development of North-South high speed rail links to ensure the greatest and most equitable economic gain to the North from better national connectivity. The link we call for to be constructed between Liverpool and Manchester is both HS2 and HS3 simultaneously; it therefore fulfils this criterion. This link could make a substantial contribution to improved West-East connectivity while adding another branch to the North-South connection at no additional cost.

### *Connectivity’s importance for the Liverpool City Region*

The city of Liverpool and the surrounding boroughs are no exception to the rule that cities depend on connectivity for long-term growth – indeed, history suggests Liverpool’s natural advantage lies in its

strong potential trade links with the outside world. This lesson remains true today. The city, its Port, and its logistics infrastructure provide facilities which benefit the whole North West of England, the largest cargo-generating region outside of London.<sup>33</sup>

Yet current deficiencies in the City Region’s domestic connectivity mean that without multifaceted transport investment – and the catalyst of high speed rail in particular – the potential for local growth and prosperity offered by existing and emerging infrastructure will inevitably be stifled. Liverpool must be reconnected to its hinterland and neighbouring cities more effectively if it is to play its full – and integral – part in the emergence of a renewed Northern economy.

Liverpool must also acquire internal economic momentum at the same time as linking itself more effectively to other domestic markets, if does not wish to see ever more of its talented inhabitants using these new connections not to strengthen Liverpool’s economy from within but instead to leave the region for pastures new. Yet domestic connectivity is the key piece in the puzzle of how to achieve prosperity for the region; it is the lifeblood required by its emerging businesses, and the region will not see significant economic renewal if these connections are not in place.

Liverpool has the fewest direct rail connections to other Core Cities of any Core City apart from Cardiff. This is a critical area of concern given that the non-London Core Cities’ urban areas deliver 28% of the combined economic output of England, Wales and Scotland and are home to almost 19 million individuals, 30.7% of the combined English, Welsh and Scottish population.<sup>34</sup> If its impressive recent business and job creation record (which is among the best seen not only among Northern cities but also nationally) is to continue, this must be rectified.

Improving Liverpool’s connectivity is essential, both from the perspective of the contribution this will make to transport links among Northern cities more generally, but also because of the City Region’s recent economic record and the potential for freight-related growth the investment in its Port implies. We believe Liverpool’s inclusion in the national high speed rail network represents an investment destined to alter

Figure 4: Direct Connections Between the Core Cities

	Birmingham	Bristol	Cardiff	Glasgow	Leeds	Liverpool	Manchester	Newcastle	Nottingham	Sheffield
Birmingham		✓	✓	✓	✓	✓	✓	✓	✓	✓
Bristol	✓		✓	✓	✓		✓	✓		✓
Cardiff	✓	✓					✓		✓	
Glasgow	✓	✓			✓		✓	✓		✓
Leeds	✓	✓		✓		✓	✓	✓	✓	✓
Liverpool	✓				✓		✓	✓	✓	✓
Manchester	✓	✓	✓	✓	✓	✓		✓	✓	✓
Newcastle	✓	✓		✓	✓	✓	✓			✓
Nottingham	✓		✓		✓	✓	✓			✓
Sheffield	✓	✓		✓	✓	✓	✓	✓	✓	
Direct Links to Core Cities	9	7	4	6	8	6	9	7	6	8

Source: Merseytravel

the trajectory not just of the city of Liverpool and its surrounding boroughs but also the wider Northern and UK economies, yet it is a piece currently excluded from the jigsaw.

## 2.2 Existing Proposals and their Relationship to the City Region

Strong recent economic growth within the Liverpool City Region has led to an increase in demand on the existing regional rail network, stretching this to full capacity and beyond. Planning needs to start now to ensure the rail network is not once again a constraint on growth. Moreover, as argued above, this work should be linked into a wider programme of investment in interconnectivity between Northern cities. This section examines existing and potential future projects which aim to improve transport and connectivity across the North and which have important implications for the Liverpool City Region.

### High Speed 2

HS2 is set to enhance the Liverpool City Region's links to other regional economies, primarily those of London and the South East. Phase 1 will result in a faster overall journey time from London to Liverpool, currently estimated at 106 minutes, which will fall still further to 92 minutes once Phase 2a is operational.<sup>35</sup>

There are however no plans for the project to include a dedicated high speed line into Liverpool city centre. At present, the proposal will see the Liverpool City Region served by way of an indirect classic compatible connection (i.e. using trains which can run on both high speed enabled and non-enabled tracks) on the West Coast Main Line (WCML) from Crewe.<sup>36</sup> Such a connection would bring transport benefits of two types: increased rail connectivity with other major cities; and capacity release on the WCML south of Crewe for both passenger and freight purposes.

However, the benefits these plans entail will be much reduced without a high speed station in Liverpool city centre. There are two major problems.

Firstly, the improved connectivity with other major cities cited above will be largely indirect: the proposals offer faster direct connections primarily only to places which are already served by rail lines from Liverpool, and facilitate connections to other destinations only indirectly. The provision made for Liverpool under current proposals therefore fails to address the problem of direct connectivity to other Core Cities and other destinations noted above.

Secondly, the proposals offer no new infrastructure development to the north of Crewe; indeed, the current proposal would see additional HS2 traffic operating on this section of the West Coast Main

Line as the classic compatible service runs on the existing lines, owing to the lack of dedicated high speed line into Liverpool. This will only serve to place increasing pressure on existing rail links across the North, and especially the section of the WCML between Crewe and Liverpool.

If the freight opportunity presented by investment in the Port of Liverpool is not to be squandered, it will be necessary to release capacity on the WCML to the north of Crewe for freight transportation, rather than worsening this existing bottleneck. Only a high speed line into Liverpool city centre offers maximum capacity release on the West Coast Main Line and other existing rail lines into and out of Liverpool (and so maximum potential for freight transportation).

### Northern Hub

Large sections of the North West rail network are currently undergoing, or are scheduled to undergo, investment and enhancement as part of the Northern Hub scheme, a series of proposed transport investments across the North which aim to boost economic growth in the region. This scheme, which focuses on the confluence of rail lines in and around Manchester, will see journey times reduced and capacity increased for a whole range of services between Northern cities.<sup>37</sup> The electrification of the Chat Moss



Figure 5: Map of HS2 Western Leg



Source: Department for Transport / HS2 Ltd

line linking Liverpool and Manchester was one of the schemes progressed as part of the Northern Hub, and saw the minimum journey time between the two cities reduced from 47 to 32 minutes. The scheme has also provided capacity for an hourly freight service across the line, linking the Port of Liverpool to a number of key logistics destinations in Manchester. A further Liverpool-specific investment included in the Northern Hub scheme is the electrification of the Liverpool to Wigan line.

At conception, the Northern Hub was anticipated to provide sufficient capacity for the years until 2024. However, since the completion of the scheme's proposals, passenger demand has grown significantly, the economic outlook for the Liverpool City Region is far more positive and forecasts show that the current half-hourly stopping service on

both routes linking the two cities (the Chat Moss and Cheshire Lines Committee lines) will soon become inadequate.<sup>38</sup> Liverpool Lime Street Station is already over capacity and significant enhancements are needed. Furthermore, the freight capacity required on the North West railways now greatly exceeds what was provided for in the original scheme: the completion of the Liverpool 2 deep water berth at the Port of Liverpool for instance will double the requirement for freight paths across the Chat Moss line.<sup>39</sup>

These factors will contribute to demand exceeding capacity far earlier than the original date of 2024. Further capacity increases for transport of both freight and passengers between Liverpool and Manchester will require new infrastructure. Planning must begin now to support further growth into the future.

Furthermore, a solution must be found that addresses the needs of both passengers making longer distance inter-regional journeys and passengers travelling from intermediate locations into regional centres. There are currently 2.65 million journeys into Liverpool per year, and 2.43 million into Manchester – far exceeding the still considerable 1.05 million journeys directly between Liverpool and Manchester per year.<sup>40</sup> The most obvious solution would be the segregation of these two types of journey onto separate infrastructure – such as a direct high speed rail link between Liverpool and Manchester, which can supplement the stopping services which currently run into these cities from intermediate locations.

## *Why this is not enough*

Each of the Northern Hub and HS2 projects has certain specific associated inadequacies, as noted above. Yet these specific inadequacies tap into a more general failing: current proposals for infrastructure upgrades across the North of England will prove insufficient to provide the Liverpool City Region with the catalyst it needs to sustain and build on its recent progress. The Region will ultimately remain at a disadvantage for as long as it remains disconnected from the high speed rail network. There are four reasons why this is the case:

### **I. Freight**

The cargo-generating capacity of the Liverpool City Region makes freight an especially vital part of the region's economy, and among the most important constituents of the economic relationship between Liverpool and Manchester. When the Liverpool 2 development opens in late 2015, it will be the UK's most centrally located deep water container terminal, with access to 35 million consumers within 150 miles of the Port of Liverpool and 28% of the UK's volume of large warehousing within a 70-mile radius of the city. It will enable 95% of global container vessels to trade through the Port of Liverpool, and will remove around 100 million HGV miles per year from congested road networks in the South East.<sup>41</sup> It is anticipated that this development will initially see the Port of Liverpool double its capacity to 1.5 million twenty-foot equivalent units (TEU) per year, potentially eventually trebling to 2.1 million TEU per year.<sup>42</sup>

The redevelopment of the Port of Liverpool also flows into the Atlantic Gateway Partnership, which in turn brings the Liverpool and Manchester City Regions together into an increasingly integrated economy. The transportation of freight – into, out of, and within the Gateway region – is a vital part of this relationship. The 'Superport' vision put forward by Liverpool City Region LEP<sup>43</sup> acknowledges this, and looks to capitalise on the numerous freight and logistics assets contained within the Liverpool City Region and Greater Manchester with a £1 billion programme of investment in road and rail infrastructure alongside the Liverpool 2 deep water berth.

Yet this high level of economic interdependence between the ambitions of Liverpool and Manchester is not elaborated on in the transport plans currently being brought forward. Current HS2 proposals, including the connection to Crewe by 2027, do nothing to free up capacity for freight transport north of that town, as noted above. More widely, the Lords Economic Affairs Committee concluded that rail freight had "largely been ignored during the development of plans for HS2".<sup>44</sup> Continuing to underestimate the vital importance of these links and the enormous opportunity offered by freight will only work to the detriment of the Liverpool City Region and the wider Atlantic Gateway, and will stymie attempts to realise the full economic returns they offer.

Submissions by Peel Ports to Network Rail clearly state that they are concerned about under-forecasting of their rail needs, especially as there is a desire to shift freight off the roads onto rail.<sup>45</sup> Yet the important relationship between investment in HS2 and the maximisation of future port operations remains fundamentally unacknowledged in existing reports.

HS2 offers the possibility of releasing capacity on the West Coast Main Line to and from Liverpool if a connection out of Liverpool city centre onto the high speed line is built. Capacity release on the WCML in particular is critical to release the potential economic rewards from freight transport to and from the Port of Liverpool: work by Steer Davies Gleave, for instance, has found that a direct high speed connection into Liverpool city centre could release capacity for 21 additional daily rail freight services on the WCML.<sup>46</sup> Even before the direct value of the freight being carried or the economic benefits resulting from increased employment as a result of these paths being utilised are taken into account, the wider economic benefits associated with these paths (i.e. arising solely from reduced road congestion, reduced pollution, and other such factors) are estimated to be worth over £40 million per year.

### **II. Fewer Opportunities for Growth**

The role of transport in unlocking the growth potential of cities is, as we have already observed, becoming increasingly well-known. We recognise that transport alone is not sufficient to

secure Liverpool's place at the heart of the Northern Powerhouse, but current deficiencies in Liverpool's rail connectivity in particular are frustrating growth potential. The City Region's growth plans cannot be realised to the same extent within the scenario of incremental improvements and short-term fixes.

As previously noted, Liverpool City Region has recorded some of the strongest business and employment growth figures anywhere in the country in recent years. Yet failure to construct a dedicated fast link to the North-South HS2 spine will leave the City Region both physically and economically disconnected in the long run. This will only make it harder to attract business to locate within the region; indeed it has previously been suggested that businesses are likely to relocate away from cities without a direct high speed connection and into cities with a high speed station, as a result of decreased relative regional accessibility.<sup>47</sup>

Liverpool's growth potential and its possible contribution to the wider Northern economy is not currently recognised in existing plans for high speed rail; this risks squandering the progress seen in the Liverpool City Region in recent years and wasting the opportunity to create an additional business powerhouse in the North. The construction of a high speed link will by contrast send a signal that Liverpool is a vibrant and forward-looking city, encouraging business to continue to invest and locate there.

### **III. High Speed Stations**

National and international research continues to reaffirm that station developments have a positive effect on commercial and residential values and on development activities around stations. High speed stations can act as the focal point for area regeneration projects, such as the comprehensive 141-hectare urban regeneration scheme around Birmingham Curzon HS2 station, which will revitalise derelict and deprived areas of the city and is projected to add £1.3 billion per year to the city's economy.<sup>48</sup>

The Eastside Locks scheme, a 13-acre site bordering the new Birmingham Curzon street station, is already under construction, and incorporates proposals for retail, leisure and business facilities.

It has already attracted more than £30 million in private funding, despite HS2 being a decade away from arriving.<sup>49</sup> Such regeneration moreover can be a significant source of inward investment, drawing in money from outside the city or even the UK – see for instance the interest from Qatar in investing in the Birmingham Curzon Urban Regeneration Company.<sup>50</sup>

As part of a wider Economic Benefits Study, published in July 2014 and examining the potential economic impact of a high speed rail link in Liverpool city centre on the Liverpool City Region, Steer Davies Gleave undertook research into the impact of high speed stations on the local economy. It concluded that, as a proportion of existing employment in the city in question, anticipated additional job creation around city centre High Speed 2 Phase Two stations ranges from 3% to 13%.<sup>51</sup>

Without the dedicated high speed line and associated high speed city centre station, all that is on offer for Liverpool is an improved Lime Street station. While this is long overdue, it is not transformational for the City and its prospects. Lime Street station occupies a pivotal space within Liverpool's city centre geography on the cusp of the city's Knowledge Quarter – an area which encompasses four universities as well as a cluster of creative and digital, health, and

bioscience assets, with massive investment and job creation opportunity. Converting the station to accommodate high speed trains, or constructing a new high speed station nearby, would unlock this potential.

#### **IV. Increasing segregation of dedicated high speed networks**

Improved connections for Liverpool as part of HS2 plans will deliver faster journey times to many cities, but cannot deliver in full the transformational vision Liverpool has on offer. New high speed lines would be for high speed trains only, and although such trains will use the existing West Coast Main Line track to Liverpool, the principle of a high speed strategy is that over time there will be increasing segregation between high speed trains and others on classic lines.

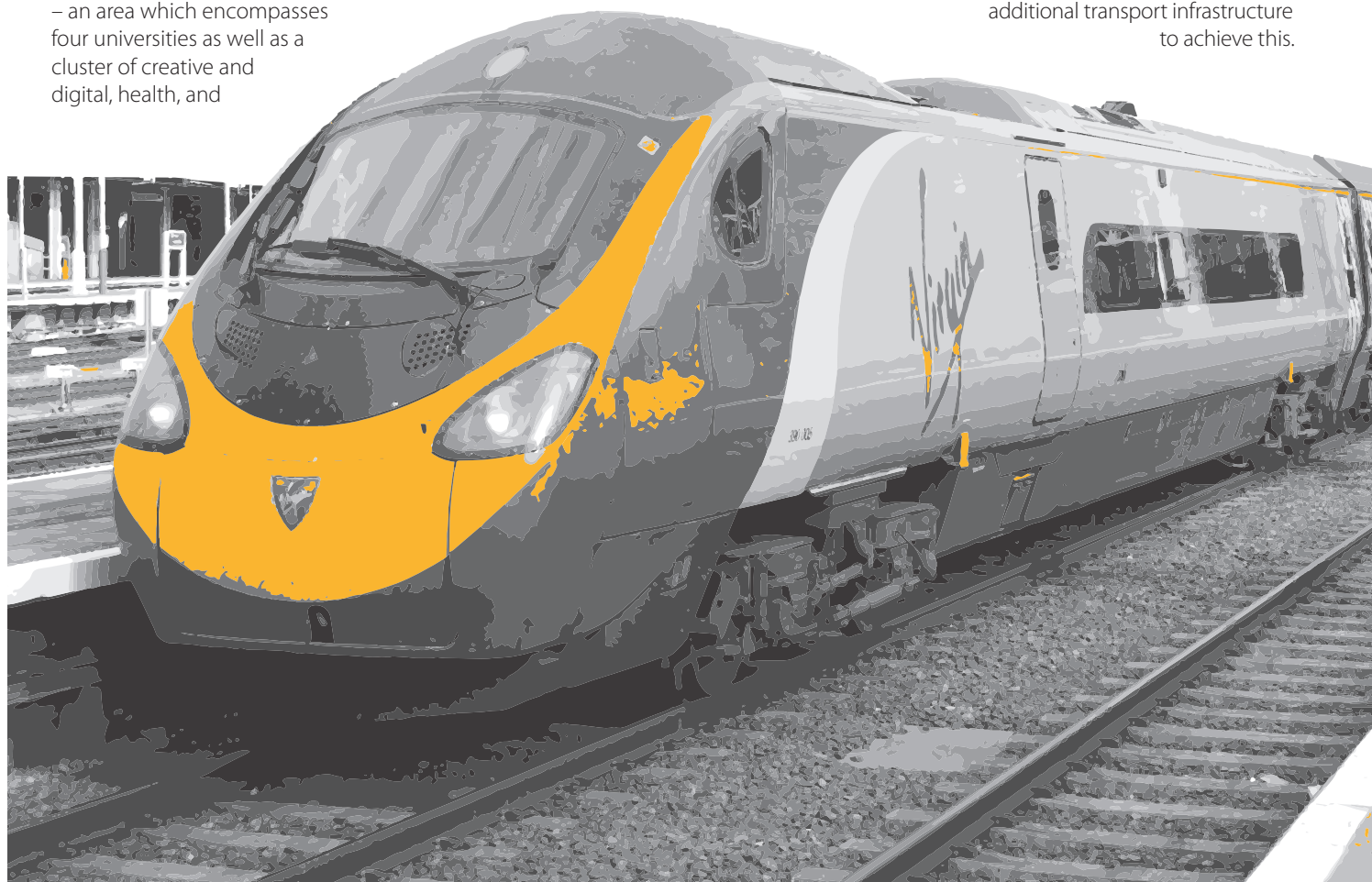
Liverpool will become located on a second-class network, even if it is one that is improved from current conditions. This could prove fatal for a city whose history revolves so intensely around the quality and quantity of its transport and trade connections. Yet the long-term impacts for Liverpool would not just be economic, such as the additional difficulty in attracting

business to locate to the region, but also social: for example, many of the region's young people will likely look to build their lives in an area with better links to other parts of the country.

#### *One North and Transport for the North*

Given the failure of existing projects to make adequate provision for the needs of the Liverpool City Region, we welcome the establishment of an independent body – Transport for the North – set up precisely to investigate what the future of transport across the North of England should look like. As noted above, one of the tasks this body will undertake is to draw up proposals for the route to be followed by a high speed rail route running across the North.

Transport for the North was formed in the wake of the publication in July 2014 of 'One North', a strategic proposition drawn up by the City Regions of Leeds, Liverpool, Manchester, Newcastle and Sheffield, which sought a solution to two important challenges facing the UK economy: the need to rebalance the national economy's reliance on London by realising the potential of the Northern city economies; and the need for additional transport infrastructure to achieve this.



HS2 will, as set out above, better connect the North to the Midlands, London and the South East. However, since the HS2 route is designed to function primarily as a north-south connector, it cannot resolve what the One North proposal identified as “poor interconnectivity between the cities of the North”. It argued that “connectivity and capacity between the northern cities needs to undergo transformational change”, centred on “a very high quality (fast & frequent) intercity rail network joining the centres of the City Regions”.<sup>52</sup> To this end, it proposed a new 125mph trans-Pennine route, connecting to both HS2 and existing Northern lines.

Subsequent to the One North proposal’s publication, Transport for the North was formed in October 2014 out of the five City Regions which had contributed to the proposal, together with Hull and the Humber, working in collaboration with the Department for Transport, Highways Agency, Network Rail, and HS2 Ltd. In March 2015, Transport for the North published its draft programme setting out its vision of the future shape of Northern transport links.<sup>53</sup>

One of the schemes proposed in the draft programme, the TransNorth rail line, is a high speed, electrified, east-west line linking Liverpool, Manchester, Leeds, Sheffield, Hull and Newcastle. This proposal would not only improve Liverpool’s east-west connectivity, but would also provide significant released capacity on the existing lines linking Liverpool and Manchester. It would also deliver capacity release on the West Coast Main Line, as trains running between Liverpool and London could use the East-West tracks before connecting onto the HS2 line and diverting southwards from there, rather than the WCML route as at present. This extra capacity to both the east and the south could then be used for freight and intermediate passenger services, addressing many of the problems outlined above.

It is encouraging to note that, given the ambition of a 20-minute journey time between Liverpool and Manchester as set out in its draft programme, Transport for the North believes that Liverpool would be best linked into the TransNorth line via a new high speed line out of Liverpool city centre, joining onto the HS2 route on its approach to Manchester airport. Its Autumn 2015 update, published in November 2015, states:

*“Between Liverpool and Manchester, there may be the potential to use the proposed HS2 infrastructure to cover approximately half the distance between the two cities. Our initial work indicates such an option would also require a new line from Liverpool to the proposed HS2 route, as we have found little or no scope to achieve our vision for journey times and frequencies through incremental upgrades to the existing rail routes. Such a new line could also permit faster HS2 services between Liverpool and London.”<sup>54</sup>*

This line would improve both Liverpool’s north-south and east-west connectivity and connect it into the national high speed rail network, mirroring our own recommendation in this report. We welcome this development, urge Transport for the North to make this link an integral part of their future work and proposals, and hope that fully developed plans for a high speed line out of Liverpool city centre linking into the proposed HS2 route will soon be brought forward.

### **2.3 Connecting Liverpool: for local, regional and national growth**

It was announced in November 2015 that high speed rail services to Crewe from Birmingham would be operational by 2027, six years earlier than previously expected, meaning that Liverpool will see the connectivity benefits offered by current HS2 proposals sooner.<sup>55</sup> While this is in itself welcome, these updated plans continue to fail to provide the fundamental long-term solution Liverpool requires, for the reasons set out above. Phase 2b will continue to disadvantage Liverpool by further reducing journey times from Manchester and Leeds to London while offering no such benefit to Liverpool, and the lack of new infrastructure north of Crewe will limit Liverpool’s ability to capitalise on its investment in freight and logistics.

Connecting Liverpool into the emerging national high speed rail network by contrast represents an investment that can alter the economic trajectory not just of the Liverpool City Region but also the wider North and even the United Kingdom as a whole via its contribution to the Northern Powerhouse. We therefore recommend

building the first phase of the TransNorth route advocated by Transport for the North between Liverpool and Manchester.

The high speed line we propose would run from Liverpool city centre, connecting to the HS2 track close to Manchester Airport. This will allow high speed trains from Liverpool to then link both southwards on the HS2 route to London and Birmingham, and eastwards to Manchester (and eventually beyond, on the proposed TransNorth route). We believe Liverpool Lime Street station should be adapted to accommodate high speed trains, thereby capitalising on its strong existing connection to other City Region transport links and forming a vital transport interchange for the City Region as a whole. This would additionally allow wider regeneration of the Lime Street area, building on existing nearby retail and commercial activity to create further such opportunities.

This development would serve two functions, being both the westernmost branch of HS3 and the westernmost link to HS2. This advantage is critical, in spite of HS3’s continuing status as a purely aspirational development, because of the poor present interconnectivity between the Northern City Regions. As Transport for the North argues, better connectivity between the main cities of the North “is the essential component of building the Northern Powerhouse”.<sup>56</sup>

The House of Lords Economic Affairs Select Committee’s March 2015 assessment of the economic case for HS2 found that investment in improving Northern rail links could, in the words of the Committee’s Chair Lord Hollick, deliver “much greater economic benefit at a fraction of the cost of HS2”.<sup>57</sup> The specific advantage of the link we propose however is that it does not represent an either/or choice between HS3 and HS2 in this way: it will help to remedy poor Northern interconnectivity by strengthening the connection between Liverpool and Manchester, but will also increase the economic rewards the wider HS2 project will deliver by additionally connecting into planned HS2 infrastructure and so allowing HS2 to tap into the gains from that improved Northern interconnectivity.

The Government has stated that “there may be opportunities to use part of the HS2 infrastructure to also improve east-west



connectivity”.<sup>58</sup> This is exactly what we are proposing: that Liverpool should be allowed to take advantage of the HS2 line going to Manchester Airport and Manchester Piccadilly as part of the first leg of the trans-Northern east-west route recommended by Transport for the North and others. The Government has also stated its ambition to examine “how the HS2 network could be future proofed”;<sup>59</sup> our proposal allows for the start of the trans-Northern high speed route, together with capacity release on existing lines to carry increased freight from the Port of Liverpool, both of which we have argued are vital future projects to enhance the economic prospects of the North.

We recognise however that Government may unwilling to commit further funding to the HS2 project given its existing budget of more than £55 billion, in addition to its wider attitude towards public finances. Yet the proposal we are advocating would take advantage of track which is due to be built in any case, i.e. the HS2 track from Crewe to Manchester, thereby reducing the additional investment required on top of what is already planned.

In order to reduce the cost to central government still further, and in accordance with the principles of devolution and localism to which the Government is committed, we also propose an innovative Tax Increment Financing mechanism which would allow the Liverpool City Region to contribute financially to the investment we propose. In section 5.2 below, we set out our belief that, in the right circumstances, the Liverpool City Region could contribute up to £2 billion towards constructing the link to Manchester – around two thirds of the total estimated cost. This would reduce the cost to Government to less than £1 billion – around 1.5% of the total cost of the HS2 project, yet an investment which we believe is critical to HS2’s capacity to spread economic growth equitably across the North.

### *Liverpool's case*

Liverpool’s case for investment in a high speed rail link into the city centre has been developed by a number of organisations, including the Mayor’s Office, Merseytravel, and the LEP, as well as the 20 Miles More business-led campaign and the LEP-run Linking Liverpool network. There exists

therefore a substantial body of evidence regarding the benefits a high speed link into Liverpool city centre would deliver.

In early 2014, 20 Miles More submitted a counter proposal to the official Government position. Among other conclusions, the report noted that although Liverpool had higher growth in weekday passenger totals to and from London than Manchester, Newcastle and Leeds between 2008 and 2011, HS2 Ltd’s projections for the passenger growth levels without HS2 up to 2037 forecasted Liverpool as having the lowest growth out of all of these cities. The report suggested this pointed to “inherent underestimation” of Liverpool’s demand by HS2 Ltd, and noted that “the implications [of this underestimation] for Liverpool’s business case when extrapolated over 60 years would be huge”.<sup>60</sup>

The report also drew attention to work by KPMG which analysed the effect of the HS2 project on business location. This work found that under a scenario where businesses were highly sensitive to transport and purchase costs when deciding where to locate, the overall effect of HS2 could be to cost the Liverpool City Region £0.72 million per year – that is, HS2 as currently envisioned could provide the City Region with a net negative benefit under certain circumstances. The Liverpool local authority area itself, one of the most deprived in the country, stands to lose over £50 million per year under this scenario<sup>61</sup> – a major blow to HS2’s claims to rebalance the national economy. This can be contrasted with the figures below, which show the potential gain to the Liverpool City Region from a high speed link.

The July 2014 Economic Benefits Study by Steer Davies Gleave referenced above modelled the economic effects of building a high speed line into Liverpool city centre in order to quantify the benefits resulting from such an investment. The study considered the evidence from existing places served by high speed rail in terms of job creation, density and types of activity, land value, and levels of inward investment, and applied that evidence to the Liverpool City Region economy. It confirmed that “high speed rail has the potential to deliver substantial benefit to the Liverpool City Region’s economy” which “would help rebalance the national economy to the benefit of

the whole of the North of England”.<sup>62</sup> The study demonstrated that HS2 Ltd’s original analysis of the impact of a direct HS2 connection for the city was based on inaccurate ONS data, which significantly underestimated the existing and projected size of both the City Region’s population and economy. Critically, these underestimates were more pronounced for the Liverpool City Region than for other candidate cities, including Manchester. The study suggested that when analysed against up-to-date 2011 census data, a direct HS2 connection to Liverpool could support an increase in GVA 11% higher than that found under the original analysis.<sup>63</sup>

The study went on to consider the overall economic impact on the City Region of four possible scenarios for HS2 provision. The first two scenarios included the Government’s current service proposal, with the second assuming an enhanced development scenario where all existing major proposals in the Liverpool City Region were delivered. Scenario 3 included an enhanced HS2 service with reduced journey time to London (omitting a stop at Stafford), and Scenario 4 a direct high speed route into Liverpool city centre. It concluded that HS2 would undoubtedly deliver substantial benefits to the Liverpool City Region economy, but that each scenario would deliver a different level of benefit. It found that a dedicated HS2 connection for the City Region would generate £8.3 billion of GVA on a 60-year NPV basis and sustain 14,000 jobs.

These overall impact figures were split into four:

#### **i. Journey time induced employment impacts**

The study noted that the effect of running a high speed rather than classic train between Crewe and Liverpool could result in a journey time reduction of up to 24 minutes. The employment impact as a direct result of the journey time savings offered by an extended HS2 route into Liverpool was estimated to be in the region of 440 additional jobs within the Liverpool City Region, equating to around £16 million in annual GVA.

Figure 6: Economic Impact of Different High Speed Rail Provision for Liverpool City Region

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Single Year Impact				
Increase in GVA	£517m	£527m	£535m	£557m
Increase in Jobs	13,324	13,623	13,827	14,172
Increase in Business Rates	£29m in each Scenario			
Increase in Land Values	£179m in each Scenario			
60 Year Present Value				
Increase in GVA	£7,508m	£7,727m	£7,883m	£8,342m
Increase in Business Rates	£395m in each Scenario			

Source: Steer Davies Gleave (for Merseytravel), 2014, *Independent Economics Study*

## ii. Development opportunities

Improvements in transport infrastructure and reductions in journey times have an impact on the desirability of a given area. The study found that as a result of accessibility improvements and upgrades, land values around high speed rail stations can increase by more than 25%, and office development around stations can rise by as much as 40%. This is particularly important for the Liverpool City Region, given that a lack of high quality office space has been identified as a significant inhibitor to growth in the region.

The study suggested that HS2 would help facilitate growth in many of the planned major developments within the Liverpool City Region. Having reviewed the benefits claimed from high speed rail elsewhere and applying the most appropriate metrics to the Liverpool economy, it estimated that high speed-related developments in the city of Liverpool could support:

- Up to 12,000 jobs, depending upon the level of improvement in service that HS2 delivers for Liverpool, with this figure dependent on a dedicated high speed station in Liverpool city centre;
- An additional 6,700-20,300 residents living within Liverpool City Region, again depending on the level of high speed rail service Liverpool receives and with the top level figure based on a dedicated high speed station located in Liverpool city centre;

- GVA benefits worth between £148 million and £445 million to the Liverpool economy per annum, giving a 60-year NPV of between £2 billion and £6 billion.

## iii. Tourist benefits

Building on the Liverpool City Region's popularity as a tourist destination, and including visits in relation to conference events, the four scenarios forecast between 370,000 and 723,000 additional visits to the City Region, resulting in a spend of between £44 million and £87 million and an additional 890 to 1,740 new jobs in the Visitor Economy.

## iv. Released capacity and freight benefits

The study concluded that if the appropriate paths were provided, HS2 would allow around 20 additional freight services to operate daily between Liverpool City Region and the Midlands and South East via capacity release on the West Coast Main Line. It did not attempt to place a figure on the economic value of the freight which would be carried along those paths or the employment generated by utilising these paths.

It is worth noting that the study's conclusions on the possible impact of a high speed link for Liverpool on land values and business rates represent very conservative estimates, since they allow for no difference in outcome across each of the four scenarios. A direct link into the city centre, producing more business activity and encouraging more

development within the city of Liverpool itself at the very least, and potentially more widely across the City Region, could reasonably be expected to result in greater business rate and land value increases than if such a link were not constructed, and so would widen the gap in economic outcomes seen between Scenario 4 and the other Scenarios.

It should also be noted that the figures given here consider the impact only of constructing the link from Liverpool to HS2 track. While this reflects the specific investment we recommend in this report, it takes no account of the additional benefits which would be realised if – as we suggest – this link is used as the first stage of a wider trans-Northern high speed route to better connect the North's cities. As Transport for the North and others have repeatedly said, this wider programme is critical to realising the full benefits of the Northern Powerhouse; as such, the benefits Liverpool would derive from a high speed link will be vastly increased if this programme is delivered.

## The importance of freight and logistics

As has already been noted, Liverpool's freight and logistics assets are second to none along the western coast of Britain. The redeveloped Port of Liverpool will be the only centre on Britain's west coast able to receive the trading vessels which will navigate the newly enlarged Panama Canal, and has the potential to correct the imbalance which sees over 90% of foreign imports enter the country through the South East but 60% of that volume consumed north of Birmingham.<sup>64</sup> As such, it will remove around 100 million HGV miles per year from congested road networks in the South East.

At present, the Port is capable of handling around 5% of the world's container fleet models. The Liverpool 2 development will raise this figure to 95%, in addition to initially doubling and ultimately trebling the capacity of the Port. Liverpool 2 will be the UK's most centrally located deep water container terminal, with over half the UK population living within 150 miles of the Port of Liverpool and 28% of the UK's volume of large warehousing within a 70-mile radius of the city.

The Superport vision, described by the Liverpool City Region LEP as “the cluster of projects, investment and activity across and beyond Liverpool City Region to develop a multimodal freight hub” complements this investment, and looks to take advantage of the considerable freight and logistics assets of both the Liverpool City Region and Greater Manchester. As such, its importance to the wider North as well as those individual regions cannot be underestimated. The Liverpool City Region LEP describes the Superport as “a generational opportunity to place the Port of Liverpool and surrounding logistics infrastructure at the heart of business in the UK”.<sup>65</sup> This is exactly the sort of investment that will attract businesses, and generate growth in the area.

There are however barriers to growth from freight-related developments. Primary among these are the increasing capacity constraints on both the West Coast Main Line and trans-Pennine lines. At present, none of the more than 700,000 containers which are handled in the Port of Liverpool annually make their onward journey by rail, being transported instead by road. This is clearly an unsustainable situation given the impending increase in the Port’s capacity, and highlights the need for significant rail capacity to be released for freight transport purposes.

Investment such as the £100 million biomass terminal, opened in October 2015, which will allow the Port of Liverpool to handle over three million tonnes of wood pellets annually to power the nearby Drax power station, demonstrates the Port’s freight potential. Moreover, all the pellets will be sent to the Selby power station by rail, avoiding placing extra pressure on the local road network. This demonstrates both the advantages of and the demand for freight rail transport links into and out of the Port.<sup>66</sup>

As previously noted however, current proposals for HS2 do nothing to free up freight transportation capacity to the north of Crewe, instead simply placing extra pressure on what already represents a freight bottleneck. A report by MDS Transmodal suggests that the current HS2 plans would mean that the capacity for freight transport within the Atlantic Gateway region would fall as a result of the additional trains running

on the West Coast Main Line, with the Chat Moss line between Liverpool and Manchester especially affected. The report found that “the presence of HS2 trains on the congested Crewe–Warrington section, unavoidable in reaching the Chat Moss route, is likely to reduce the potential for growth in rail freight”.<sup>67</sup>

The MDS Transmodal work was commissioned by Transport for Greater Manchester, but it highlights the impact on the Chat Moss line of HS2’s knock-on effects for the WCML. Given the Chat Moss line’s importance in freight transport from Liverpool to Manchester and beyond, the capacity available on that line has direct implications for the future prosperity of the Liverpool City Region. The report therefore further strengthens the argument that current plans would not result in sufficient rail capacity to capitalise on the opportunity provided by the redevelopment of the Port of Liverpool.

The size of that opportunity is demonstrated in further work from Steer Davies Gleave which supported the July 2014 Economic Benefits Study. This work found that, by moving long-distance services currently running on the West Coast Main Line onto the prospective new high speed infrastructure, a direct high speed connection into Liverpool city centre could release capacity for 21 additional daily rail freight services.<sup>68</sup>

It is clear therefore that short-term fixes and upgrades will not be enough to release the full potential for freight transport within and beyond the North West of England, or to secure the maximum economic benefits investments such as Liverpool 2 could deliver. Instead, we urge policymakers to embrace the more fundamental solution a high speed link into Liverpool would provide.

### *Demand, costs and impact on journey times*

Current high speed rail plans do not take account of recent growth in passenger numbers from Liverpool to London, and the need to anticipate and cater for future years’ demand. For instance, between the years 2005 and 2013, passenger usage of services from Leeds to London grew by 23%, but the equivalent increase in the number of

journeys between Liverpool and London was 105%.<sup>69</sup> It is however Leeds rather than Liverpool which has been prioritised under current high speed rail plans.

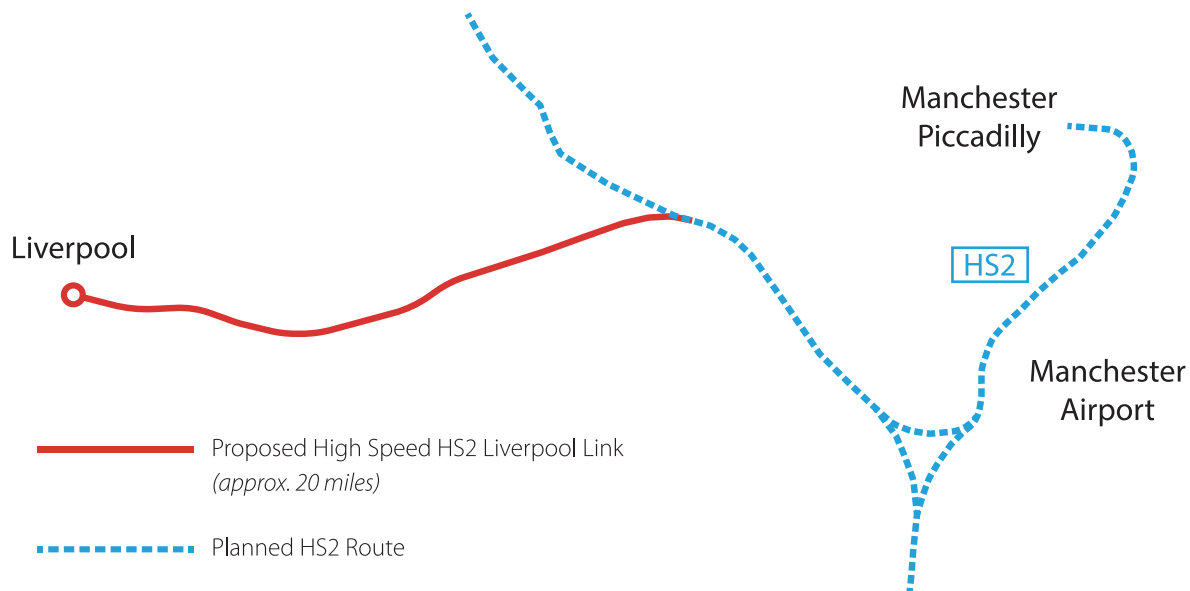
Arup, on behalf of Merseytravel, have assessed the demand generated by the varying possibilities of high speed services between Liverpool and London. This work found that when the proposed HS2 Phase 2 development is complete, the classic compatible service from Liverpool will see around 7,300 additional journeys per day. The report also finds however that a dedicated high speed line into Liverpool would equate to a further 2,200 journeys on top of this figure.<sup>70</sup>

However, Arup’s report acknowledges that factors such as the City Region’s investment in its freight and logistics assets will raise economic activity above the level specified in the model they used. Moreover, the report used the same data as HS2 Ltd’s original analysis, which as noted above underestimated the extant and projected size and scale of the Liverpool City Region’s population and economy. Both of these factors would suggest that the demand figures given above may therefore represent an underestimate for the true demand within the Liverpool City Region for the use of high speed rail. Work by Transport for the North to produce a new set of demand projections for the Liverpool City Region is ongoing.

These demand forecasts must of course be placed in the context of the anticipated cost of the link. The diagram below demonstrates how the line we recommend might connect into the HS2 network. Because the line connects into planned HS2 infrastructure, and so makes use of track which is already planned for much of its journey distance into Manchester, the marginal cost of the link we advocate is reduced considerably compared to a scenario where the entire link to Manchester is built from new. As a result of this advantage, initial estimates suggest that the cost associated with the new infrastructure our proposal would require is under £3 billion.

The journey time reductions such an investment would offer are significant: depending on the exact route followed by the new infrastructure, it should be possible to achieve a journey time to Manchester Airport of around 15 minutes, to Manchester

Figure 7: A High Speed Line Out of Liverpool



of around 20 minutes (as per the ambition set out by Transport for the North), and to London of 75 minutes or under. This compares to a current minimum journey time between Liverpool and Manchester of 32 minutes since electrification of the existing line (though this time is achieved by only one train per hour; a more common journey time is 45 minutes), and current journey time of 134 minutes between Liverpool and London, due to be reduced to 106 minutes once Phase 1 of HS2 is open and 92 minutes once Phase 2a is open.<sup>71</sup>

It should also be noted here that we are keen for our proposal to avoid knock-on effects for the approval, planning and delivery process for the wider high speed network. Perhaps the most obvious of these is the need to consider how high speed trains entering Manchester Piccadilly from Liverpool Lime Street via Manchester Airport would continue their journey across the North of England, as they will then be facing in the wrong direction to travel further eastwards.

It would be possible to reorient Manchester Piccadilly station to resolve this, but this would be expensive and disruptive for the plans already in place both within Manchester and for the high speed line into the city. Instead, we accept the alignment of Manchester

Piccadilly as currently proposed, and indeed applaud the ambitious plans for regeneration around the station based on its current alignment. This means that for trains from Liverpool which stop at Piccadilly to continue their journey further eastwards, the driver will need to move from the driver's carriage at one end of the train to the other. Although this will incur a small time penalty, the alternative is that trains from Liverpool are unable to continue further eastwards, and we believe that this delay is a small price to pay for the connectivity gain which arises from the new East-West route. Moreover, with the capacity to receive trains coming from Liverpool and then send them further across the North, Manchester Piccadilly would be transformed from the role currently envisaged for it – a high speed terminus – into a genuine integrated transport hub, a vital centre for both North-South and East-West connections.

### *Growth facilitated by transport*

Improved transport connectivity is a major transformational solution to the Liverpool City Region's growth prospects. This section has highlighted the potential growth that could be unlocked if a direct high speed line into Liverpool city centre, serving to link the region with both the pre-existing

HS2 and provisional HS3 plans, were prioritised. The Economic Benefits Study from July 2014 identified the number of jobs that could be facilitated by HS2 to be between approximately 13,000 and 14,000. However, the wider impact of approval for a high speed station cannot be discounted. The value of the signal this sends – that a city is open for business, ready and willing to take a place at the vanguard of the country's future prosperity – is also a highly significant factor for consideration. Birmingham, for instance, on the back of its Big City Plan and developments associated with HS2, is seeing a renaissance in construction, regeneration and speculative development.

Demand for office space in Birmingham is growing rapidly, with more than one million square feet of new Grade A offices due for development; £630 million worth of deals for office space were completed in the city centre in 2014, a rise of nearly 800% compared to 2013.<sup>72</sup> Birmingham City Council recently announced that more than £13.2 billion worth of investment is planned within the city by 2020, and it is envisaged that 80,000 new homes will be built by 2032 to accommodate the effects of the anticipated growth and inward migration.<sup>73</sup> Birmingham also saw the highest number of new start-up businesses of all UK cities in 2013 outside of London.<sup>74</sup>



Across the wider region, the Midlands HS2 Growth Strategy commissioned by the Birmingham and Greater Solihull LEP “aims to leverage the benefits delivered by HS2 to drive local growth on a nationally-significant scale over and above the construction of HS2”. Through investment targeted at local skills training, supply chains, public realm enhancements and regional transport, it is hoped that the region can capitalise on the connectivity benefits HS2 will provide, and deliver more than 100,000 new or safeguarded jobs, £14 billion worth of additional economic output, and close the gap between the proportions of the national and local populations who hold NVQ Level 4 qualifications.<sup>75</sup>

The example of Birmingham shows that the potential economic benefits of high speed rail are dependent not just on the level of service improvement it provides, but also on other local planning policies, economic conditions, and regional governance. Transport does not create jobs by itself, but

drives and facilitates planned development in areas where accessibility is improved.

Transport investment must therefore be planned as part of a wider, integrated economic vision. In order to maximise the benefits that HS2 will bring, Liverpool must have in place a well-resourced economic strategy which identifies and invests in the city region’s genuine economic strengths as well as addressing its continuing weaknesses. Liverpool needs the Government to approve its high speed rail link if it is to have a chance of playing the integral role we see for the City Region as part of the Northern Powerhouse; but equally, it must ensure that it is prepared internally to take full advantage of the opportunities high speed rail would bring.

If Government and investors lack confidence in the City Region’s economy’s capacity to create value from a high speed rail link, this will prove fatal to any prospects of such a link being constructed.

While progress has been made towards securing a more prosperous future for the city and surrounding region, it therefore remains vital that the region delivers on its considerable further growth potential and can demonstrate its ongoing transformation to the outside world.

High speed rail will allow the City Region to build upon the achievements of the past two decades, and will unlock that further growth potential – but it cannot be expected to do so in isolation. Focus must therefore be given to given to how best to secure a thriving local economy, both acknowledging and taking further the successes which have already been achieved and thinking creatively and innovatively about what more can be done to address the obstacles to growth which remain.

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## 3. Liverpool's Economic Present

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The City Region economy faces a number of challenges, yet also has considerable strength in many areas

*"The present moment is a critical opportunity for Liverpool, with encouraging growth figures in recent years and major infrastructure into which the city could be linked being developed nearby."*

### **3.1 Overcoming the City Region's economic difficulties**

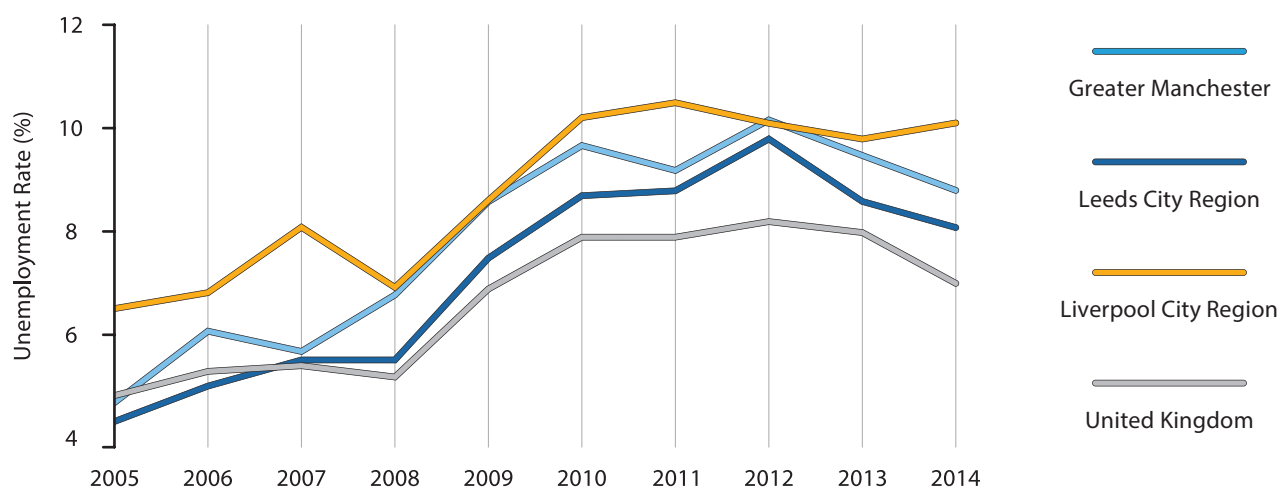
As we have noted, the Liverpool City Region has since the turn of the century posted impressive job and business creation figures, with job creation in Liverpool between 2010 and 2015 bettering that of both Paris and Tokyo,<sup>76</sup> and employment growth in the private sector totalling 5.4% between October 2013 and September 2014 – higher than the equivalent figures for Greater Manchester, the Leeds City

Region, and the UK as a whole.<sup>77</sup> Yet the Liverpool City Region economy continues to perform less well than the rest of the UK in a number of areas, as summarised below:

- Unemployment has been significantly higher than the UK average since 2004.<sup>78</sup> The regional population's economic activity rates are also below the national average.<sup>79</sup> An additional 50,000 individuals would need to be economically active to match the national average.



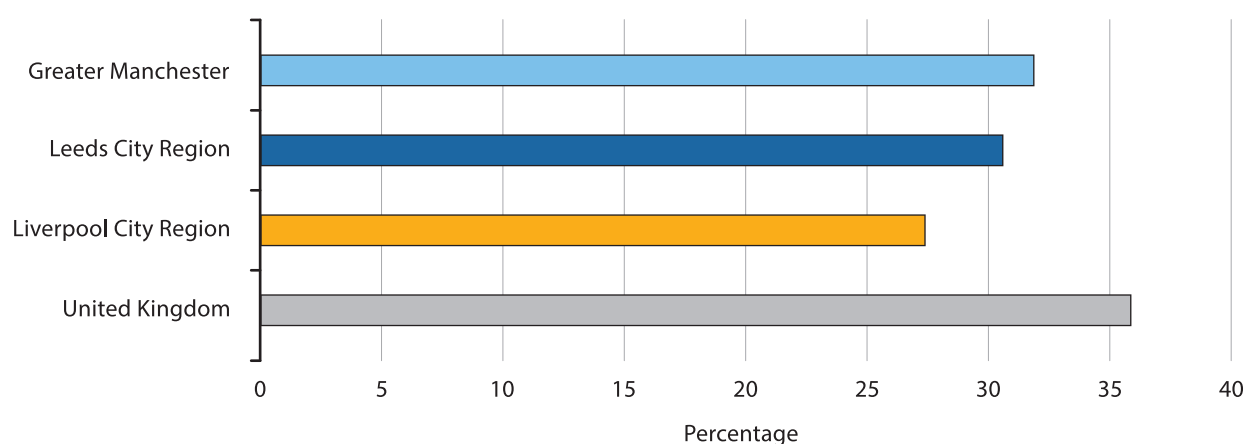
Figure 8: Comparative Historic Unemployment Rates



Source: Nomis, Annual Population Survey

- ▶ The growth rate of the working age population has also been significantly lower than the national average. The Liverpool City Region recorded working age population growth of just 0.3% between 2008 and 2013, compared to a figure of 1.7% for the UK and 1.9% for Greater Manchester.<sup>80</sup>
- ▶ The City Region's workforce has low skills, with disproportionately high numbers of workers in low skilled occupations. In 2014 only 27.4% of the working age population held a qualification of the highest level (NVQ4+), in comparison to a figure of 35.8% for the UK nationally.<sup>81</sup> We estimate an additional 81,000 individuals of working age would need to hold the highest qualifications to match the UK average.

Figure 9: Proportion of residents with highest qualification level, 2013



Source: Nomis, Annual Population Survey

- ▶ These low skill levels result in low earnings and low productivity. ONS data shows average GVA per head is £17,900 in the Liverpool City Region LEP area compared to a national average of £23,800 – equivalent to an £8.9bn productivity gap per annum.<sup>82</sup>
- ▶ The City Region's failure to produce sufficient numbers of high-skilled employment opportunities means it is not retaining as many graduates as it should, given the number of higher education institutions it houses. Liverpool is out-performing other comparable City Regions in this regard, but there remains room for considerable improvement.

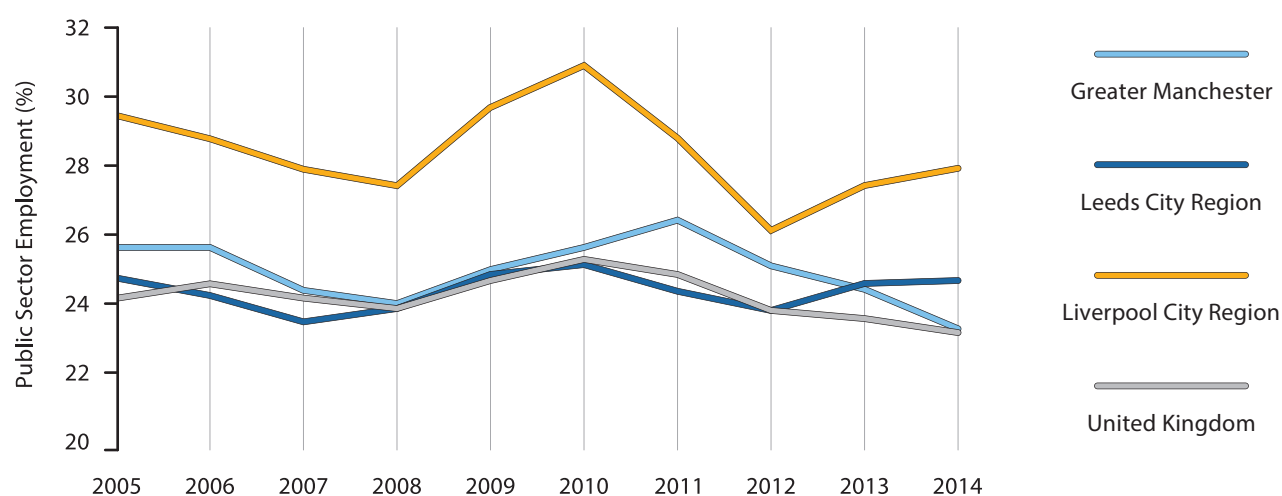
Figure 10: Migration of People Aged 22-30, 2013

Location	Net inflow relative to London	Net inflow relative to everywhere except London	Overall net inflow
Greater London	0	30,400	30,400
Greater Manchester LEP	-1,770	1,420	-350
Greater Birmingham and Solihull LEP	-1,480	-690	-2,170
Liverpool City Region LEP	-790	-1,690	-2,480
North East LEP	-1,550	-3,240	-4,790
Leeds City Region LEP	-3,020	-3,460	-6,480

Source: ONS

- The City Region is overly reliant on the public sector, as shown below in Figure 11, with 28% of employment in the public sector compared to 23% nationally.<sup>83</sup> The region could therefore be affected disproportionately by further reductions in government spending.

Figure 11: Proportion of public sector employment, 2005-2014



Source: Nomis, Annual Population Survey

- Lack of good quality modern office space in Liverpool city centre is also a problem, and is likely to worsen in the future unless new supply can be provided quickly. Just 7% of vacant office stock in the city is ranked Grade A quality.<sup>84</sup>

These statistics highlight a number of deep-rooted obstacles facing the Liverpool City Region. It will be extremely difficult for the City Region to eliminate these challenges in the short run, despite the considerable progress which has been made during the past decade. Low levels of skills and economic activity, combined with high reliance on the public sector

for employment, significant outflow of its best-trained young people and a lack of readily available high quality office space in the immediate future will all act as drags on the economic uplift which the City Region will be able to achieve.

Yet these are not insurmountable difficulties, and we outline in Chapter

4 our strategy for reform to address these issues. Once these weaknesses are overcome, we believe the dynamism of the City Region's economy will be better recognised – and its case for a high speed rail link, together with the value the region could derive from such a link, will be considerably strengthened.



Figure 12: Liverpool City Region Structural Growth Forecasts, 2013 to 2030

		2013	2030	Absolute Growth	Annualised Growth Rate
Oxford Economics structural forecast <sup>85</sup>	Population	1,512,600	1,533,000	20,400	0.08%
	Workforce	657,400	680,100	22,700	0.2%
Volterra structural forecast	Population	1,512,600	1,538,400	25,800	0.1% <sup>86</sup>
	Workforce	580,200 <sup>87</sup>	608,400	28,200	0.28%

Source: ONS; Volterra; Oxford Economics

Figure 13: Employment Growth Forecasts in Key Sectors

	Knowledge Economy	Distribution & Logistics	Visitor Economy
Job Forecast	40,000	20,000	13,000
Growth Period	2011 to 2020s	2013 to 2020	2013 to 2020
Source	Liverpool City Region Local Enterprise Partnership, Knowledge Economy: Delivering New Opportunities for Growth, 2011	The Mersey Partnership: SuperPort Action Plan, 2011	Liverpool City Region Local Enterprise Partnership: Visitor Economy Strategy and Destination Management Plan, 2014

Source: Liverpool City Region LEP, documentation as specified

Figure 12 shows what growth is likely to be achieved in Liverpool on the basis of past structural trends continuing – no interventions, no changes, just business as usual. The first forecast has been taken from Oxford Economics and represents their baseline scenario based on continuation of past trends. The second is an independent forecast by Volterra, which reinforces the Oxford Economics results. We conclude that without intervention or change, Liverpool is likely to see growth of between 23,000 and 28,000 jobs and an increase in population of 20,000 to 26,000 people by 2030.

It should be noted that these figures fail to take into account the improved growth rates seen over the past two years; however, they are instructive in showing the future the City Region faces if it fails to sustain its recent more positive trajectory. The cycle of low skills, low earnings and low productivity will continue, and will continue to limit its potential offer at a national level. In short, a major investment now could make the difference between the region being a significant asset to the Northern Powerhouse, or falling back onto the path of stagnation.

High speed rail could play a significant role in tackling the problems outlined above. Better connectivity will assist the City Region in attracting and retaining highly skilled young people and those of working age, as well as boosting the region's existing assets in retail and the visitor economy, which will in turn improve employment prospects for those without the highest qualifications. It will help strong private sector business growth to continue, and new office space will be created as part of large scale regeneration projects. Yet it will be maximally effective in this regard only if it is combined with a programme of reform, of the kind we outline in Chapter 4 below.

However, we first examine the region's existing plans and strategy for economic growth and renewal, to highlight the work already being undertaken and assess where further innovation is required.

### 3.2 Aspirations for the future

The Liverpool City Region LEP has aspirations for the creation of more than 70,000 jobs across the City Region before 2030, reliant primarily upon

considerable growth in the region's Knowledge Economy, Distribution and Logistics sector, and the Visitor Economy.

The City Region's growth targets are of vital importance to its prospects of securing a high speed rail link. If these figures are not perceived to be credible future scenarios, any case in favour of the link reliant on those figures will be undermined. On the other hand, if the region can demonstrate that it has significant growth potential, which could contribute to and even determine the success of the wider Northern Powerhouse project, its case to be the first node in a high speed Northern interconnector will be significantly strengthened.

We therefore consider here trends and strengths in these key sectors in order to judge the likelihood of these targets being met, as well as to showcase the positive activity which is already occurring within the City Region which a high speed rail link could stimulate further.

## Knowledge Economy

The Liverpool City Region's Knowledge Economy is a diverse and growing sector of the local economy. The LEP's Knowledge Economy Plan argues that its expansion could attract up to 60,000 additional jobs in the City Region by the early 2020s.<sup>88</sup> However, this forecast also includes the Superport proposals, which we consider to fit more easily within the Distributions & Logistics sector. The LEP associates more than 20,000 jobs with the Superport, so we take the true figure for possible jobs creation within the Knowledge Economy under this projection to be 40,000. We believe that the sector's main strengths come from the assets of the local Life Sciences and creative and digital industries.

The City Region's Life Sciences sector now contributes over £300 million in GVA to the local economy,<sup>89</sup> and supports around 50,000 jobs.<sup>90</sup> The expansion of Liverpool Science Park has already helped to combat a lack of specialist business incubation space, and further expansion is planned in tandem with the BioCampus proposal which looks to deliver new development as part of an industrial cluster. The City Region also possesses a unique asset in its Life Sciences University Technical College for 14-19 year olds, and there are advanced plans for the construction of a £23 million Life Sciences Accelerator to offer laboratory facilities and business support for new and growing SMEs.

On the other hand, growth in the Life Sciences sector between 2009 and 2013 was much lower in the Liverpool City Region than in comparable LEPs such as Greater Manchester, as well as in the UK as a whole.<sup>91</sup> The potential of this sector is therefore evident, but the extent of its future success remains unclear for the moment, and further investment in both the sector itself but also the wider city and City Region will be necessary to continue to attract domestic and international businesses.

The City Region's creative and digital sector has seen strong employment growth in recent years. Within the Liverpool local authority area, employment grew by 55% between 2010 and 2015, and within St Helens by 56%, equating to 7,547 and 1,278 new jobs within those local authority areas respectively. By 2020, the Liverpool local authority area alone is projected to host around 23,000 jobs in this sector.<sup>92</sup>

The LEP plans to drive forward further growth in this sector via programmes such as 'Liverpool Plug and Play', which will allow content creators, data distributors and data managers to access resources from centres across the City Region from a number of different locations. This is a fast-growing sector which, should the region be successful in attracting and retaining innovative and entrepreneurial workers, could develop into a major regional asset. Again, investment in both the sector itself and the wider infrastructure of the City Region will be necessary to sustain its recent trajectory of success.

The City Region's Knowledge Economy boasts numerous other assets. Daresbury Science and Technology Park (known as 'Sci-Tech Daresbury') for instance is one of only two national Big Science campuses. It is an Enterprise Zone with a specific focus on science and technology, and currently accommodates over 100 high-tech businesses, with research specialisms around high performance computing, Big Data and nuclear physics. It aims to create more than 10,000 jobs and attract £150 million of private investment into on-site facilities and infrastructure over a 25-year period, with plans for an additional one million square feet of employment space, and has received strong support from local political leaders, Halton Borough Council in particular.<sup>93</sup>

More than 25,000 people are also employed in the Liverpool City Region in Advanced Manufacturing.<sup>94</sup> This represents a fall of around one third over the past ten years, roughly in line with the national decline in this sector; yet the region has also attracted large scale investment in this sector from major companies such as Jaguar Land Rover, offering the possibility of this sector continuing to play a significant role in the regional economy in years to come.

The City Region's Devolution Agreement acknowledged that "the City Region is well positioned to be at the heart of advanced manufacturing network across the North".<sup>95</sup> Future plans for further investment in this sector include the Materials Innovation Factory within the city's Knowledge Quarter,<sup>96</sup> and Unilever's £24 million Advanced Manufacturing Centre,<sup>97</sup> both due to open in 2016. Liverpool is also one of only four LEP areas that have access to the Advanced Manufacturing Supply Chain Initiative Fund.<sup>98</sup>

The City Region also has a long history of providing Financial and Professional Services, which serve to underpin job growth within the local Knowledge Economy. Although the recession precipitated a decline in the number of jobs sustained in this sector in the City Region, they have recently passed 80,000 again, making it a major local and regional employer, with businesses located not only in Liverpool city centre but also throughout the City Region in locations including Southport, Bootle and Birkenhead.<sup>99</sup>

Attracting big business in this sector to relocate to the City Region remains an important challenge, especially in the face of competition from more established alternative locations such as Birmingham and the previously noted dearth of high-quality office space. High speed rail could therefore help to sustain or increase employment in this sector within the City Region by both inspiring significant urban regeneration to include new office facilities, and by ensuring Liverpool does not suffer a decline in connectivity relative to its high speed enabled competitors.

Alongside these specialisms explored here, the City Region also has impressive credentials in its research in areas as diverse as low carbon technology and sustainability, marine and maritime technology, and food and agriculture. All of these industries, together with many of those explored above, form part of the LEP's Innovation Plan to 2020, which looks to capitalise on existing and planned local facilities to deliver a "well connected and co-ordinated innovation environment that supports and attracts the very best in business, investment and people".<sup>100</sup>

We contend however that this worthwhile aim will be made more difficult to achieve without a high speed rail link, in order to dissuade the most innovative individuals and businesses from (re) locating elsewhere. Moreover, evidence from abroad suggests that high speed rail can have an especially strong catalysing effect on a city's knowledge economy: the Paris-Lille high speed line was completed in 1993, and between 1990 and 2006 Lille saw annual growth in its knowledge-intensive sectors of 7.2%, above the national average. Areas away from the line however saw significant

outward migration, and no evidence of a structural change in their economy towards knowledge-intensive business.<sup>101</sup>

In conclusion, while there is genuine potential for substantial growth driven by the City Region's Creative and Digital industry, and (less certainly) from Life Sciences, this is counterbalanced by the fact that much of the growth forecasted by the LEP is projected to stem from increases in output from the Financial and Professional Services industry, a sector whose long-term viability may, to an even greater degree than other sectors, be crucially linked to a high speed rail link for the region. Our analysis of sectoral strengths, historic trends and planned developments leads us to estimate that of

the 40,000 jobs it is desired to create within the City Region's knowledge economy, 17,500 are achievable on current trends.<sup>102</sup>

### *Distribution and Logistics*

The Liverpool City Region has historically represented one of the country's main transport hubs for shipping, and still maintains important assets in this sector despite a shift in shipping activity to other parts of the country, including the London Gateway. The Superport proposal represents a significant opportunity to put the area back at the forefront of Distribution and Logistics activity.

The City Region has a key asset unique to the rest of the North West in the River Mersey and the Liverpool port complex. As noted in Chapter 2, the development of the Liverpool 2 deep sea berth – the UK's most centrally located deep water container terminal – will enable 95% of global container vessels to trade through the Port of Liverpool, and could result in the Port of Liverpool eventually trebling its capacity to 2.1 million twenty-foot equivalent units (TEU) per year. The wider Superport vision meanwhile encompasses the River Mersey, the Manchester Ship Canal, two airports, ten motorways, and stretches across three Enterprise Zones.<sup>107</sup>

### *Liverpool Superport*

The vision of Liverpool Superport is to "bring together and integrate the strengths of the ports, airports and freight community ... for freight and passenger operations within the Liverpool City Region" to create "a key driver of its economy".<sup>103</sup> Liverpool Superport includes any assets within a one-hour drive of the Port of Liverpool, and is defined by the LEP as "the cluster of assets, capabilities and investment" making up a multimodal freight hub.

There are several ports in the Superport area, including the Port of Liverpool and a further nine ancillary ports.<sup>104</sup> This also encompasses Liverpool 2, a new deep water container terminal at the Port of Liverpool which will enable the Port to handle larger vessels. This is particularly important due to the Panama Canal doubling its capacity and increasing the size of ships that reach Liverpool. This will enable increased trade with fast-growing economies such as Brazil and Mexico.

Other assets of the Superport include:

- **The Mersey Gateway Project**, a new £600 million six-lane bridge over the River Mersey between Runcorn and Widnes, providing a strategic transport route linking the Liverpool City Region and the North West and scheduled to open in autumn 2017. Beyond the immediate connectivity benefits, the project will realise regeneration and development potential on a number of local sites to the advantage of several core sectors, including advanced manufacturing and the Superport vision, plans for which are currently being drawn up by Halton Borough Council;
- Liverpool John Lennon Airport, which handled more than four million passengers in 2014<sup>105</sup> and has **significant freight potential** due to motorway access and 24 hour operation;
- Several rail freight terminals, most notably the **Seaforth Rail Freight Terminal** which serves the Port of Liverpool (significant growth in port to rail freight is planned for the future);
- **The Mersey Multimodal Gateway (3MG)**, a distribution centre with direct access to the West Coast Main Line, the River Mersey, the Manchester Ship Canal, and important links to the South including via the M62 and M56 motorways, which will serve as a national, regional and sub-regional freight facility. The site currently occupies half a million square feet, but there is space for it to expand to 3.5 million square feet.<sup>106</sup>





Figure 14: Employment Growth in Visitor Economy Related Jobs

	Greater Manchester	Leeds City Region	Liverpool City Region	Great Britain
Growth 2009-2013	-0.9%	-3.4%	-1.3%	6.3%

Source: NOMIS Business Register and Employment Survey

These developments have the potential to bring about a shift in the UK's economic geography for freight. For example, 90% of deep sea cargo currently enters the UK via the South of England even though more than 50% of the UK container market is based from Birmingham northwards.<sup>108</sup> Liverpool's central location and the investment in the Superport will allow the City Region to become more dominant in the Distribution and Logistics sector. There is also substantial momentum behind job creation in this area: between 2009 and 2013, 4,600 new jobs were created in the Liverpool City Region related to the Superport, an increase in logistics-related employment of more than 30%.<sup>109</sup>

However, this rate of job creation implied by this figure is arguably too low to add much credibility to the LEP's forecast of more than 20,000 new Superport-related jobs over the next decade. As a result, when considered in the light of past and recent trends, the figures forecast by the LEP are improbable, though not impossible. Based on analysis of the different specific proposals and their likely job creation, we estimate that 14,700 of the targeted 20,000 jobs to be created are achievable.<sup>110</sup>

As previously noted however, the potential for jobs growth within this sector will be heavily dependent on the rail capacity which is released by ongoing and planned network upgrades, to allow the transport of goods from the Port to regional distribution centres and onwards. As set out in Chapter 2, a high speed rail link into Liverpool city centre, offering the greatest possible long-term capacity release, will allow jobs growth in distribution and logistics within the City Region to accelerate considerably beyond that which would otherwise be realised.

### Visitor Economy

The visitor economy is recognised as hugely important to Liverpool. Visitor economy-related spending is worth £3.8 billion annually to the Liverpool economy,<sup>111</sup> and it was the European Capital of Culture in 2008 – a title no British city has held since then. For the four years from 2010 to 2013 Liverpool was consistently the fifth most visited UK city by international tourists, after London, Edinburgh, Manchester and Birmingham.<sup>112</sup> However its international visitor numbers are still 40-45% below those for Manchester and Birmingham, so a considerable increase in numbers could be achieved if the offer is right. It was also the fifth most visited city in England for domestic visitors over this period.<sup>113</sup>

The LEP's Visitor Economy Strategy and Destination Management Plan targets annual visitor economy-related expenditure of £4.4 billion by 2020. It is hoped the sector will support 62,000 jobs by that date, meaning the creation of 13,000 additional jobs over this period.<sup>114</sup> However, as shown in Figure 14, data suggests that growth of jobs in the visitor economy has been poor in recent years – it fell by around 1% between 2009 and 2013. This is comparable to other local LEPs, but below the national trend.

The City Region also has excellent air transport assets, given both its close proximity to Manchester Airport but also the situation of Liverpool John Lennon Airport (LJLA) within the region. LJLA continues to grow and offer a key entry and exit point for a significant number of overseas visitors to the City Region. Passenger numbers are increasing, and in the last year, eleven new routes have been announced and five new airlines have commenced services, taking the number of airlines operating at LJLA to nine. The Airport has plans to extend the number of European and short-haul destinations served, and to increase the level of frequency on its core routes.

Global connections of this kind are vital to Liverpool's global brand, and ultimately to its international visitor numbers. We therefore welcome LJLA's plans to develop new and additional services to the main airline hubs in Europe, alongside linking to the large hub airports in the Middle East and North America, which will further increase the opportunity for inbound business and leisure travellers to access Liverpool and the City Region.

The City Region's strong foothold in the visitor economy presents a significant opportunity. However, in the context of low employment growth in recent years, there is still plenty of room for improvement, especially if the additional jobs forecast by the LEP are to be achieved. By 2020, the region's Visitor Economy Strategy and Destination Management Plan aims for Liverpool to:<sup>115</sup>

- Grow the current value of visitor spending from the current £3.8 billion to £4.4 billion;
- Support 62,000 jobs through the visitor economy, a rise of 13,000 from the current 49,000;
- Record 6.4 million staying visitor nights annually, an increase of 14% on the 2013 figure; and
- Improve the city's International Congress and Convention Association ranking among UK cities by at least two places from its current ranking of 7<sup>th</sup>, and raise its global ranking to 100<sup>th</sup> (currently 159<sup>th</sup>).

As this last target implies, business tourism is also of great significance to the regional economy. The International Festival for Business (IFB) 2014 – the first of its kind – was held predominantly in the Liverpool City Region and comprised more than 400 events,<sup>116</sup> with the aim of generating jobs and investment at a local and national level and providing a platform for international and domestic business networking opportunities. It was considered successful and the Government has committed to supporting a reprise in 2016.<sup>117</sup>

A report from Liverpool Vision details the impact of the IFB. It states that delegates visiting the Liverpool City Region due to the IFB spent £15 million and generated an estimated 250 jobs.<sup>118</sup> Beyond the event's direct benefits to the visitor economy, the report further suggests that "more than 3,000 UK companies have secured or expect to secure domestic sales with combined value of hundreds of millions of pounds over the next three years as a result of taking part in the IFB". Liverpool Vision suggest up to 10,000 new jobs could be generated over three years due to the IFB 2014,<sup>119</sup> marking the event out as a significant positive for the City Region and suggesting that the 2016 IFB and any further potential IFBs will prove a major opportunity.

Tourism and the visitor economy is a fabulous asset for Liverpool. However, the region's current foothold must be built upon in order to fully secure the potential rewards of this sector, and complacency about the scale of the benefits the IFB in particular has brought the region (and the benefits its reprise will bring) must be avoided. Achievements such as the LEP securing more than £2 million in European Development funding towards 'Place Marketing', promoting both leisure and business tourism,<sup>120</sup> must be balanced against the real difficulties the development of the City Region's visitor economy will face, such as declining public sector funding to support similar marketing programmes over the next five years.

It is clear that continued effort will be required if the ambitions for the region's visitor economy are to be approached.

Taking these factors into consideration we estimate that the visitor economy might feasibly deliver an additional 8,600 jobs, approximately two-thirds of the LEP's target.<sup>121</sup> Yet the visitor economy is another sector where regional job creation would be significantly enhanced by a high speed rail connection. We return to this theme in Chapter 4, where we suggest a number of changes the City Region could make to help it to capitalise fully on its strong existing record in business and leisure tourism.

### *Cause for optimism – but further work required*

Taken together, we conclude that the target of 73,000 jobs set by the LEP is ambitious and highly optimistic. The target is very much dependent upon existing developments being built out, particularly in the financial and professional services sector, which given the factors noted above we view as unlikely. While it is possible that any one of the knowledge economy, distribution and logistics, or visitor economy will generate the jobs envisioned by the LEP, the prospect that all three will do so is, in our view, slim. Our own estimates are that of the target for jobs growth of 73,000 by 2030, around 41,000 is achievable based on current trajectories.<sup>122</sup>

This number is significant, but fails to realise the City Region's full potential; moreover, we do not believe that it will be sufficient to allow the region to fully escape the economic legacy of the post-war years. As we have said throughout this report, the present moment is a critical opportunity for Liverpool, with

encouraging growth figures in recent years and major infrastructure into which it could be linked being developed nearby.

A high speed rail link in Liverpool city centre would, as we have set out above, dramatically improve the prospects of its core industries in the medium term, and increase the prospect of meeting or even exceeding the targets advanced by the LEP. Growth of this scale would beget further growth and investment, allowing Liverpool City Region to develop into a significant player within the Government's Northern Powerhouse vision. Failure to provide this link by contrast risks handing the City Region a new set of disadvantages just when it has reached a sustainable upward trajectory, allowing the momentum created within the region in recent years to dissipate.

We recognise however that Government may look for further proof of change within the City Region before committing to this investment. Other measures must be therefore taken in the short term, to provide the necessary impetus to drive the City Region towards the critical economic mass which would make its case for a high speed rail connection unanswerable, as well as allowing it to address its current challenges and deficiencies as fully as possible before the transformative catalyst of high speed rail arrives. The following chapter sets out our vision of the reforms required within the City Region to achieve this.

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## 4. An Agenda for Reform

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Action now will advance Liverpool City Region further down the path of social and economic transformation

*"Our recommendations will raise the growth which can be sustained within the region, allow it to resolve its economic challenges outlined above, and convince Government of the merits of its case for a high speed link into Liverpool city centre."*

Based on our research and reflections as set out above, we believe there are growth opportunities for the Liverpool City Region within the core sectors identified by the LEP, but that they will require more intervention than is presently acknowledged if they are to be fully realised. We do not believe that current economic and policy trajectories will be sufficient to put Liverpool where we feel it belongs – at the heart of the Northern Powerhouse.

We therefore advocate below a series of interventions in the local economy and governance structures designed to raise the growth which can be sustained within the region, allow it to resolve the economic challenges outlined above, and convince Government of the merits of its case for a high speed link into Liverpool city centre.

### **4.1 Create a consultative City Region Business Senate**

Strategic interaction between business and policymakers will be crucial to continue the strong growth seen in the Liverpool City Region economy in recent years. The Local Enterprise Partnership offers an important hub within which businesses, civil society and politicians – including the new City Region Mayor from May 2017 – can collectively discern the obstacles preventing

further business and employment growth in the region, and which can be used to formulate a unified message to present to local and national politicians.

However, we seek to go further, and to embed this process more deeply in the governance institutions of the City Region, in order to put the perspective of local businesses to best use and thereby deliver the greatest possible economic growth for the region. We propose the establishment of a City Region Business Senate, incorporating the region's civic and business leaders, and acting as a consultative chamber sitting alongside the City Region Combined Authority. In this way, business would be empowered to discuss and shape individual policies as well as wider economic strategies across the City Region, though the final decision would remain with elected politicians.

The Liverpool City Region has historically suffered from a lack of political engagement and strategic coordination with the private sector. Moreover, where such engagement has taken place in the past, newer industries and smaller enterprises have too often felt their interests have been neglected in favour of larger, more established business. This reform sets out specifically to overcome that historical legacy; it is therefore vital that our proposed new body also includes representation from

newer industries and smaller businesses, in order to ensure a balanced perspective of the needs of the region's economic actors and that these can all benefit from the integration of business into regional governance in the way we recommend.

This reform would also ensure business is well placed to capitalise fully on the major investment which is high speed rail. If this new body were for instance given a specific remit to advise on how the City Region could adapt existing strategies and plans for development to make the most of a possible high speed rail link into Liverpool city centre, this would enable the City Region to develop plans to allow it to derive the greatest possible value from this investment – as well as demonstrating to Government its commitment to place high speed rail at the centre of its future economic strategy and so enhancing its case for such a link.

This body would be of particular value in light of the impending empowerment of local government with regard to business rates. It was announced in the 2015 Autumn Statement that the power to reduce business rates would be devolved to local authorities, and that elected regional mayors would receive the power to raise business rates in order to finance infrastructure investment with the support of the local business community.<sup>123</sup>

The reform we propose here would ensure that the voice of business is formally incorporated into any decisions to alter business rates at the local level, institutionalising their input to decisions over the balance between local taxation and public services or investment. It would also serve to raise the transparency of the consultation process between local political leaders and business in taking these decisions.

We believe this reform has numerous advantages: it will strengthen local governance structures, has the potential to increase the quality of economic policymaking at a local level, and will allow for greater accountability and transparency in future decision-making over business taxation. We therefore believe it should serve as a blueprint for reform within city regions across the country, and not just the Liverpool City Region.

## 4.2 Form a new institution to support City Region policymaking

We welcome the creation of a City Region 'Metro' Mayor, to be elected from May 2017, announced as part of the City Region's devolution deal agreed in November 2015.<sup>124</sup> With this role comes the possibility of a clearly accountable and holistic approach to decision-making, with the potential for economic and social strategies to be put in place on the basis of the assets possessed and obstacles faced by the City Region as a whole. If realised, this will be a significant step forward against the backdrop of political disagreement which has harmed regional governance for many years, fragmenting decision-making and stifling transformative change.

Yet the office holder will require support to set out and deliver a new vision for the City Region. As well as the new Business Senate sitting alongside the Combined Authority, we therefore recommend the formation of a new body we call 'TRANSFORM Liverpool', concerned with policymaking for the City Region as a whole, sitting underneath the Combined Authority and providing institutional assistance to the elected regional Mayor. This body would be operationally separate from the Mayor's office and staff, yet should report to the holder of that office.

TRANSFORM Liverpool will therefore operate as a single institution concerned with reform and public policy for the City Region as a whole. We suggest that initially it should encompass three arms: one concerned with each of public service reform, economic policymaking and growth, and policy research, ideas and delivery. We set out the aims and structure of these three arms in more detail below.

This institution will fulfil the need for new ideas, coordination of policy agendas across the City Region's component local authorities, public service reform, and integrated economic policymaking. Its three arms will be independent but interlinked, encouraging debate and innovation, and its Chairman should host frequent meetings with the Chief Executives of each of the three arms, as well as other local stakeholders including representatives from the City Region

Business Senate. In order to stimulate fresh thinking, there should be a preference for the Chairman and Chief Executives hired to come from outside the City Region.

### Arm 1: City Region Public Services Commission: Place-based public service integration

ResPublica's reports *Devo Max – Devo Manc*<sup>125</sup> and *Restoring Britain's City States*<sup>126</sup> set out the case for the fullest possible devolution of public spending and tax raising powers to the UK's largest cities and city regions, in part to develop a place-based and integrated system of public service provision. As these reports demonstrated, a system of this kind facilitates proactive rather than reactive intervention and greatly improves the chances of producing outcomes beneficial to both the users of those services and also the public purse.

The sheer complexity of the Whitehall-centred system of public service provision, with its numerous institutions for delivery, each of which in turn has numerous funding lines and mechanisms, makes it inappropriate for use in an area displaying the number and complexity of inter-related economic and social difficulties present in the Liverpool City Region. Resolving these challenges will require an approach tailored to the local level, which can focus on the region's particular problems and use its many particular resources and advantages.

Our proposal is for a City Region-wide Public Services Commission, a body we call REFORM Liverpool, with a remit to deliver place-based public service integration, to serve as the first arm of the institution we advocate above. This body would receive strategic oversight over spending on public services within the region, and the authority to put in place a strategy, centred on early integrated intervention, to tackle issues such as worklessness, poor mental and physical health, and crime.

We believe this body would fulfil the need, identified in Lord Heseltine and Sir Terry Leahy's 2011 report into the economic prospects of the Liverpool City Region, for an "ambitious and departmentally integrated approach to tackling worklessness which unites the work of different authorities, departments,



Figure 15: Comparative Per Capita Benefits Expenditure (2013)

	Liverpool City Region	Greater Manchester	Leeds City Region	Great Britain
Benefits Expenditure (£Billion)	4.8	6.9	7.1	159
Population	1,512,600	2,714,900	2,988,900	62,275,900
Expenditure per person (£)	£3,142	£2,541	£2,373	£2,551
Saving if per capita expenditure in Liverpool City Region fell to equivalent level to comparator area (£Billion)	---	0.91	1.1	0.89

Source: Volterra

and agencies ... as well as addressing wider social needs".<sup>127</sup> If existing arrangements create excessive difficulty in achieving cross-boundary integration, we recommend that the Combined Authority should consider giving the Metro Mayor powers to compel integration.

The fundamental long-term mission of this body would be to increase public sector investment and coordination in resolving the issues which currently lead to public support having to be provided to vulnerable individuals in the first place, instead securing economic and social independence for these individuals and reducing the cost to local and national government of supporting them. Improving the life chances of these individuals in this way, and promoting the flourishing of all the City Region's population, should be the first priority of the Commission.

REFORM Liverpool could play a particularly important role in helping those residents of the City Region who are currently economically inactive and possess few qualifications and skills to find work. The City Region was granted joint responsibility with the government to co-design employment support for harder-to-help claimants under its Devolution Agreement of November 2015;<sup>128</sup> REFORM Liverpool should look to better utilise this (limited) autonomy. For example, the city's strong performance and assets in sectors such as retail and the visitor economy offer opportunities for entry-level employment where low skill levels are less of a barrier, as well as considerable scope for in-employment training and up-skilling.

The Devolution Agreement compels the Combined Authority to "set out how they will join up local public services in order to improve outcomes for this group [harder-

to-help claimants]", with particular regard to how they will work with various local bodies "to enable timely health-based support".<sup>129</sup> This is the right approach, but we believe the ambitions set out in the Devolution Agreement are too narrowly defined to capture the totality of the opportunity offered by implementing genuinely integrated, place-based public services.

Integrated delivery of public services should be the goal for the whole City Region population, not just those with particular difficulties assimilating into the labour market. Moreover, while the Agreement allows for "further dialogue" between the City Region and Government on health and social care integration, we believe that devolution of health and social care service delivery and expenditure must be a priority for the Liverpool City Region – and indeed City Regions around the country – if public service integration is to achieve the aims it sets out to realise.

We here set out the reductions in per capita benefits expenditure we believe the establishment of REFORM Liverpool could facilitate. Examining benefits expenditure per capita across the Liverpool City Region, and comparing this with the expenditure per capita in Greater Manchester, Leeds and Great Britain as a whole, we estimate that if the City Region could bring its benefits expenditure down in line with one of these three comparator areas, it would save £900 million to £1.1 billion per year.

The approximately £1 billion per annum saved could be spent on a variety of policies and interventions; we estimate that this sum could directly support at least 20,000 jobs in the local economy. The important premise however is that the money should be reinvested in policies that will facilitate and

encourage further growth within the City Region – thus creating a virtuous circle. We advise that any expenditure plans should be closely linked to delivering the other recommendations contained in this report.

### *Arm 2: Liverpool Growth Agency: Integrating existing economic policymaking bodies*

We believe that the existing framework for driving and promoting growth across the City Region will be insufficient to manage the major economic transformation this report envisages. The LEP faces institutional obstacles including ring-fencing of much of their funding allocation from government, an absence of planning or land assembly powers, and reliance on sign-off and guarantee from local authorities in respect of European finance. Meanwhile, the framework as a whole is characterised by fragmentation, duplication of responsibility, and a failure to concentrate and deploy knowledge.

To address this structural deficiency, we propose joining together the public bodies which exercise economic powers within the City Region, including the LEP, into a single 'Liverpool Growth Agency', a body we call GROW Liverpool, and granting them additional powers at a City Region level. This Agency would serve as the second arm of TRANSFORM Liverpool.

This new Agency would harness expertise and experience currently inefficiently spread out across multiple separately constituted organisations within the City Region, and would provide a single strategy, accountability and delivery structure. This will allow for coherence, clear leadership, and coordination in promoting growth and



investment in the City Region. This proposal echoes a further recommendation made by Lord Heseltine and Sir Terry Leahy in their 2011 report: they advocated the creation of “a single city-regional body responsible for inward investment, tourism, and strategic economic planning and development.”<sup>130</sup>

GROW Liverpool should both seek consensus on issues of economic strategy and act to deliver that strategy. The governance of this new institution should join together the private sector (including social enterprises) and local political leaders, bringing together the relevant bodies and persons in an integrated partnership. We believe this would create dynamism and a clear sense of purpose, driving forward the creation of prosperity across the region more effectively than has been achieved until now.

GROW Liverpool should take a prominent role in marshalling business support. It should be given the authority to align national business support budgets to local delivery mechanisms and bodies, focusing particularly on programmes which are concentrated on sectors and industries where the Region has a pre-existing advantage or assets such as Advanced Manufacturing and Distribution and Logistics.

Rationalising the numerous national business support products into a more simplified system which is more accessible to local business will be particularly important, and we therefore welcome the Government’s commitment as set out in the City Region Devolution Agreement to work with the City Region to “develop and implement a devolved approach to the delivery of business support from April 2017.”<sup>131</sup> GROW Liverpool should also press for, and take a consultative role in designing, new nationally-funded business support schemes which would specifically benefit businesses based in the City Region.

This institution should also have both the authority and the strategic oversight to ensure that private sector needs for future employment are being met. It should look to curate a demand-led skills training agenda within the City Region, which adequately addresses the requirements of established and emerging local industries. Securing a supply of highly skilled individuals who are capable of filling the

roles which business will require of them will be a critical condition of the City Region’s future growth; consolidating this responsibility within a single organisation’s remit will facilitate this outcome.

Adult skills funding is to be devolved to the City Region from 2018/19 as part of its Devolution Agreement.<sup>132</sup> We welcome this development; but we urge Government to also consider devolving funding for apprenticeship programmes to the City Region, and from there to GROW Liverpool. GROW Liverpool should also take a prominent role in the local delivery of national ‘back to work’ schemes such as the Work Programme. These reforms will allow it to work closely with our proposed Public Services Commission in tackling worklessness in the City Region.

Trade is, as we have noted throughout this report, essential to the City Region’s economy, and so should be a priority area of focus for our proposed Growth Agency, building on the commitment in the Devolution Agreement for the City Region to agree “an export plan for the City Region” with UKTI. GROW Liverpool should also look to work with local SMEs to assist them in raising their export levels, as well as to encourage them to establish themselves as part of supply chains for larger local firms with significant export experience, such as Jaguar Land Rover.<sup>133</sup>

Finally, GROW Liverpool should take a leading role in attracting and overseeing investment in the City Region’s economy. Public and private sector partners should be brought together under the leadership of this body to establish a single investment programme. This programme should use resources taken from the City Region Single Investment Fund (SIF) to be established under the terms of the City Region’s Devolution Agreement,<sup>134</sup> which we recommend be placed under the control of the new Agency. We believe the aim of the SIF, as set out in the Agreement, to “unlock the economic potential of the River Mersey and Superport as well as maximise the opportunities from HS2”, is the correct one.

The Agency should take a lead in attracting new funds with which to bolster the SIF. Additional resources should be sought especially from private sector investors, and from European funding allocations. The maximum devolution of decision-

making power to the Liverpool City Region, and from there to GROW Liverpool, in terms of European funding allocations, will be necessary in order to fully achieve the alignment of European funds with other investment priorities. We therefore welcome the plans under the Devolution Agreement for the City Region Combined Authority to receive Intermediate Body status for European Regional Development Funds and European Social Funds, which as the Agreement makes clear, is designed to achieve exactly this purpose.<sup>135</sup>

It is vital that GROW Liverpool has the power to both formulate an achievable economic strategy and the authority to carry this through. In particular, in order to help GROW Liverpool in making the changes we call for elsewhere in this Chapter, we argue it should be given the following powers and responsibilities:

- Capacity to acquire and dispose of land, including the authority to issue Compulsory Purchase Orders without reference to national Government and to approve increased flexibility on Permitted Development Rights in areas with particular economic potential;<sup>136</sup>
- Capacity to plan, project manage and fund major infrastructure and public realm programmes;
- Capacity to work alongside higher education institutions in supporting and funding research, innovation and new business creation;
- Capacity to fund and coordinate marketing activities designed to build the city region’s brand image.

These powers would be granted in addition to the roles and powers already discussed with regard to business support, targeted investment, and skills. These will in turn build on the powers of existing bodies such as the LEP which are to be incorporated into the new Agency.

The benefits of having in place a single, well-resourced overarching institution with responsibility for economic strategy can be seen for example in Birmingham, where the ‘Big City Plan’ is delivering multiple transport and planning reforms and has attracted more than £13 billion of investment.<sup>137</sup> Liverpool’s own Superport vision demonstrates what can be achieved by unifying public and private sector partners behind a single project.

We believe that institutionalising collaboration between public and private partners in the manner we propose, allowing for spillovers of ideas and avoiding conflicts of purpose or action between separate organisations, would prove extremely beneficial to the City Region economy.

### ***Arm 3: INNOVATE Liverpool: Researching, generating, and aligning policy and ideas across the City Region***

The third of these arms, a new City Region-wide policy delivery institution we have called INNOVATE Liverpool, should be tasked with blending all the agendas of the local governance institutions across the City Region into one coherent harmonious vision, making and implementing policy at the City Region level. It would also serve as the City Region's own dedicated policy think tank, undertaking research and evidence gathering in order to inform new ideas for improving policymaking and policy outcomes at a regional level.

This institution would seek to ensure that actions being taken either at a City Region level or within individual local authority areas do not contradict policies being followed within other local authority areas, instead looking where possible to meld these different agendas into a single coherent and mutually supportive vision for the benefit of the City Region as a whole, delivered where possible at the City Region level in order to avoid fragmentation of policymaking and missing the benefits a more integrated approach would bring.

INNOVATE Liverpool would therefore work to support individual local authority areas wherever possible by highlighting complementary aspects of different areas' strategies and putting in place a framework for collaboration, drawing in the assets of other boroughs within the City Region where this could contribute positively to the outcomes realised. In cases where different areas' agendas appear to be in opposition, with potentially negative consequences for the region as a whole, it should look to mediate between those areas' representatives and create a new agenda.

In this way, we hope this body will be able to overcome the divisions which both structure and agency have created between the different local authority areas within the City Region. The aim should instead be to encourage joined-up policymaking which fully utilises all of the City Region's assets, drawn from all of its local authority areas, to overcome the social and economic challenges it still faces. The region will have a much better chance to achieving this goal if its constituent parts work in concert rather than on the basis of continuing division.

INNOVATE Liverpool's other role will be around research, evidence gathering, and ideas generation for City Region level policymaking. It is vital that the City Region and its institutions do not become complacent about the social and economic progress seen locally in the past two decades, but instead continue to value new ideas and fresh approaches, in order to ensure it continues down this encouraging path.

Moreover, as Chapter 3 highlighted, many social and economic difficulties remain prevalent in the region, and further effort will be essential to eliminate these. In this context, a body dedicated to encouraging debate and innovation in the City Region's policymaking process would be of significant value. INNOVATE Liverpool should therefore conduct research and shape the policy debates in important areas of public policy including education, health and social care, and housing and planning.

Major regional institutions, including the universities and businesses, should be asked to second their senior policy staff for a period of two years to INNOVATE Liverpool. This will allow the City Region to make use of their expertise in the many areas of policy in which this institution will need to intervene, as well as to ensure its political neutrality.

### ***4.3 Make better use of Liverpool city centre's economic potential***

The city centre is a vital constituent of the economy of any city or city region. They serve as important agglomerative zones within which people and firms can

share ideas on the basis of geographic proximity, leading to knowledge spillovers. City centres increasingly tend to offer high-skilled jobs: as many as 28% of all high-skilled private sector jobs in England and Wales are now located in city centres, which occupy just 0.2% of the total land mass of these two nations.<sup>138</sup> A city centre meeting its full economic potential is therefore a powerful safeguard against a more general regional malaise of low-skilled, low-paid employment, of the sort which has characterised the Liverpool City Region's recent history.

If UK city centres are to be linked together by a high speed rail network over the coming decades, then it can be predicted that investment, jobs and people will be drawn back to locations close to the main rail hubs – i.e. city centres – where there will be proximity to and the possibility to enmesh with not just one, but several economic hotspots. The plans for both HS2 and a provisional trans-Northern high speed route are therefore simply additional factors accentuating the importance of UK city centre economies to their wider associated geographical area. Our proposal for a high speed rail link for Liverpool city centre would ensure that Liverpool's entrepreneurs can realise gains from proximity and agglomeration beyond simply one city's confines, and equally would give entrepreneurs in other city centres the best access to the innovation, ideas and knowledge present in Liverpool. We believe the assets Liverpool has to offer in this regard more than justify its claims for a high speed connection of this type.

The period 1998-2008 saw an increase of almost 3 percentage points in the share of private sector jobs in the central area of Liverpool.<sup>139</sup> Liverpool now needs to consolidate this positive achievement and create a thriving city centre economy which can drive City Region-wide economic growth over the coming years. This will require significant new thinking of the sort we outline below; yet attention must also be paid to the smaller scale details which will be critical in realising a broader vision for Liverpool city centre.

Local public transport, enabling the city centre to easily connect with its economic hinterland, is perhaps the most significant example of these critical details. The capacity and regularity of existing local

rail links should be examined with the aim of increasing the frequency of services and reducing the number of intermediate stops along local lines for commuting journeys. A high speed link into Liverpool city centre would as previously discussed help in this regard, by allowing inter-regional and intra-regional journeys to be moved onto separate infrastructure.

Liverpool city centre possesses a number of advantages which already single it out as an area with potential for significant economic growth and activity. Liverpool city centre is a vibrant, attractive space with diverse retail and cultural assets; these factors should allow it to draw in businesses and individuals if the city's offer is right, as well as providing economic benefits of their own.

The Liverpool One shopping centre has transformed the city's standing as a retail hub. It has widened the city's shopping catchment, pulled in spending formerly lost to competitors and brought its status up to the same level as its key competitors. Moreover, for the first time since the 1940s Blitz, Liverpool One has stitched together the fabric of the city centre and waterfront into a coherent whole, helping to underpin the restaurant, conference and tourism sectors.

The injection of spending brought by Liverpool One has had positive

consequences throughout the city. Significantly, it appears to exist in a positive inter-relationship with the city's independent retail sector, which plays a crucial role in making Liverpool a desirable visitor destination. Whereas in many cities and towns independent retailers have been squeezed out by high street multiples, Liverpool's Bold Street in particular is an outstanding example of resilience and vitality in the independent sector, with a mix of independent shops and restaurants along the length of the street.

Parts of the city of Liverpool are designated as a UNESCO World Heritage Site, and it boasts leading galleries including Tate Liverpool and the Walker Art Gallery, as well as a nationally renowned orchestra in the Royal Liverpool Philharmonic. Its hotel sector continued to see strong investment even during the economic downturn, which has resulted in a number of abandoned historic buildings being converted, and conference business continues to thrive.

These retail and cultural assets complement the city centre's other economic resources, including an emerging creative and digital sector, a number of higher education establishments in close proximity (including one, the University of Liverpool, with the valuable Russell Group brand

attached), and its significant research and skill base in advanced medical care (with facilities including the Liverpool Royal Hospital and the Alder Hey Children's Hospital). We explore a number of these resources at greater length elsewhere in this report.

Recognising these assets, and appropriately emphasising and advertising them to those outside the city, has the potential to help the city centre and wider City Region on their way to a new economic path. It is for this reason that we believe the focus on development along the banks of the River Mersey, and in particular on the Liverpool Waters project, has not served the best interests of the city.

#### *4.4 Establish an Enterprise Zone in Liverpool city centre*

Enterprise Zones offer tax incentives (including a business rate discount of up to 100% for five years) and simplified planning regulations to encourage investment and stimulate economic activity within their defined boundary. The Mersey Waters Enterprise Zone is situated on either side of the banks of the River Mersey outside the city centre. This area is not however connected to the most enterprising localities and sectors in the





local economy. The strategy followed within the Zone has focused on the creation of office space, principally through the Wirral Waters and Liverpool Waters development plans of Peel Developments.

The Wirral Waters area has seen significant progress in bringing forward projects which will contribute to the local economy. Autumn 2015 saw the completion of two major projects based on the site: a new campus for Wirral Metropolitan College, which will focus on training local students in Construction and the Built Environment<sup>140</sup> and which has attracted financial support from the Homes and Communities Agency and the Skills Funding Agency;<sup>141</sup> and a 50,000 sq. ft. Grade A office development which will host new facilities and serve as the headquarters for a local call centre operator.

Other areas of focus within Wirral Waters include £1.4 million worth of investment in green infrastructure projects, aiming to raise the environmental quality of the Dock estate;<sup>142</sup> and proposals for significant new office development centred on the refurbishment of the historic Hydraulic Tower and the area immediately surrounding it.<sup>143</sup> It is hoped that the Hydraulic Tower will eventually host the Maritime Knowledge Hub project outlined below, which represents a significant, industry-leading collaboration between local private sector firms, academia and national-level businesses such as Peel. Planning permission has also been granted for a manufacturing facility of over 100,000 sq. ft. initially supplying local automotive and energy companies, which will form the first phase of an Advanced Manufacturing Park based within Wirral Waters.<sup>144</sup>

Clearly, there is substantial momentum behind the activity ongoing on the Wirral Waters site. This contrasts with the sluggish pace of development within the Liverpool Waters area. The Liverpool Waters plans are extremely ambitious, but they represent a long-term investment of the kind which cannot help the city of Liverpool in the short run. The plans face a number of difficulties, foremost of which is that the development proposals which make up the project were conceived before the financial and property market crash in 2008.

Liverpool Waters represents a very large scale and essentially speculative proposal, for which no precedent exists in Liverpool in terms of demand. In addition, the Liverpool Waters site is largely derelict and has little by way of heritage beyond the old dock sides and the old dock wall; the landscape it adjoins still suffers from the effect of sustained German bombing during the Second World War, meaning both Peel's estate and its surroundings will need to be created from new. A further problem is that most of the Liverpool Waters site is distant from the city centre and all its assets and activity, despite being on the right side of the River Mersey to make use of them. It is beyond comfortable walking distance and without effective public transport links.

By contrast, the Stanley Dock has seen considerable recent regeneration and private sector initiative, including the conversion of the northern group of Grade II listed Hartley warehouses together with the 1960s rum warehouse, at a cost of £36 million, to create the four-star 153-bedroom Titanic Hotel, conference centre and luxury spa. The lesson from this comparison should be that high quality development is achievable within the right environment; but that tax breaks, while an important factor in investor decision-making, do not themselves create such an environment.

The current location of the Enterprise Zone has not only failed to generate the desired economic activity for Liverpool, but has indeed actively harmed the city's interests. The business rate reduction offered within the Enterprise Zone currently effectively offers a public subsidy on office space not located in the city centre, and so creates a real disincentive to businesses locating there. This reduces the rent which can be charged on office facilities in the city centre and dissuades private sector investment in new high quality office space – the lack of which was already identified above as a significant barrier to the expansion of Liverpool's city economy.

The failure of significant development to emerge within the Liverpool Waters area suggests that it is not seen as the right location for new investment and development. We believe that the assets highlighted in the previous section give the city centre a better chance of convincing potential investors of the merits of investment there.

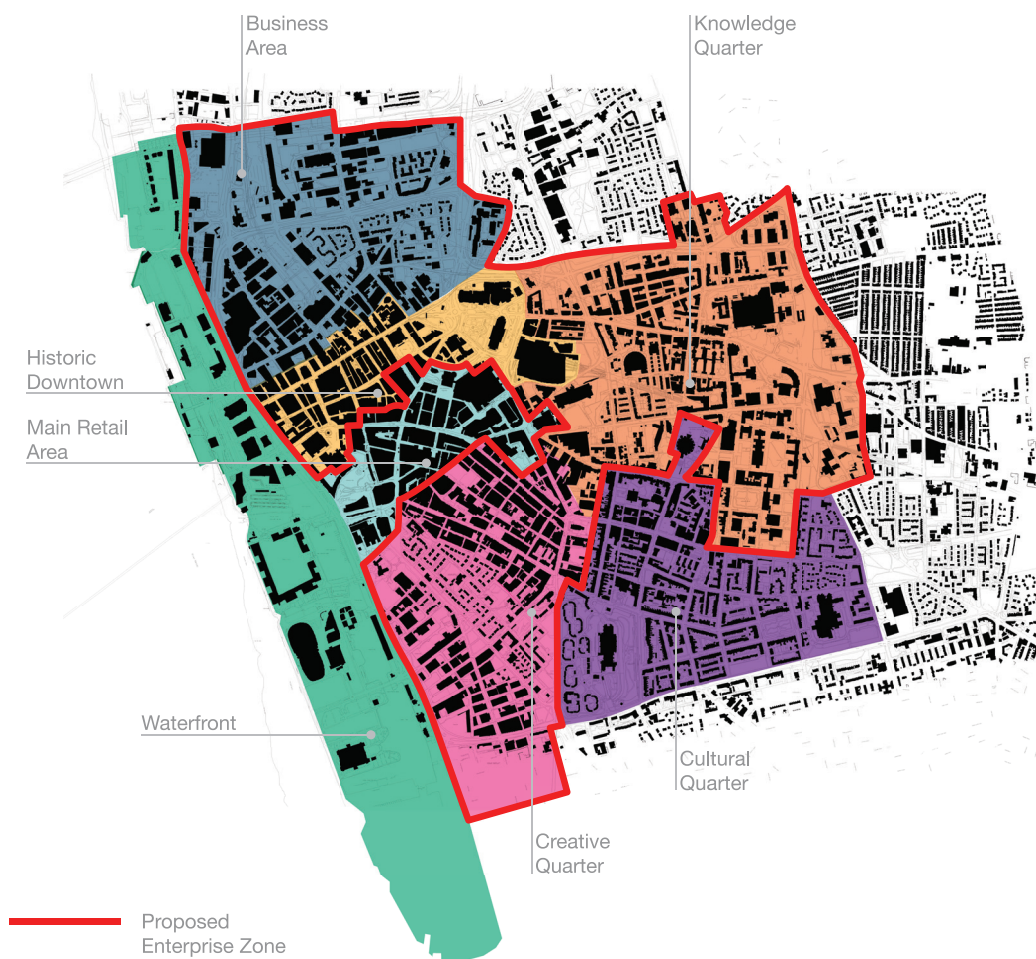
### *Reinvigorating, repurposing and (if necessary) relocating the Enterprise Zone*

To counteract these difficulties, we propose reimagining the Liverpool Waters area of the Mersey Waters Enterprise Zone. We recommend that the city's priorities for its Enterprise Zone shift to the needs of its small enterprises and nascent companies. This change will provide an opportunity to foster and develop the emerging innovation in locations such as the Baltic Creative campus, with its focus on the creative and digital sector, creating a business growth programme which can feed into the longer term strategy for the Liverpool Waters scheme. The Enterprise Zone must focus on promoting innovation, supporting start-ups, and the inward migration of entrepreneurs, alongside the important purpose of encouraging investment in new physical capital. The incentives it brings must be targeted at the urban heart of the city, rather than seeking to extend that core outwards.

The Liverpool City Region Devolution Agreement states that the City Region "may receive additional Enterprise Zones, subject to the current bidding round for further Enterprise Zones".<sup>145</sup> We recommend the creation of a new Enterprise Zone in Liverpool city centre, either as a newly designated separate Enterprise Zone from the Mersey Waters Zone, or, should the City Region not receive an additional Enterprise Zone in this bidding round, by removing the Enterprise Zone designation around the Liverpool Waters area, and redrawing the boundary to a location where there is pre-existing business concentration and obvious scope for business growth and formation.

We advise that the new Enterprise Zone should bring together the city's Knowledge Quarter and Baltic Quarters, where there are a cluster of bioscience and creative and digital assets, as the City's new 'Innovation District'. We also recommend that part of the city's Commercial District should be included to incentivise modernisation of the existing estate and help to grow the service businesses that are vital for the city's future.

Figure 16: Proposed New Enterprise Zone Boundary



Source: Fabrik

We propose the new city centre Enterprise Zone should encompass the area from the Baltic Triangle up to the University, down through the city's Commercial District, and include an industrial area beyond Leeds Street. This area is shown on the map above.

We estimate that within this new proposed boundary there are currently 75,000-90,000 employees within around 2,500-3,000 businesses. If Enterprise Zone status increased the density of employment within the proposed boundary to match the highest densities currently achieved in Liverpool city centre, this would create between 20,000 and 25,000 jobs.

Moreover, the greater demand for high quality office space in the city centre which this change could inspire will encourage the much-needed investment required to create this space. This will be especially so if this change is complemented by a high speed link into Liverpool city centre; Birmingham city centre, for instance, has seen a dramatic upsurge in investment in office space, as noted in Chapter 2.

### *Keeping Liverpool Waters in the frame*

Just as importantly, the relocation we advocate here will help to build the critical business mass that will make

the Liverpool Waters project viable and successful in the long run. Yet we do not advocate simply abandoning the project or the area it encompasses in the short run. Acting now to improve access to this part of the city will generate both short-run and long-run gains. An important first step in this regard is to improve the provision of public transport linking this area to the city centre.

Moreover, while retaining the long-term aim of major investment in the Liverpool Waters area, a new strategy should be put in place in the short run to ensure it is also able to contribute to the City Region economy more immediately. It will be crucial to develop a high quality 'interim uses' masterplan

to upgrade and animate the river frontage sites, incorporating low rise and relatively short-life buildings of high design standard, which can be occupied by rent-paying businesses and start-ups which lack affordable workplace accommodation.

In addition, a package of public investment should be implemented to restore heritage features such as dock sides, the dock wall and other historic features; funding should be sought from organisations such as the Heritage Lottery Fund. In parallel, a public sector-led programme of environmental and infrastructure upgrading and building restoration in areas adjacent to Liverpool Waters should be taken forward. These will address the problems of dereliction and lack of heritage noted above.

#### *4.5 Focus on graduate retention and collaboration among universities and local business*

The Liverpool City Region's intellectual and social capital has a vital role to play in rejuvenating the local economy and helping it to adapt to the modern age. Yet it is currently exporting much of that capital to other cities, London in particular. To reverse this trend, it must embrace its innovators and thinkers and foster a culture of entrepreneurial collaboration between its key institutions, encouraging new networks and ways of thinking.

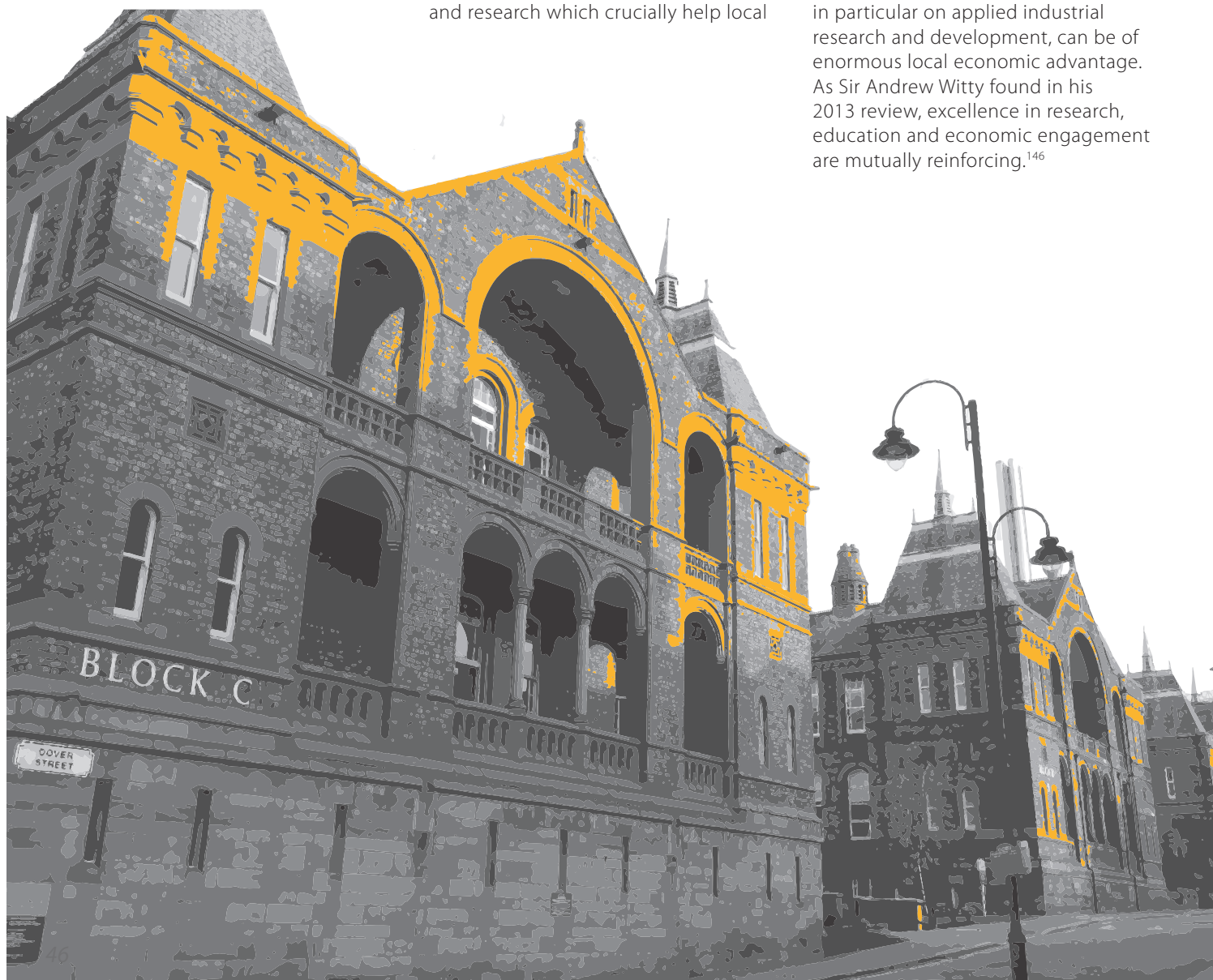
Liverpool's universities should look to develop their reputations as applied institutions, well integrated into the local economy and able to produce graduates and research which crucially help local

industry to flourish. The confluence of Liverpool's universities in the city's knowledge quarter, their diverse and complementary strengths, and their close proximity to major industry, makes them uniquely well-placed to jointly drive economic growth in the City Region.

#### *Collaboration – fostering the conditions for innovation*

The key to unlocking this potential is for universities to collaborate more widely and more deeply with each other and with business. Engaging in wide-scale business partnerships offers the potential for the city's universities to meet ongoing funding challenges, to attract and retain the best and most enterprising students nationally and globally, and to invigorate Liverpool's knowledge economy.

University-business collaboration, in particular on applied industrial research and development, can be of enormous local economic advantage. As Sir Andrew Witty found in his 2013 review, excellence in research, education and economic engagement are mutually reinforcing.<sup>146</sup>





The 2013/14 Higher Education Business and Community Interaction Survey identified nearly 12,000 spin-out companies nationally associated with UK higher education providers, employing more than 36,000 people;<sup>147</sup> and the 2012/13 survey found universities' contribution to the national economy through services provided to business and the community was worth over £3.5 billion.<sup>148</sup>

Liverpool's universities are beginning to grasp the significance of collaboration of this kind. The University of Liverpool and Liverpool John Moores University's joint participation in the pilot University Enterprise Zone scheme, which has resulted in the 'Sensor City' project, has been a key success. This project seeks to embed universities more closely in a model of business collaboration than the traditional science park, and is a fantastic opportunity for the institutions involved to engage with local industry and create business spin-outs, as well as advertising for research and development contracts from larger businesses. Government should explore options with the City Region to sustain and build on this success, and ensure the pilot's long-term future.

A further example of existing collaboration is the University of Liverpool's partnership with Unilever, which has demonstrated the considerable value to business, universities and the City Region of this model. Built on shared equipment – including the £65 million 'Materials Innovation Factory' – the partnership delivers translational research in formulation chemistry that is unique, not just in the UK but globally.<sup>149</sup>

PhD students at Liverpool and Unilever staff, working in the same place, can support and help develop each other's skills sets, and University staff and students are also able to use the facility for their own work. The close links between Unilever and the University have also resulted in a £6.9 million investment in a research and development facility at the Liverpool Science Park.<sup>150</sup> With large manufacturers, such as Jaguar Land Rover, Astra Zenica, Pilkington, and Ineos all based in the Liverpool City Region, there is clear scope for further collaborations of this kind.

Yet there remain opportunities for further collaboration. The City Region's universities should also for example seek to engage with

these and other large regional employers to shape courses to train their future workforce and improve skills of existing employees. The KPMG School Leavers' Programme at the University of Birmingham, and the MSc in Control Systems and Vehicle Engineering run by Coventry, Cranfield, Warwick and Loughborough Universities designed for Jaguar Land Rover engineers, are examples of the forms this can take.

These courses are a win-win for the local economy, boosting routes into work for local people and improving graduate retention rates, providing an up-skilled workforce for major local firms and allowing higher education institutions to access additional income streams. The City Region's governance authorities, including our proposed new Liverpool Growth Agency, should consider what incentives could be put in place to facilitate collaboration of this kind between local business and universities. This should not however come at the cost of building closer working relationships with SMEs in the region. The future growth of the UK economy will come from fast-growing SMEs, but the UK lags behind our competitors in producing fast-growing, innovation-rich SMEs.<sup>151</sup> Universities have a key role to play in solving this problem. Within the Liverpool City Region, this should build on the success of John Moores University's Open Labs programme, which supports digital technology companies' product development.

Examples from elsewhere in the UK are also instructive, and provide examples Liverpool's universities should look to follow. Steps taken elsewhere to promote university-SME collaboration include:<sup>152</sup>

- Informal consultancy services and knowledge exchange schemes in Southampton (which have proven particularly effective at helping SMEs to secure public and private research grants), alongside a joint business incubation scheme with the Universities of Bath, Bristol and Surrey;
- University College London's extensive use of structural funding schemes to help support small businesses through the Higher Education in London (HELO) scheme;<sup>153</sup>

- Establishing a limited company to handle Intellectual Property (IP) negotiations in Manchester, to mediate between universities and business on the value of research discoveries;
- Hosting knowledge transfer activities and events on site at Sheffield Hallam.

As recommended from a UK-wide perspective by innovation charity Nesta, Liverpool's universities should earmark development funding to train staff in how to build links with businesses, and SMEs in particular, which often lack the resources to assess opportunities to work with universities and build connections.<sup>154</sup> As recommended by the Witty Review, they should also use their alumni networks and international business contacts to help appropriate SMEs into the export market.

There is also room for Liverpool's universities to work together to enhance their contribution to the City Region's economy. The Witty Review recommended universities should make facilitating economic growth a core strategic goal, and that universities should report their activity in pursuit of this goal in an annual report to the Government. Liverpool's universities should consider collaborating on producing a similar locally-focused report, setting out how they are contributing to the local economy, their collaborations with local business, barriers to developing such collaboration further, and what the City Region's governance institutions could do to help in this regard. This report should be delivered to our proposed Liverpool Growth Agency, which should act appropriately on the report's conclusions.

### *Catapult or Fraunhofer Centre*

Perhaps the most visible examples of collaboration between universities and business in the UK today are Innovate UK's Catapult Centres, described as "not-for-profit, independent physical centres which connect businesses with the UK's research and academic communities".<sup>155</sup> Despite key areas of academic and industrial strength, there are at present no Catapult Centres with a base in the North West of England.

A Catapult Centre based in the Liverpool City Region could offer the region great economic benefits. For example, the High

Value Manufacturing Catapult, made up of a total of seven Centres located across the country, undertook £134 million of innovation activity in 2012-13, and has secured commitments to additional funding totalling £214 million across these Centres.<sup>156</sup> We therefore welcome the calls from the University of Liverpool for the new Precision Medicine Catapult to be located in the North to allow Liverpool to capitalise on plans already being taken forward.

In line with the Conservative government's manifesto pledge to increase the number of Catapult Centres around the UK,<sup>157</sup> we also recommend the establishment of a national Catapult with focus in marine technology, and a centre based in Liverpool. We acknowledge the funding constraints faced by Innovate UK, but feel this Centre would prove to be a worthwhile investment.

The UK's marine industries comprise some 5,000 companies employing nearly 90,000 people, and generate more than £3.5 billion GVA for the national economy.<sup>158</sup> For its part, Liverpool has the largest cluster of maritime businesses outside of London,<sup>159</sup> and the region's contribution to this network would be built on the work of the National Oceanography Centre located on the campus of the University of Liverpool, and the School of Engineering, Technology and Maritime Operations at John Moores University.

As well as Liverpool John Moores University and the University of Liverpool, the Universities of Newcastle and Southampton among others are also well-known for their marine engineering and technology research. The Catapult could therefore build on UK economic strength in this area and connect universities and research institutions around the country undertaking pioneering work in this area, promoting innovation and driving national and local economic growth.

Collaboration between local universities and business in this sector is already well underway within the Liverpool City Region, with a Partnership Agreement between John Moores University and Mersey Maritime signed in May 2015, to promote knowledge sharing and develop joint bids for project funding.<sup>160</sup> This partnership will be built upon to create a Maritime Knowledge Hub in Wirral, with involvement from Peel, Wirral Council, and

the Manufacturing Technology Centre at Coventry, as well as other organisations in addition to Mersey Maritime and LJMU.

This hub will concentrate the City Region's major maritime assets and create new business incubation space and teaching facilities. A Maritime Technology Catapult Centre based in Wirral, based within the boundaries of the Wirral Waters site within the Mersey Waters Enterprise Zone, would represent a natural evolution of these facilities and plans.

Liverpool's universities should also consider entering into partnerships with business along the alternate Fraunhofer partnership model. Fraunhofer Centres are based within specific universities (unlike Catapult Centres), often employ dual business and academic roles for many of their staff, and undertake research on a contractual basis for local businesses as well as bidding for external research contracts. The UK's first Fraunhofer Centre is based at the University of Strathclyde in Glasgow, specialising in photonics, and between 2012-14 won contracts for 18 projects worth a total of £12.4 million<sup>161</sup>.

The anticipated future strength of Liverpool's creative and digital industrial sector makes this a natural choice as an industrial area of focus for a future Fraunhofer Centre in Liverpool, as does the present "sporadic" approach of the UK's creative and digital industry to collaboration with universities.<sup>162</sup> Liverpool City Region might therefore realise a competitive advantage if it can quickly develop a successful partnership in this area in the coming years. Liverpool's universities, working with our proposed Liverpool Growth Agency, should ensure that their openness to hosting a Fraunhofer Centre focused in this field is advertised to Fraunhofer UK, or other organisations willing and able to establish a similar partnership.

### *Graduates – the critical drivers of innovation*

Graduates are highly mobile, and many will want to move to live elsewhere. But if the right support and opportunities are available, Liverpool can retain more of its most enterprising and ambitious graduates while attracting entrepreneurial individuals from elsewhere,

developing its higher education as a platform for advanced innovation. Retention of graduating students is a particular issue for Liverpool and one that will need additional measures to address. Graduate retention has been identified as an issue of concern by the Local Enterprise Partnership, which has found evidence of migration patterns indicating younger people moving out of the city to areas with better job opportunities.<sup>163</sup> Heseltine and Leahy also noted the loss of graduates as a long-term issue the City Region must address in their 2011 report.<sup>164</sup>

To improve graduate retention rates, we recommend that Liverpool's universities establish a joint 'entrepreneur centre' or 'hub', operating across all the city's higher education institutions, to act as a bridge between graduation and setting up businesses. This could offer skills training and funding advice to graduates to set up start-ups, facilitate networking between start-ups, and act as a gateway for enterprises to access skilled graduates from Liverpool. This 'hub' should develop close working links with the LEP's proposed 'Liverpool City Region Innovation Exchange', the programme of activity which aims to provide a coherent approach to innovation support in the City Region.<sup>165</sup>

If combined with a joint focus from the city's universities on schemes such as the purchase and development of land designated for business incubators or spin-outs, this would offer young talent a real opportunity to develop their entrepreneurialism in Liverpool. These measures would benefit all concerned: graduates looking to set up businesses would get tailored support to do so; Liverpool's universities would develop a stronger reputation for entrepreneurialism; and the city would benefit from a higher number of skilled, high value employment opportunities and productivity growth.

Liverpool already has a major advantage over London, a prime graduate destination, in terms of the lower cost of living and the greater affordability of accommodation; more should be done to highlight these cost advantages to students while they remain at university. The City Region should consider offering incentives aimed at young people starting their careers, such as subsidised housing for the owners of business start-ups under a certain age, to reinforce this natural advantage.

Combining incentives of this kind with the other recommendations contained in this report to improve graduate job prospects would allow Liverpool to retain more graduates within the City Region, and to raise the skills levels of its population. If Liverpool's university sector could improve its graduate retention and attraction rate to match that of Manchester, we estimate this could result in a net gain of 10,000 highly skilled people for its labour market over a five-year period.

## 4.6 Raise Liverpool's visitor numbers

Liverpool has long been an international cultural powerhouse. It has more galleries and national museums than any city outside of London in the United Kingdom.<sup>166</sup> The city has a rich architectural heritage (boasting 2,500 listed buildings),<sup>167</sup> musical and theatrical assets, ongoing festivals and commissions such as the Liverpool Biennial, and held European Capital of Culture status in 2008. Its new conference centre and the success of the inaugural 2014 International Festival of Business have also placed Liverpool on the business tourism map.

Despite these strengths, the city lags behind Manchester and Birmingham in terms of visitor numbers. We believe Liverpool should not be content with being the fifth most visited city in the UK, as this does not do its rich and diverse assets justice. We estimate that raising Liverpool to the third most visited city would be worth a further £291 million per annum, or almost £1.5 billion over five years, and would create 9,000 additional jobs. We focus on connectivity, marketing, and leadership as the key drivers of the visitor economy's future growth.

Connectivity is the vital factor which will attract more visitors to the city, both for short visits and longer stays, and encourage regional, national and international tourism. Better links between Manchester and Liverpool in particular would allow the Liverpool City Region to capitalise on a key marketing opportunity by developing enhanced brand association with Manchester (and vice versa), bringing significant benefits for tourism.

Current gaps in the connections between the two cities are stifling this potential. Improved transport links between the cities by contrast would make them a prime joint destination for short breaks. We therefore repeat here our call for a high speed rail link to be built between the two cities. As noted in Chapter 2, the Steer Davies Gleave July 2014 Economic Benefits Study found that a direct high speed connection into Liverpool city centre could bring additional tourism-related revenue of £87 million per annum and support 1,740 additional tourism-related jobs in the City Region.

The link we recommend would offer not only a direct improvement to connectivity between Liverpool and Manchester via the high speed line, but would also free up capacity on existing lines, allowing additional services to run. By additionally connecting into the planned HS2 route from London and Birmingham, the link would also improve the attractiveness of the Liverpool City Region as a tourist destination to visitors from further afield, both domestically and internationally. This effect would moreover only be strengthened by the development of a joint visitor strategy between Liverpool and Manchester as we recommend here.

For the benefits of improved connectivity to be fully realised however, a marketing strategy that defines and promotes Liverpool's distinctive cultural offer needs to be developed. For example, Liverpool has not yet taken full advantage of its designation in 2004 by UNESCO as a World Heritage Site. Other cities across the world have used World Heritage as a brand or hallmark to build their external image: the French cities of Lyon and Bordeaux have, for example, both featured their World Heritage status prominently in websites and marketing. In contrast, only now is Liverpool beginning the process of putting World Heritage designation on its brown tourism signs. This development offers a potential boost for the region's visitor economy, if it can be quickly and visibly incorporated into the region's marketing.

Similarly, despite the possibilities discussed above, not enough has been done to develop Liverpool and Manchester as a joint destination for national and international visitors,

particularly those from Europe. Rather than competitors, the cities have different but complementary visitor offers that a new high speed rail link between the two could bolster. Although the Local Enterprise Partnership's Visitor Economy Strategy recognises this potential, it does not include a plan to take advantage of this.<sup>168</sup> The local governments of both city regions should therefore work together to explore ways to promote Liverpool and Manchester as a joint destination.

Turning to business tourism, the success of the inaugural 2014 International Festival of Business, and its return in 2016, has been very positive for the city's economy and now represents a further important marketing opportunity. A key reason for the strength of Birmingham's visitor economy is the level of business tourism it attracts. The return of the IFB, coupled with the new Exhibition Centre Liverpool, represents an excellent opportunity for Liverpool to promote and establish itself as a leading national and international business and conference destination, and we welcome the Government's commitment as part of the City Region Devolution Agreement to "establish IFB Liverpool as a vital feature of the international business calendar in 2018 and 2020".<sup>169</sup> This will build on the impact of existing assets such as the BT Convention Centre.

Governance also has a critical role to play in achieving this vision. One of the tasks of our proposed Liverpool Growth Agency should be to define the city's distinctive visitor offer and work with key stakeholders to develop a marketing strategy around this. As recommended above, the Agency should also look to work closely with Manchester on a joint strategy. The Agency should also look to identify factors which will ensure Liverpool's visitor offer remains fresh and vibrant in the long-run, and act to secure Liverpool's cultural future.

One such factor which could drive Liverpool's visitor economy in the long run would be a focus on the needs of young artists. A thriving cultural sector relies as much on human capital as it does on physical capital, so acting to meet the requirements of this group now will allow Liverpool's arts scene to flourish for years to come. Just as we believe more should

be done to attract young entrepreneurs to the Liverpool City Region, we recommend more support is offered to attract young artists to build on its cultural heritage and ensure its reputation as an artistic hub is sustained and grown.

Ireland's successful system of tax breaks provides a model for how such support could be given, and has brought with it additional benefits in the form of spin-off economic activity.<sup>170</sup> Consideration should be given to introducing a similar scheme in Liverpool. In addition, although Liverpool enjoys an abundance of cultural institutions, infrastructure for young artists – such as studio and exhibition space – is at a premium. Options for a new facility that could house studios and provide an exhibition space open to the public should be explored. The City Region could also benefit from the role of a high-powered Creative Director responsible for the planning and delivery of cultural programming and festivals, and coordination of all aspects of the city's visitor offer, experience and marketing.

Working with Liverpool's many cultural institutions, the Creative Director would work to ensure the region has a 365-day cultural offer. They would also be well-positioned to scope out infrastructure needs within existing institutions and to raise funding to meet these, helping to overcome barriers to international exhibitions and touring companies visiting Liverpool.

### *4.7 Reimagine Local Boundaries*

The political geography of the Liverpool City Region – comprising the local authority areas of Liverpool, Halton, Sefton, Knowsley, Wirral and St Helens – is, in the short-term, settled. This fact is likely to have proved an advantage in the region's negotiations with Government to secure its devolution deal, in

comparison to other areas where local geography is more disputed. Yet these current boundaries fail to capture the whole economic footprint of these boroughs. Local strategic economic planning will be of reduced effectiveness for as long as the region is unable to fully draw in the resources of other areas, whose economic future is inextricably tied to that of the existing City Region boroughs.

Population centres such as Wrexham, Chester, Ellesmere Port, and Warrington have an important economic, social and cultural relationship to Liverpool. Cheshire West's economic relationships with Liverpool in particular are of vital importance with regard to workforce and business agglomerations around the port, logistics, manufacturing and supply chains, while Flintshire, Denbighshire and Conwy across the North of Wales contain many people formerly resident in Liverpool and Manchester. Although the Liverpool City Region itself can claim an urbanised population of only around 1.5 million, it contains the potential for real economic interaction and synergy generated by its links to a far greater number of people.





As in many cities however, these relationships are masked by artificial and arbitrary administrative boundaries, which hamper efforts to derive the greatest possible value from the wider geography of an economic region that extends to Manchester, Cheshire, Lancashire and North Wales. The region should be considered to have one single economic footprint and further collaboration and innovation across a wider, inter-connected geography is essential.

In order to achieve its full economic potential in the long-term, we believe that the City Region must reach out to these and other nearby centres of population. Currently accepted local political boundaries must not hinder the development of an economic plan which captures all the determinants of the Liverpool City Region's economic performance.

In the short-run, we believe the six local authority areas named above should continue to form the political and geographical basis for the implementation of the City Region's devolution deal. Yet the City Region should also simultaneously be exploring methods of widening and deepening its formal working relationships with neighbouring authorities. It should look to build on the "associate membership" status of the City Region Combined Authority

held by Warrington and West Lancashire councils, and invite other authorities such as Cheshire West and Chester Council to take up associate membership status.

We also recommend in the short-run the development of a medium-term local economic strategy with the whole Liverpool Bay area in mind, based on labour markets, commuting patterns and supply chains across key sectors, to fully develop the potential for synergy across this wider catchment. This echoes a recommendation made by Lord Heseltine and Sir Terry Leahy in 2011, who suggested that "Liverpool city region and neighbours jointly commission an economic study to inform the development of a unified vision for growth".<sup>171</sup>

In the long-run however, we recommend that offers and incentives are put in place to enable and encourage contiguous authorities such as Warrington, Cheshire West and Chester, or West Lancashire to formally and fully join Liverpool's City Region, to ensure complete integration of the area's economic policymaking and release its full economic potential. This would allow the region to fully capitalise on its historical connections to these and other nearby parts of the country and overcome the artificial barriers to profitable interaction created by present political boundaries.

#### *4.8 Undertake an independent economic review*

The identification of the economic opportunities and challenges facing the Liverpool City Region undertaken in this report should be only the start of a more informed ongoing approach to the strengthening of the region's economy. The region must continue to test and review the foundations of its economic planning to conceive and support a more clearly defined narrative and a more focused plan of investment. An independently verified economic assessment of the City Region's growth potential is overdue.

The Manchester Independent Economic Review, published in April 2009, continues to provide a rigorous assessment of the current condition and future potential of Manchester's economy.<sup>172</sup> It contains a rich seam of evidence to inform the actions of public and private sector decision-makers so that Manchester can orchestrate long-term sustainable economic growth and boost the performance of the national economy.

We therefore recommend instigating an Independent Economic Review, similar to that previously undertaken for Manchester, in order to consolidate resources and coordinate policy and efforts behind an informed strategy which can drive forward the region's economy and capitalise on its genuine assets. Two of our recommended



new bodies, GROW Liverpool and INNOVATE Liverpool, should work together to undertake evidence gathering and coordinate the delivery of this review.

The review we propose would fortify and refine the City Region's chosen economic narrative, as well as ensuring clarity of purpose among the many interlinked organisations which play critical roles in the region's economy. It would also allow for the implementation of a more focused plan of investment. Although this is just one of the building blocks of city planning, an independent economic review process represents a substantial underpinning of all aspects of economic and governance structures. It provides a shared evidence base and integrates this with an economic narrative to inform and raise the level of debate and create a strategic assessment that all can share.

### 4.9 Combining these interventions

As with any set of interventions, in reality a combination of these impacts would occur and each would impact upon the success of others. Improving graduate retention

would for example provide the workforce to fill some of the knowledge intensive jobs created by the redrawn Enterprise Zone; and in turn, the businesses encouraged to locate there would attract more young graduates to stay in Liverpool. Similarly, repurposing public service expenditure would enable many City Region residents previously in need of state assistance to work in firms in the Enterprise Zone, the visitor economy, or other parts of the regional economy.

By creating a combination of proactive policies and interventions, a virtuous circle is created. This means that the benefits of all of the recommendations detailed above cannot simply be added together, since many will overlap. Together they would help to create a more attractive Liverpool, where businesses would want to invest and locate, and where individuals would want to live, work and innovate.

Bringing together our proposed recommendations and interventions, we estimate that they could catalyse a further 20,000 to 30,000 jobs,<sup>173</sup> which could help to realise the LEP's targets for growth of 73,000 jobs by 2030. Combined with the stimulus of a high speed rail station and line, showcasing the city of Liverpool as a modern, vibrant, well-connected centre

of population, these interventions will help the City Region to definitively move beyond its economic legacy from the last millennium and build on the progress of the past 15 years. Our case is not that Liverpool will merit high speed rail only if it takes the actions we propose here: high speed rail can deliver significant benefits even without the measures we outline, as noted in the previous chapter.

Yet we believe Liverpool's case will be significantly strengthened if these suggestions are taken forward, since high speed rail is not by itself transformational but acts primarily as a catalyst for pre-existing economic advantages. This section has set out our vision of where reforms could consolidate those advantages and convert Liverpool into a national-leading centre of excellence in specific sectors, offering considerable resources with which to strengthen the Northern Powerhouse if it is properly connected to other Northern cities. As such, we believe our analysis presented above reinforces the case for high speed rail into Liverpool city centre.

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## 5. Transformational Change: Growth and Payback

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Liverpool's emerging economic revival should be used to help finance the catalyst of high speed rail

*"The momentum building behind city-based devolution and localism is encouraging cities and their surrounding regions to take greater levels of responsibility and demonstrate new forms of initiative and self-determination."*

### 5.1 Setting a New Trajectory for Achievable Growth

The previous chapters have outlined our view of both the economic challenges and opportunities contained within the Liverpool City Region. Although rightly ambitious, the growth estimates currently being suggested for the City Region by the local LEP leave a credibility gap in the City Region's economic objectives – and ultimately its case for high speed rail. We believe that the figures suggested by the LEP are achievable, but will require the right intermediate steps to be put in place now.

The previous chapter laid out our vision of the additional steps Liverpool can take to demonstrate its readiness for high speed rail to serve as a transformative catalyst for its local economy. By taking these intermediate steps, the city can create the critical mass of small and medium-sized companies that can begin to fuel demand for developments like Liverpool and Wirral Waters, and demonstrate beyond doubt its potential long-term growth of the kind which must underpin Liverpool's case for a high speed connection. It is transport investment in particular which is essential to the future of the entire City Region, the

boroughs as well as the central city – not because it is the silver bullet that will answer all the region's problems but because it is the key that unlocks the door to the other advantages that the City Region enjoys.

This report has made clear that there are significant challenges within the Liverpool City Region economy, both structural and those arising from its current labour market profile. Equally however there are indications that the region is seeing sustained growth across certain areas of its economy. Recent data shows an improvement in the skill level of the local population, less reliance on the public sector and growth in new business formation.<sup>174</sup> The recent improvements in growth rates seen in the national economy will undoubtedly also benefit the region.

Taking this into consideration, and the fact that the recent recession would have disproportionately dampened structural growth forecasts, the Liverpool City Region should achieve growth over and above the structural growth forecast outlined above. The difficulty lies in estimating what additional growth might arise from key sectors, development opportunities, and plans for accessibility improvements.

The LEP envisions the creation of 73,000 jobs by 2030, stemming from the future success of the City Region's knowledge economy, advanced manufacturing industries, and visitor economy. As set out above however, we believe that these sectors of the regional economy can provide only 41,000 jobs by that date without further and significant interventions.

If the recommendations we propose in Chapter 4 are taken forward, we estimate the cumulative impact of their implementation could produce between 20,000 and 30,000 jobs. When combined with the figure of 41,000 jobs from the sectors noted above and the 14,000 jobs which Steer Davies Gleave previously estimated the arrival of high speed rail could create for the City Region, we conclude that the City Region has the potential to create up to 84,000 new jobs by 2030.

Simply adding these figures together in this way is, of course, a simplistic method of forecasting future growth – indeed, our aim in stating this figure is not to present it as a new aspirational growth target for the City Region, but instead to highlight the City Region's latent potential and to reverse negative perceptions of the region's potential contribution to the Northern growth agenda. If our proposals are put in place, and a high speed link delivered for Liverpool, we believe the City Region will have a much improved chance of meeting the LEP's target of 73,000 jobs by 2030 – an achievement which we believe would more than justify, from a retrospective viewpoint, Liverpool's inclusion in the national high speed network which will have taken root by that date.

## 5.2 Invest Now for the Long Term: Liverpool's Payback Commitment

In 1830 it was Liverpool entrepreneurs who conceived and financed the world's first passenger railway – a bold, ambitious and proactive investment based on a clear understanding of the city's infrastructure needs and commercial interests. Today, the momentum building behind city-based devolution and localism is once again encouraging cities and their surrounding regions to work together to take greater

levels of responsibility and demonstrate new forms of initiative and self-determination.

This section sets out a radical and original offer on behalf of the City Region as to how to it could pay back an investment fund borrowed to invest in the construction of the high speed rail link this report recommends. It considers how future job creation, as discussed in the previous section, could create value for the Liverpool economy in the present day, and outlines options for capturing that value and using the resultant revenues to pay back funds borrowed to facilitate the very investment that will catalyse that quantum of growth.<sup>175</sup>

We examine below two scenarios in which jobs growth of 41,000 and 54,400 jobs is achieved by 2030 (18,300 and 31,700 jobs above structural growth respectively) – the first of which is equivalent to our forecast of the achievable growth in the City Region's knowledge economy, advanced manufacturing industries, and visitor economy by that date, and the second of which additionally includes the upper estimate of the growth associated with high speed rail for the Liverpool City Region. We also include a further, more aspirational scenario, in which the LEP's targeted jobs growth of 73,000 (50,300 above structural growth trends) is achieved by 2030.

The funding mechanism we propose below (see figures overleaf) captures only the growth achieved in the City Region which is additional to baseline forecasts and therefore attributable to changes discussed in this report. Funding through Tax Increment Financing via capturing future additional growth in business rates is a relatively accepted methodology and approach; in light of the Chancellor's announcement at the 2015 Conservative Party Conference that local authorities would keep all business rates raised in their area as of 2020, we advocate that all business rate revenues associated with jobs created over and above structural growth in the Liverpool City Region by 2030 be put towards this payback mechanism.

However, we also consider additional tax revenues as further methods to extract capital value from future jobs. We have chosen National Insurance as it relates specifically to employment and therefore new jobs created. Our calculation focuses on capturing and retaining locally employers' National Insurance contributions, a

new proposal. Even so, this calculation ignores the employee's contribution and also other taxation revenues which are likely to make up the majority of the value going to government.

We focus on a 35-year timeframe, and so our calculations relate to a 35-year period over which the initial loan is repaid, as well as capitalising the 35-year present value of the tax revenue streams detailed above. The total loan which can be supported over this period depends not only on the revenues which underpin it however, but also a host of other factors including the interest rate and the path of business rate and wage rises over the 35-year time period.

We show two scenarios for interest rates: 3.5% and 4.5%. The former is the implicit rate used by government when analysing projects;<sup>176</sup> we have also considered a more conservative assumption by including the latter scenario. We assume that business rates rise every five years by an adjustment for inflation; we assume that the inflation target is met and that this is therefore a 10% increase every five years. We also include for illustration a scenario where rates only increase by 5% every five years. We assume that jobs increase in a linear fashion over the 35-year period. Finally, we assume that wages rise only by inflation and that National Insurance rates remain unchanged.

We include the maximum loan that could be supported under each scenario. All figures in the table are rounded to the nearest £10 million.

In addition, although not included in the figures given here, we believe that borrowing against the revenue raised from tolls collected from the use of the Kingsway and Queensway tunnels under the River Mersey could make a further contribution to the Liverpool City Region's payback offer. The Mersey Tunnels represent a sustainable source of revenue for the City Region; after operating costs and debt repayment contributions are excluded, there remains surplus revenue of between £12 million and £14 million annually.

Work by Grant Thornton for the City Region calculated that the current capitalised value of this surplus is around £500 million over a 35-year period.<sup>177</sup> This would represent a further substantial contribution towards the cost of the high speed connection

Figure 17: Capital Covered by 41,000 Jobs Created by 2030

35 year period of payments	3.5% interest		4.5% interest
	Rates 10% increase	Rates 5% increase	Rates 10% increase
Business Rates (35 Year NPV)	£210m	£170m	£170m
NI Contributions (35 Year NPV)	£550m	£510m	£500m
Total (35 Year NPV)	£750m	£680m	£670m
Loan that could be supported	£690m	£630m	£620m

Source: Volterra

Figure 18: Capital Covered by 54,400 Jobs Created by 2030

35 year period of payments	3.5% interest		4.5% interest
	Rates 10% increase	Rates 5% increase	Rates 10% increase
Business Rates (35 Year NPV)	£380m	£300m	£300m
NI Contributions (35 Year NPV)	£1.2bn	£1.0bn	£970m
Total (35 Year NPV)	£1.6bn	£1.3bn	£1.3bn
Loan that could be supported	£1.5bn	£1.2bn	£1.2bn

Source: Volterra

Figure 19: Capital Covered by 73,000 Jobs Created by 2030

35 year period of payments	3.5% interest		4.5% interest
	Rates 10% increase	Rates 5% increase	Rates 10% increase
Business Rates (35 Year NPV)	£560m	£450m	£450m
NI Contributions (35 Year NPV)	£1.9bn	£1.6bn	£1.6bn
Total (35 Year NPV)	£2.5bn	£2.0bn	£2.0bn
Loan that could be supported	£2.3bn	£1.9bn	£1.8bn

Source: Volterra

we advocate. We therefore suggest that the proposal to combine this capitalised revenue with our TIF mechanism be considered as part of the ongoing review of the Mersey Tunnels tolls being undertaken by the City Region Combined Authority in partnership with Government.

Depending on the job creation growth rates achieved, and on the route option selected for the Liverpool to Manchester link, the offer presented here could see the Liverpool City Region contributing around two thirds of the cost of the link

once the additional £500 million from Mersey Tunnels revenue is included. The final exact contribution made by the City Region should however be the subject of discussion between the City Region authorities and national Government.

174 NOMIS, *Annual Population Survey* (January 2014 – December 2014 period) [Online] Available at: <https://www.nomisweb.co.uk/query/construct/summary.asp?mode=construct&version=0&dataset=17> [Accessed 1st February 2016];

Office for National Statistics, *Business Demography*, data from years 2008-2013. Available online at: <http://www.ons.gov.uk/ons/rel/bus-register/business-demography/index.html> [Accessed 1st February 2016]

175 See Appendix 2 for a more detailed discussion of the payback mechanism we set out in this section

176 HM Treasury (2013), *The Green Book: Appraisal and Evaluation in Central Government*

177 Grant Thornton for Merseytravel



## 6. Conclusions and Recommendations

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### Liverpool must embark on a new track, and towards a new destination

*“The recommendations set out in this report will create a new growth trajectory accompanying a local funding mechanism for high speed rail investment, enabling the vision of a high speed route connecting port to people.”*

The work of Transport for the North, and in particular the commitment that further research and studies will be undertaken over the coming year, now provides the strategic context for decision-making on the issue of Northern urban connectivity. In light of this commitment, we believe the Liverpool City Region's economic narrative should be reviewed and refreshed.

The coming years will be critical in determining the future shape and extent of Northern infrastructure. This fact makes it vitally important that Liverpool is able to present a credible series of future growth scenarios which will make its claims to be included as part of the emerging proposals for high speed connectivity impossible to ignore. The rate of growth to which the region aspires is achievable, but needs to be built upon a series of credible intermediate steps. We have set out in Chapter 4 our vision of where the City Region's strategic economic focus should be concentrated.

Our recommendations seek both to highlight and to raise Liverpool's growth potential – a potential which is dependent in the long-run on the region securing a high speed link; yet it is the short-term prospects for that potential which will prove the vital factor in whether or not the region is successful in securing that link.

The recommendations set out in this report will create a new growth trajectory accompanying a local funding mechanism for high speed rail investment, enabling the vision of a high speed East-West route connecting port to people. The same institutions doing the same things cannot deliver the transformative change Liverpool requires. In order to grow and reform, we recommend that Liverpool, its key economic and governmental institutions and its constituent stakeholders adopt the following recommendations:

#### ***1. Start the Northern Powerhouse in Liverpool by connecting the city into HS2***

Liverpool's transformational investment is the East-West, high speed rail link to Manchester, connecting the city centre via a high speed station directly into the HS2 North-South spine, Manchester Airport and Manchester city centre. Planning, preparation and funding for improving the City Region's transport networks is now underway as part of the wider focus on the North, but the focus on improvement alone is not enough to shift the Liverpool City Region into a new growth trajectory, with the substantial rewards this could deliver for the Government's Northern Powerhouse



vision. Economic transformation demands the direct high speed line and its associated catalytic impact.

We recommend that Liverpool Lime Street station be adapted to enable a high speed rail connection to be built out of Liverpool city centre to Manchester Airport and Manchester city centre, via the HS2 North-South spine to the north of Crewe. It is estimated that the direct impact of this investment would be to create around 14,000 jobs within the Liverpool City Region; however, as this report has set out, we believe that the eventual economic benefits this investment could realise by linking Liverpool more effectively into a thriving Northern Powerhouse could far exceed this total.

This report has highlighted the many sectors of the Liverpool City Region economy which would suffer from the failure to provide the region with first-rate connectivity, including its distribution and logistics industry, its knowledge economy, and its visitor economy. Yet this report has set out an alternate future, where high speed rail is delivered for the City Region, and these assets are allowed to flourish. It has argued that the economic benefits these sectors could offer may prove transformative not only for the Liverpool City Region but indeed for the wider North, and for the country as a whole.

A high speed rail link would for instance allow capacity release on the West Coast Main Line and other regional rail networks, critical to the future of freight transport within and beyond the North West. It is estimated that a high speed line into Liverpool city centre would release sufficient capacity for an additional 21 freight services each day on the West Coast Main Line.

Without this investment, the region will be unable to fully capitalise on its investment in the Port of Liverpool, and a major opportunity to rebalance the national economy will have been missed. Similarly, failure to connect Liverpool city centre into the national high speed network will vastly reduce the potential for businesses within the city's knowledge economy to engage in knowledge transfer and agglomeration with other businesses around the country – to mutual disadvantage.

Liverpool's impressive recent employment and business growth figures make this the time when investment is most urgently needed, to ensure this upward trajectory can continue, and to showcase the City Region's numerous assets to domestic and international investors. Committing to connect Liverpool into the national high speed network now could therefore make the difference between the region being a significant asset to the Northern Powerhouse, or falling back onto the path of stagnation.

Moreover, the specific link we propose would serve to improve both North-South and East-West connectivity simultaneously. Given the acknowledgement that poor interconnectivity between cities in the North of England is significantly holding back their growth, this dual benefit is therefore of major significance. This is particularly so given the international evidence we have cited in this report, which suggests that HS2 as currently conceived may not bring balanced growth across the North of England, but may rather concentrate economic activity in those cities with an HS2 station, an outcome which we see as inconsistent with the vision behind the Northern Powerhouse.

Creating additional nodes for the high speed network within Northern cities by contrast can both increase the aggregate of economic growth across the North and ensure it is distributed more evenly. We therefore believe this should be a priority for Government, and we welcome the work of Transport for the North in helping to make the case for a high speed rail route running across the North – including with a high speed station in Liverpool, as per our recommendation here.

### ***2. Establish a local payback mechanism to allow the City Region to part-fund the proposed high speed link***

As set out in Chapter 5 of our full report, we believe the Liverpool City Region could support borrowing of around £1.5 billion via an appropriate Tax Increment Financing mechanism, incorporating the local retention of business rate revenue and employer National Insurance contributions for each new job created above structural

growth forecasts. Together with the capitalised value of revenue from the Mersey Tunnel tolls, the capital raised should be used to create a new fund worth £2 billion, to finance over two thirds of the capital expenditure it is estimated will be required to construct the high speed rail link recommended in this report.

This recommendation is in accordance with the principles of devolution and localism to which the Government is committed; we feel it is an important symbol of the City Region's capacity to take charge of its own destiny. Moreover, it will reduce the cost to Government of the link to less than £1 billion, around 1.5% of the total budget presently allocated for the HS2 project. This measure would be a step change in the local funding of UK infrastructure, and has the support of the Mayor of Liverpool and the Chair of the Liverpool City Region Combined Authority.

### ***3. Create a new City Region Business Senate***

We look to build on the Liverpool City Region Local Enterprise Partnership's success in facilitating strategic interaction between business and policymakers via the establishment of a City Region Business Senate, incorporating the region's civic and business leaders, including from newer industries and smaller businesses. This body would act as a consultative chamber sitting alongside the City Region Combined Authority within the local governance structure, and would empower business to discuss and shape individual policies as well as wider economic strategies across the City Region – though the final decision would remain with elected politicians.

This reform would ensure business is well placed to capitalise fully on the major investment which is high speed rail. It would also be of particular value in light of the impending empowerment of local government with regard to business rates. The reform we propose here would ensure that the voice of business is formally incorporated into any decisions to alter business rates at the local level, institutionalising their input to decisions over the balance between local taxation and public services or investment. It would also serve to raise the transparency of the consultation

process between local political leaders and business in taking these decisions.

Moreover, we believe the advantages offered by this reform – strengthened local governance, better economic policymaking at a local level, and greater accountability and transparency in decisions on business taxation – could be realised in city regions across the country, and not just within Liverpool. We therefore believe it should serve as a blueprint for similar bodies elsewhere.

#### ***4. Facilitate City Region level policymaking by forming a new institution to support the Metro Mayor***

We welcome the creation of a City Region 'Metro' Mayor as part of the City Region's devolution deal. This role will allow for an accountable and holistic approach to decision-making, utilising the assets of, and tackling the obstacles facing, the City Region as a whole. This role has enormous potential to overcome the region's legacy of fragmented decision-making which has too often stifled transformative change.

Yet the office holder will require support to set out and deliver a new vision for the City Region. As well as the new Business Senate sitting alongside the Combined Authority, we therefore recommend the formation of a new body we call 'TRANSFORM Liverpool', concerned with policymaking for the City Region as a whole and providing institutional assistance to the elected regional Mayor – though remaining operationally separate from his office and staff.

This new body will therefore operate as a unified institution concerned with reform, policymaking and delivery for the City Region as a whole. This will again ensure that the economic and political governance of the City Region is well placed to maximise the benefits the Region can draw from the introduction of the high speed rail link we recommend. We suggest that this new institution should initially encompass three arms: one concerned with each of local public service reform, economic strategy, and policy research, ideas and delivery, as per our recommendations below.

#### ***5. Implement place-based public service integration across Liverpool City Region***

The first of these arms, a City Region-wide Public Services Commission or REFORM Liverpool, should be given a remit to deliver place-based public service integration. This commission should be tasked with early integrated intervention in worklessness, mental and physical health, crime and the other various complex dependencies that grievously harm the economic and social potential of the City Region.

With its devolution deal, Liverpool City Region has a real opportunity to transform its public services to ensure they are providing the greatest possible benefit to those individuals within the region in need of the state's assistance. It will simply never be possible to address the numerous and inter-related economic and social difficulties present in Liverpool from the centre of the country. A tailored approach, offering holistic assistance focusing on the needs of each public service user as an individual, has a much greater chance of succeeding.

The Liverpool City Region Devolution Agreement provides a good foundation for this work, for example by allowing the City Region to co-design employment support for harder-to-help claimants and requiring its authorities to set out a strategy to join up local public services to improve outcomes for this group. Yet we wish to see this thinking taken further, with a commitment to integrated public service provision for the whole City Region population, and the devolution of health and social care expenditure as soon as is feasible.

We believe this Commission could release up to £5 billion in savings over five years by concentrating on reducing per capita benefits expenditure across the City Region. If the reactive funding currently allocated as welfare can be turned into proactive investment in the region's economy, this will begin a virtuous circle of investment and employment which will prove socially and financially transformative for the City Region and its residents.

#### ***6. Integrate existing City Region economic policymaking bodies***

The second of these arms should be a unified 'Liverpool Growth Agency' we call GROW Liverpool, amalgamating the public bodies which exercise economic powers within the City Region, including the LEP, into a single institution to provide coherence, clear leadership and coordination in agreeing and delivering a strategy for growth and investment across the region. The governance of this new institution should bring together the private sector and local political leaders, both seeking consensus on issues of economic strategy and acting to deliver that strategy.

We believe that the existing framework for driving and promoting growth across the City Region will be insufficient to manage the major economic transformation this report envisages. The LEP faces a number of institutional obstacles, while the framework as a whole is characterised by fragmentation, duplication of responsibility, and a failure to concentrate knowledge.

Our proposed Agency will have an especially important role to play in areas such as business support (including aligning national budgets to local needs), skills provision (where we recommend it take control over adult skills budgets due to be devolved under the Devolution Agreement, as well as apprenticeship budgets, for which the Agreement made no provision), and investment (where it will deliver a single agreed investment framework, using resources from the Single Investment Fund established under the region's Devolution Agreement and drawing in additional European and private sector investment).

We also see GROW Liverpool playing an important part in driving through many of the other recommendations in this report. In addition to the powers required to carry out the roles noted above, this will require GROW Liverpool to exercise powers over land acquisition and management, planning and delivering major infrastructure and public realm programmes, support for research and innovation among higher education institutions, and marketing activities relating to the region's brand image. We believe the Agency model we propose here is the way to develop LEPs into much more powerful agents of economic renewal.

### ***7. Align local policy agendas at a City Region level, and support policy research and innovation***

The third of these arms, a new City Region-wide policy delivery institution we refer to as INNOVATE Liverpool, should be tasked with blending all the agendas of the local governance institutions across the City Region into one coherent harmonious vision, making and implementing policy at the City Region level in order to avoid fragmentation of policymaking and missing the benefits a more integrated approach would bring. It should also undertake evidence gathering, and generate ideas and debate around City Region level policymaking, spurring innovation and placing policy initiatives on a well-evidenced footing.

This body would work to support individual local authority areas wherever possible by highlighting complementary aspects of different areas' strategies and putting in place a framework for collaboration. In cases where different areas' agendas appear to be in opposition, with potentially negative consequences for the region as a whole, it should look to mediate between those areas' representatives and create a new agenda. In this way, this institution will look to encourage joined-up policymaking which fully utilises all of the City Region's assets, drawn from all of its local authority areas, to overcome the social and economic challenges it still faces.

INNOVATE Liverpool's other role would consist of research into City Region public policy, scrutinising current initiatives and producing proposals for alternate schemes to help the region achieve its stated public policy goals, serving in effect as the region's own dedicated think tank. This would ensure that the innovation which has characterised the region's revival over the past two decades is continued, and the upward trajectory of social and economic progress is continued.

Major regional institutions, including the universities and businesses, should be asked to second their senior policy staff for a period of two years to this new institution, in order to allow the City Region to make use of their expertise in the many areas of policy in which this institution will need to intervene, as well as to ensure its

political neutrality. It should be chaired by an innovative world class Chief Executive, potentially from outside the City Region.

### ***8. Undertake an independent economic review***

The identification of the economic opportunities and challenges facing the Liverpool City Region undertaken in this report should be only the start of a more informed ongoing approach to the strengthening of the region's economy. The region must continue to test and review the foundations of its economic planning to conceive and support a more clearly defined narrative and a more focused plan of investment. An independently verified economic assessment of the City Region's growth potential is overdue.

The Manchester Independent Economic Review, published in April 2009, continues to provide a rigorous assessment of the current condition and future potential of Manchester's economy.<sup>178</sup> It contains a rich seam of evidence to inform the actions of public and private sector decision-makers so that Manchester can orchestrate long-term sustainable economic growth and boost the performance of the national economy.

We therefore recommend instigating an Independent Economic Review, similar to that previously undertaken for Manchester, in order to consolidate resources and coordinate policy and efforts behind an informed strategy which can drive forward the region's economy and capitalise on its genuine assets. GROW Liverpool and INNOVATE Liverpool should work together to undertake evidence gathering and coordinate the delivery of this review.

### ***9. Capitalise on Liverpool city centre's economic potential, and establish an Enterprise Zone there***

Thriving city centres are critical drivers for their wider urban economies, creating high skilled jobs and generating knowledge spillover effects within their constrained geography. Moreover, the emergence of both a North-South and (prospectively) an East-West high speed rail network within the UK will extend the proximity benefits derived from business densification

across multiple rather than just single city centres as journey times decrease, only serving to increase the importance of city centres within their regional economies.

If Liverpool is to develop its reputation as an innovative, forward-looking city which is able to attract and retain the brightest and best young graduates, the city centre must take a role at the heart of its vision for the future of the wider region. The decade to 2008 saw strong private sector performance in Liverpool's city centre, and although the years since the financial crisis have seen the trend away from public sector reliance in the city centre abate, this record suggests the city centre provides fertile ground for agglomeration and business growth if the right conditions are fostered.

Liverpool city centre already possesses a number of economic assets which contribute significantly to local economic growth, such as the emerging creative and digital sector, good connections to Manchester and its airport, and the higher education establishments located nearby. The advantages these assets provide, as well as their potential for further development in the future, should be highlighted to business, as should the city's strong retail and cultural offer to its potential workforce, in order to encourage firms to relocate into and around Liverpool city centre.

Reimagining and re-evaluating the role of the Mersey Waters Enterprise Zone will also be of vital importance in reinvigorating the city centre. The Liverpool Waters development in particular has so far failed to produce significant economic gains for the city, since it is not connected to the city region's most enterprising businesses and districts. The long-run success of this development, which envisages demand on a scale unprecedented for the Liverpool City Region, will ultimately be determined by the measures taken now to create and develop SMEs in the city centre.

We recommend the creation of a new Enterprise Zone in the city centre where there is obvious scope for business growth and new business formation in sectors such as the creative and digital industry. This should be done either on the basis of a new Enterprise Zone being granted to the Liverpool City Region in the current bidding round, or if necessary by redrawing the existing Enterprise Zone boundary so

that it no longer encompasses the Liverpool Waters development. Based on the specific boundary change we advocate in Chapter 4, we estimate that this change could result in up to 25,000 jobs being created.

This change should be supplemented with an interim uses masterplan for the Liverpool Waters area in the short-run, and a programme of public works to improve ease of access to, and the appearance and condition of, the area. This will address the problems of dereliction and distance from the city centre which dampen the potential for economic activity within the current Enterprise Zone boundary.

## ***10. Work with local universities and business to nurture talent and entrepreneurialism***

Graduates are essential to any city region economy, and it is vital that high speed rail does not simply allow for quicker flight to the south of the Liverpool City Region's most highly qualified young people. Liverpool City Region already struggles to retain many of its most highly trained young people and to attract others from outside the region; this is a significant barrier to its economic progress, especially given the low skills base from which the City Region is starting. A new emphasis on collaboration both between universities and local business, but also between the universities themselves is required to address this problem and increase these institutions' economic contribution.

This means building on nascent examples of collaboration such as the 'Sensor City' project undertaken within the ambit of the pilot University Enterprise Zone, developing relationships with large businesses such as Unilever, and reaching out to SMEs. The universities should work together to develop funding models or pools which facilitate the establishment of business spin-outs.

The universities should also seek to exploit their expertise and Liverpool's advanced and distinctive assets in areas such as Marine Technology or creative and digital technology to press for the establishment of a Catapult Centre, or bid to join in partnership with a Fraunhofer Centre, based within the City Region.

These would provide a hub of national excellence in these fields where the city's universities can become intimately involved with local business in these sectors.

To improve the region's graduate retention rates, Liverpool's universities should pool resources to establish a new jointly-administered 'entrepreneur hub' to support young people looking to start their own businesses. This could also coordinate incentives aimed at young people starting their careers, such as subsidised housing for the owners of business start-ups under a certain age. If combined with a joint focus from the city's universities on schemes such as the purchase and development of land designated for business incubators or spin-outs, this would offer young talent a real opportunity to develop their entrepreneurialism in Liverpool, which could work greatly to the city's economic (and social) advantage.

## ***11. Raise Liverpool's visitor numbers and become the UK's third most visited city***

Liverpool boasts an outstanding cultural history. It is well-endowed in the arts, with a considerable concentration of museums and galleries. It benefits too from the international branding provided by UNESCO World Heritage status and being a former European Capital of Culture. The visitor economy is a vast potential asset for the city, yet its position as the UK's fifth most visited city suggests that it is not using this to its fullest possible extent. Better connectivity, marketing, and leadership will be the key drivers of the visitor economy's future growth.

Better transport links between Manchester and Liverpool would improve the attractiveness of both cities for regional, national and international tourism, and would allow the City Region to capitalise on a key marketing opportunity by developing enhanced brand association with Manchester (and vice versa), marking them out as a prime joint destination in the North of England. We therefore repeat here our call for a high speed rail link to be built between the two cities – a link which would also improve Liverpool's connectivity to London and Birmingham, bringing further benefits.

Liverpool should also look to position its UNESCO Heritage status at the heart of its visitor marketing campaigns, as well as looking to identify and act on factors which will ensure its visitor offer remains fresh and vibrant in the long-run, such as the facilities it provides to young artists. We also advocate the creation of the position of Creative Director to coordinate all aspects of the region's visitor offer, experience and marketing.

The city should also concentrate on its assets in business tourism, including the BT Convention Centre and the new Exhibition Centre Liverpool, and look to build on the success of events such as the International Festival for Business 2014 to ensure Liverpool's reputation as a safe and pleasant city to visit for both leisure and business tourism is maintained and enhanced. We estimate that the move from fifth most visited city to third could generate an additional £1.5 billion for the City Region over a five year period.

## ***12. Think flexibly on local boundaries***

The political geography of the Liverpool City Region is, in the short-term, settled. Yet these current boundaries fail to capture the whole economic footprint of these boroughs. Population centres such as Wrexham, Chester, Ellesmere Port, and Warrington have an important economic, social and cultural relationship to Liverpool. Although the Liverpool City Region itself can claim an urbanised population of only around 1.5 million, it contains the potential for real economic interaction and synergy generated by its links to a far greater number of people.

As in many cities however, these relationships are masked by artificial and arbitrary administrative boundaries, which hamper efforts to derive the greatest possible value from the wider geography of an economic region that extends to Manchester, Cheshire, Lancashire and North Wales. The region should be considered to have one single economic footprint and further collaboration and innovation across a wider, inter-connected geography is essential. In order to achieve its full economic potential in the long-term, we believe that the City Region must reach out to these and other nearby centres of population.

In the short-run, we believe the six local authority areas should continue to form the political and geographical basis for the implementation of the City Region's devolution deal. Yet the City Region should also simultaneously be exploring methods of widening and deepening its formal working relationships with contiguous authorities. It should look to build on the "associate membership" status of the City Region Combined Authority held by Warrington and West Lancashire borough councils, and invite other authorities such as Cheshire West and Chester Council to take up associate membership status.

We also recommend the development of a medium-term local economic strategy with the whole Liverpool Bay area in mind, based on labour markets, commuting patterns and supply chains across key sectors, to fully develop the potential for synergy across

this wider catchment. This work could be undertaken as part of the Independent Economic Review we recommend above.

In the long-run however, we recommend that offers and incentives are put in place to enable and encourage neighbouring authorities such as Warrington, Cheshire West and Chester, or West Lancashire to formally and fully join Liverpool's City Region, to ensure complete integration of the area's economic policymaking and release its full economic potential. This would allow the region to fully capitalise on its historical connections to these and other nearby parts of the country and overcome the artificial barriers to profitable interaction created by present political boundaries.

**We strongly recommend the urgent and comprehensive adoption of these twelve proposals. Connectivity in the form of new transport infrastructure is vital to the City Region's growth potential, but so too is a more coherent civic purpose and a renewed openness to fresh ideas and innovation. These are the qualities and attributes upon which Liverpool first built its prestige and prosperity. It is high time for the City Region to reclaim them.**





## Appendices

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# Appendix 1

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## Scenarios for future growth in the Liverpool City Region

This section briefly summarises the various scenarios for future growth in the Liverpool City Region which we believe may arise, depending on a combination of factors mentioned in this report.

### **The future with no intervention**

Based simply on 'business as usual', or a continuation of past trends, it is estimated that the City Region could achieve jobs growth of around 22,700 by 2030. This will simply perpetuate past trends, and will not be sufficient to beneficially change the City Region's prospects. We refer to this scenario below as scenario 1.

### **The unachievable targets**

The LEP has ambitions for growth of 73,000 jobs over a similar period. The knowledge economy accounts for around 40,000 of these jobs; 20,000 are related to the Port, and wider distribution and logistics; and 13,000 stem from the visitor economy.

Whilst these aspirations are laudable, our work suggests that they are unlikely to be deliverable within this challenging timeframe. The LEP target is dependent upon the delivery of major development across the city region, including the Liverpool Waters and Wirral Waters schemes. It is envisaged these will accommodate significant numbers of workers within office-based knowledge economy sectors, where we believe there is the least evidence of likely future demand, at least without the additional catalyst of high speed rail.

Based on a review of the sectoral strengths in the Liverpool City Region we estimate that jobs growth of around 41,000 may be achievable, which represents 18,300 more jobs than the 'business as usual' scenario. We refer to this scenario below as scenario 3.

### **The impact of HS2**

It is difficult to estimate the growth transport investment on its own can stimulate, since there is usually a high degree of overlap between investment in transport and other investments and interventions. Research increasingly suggests however that creating strong transport links, particularly in cities, is necessary for new development to drive employment growth and to attract business to populate those developments. It also suggests that investment in transport infrastructure is not itself sufficient for long-lasting economic growth.

The July 2014 Economic Benefits Study cited in Chapter 2 estimates that between 13,300 and 14,200 jobs could be catalysed in the Liverpool City Region as a result of high speed rail. Using the lower end of this forecast, and assuming that these jobs are in addition to the 'business as usual' growth, this would total jobs growth of 36,000 across the region. We refer to this scenario below as scenario 2.

The 'achievable' jobs growth target of 41,000 within the sectors identified by the LEP, alongside growth facilitated by HS2, together leads to a scenario for future growth of 54,400, which would be 31,700 jobs over and above the 'business as usual' continuation of past trends' growth. We refer to this scenario below as scenario 4.

### **Transformational Change**

We believe the City Region has the capacity to break free from its historic growth rates, and move onto a new path which capitalises on its strengths and provides real opportunities for the future. We set out in Chapter 4 of our report our strategy for reform, consisting of the incremental steps we believe to be necessary to achieve this vision.

Together we estimate that these interventions could catalyse between 20,000 and 30,000 jobs across the Liverpool City Region. Combined with our estimate of the achievable growth within the three sectors identified by the LEP and the impact of HS2, this would suggest that between 74,400 and 84,400 jobs could be delivered across the City Region. We refer to this scenario below as scenario 6.

In reality it is not possible to simply add together the different growth scenarios presented in this report and conclude that this new target is achievable, since in reality all of the different interventions we have discussed are inter-related. Specifically, improving transport connectivity to ensure that Liverpool remains as accessible as other Northern cities – and moreover, accessible to and from other Northern cities – will be vital if it is not to lose further ground and become less competitive relative to the other Northern cities.

Taken together we believe that the total impact of our recommendations, alongside delivering a dedicated city centre high speed terminus and continuing to promote and encourage private sector development and investment in the city, could together provide the City Region with a more realistic possibility of achieving its 73,000 aspirational growth target. We refer to this scenario below as scenario 5.

## The future for Liverpool City Region

We believe our forecasts represent a more realistic set of scenarios for what Liverpool City Region's future growth could look like. We acknowledge the work which is already underway within the region to improve its future economic outcomes, and have evaluated its possible impact. Scenario 1 (which envisages no transformational aspiration for the City) and scenario 2 (which simply delivers HS2 but alongside no other proactive investment or planning) are therefore included primarily for reference purposes.

Scenario 3 details the growth we believe could be facilitated through proposed developments and likely future sectoral growth, and scenario 4 couples this with the additional growth over and above this which could be facilitated by high speed rail. We contend that this is a more measured starting point, which builds in structural growth that would occur anyway, as well as new sectoral growth figures from our own modelling and research, and growth associated with the high speed connection to the national high speed network as well as Manchester and the wider North.

Scenarios 5 and 6, which are based on full implementation of all current development plans coupled with proactive interventions along the lines of our recommendations (as well as a high speed rail connection in the case of scenario 6), present more aspirational potential futures for the City Region. We do not present these as central scenarios, as they require a radical degree of investment and change from the status quo, but we do present them as possible future scenarios, were all of our recommendations to be delivered.

Figure 20: New Scenarios for Liverpool City Region's Growth

Scenario	Description	Total Jobs Growth to 2030	Additional Growth to 2030 (Total Growth minus Structural Growth)
Scenario 1: Structural Growth	The lower bound of achievable growth within the Liverpool City Region. This assumes structural growth only and is referred to above as 'business as usual' – i.e. a continuation of past trend growth.	22,700	---
Scenario 2: Growth facilitated by high speed rail	Structural forecast plus job creation facilitated by high speed rail. This is the structural growth combined with the lowest jobs forecast from the July 2014 Economic Benefits Study.	36,000	13,300
Scenario 3: Development and sector led growth	The growth that we believe is achievable from the LEP's aspirational target of 73,000 new jobs within three key sectors by 2030.	41,000	18,300
Scenario 4: Sector led growth and high speed rail	Structural forecast plus growth facilitated by high speed rail, combined with our view of the achievable level of the LEP's aspirational sectoral and development growth forecast.	54,400	31,700
Scenario 5: Full 'policy-on' from the LEP / Transformational Change	The aspirational growth target from the LEP. This assumes structural growth, together with full prospective development and sectoral growth being achieved. We do not believe this is deliverable without other interventions, but if the LEP's strategy were implemented alongside the recommendations set out in this report, this quantum of growth could be achievable.	73,000	50,300
Scenario 6: A new aspirational path	This scenario adds together the different aspects that we believe could deliver growth in the Liverpool City Region. In reality this quantum of growth is probably aspirational only, and carries a low likelihood of being achieved, but it is a possible future. The only way to achieve it however would be to follow through fully on all the recommendations in this report and ensure all policies are closely aligned.	74,400-84,400	51,700-61,700

Source: Volterra

# Appendix 2

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## Further detail on the proposed payback mechanism

This section provides further detail on the assumptions underlying the model used to calculate the borrowing which the Liverpool City Region could undertake in order to contribute to the cost of constructing the high speed rail link advocated in this paper.

### **The Project**

There are currently a number of projects under consideration to improve the interconnectivity of Northern cities with implications for the Liverpool City Region, including improvements to freight linkages into the Port of Liverpool and connections to Manchester and to Manchester Airport. These are being looked at under the aegis of Transport for the North and extensive feasibility work is planned. This report advocates a direct high speed connection from Liverpool city centre into the planned HS2 route, and on to Manchester Airport and Manchester city centre.

We suggest a payback mechanism, whereby the Liverpool City Region capitalises present and anticipated future tax revenue, in order to secure for Liverpool at least part of the funding for this transformative investment which it will be difficult to obtain from elsewhere. The purpose of this analysis is to illustrate how a small selection of the tax revenues created from job creation within the City Region over the coming years could be captured to make a contribution to the costs of this investment. We consider the whole of the Liverpool City Region as the beneficiary of increased accessibility.

### **Payback**

As set out in Appendix 1, we identify a variety of future scenarios for achievable jobs growth in the Liverpool City Region. We examine in the main report three of these scenarios. The first two scenarios, scenarios 3 and 4, forecast respectively 18,300 and 31,7000 jobs created above structural growth to 2030, and are based on our projection of job creation in the City Region's core industries to that date; the latter also includes the impact of a high speed rail connection. The third, scenario 5, forecasts jobs growth of 50,300 over and above structural growth, and includes the effects of implementing the recommendations we make in Chapter 4 of this report.

The funding mechanism we propose below is based on these forecasted figures, and captures only the growth achieved in the City Region which is additional to baseline forecasts and therefore due to changes discussed in this report. We focus on a 35 year timeframe, and so our calculations relate to a 35 year period over which the initial loan is repaid, as well as capitalising the 35 year present value of the tax revenue streams detailed above.

The key question is what quantum of investment the jobs created over this period could support. Clearly the output these jobs deliver cannot be captured in its entirety as not all of it will accrue to the government as taxes. However, one widely accepted route to support a payback mechanism for new infrastructure is business rates retention. For example, a revenue stream from retained business rates, in addition to a Section 106 contribution and a Community Infrastructure Levy payment, is expected to finance the Northern Line extension to Battersea. This is a form of tax increment financing (TIF) where future gains in taxes are used to subsidise investment now.

In the case of Liverpool's prospective high speed connection, the improved accessibility this delivers is expected to generate jobs growth across the whole City Region. The boundary of coverage for payback contributions, often known as the 'red line', should therefore logically encompass the whole region. The calculations presented below examine the capital sum that can be generated on this basis depending on the number of projected new jobs that are included in the calculation.

In light of the Chancellor's announcement at the 2015 Conservative Party Conference that local authorities would keep all business rate revenues raised in their area as of 2020, we advocate that all business rate revenues associated with jobs created over and above structural growth in the Liverpool City Region by 2030 be put towards this payback mechanism. However, we also consider additional tax revenues.

We have chosen National Insurance as it relates specifically to employment and therefore new jobs created. Our calculation focuses solely on capturing the employer contribution. Whilst funding through TIF via capturing future additional growth in business rates is a relatively accepted methodology and approach, the proposal to also capture and retain locally employers' National Insurance contributions is a new concept. Even so, this calculation ignores the employee's contribution and also other taxation revenues which are likely to make up the majority of the value going to government.

## Assumptions

The outputs from our model depend crucially on several assumptions. All of these will affect the amount that can be generated and therefore the capital sum serviced or repaid. These assumptions are:

- The interest rate;
- The pace at which new jobs are created;
- How business rates rise over time;
- How wages rise over time.

We show two scenarios for interest rates: 3.5% and 4.5%. The former is the implicit rate used by government when analysing projects;<sup>179</sup> we have also considered a more conservative assumption by including the latter scenario. We assume that jobs increase in a linear fashion over the thirty years from the date of starting construction. Although this is unlikely to be mirrored in reality it provides an acceptable illustrative average growth rate over a period of time. There is also an interaction between the pace of job creation and the total exposure, as in early years there is insufficient revenue to cover debt repayments and the debt will increase.

We assume that business rates rise every five years by an adjustment for inflation. We assume that the inflation target is met and that this is therefore a 10% increase every five years. In past years, the rise has been lower as the relative movement in the total rates bill has been to faster growing locations. As business rates payable are directly linked to the rateable value of business premises, the relatively lower growth is explained by the overall rates income remaining constant in real terms, thus faster growing locations pay a higher level of rates as their rateable values increase with growth. We reflect this with a scenario where rates only increase by 5% every five years.

We assume that wages rise only by inflation and that National Insurance rates remain unchanged. This is clearly conservative, as we would expect faster wage increases as the economy becomes more successful.

## Results

Figures 17, 18, and 19 in Chapter 5 set out the maximum loan that could be supported under each scenario. All figures in the tables are rounded to the nearest £10 million. It should be remembered that these estimates include National Insurance as well as business rate contributions; the business rate element accounts for around a quarter of the revenue, so the inclusion of National Insurance in the calculations is important.

In addition, although not included in the figures presented in Figures 17, 18, and 19, we believe that borrowing against the revenue raised from tolls collected from the use of the Kingsway and Queensway tunnels under the River Mersey could make a further contribution to the Liverpool City Region's payback offer. The Mersey Tunnels represent a sustainable source of revenue for the City Region; after operating costs and debt repayment contributions are excluded, there remains surplus revenue of between £12 million and £14 million annually. Work by Grant Thornton for the City Region calculated that the current capitalised value of this surplus is around £500 million over a 35 year period.<sup>180</sup> This would represent a further substantial contribution towards the cost of the high speed connection we advocate.

179 HM Treasury (2013), *The Green Book: Appraisal and Evaluation in Central Government*

180 Grant Thornton, for Merseytravel





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## Prosperity

*The UK has some of the highest levels of wealth concentration in the developed world. It has an economy where most mature markets are dominated by a small number of players and the barriers to entry are far too high. It is not an exaggeration to suggest that in many areas, from energy to banking to groceries, the UK has a monopolistic rentier rather than a market economy – a system in which certain individuals or small groups gain market dominance and excessive returns through anti-competitive practices. This conspires against innovation and is detrimental to the small and emergent businesses that generate growth and spread prosperity. Added to this, our education system, by specialising too early and often in the wrong areas, fails to produce students with fully rounded skill-sets. We are simply not equipping our future workforce with the means to safeguard our, and their, economic future. This is one reason why the real value of wages in proportion to growth in GDP continues to stagnate or fall. Our long-term productivity dilemma is a function of market capture and the effective de-skilling of the population.*

*We believe that shared prosperity cannot be achieved by simply tweaking the market. Britain needs significant demand and supply-side transformation, with new visionary institutions re-ordering our economy. We need long-term solutions that give power over wealth and assets, not simply handouts, to ordinary people. Central to this process of economic empowerment is an ethical, practical and adaptable education that gives people the skills to build their own businesses, or develop their own talents, rather than a conveyor belt to a service industry of low wage and less return.*

*New financial institutions to promote small business lending are required, and this involves smaller, more specialised and decentralised banks that can deliver advice as well as capital. We wish to explore ways in which all financial transactions can be linked to a wider social purpose and profit, which itself needs a transformation of the legal framework within which economic transactions take place. We believe that the future lies in the shaping of a genuinely social market which would be in consequence a genuinely free and open market. Internalising externalities and creating a level economic playing field in terms of tax paid and monopolies recognised and challenged, remains beyond the scope of contemporary governments to deliver. Such a vision requires new concepts. The viable transformative solutions lie beyond the purview of the current visions of both left and right in the UK.*



# Prosperity Prosperity Prosperity

More than most other cities, Liverpool's economic and social flourishing has always been inextricably tied to its transport links. Today however, the city faces missing out on integration into the emerging north-south and east-west high speed rail networks, and the economic rewards facilitated by improvements to urban connectivity and accessibility. The wider Northern Powerhouse will suffer too if it fails to fully link its constituent parts, or take full advantage of the many resources Liverpool and the surrounding boroughs have to offer.

*Ticket to Ride* advocates extending the planned HS2 route into Liverpool city centre, connecting the Liverpool City Region into the north-south high speed rail spine and then on to Manchester and further east as part of the proposed trans-Northern high speed line. Yet transport can be only one part of any strategy for economic growth. If Liverpool City Region is to make its fullest possible contribution to the Northern Powerhouse and the rebalancing of the national economy, further reform is required.

The report therefore also makes recommendations to accelerate the region's economic progress in recent years, in order to ensure this investment delivers maximum returns for the region and the wider North. It also details a locally financed payback scheme that could see the City Region contribute up to two thirds of the cost of the high speed connection we recommend.



**Mayor of  
Liverpool**

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