



BORDERLANDS: CAN THE NORTH EAST AND CUMBRIA BENEFIT FROM GREATER SCOTTISH AUTONOMY?

An independent report produced on behalf of the Association of North East Councils

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Table of Contents

| | |
|---|--------------|
| Executive Summary | 4-7 |
| 1. Introduction | 8-16 |
| 2. A more powerful Scotland: concerns | 17-19 |
| 3. 'Close friends': the case for collaboration | 20-23 |
| 4. Opportunities for collaboration | 24-34 |
| 5. Conclusions and recommendations | 35-40 |
| | |
| Bibliography | 41-45 |

Executive Summary

1. The Association of North East Councils (ANEC) commissioned Northumbria University, St Chad's College at Durham University, and IPPR North to look at the implications for North East England and Cumbria resulting from greater Scottish autonomy. The research, which is also supported by Cumbria County Council, draws upon detailed interviews with a range of key stakeholders from both sides of the border, discussions with both the North East and Tees Valley Local Enterprise Partnerships (LEPs), and discussions at three roundtable events (in Durham, Carlisle and Edinburgh) in late 2012 and early 2013.

2. Developing a new relationship with Scotland will neither be a panacea for the many economic and social challenges facing the North East and Cumbria, nor easy to achieve. In addition, the scale of economic competition provided by a powerful Scotland *now*, irrespective of the outcome of next year's referendum, is clearly an issue that the North East and Cumbria will want to address. Stakeholders in the North East and Cumbria did not underestimate the competition likely to be provided by a stronger Scotland. Indeed, many felt that Scotland already had major advantages in relation to institutional capacity, resources for economic development and the ability to attract inward investment.

3. However, a key message from this research is that the prospect of further autonomy for Scotland is also stimulating a new interest in the North East, Cumbria and Scotland to work more collaboratively together. There was a general view that in the period leading up to the independence referendum (in September 2014) the Scottish Government would be receptive to new ideas and approaches.

4. Despite the undoubted anxieties created by the prospects of greater Scottish autonomy, there are genuine opportunities, now, for new creative and innovative approaches to emerge. In particular, there is scope for joint approaches to economic development based on both *sector* and *place*, and opportunities for policy co-ordination. There are also possibilities for the North East and Cumbria to come together to engage with the Scottish Government.

5. It was acknowledged that any collaboration should:

- Be realistic, both in terms of political feasibility and resource availability
- Genuinely add value to what is already available
- Identify where collaboration would be able to make a difference to economic growth
- Avoid yet more 'talking shops'
- Be careful not to assume a 'one size fits all approach'
- Be clear over what the joint issues are, and specify tangible outcomes.

6. The economic *sectors*, where collaboration and joint-working would be beneficial, were identified as:

- Transport (including High Speed Rail; Roads; Ports; and Airports)
- Energy (particularly renewables and North Sea oil and gas)
- Tourism (particularly in the border area)
- Rural Development (including superfast broadband, food and forestry)
- Business Development (including SME support)
- Education and Skills (including the role of further and higher education institutions).

7. In terms of *place-based* co-operation, it was highlighted that a 'Borderlands' approach, bringing together the four local authority areas adjacent to the border, would have a number of advantages. This is a substantial area (bigger than Edinburgh, Glasgow or Newcastle in terms of population) which could benefit from distinctive branding, notably to encourage and promote tourism. To facilitate that, the North East, Cumbria and Scotland need to identify connections that are capable of creating and sustaining cross-border relationships, and identify potential synergies that can be the basis for such collaborations. At the same time, there are also opportunities to reinvigorate co-operation between the North East and Cumbria around areas of mutual concern.

8. It is important that the North East and Cumbria are able to highlight the significant 'offer' that they could make to Scotland. The north of England is a very important trading partner for businesses in Scotland and there are undoubtedly opportunities for Scotland and northern England to work more closely together in areas such as energy, transport – particularly HS2, major roads, seaports and airports and public transport -- and also in relation to Borderland tourism, forestry and food industries. In addition, the North East and Cumbria can add substantial strength to a 'northern voice' that embraces Scotland and northern England, in the face of the continuing dominance of London and the South East.

9. The main recommendations from this research are based around four themes:

Promoting Economic Development

- The three Local Enterprise Partnerships in the North East and Cumbria, in partnership with Scottish Enterprise, could encourage and facilitate sector-based groups covering areas of the economy that have strong cross-border interests, such as transport, tourism, renewables, oil and gas, skills, universities and port facilities. Each of the groups should include representation from a range of relevant organisations and might usefully be chaired by business leaders from both sides of the border.
- All key partners should be involved in looking at ways of improving transport connectivity on both sides of the border. This would include a joint approach to HS2, discussions over the East Coast Rail franchise, and possibly also

exploring collaborations with Network Rail and ScotRail to upgrade cross-border rail services.

- There are also opportunities for the offshore and subsea sectors in North East England to benefit from the current expansion of the oil and gas sector in Aberdeen. While the region has traditionally competed with North East Scotland, there is now a recognition, on both sides, that there are supply chain opportunities that will benefit both 'North Easts' and that there is potential for more formal links between the two in the oil and gas sector.
- As rural economic development is a major challenge and opportunity on both sides of the border, there is an opportunity to develop a network that brings together rural councils in Scotland, the North East and Cumbria to share best practice and consider collaborative approaches to European funding, broadband, transport, and tourism. On the south of the Border, this approach could be facilitated through the Rural Growth Networks in Cumbria, Northumberland and Durham.

'Voice' and Influence

- Working through the LEPs, local authorities and the business community, the North East and Cumbria should consider opening up a dialogue with Scotland on fiscal changes that may have a negative impact on their competitive position. This would also help the North East and Cumbria reach an informed view, allowing more effective dialogue with UK government departments on issues such as Air Passenger Duty (APD), and creating opportunities for a joint campaign with Scotland to lobby for the eventual removal of APD's, on the basis that they restrict the growth of regional airports on both sides of the border.
- The LEP areas could use the current economic development powers available in Scotland as a model for securing enhanced autonomy in the North East and Cumbria, particularly in relation to the offer for skills and training, business support and transport. In particular, this could help extend the range of policy levers available to attract inward investment south of the border.
- More effective use should be made of individuals outside the 'normal channels' - but with strong links to the North East and Cumbria – whose voice could be of value when developing new ways of working across the border. Such individuals should have the national profile to gain access to, and engage in discussions with, the UK and Scottish Governments.
- Since UK government departments are likely to be more willing to discuss new approaches to collaboration with Scotland in the context of powers already in operation - as the Government would prefer not to acknowledge independence as a possible outcome - the challenge for the North East and Cumbria is to adopt a nuanced approach that works within the existing

framework of Scottish powers and influence, but which also can incorporate discussion of more discrete elements that might form part of a 'Devo Plus' or 'Devo Max' agenda in the future.

Collaboration, Partnerships and Networks

- ANEC, in conjunction with public and private partner organisations in the North East and Cumbria, should set up a Strategic Forum of key stakeholders from Scotland, the North East and Cumbria.
- ANEC should consider taking the lead in developing a network through which the 12 local authorities in the North East and the 7 councils in Cumbria could meet regularly to discuss issues of mutual concern and develop collaborations
- ANEC, and the individual local authorities concerned, could look at the possibility of revitalising the earlier 'Border Visions' approach by convening a similar network facilitating collaborative working across the four local authorities on either side of the border. They could work towards a "Borderlands deal" to be endorsed by both the UK and Scottish governments.

Evidence and Analysis

- ANEC, in conjunction with partner organisations in the North East, Cumbria, and Scotland should consider jointly commissioning a detailed analysis of the economic linkages between the north and Scotland, covering travel to work, shop, and leisure flows, labour markets, migration, inward investment and sectoral linkages, including supply chains.

10. Many stakeholders in the North East and Cumbria acknowledged the importance of ensuring that any discussions within Whitehall on greater freedoms for Scotland should take full account of the region's views. It was also said that UK government departments would be more willing to listen to the region's views on the impact of greater Scottish autonomy in the context of powers already in operation - or about to come into force via the 2012 Scotland Act - rather than speculate on an independent Scotland. Hence, the challenge for the North East and Cumbria is to adopt an approach that works within the existing framework of Scottish powers and influence, but which can also allow discussion of specific elements associated with more extensive devolution options. The report also echoes the firmly expressed view that developments north of the border are fully taken into account by the UK government in any discussions on the crucial question of greater devolution *within* England itself.

1. Introduction

1.1. Increased autonomy for Scotland, either through independence, 'Devo Plus' or 'Devo Max' options (Devo+, 2012), is not just a matter for Scotland. Such changes can be expected to have substantial ramifications for the rest of the UK, and especially for the North East and Cumbria. It is not difficult to imagine a resurgent Scotland posing a threat to economic development south of the border – but it is also possible to imagine economic development in the North East and Cumbria benefiting from a stronger Scotland. There are both potential threats and opportunities; and it is important that the North East and Cumbria develop a better understanding of what they are, and find ways of mitigating threats and taking advantage of opportunities. This report adopts a positive stance, focusing on the possibilities and benefits of collaborative relationships; it suggests that a more powerful Scotland is *not* inevitably a threat to the economic fortunes of its 'closest friends' across the border.

1.2. The research upon which this report draws was commissioned by the Association of North East Councils (ANEC) and undertaken by Northumbria University, St Chad's College at Durham University, and IPPR North. The research team comprised Professor Keith Shaw and Professor Jonathan Blackie (Northumbria), Professor Fred Robinson (St Chad's), Dr Katie Schmuecker (until November, 2012) and Graeme Henderson, both from IPPR North. The Steering Group for the project comprised: Steve Stewart (Chief Executive, Northumberland County Council); Melanie Laws (Chief Executive, ANEC); Gillian Elliot (Assistant Director of Economic Development, Cumbria County Council); and Professor John Mawson (Director, North East Institute for Local Governance). This report builds on an earlier report by IPPR North, *Borderland: Assessing the implications of a more autonomous Scotland for the north of England* (Schmuecker et al, 2012), which examined some of the main economic challenges facing the north of England.

This research utilised a 'co-production' model, which aimed to engage policy makers and practitioners from and practitioners from the beginning in identifying and framing the questions that need to be addressed. In doing so, the research sought to capture the views of a range of key stakeholders on both sides of the border. Detailed interviews were undertaken with 25 political, public and private sector representatives; presentations were given to both the North Eastern and Tees Valley LEAs; and discussions took place with a number of senior civil servants. Three roundtable events were held (in Durham, Carlisle and Edinburgh) in late 2012 and early 2013. These events included over 40 representatives from local authorities, economic development bodies, private companies, tourist organisations, government departments, universities, and the media.

1.3. At the outset, it is worth pointing out that concerns about the possible impacts of increased Scottish autonomy have been raised before in the north of England. Back in the late 1970s, North East MPs were concerned that a more devolved administration in Scotland could be a threat to the region. They supported an amendment to the 1978 Scotland Act ensuring that the referendum on the creation

of a Scottish Assembly needed to secure the support of at least 40% of registered voters. In 1979, only 32.9% of the electorate voted Yes, and new devolution arrangements were therefore not introduced. This period also saw the creation of the Barnett Formula, which has been the cause of a long-standing grievance in northern England due to the consequent advantages that Scotland enjoys in relation to public expenditure allocations (McLean, et al, 2008). More recently, in evidence to the Calman Commission on Scottish Devolution (2009), whose eventual recommendations on greater fiscal devolution were enshrined in the 2012 Scotland Act, the North East Chamber of Commerce expressed their concerns over the possible

'...creation of a Scottish rate of Corporation Tax. This concern would extend to the potential for cross-border impact from variations in other taxes mentioned in the consultation document, including air passenger duty, stamp duty and landfill tax' (NECC, 2009).

1.4. More positive views of the lessons and opportunities provided by greater devolution have also been expressed. For example:

- In the 1980s and 1990s, the campaign for a Scottish assembly influenced the development of the case for a directly-elected assembly for the North East (Tomaney, 2005)
- The *Border Visions* partnership was established in the early 2000s and brought together neighbouring local authorities and agencies on both sides of the border to discuss joint working in areas such as transport and economic development (Peck, et al 2002; 2003).
- While, in evidence to the Calman Commission, ANEC pointed out that: *'There are of course strategic connections between the North East of England and southern Scotland, including economic development, employment, tourism and transport. The Association would welcome a closer dialogue with the Scottish Executive and Parliament to explore and exploit opportunities for strategic connections across the Border.'* (ANEC, 2009, p 1).

1.5. The independence referendum (to be held on the 18th September 2014) is likely to result in Scotland acquiring very substantial new powers. The North East and Cumbria, by contrast, are now institutionally weaker than before. Following the recent abolition of the Government's regional structures these areas arguably have reduced power and autonomy. The contemporary context is therefore characterised by substantial imbalance.

1.6. Some politicians, local agencies and the media in northern England are increasingly expressing concern about the growing political and economic strength of Scotland. It is viewed as *already* having powerful political and economic development organisations, the capacity to speak with a single voice, and the possession of 'soft power', which enables the exercise of influence in formal and

informal negotiations with UK and EU decision-makers. The presence of the Secretary of State for Scotland in the UK Cabinet, and the role of a separate Scottish Government European Union Office in Brussels, in addition to its membership of the UK's EU representation (UKRep), contributes to the asymmetry in institutional capacities between Scotland and sub-national areas in England.

1.7. There are also concerns developing in the north of England that the UK government will '*bend over backwards*' to reward Scotland, so as to highlight to voters the benefits of Scotland remaining in the union. Thus, the recent UK government decision to minimise the impact of cuts in EU Structural Funds in the Devolved Administrations, Scotland, Wales and Northern Ireland (as compared to England) led the Scottish Secretary to claim that, '*being in the UK, ensures that Scotland has not only got a better EU budget deal - we will also get better funding from Brussels*' (BBC, 2013a). Not surprisingly perhaps, this deal - that will see Scotland receiving £193m more than if allocations had been in line with EU guidelines, and England receiving £665m less - led one North East MEP to argue that

'...the region would lose up to £100m of the £300m it had expected to receive as the government wished to persuade the people of Scotland that they should vote to stay in the United Kingdom. People in the North East will be justifiably angry that this is going on. It will be bewildering that money will be taken from the North-East and given to Scotland, which is better off.' (Stephen Hughes, MEP, quoted in The Northern Echo, 2013a)

1.8. There is a particular worry that Scotland could become significantly more attractive for inward investment - to the detriment of the North East in particular - if it acquired greater fiscal powers. In light of recent decisions by two companies (Amazon and Gamesa) to invest in Scotland rather than in the North East, one senior local politician noted:

'Scottish independence represents a real threat to the region. If Scotland gets tax powers and offers lower corporation tax it could mean that firms leave the region and move north of the border' (John Shipley, former Leader of Newcastle Council, quoted in Schmuecker, et al, 2012, p 4).

Arguably, Scotland already has power over most of the key factors that influence economic development, including: infrastructure; skills; education; and industrial development. It has been speculated that Amazon's decision to invest in Scotland rather than in North Tyneside had just as much to do with the £1.8m subsidy provided to the company by Scottish Enterprise towards training costs, than the possibility that an SNP government might significantly reduce corporation tax in the future (Schmuecker et al, 2012). One study, commissioned by the BBC, suggests that Scotland now spends 76% more per head of population on economic development than the North East (ERS, 2012), while the Ernst and Young survey of inward investment (2012) found that, in contrast to the fortunes of the English regions, Scotland remained the UK's leading location for FDI job creation, as it was in 2010

(Ernst and Young, 2012a). This strong performance was seen as owing a great deal to the *'proactive efforts of Scottish Development and the Scottish Government'* which appears to be giving Scotland *'an edge over other areas of the UK outside London: Scotland's voice is being heard clearly by international investors'* (Ernst and Young 2012b, p 1).

1.9. There is, understandably, a good deal of anxiety about the impact of the Scottish Government's aim to reduce corporation tax (from 24% to 12.5%) and the implications (for Newcastle and Durham Tees Valley airports) of a reduction in Airport Passenger Duty in Scotland. In their response to the Department of Transport's consultation on Aviation Policy, ANEC said that the position of the region's airports:

'Will be exacerbated by the potential devolution of APD in Scotland which would enable the Scottish Government to offer incentives that airports in England would not be able to match. Such a development poses significant risks of further market distortion, resulting in competing airports north of the Border pursuing more advantageous tax incentives' (ANEC, 2011, p 2-3).

1.10. The North East and Cumbria are in an uncomfortable position, caught between an increasingly confident neighbour north of the border - poised to secure greater power and influence - and a prosperous and powerful London and South East region. As Middlesbrough's Mayor, Ray Mallon, puts it:

'If the economic freedoms that independence would bring further strengthen Scotland's hand, we could find ourselves between the anvil of a government that looks little further than the Home Counties and the hammer of a new "tiger" economy to the north. That won't be very comfortable' (The Northern Echo, 2013b).

Indeed, the power of London should not be overlooked when assessing the impact on the North East and Cumbria of greater Scottish autonomy. The recently published report of the London Finance Commission (appointed by London Mayor, Boris Johnson), argues that London government should have full control over council tax, stamp duty and business rates, the new annual tax on enveloped dwellings and the capital gains property development tax. In addition, London is also keen to have the power to introduce new levies, such as a tourism tax. According to the Commission's chair, *'with both Scotland and Wales moving towards greater fiscal autonomy, London should be treated similarly'* (Tony Travers quoted in Public Finance, 15/5/2013).

More generally, the chair of the Local Government Association is also concerned that, in the rush to devolve powers to Scotland and the other devolved administrations, the needs of people living in England are in danger of being overlooked. In noting that the variation in powers and resources will be particularly felt in border authorities such as Carlisle - *'if rivals in Dumfries started to cut VAT in a*

independent Scotland' - Sir Merrick Cockell suggested that the UK Government should consider creating a Minister for England who would be able to compete with the other devolved nations *'for a bigger share of Government resources in Whitehall budget talks'* (quoted in the Daily Telegraph 2013a).

1.11. At the same time, however, it is argued that there are genuine opportunities on offer, both now and in the future. Some feel that the time is now right to explore new ways of working with Scotland, particularly on matters that offer mutual benefit. In addition, it is felt important to ensure that discussions on Scottish independence within the UK government take into account potential impacts on the north of England. Some supporters of independence north of the border have emphasised that an independent Scotland would not only maintain close ties to the north of England, but that independence would also offer new opportunities for collaboration and joint-working. One Scottish minister, Fiona Hyslop, MSP, has argued that a stronger Scotland could act as a powerful advocate on issues of mutual concern to the north of England and Scotland, in view of the fact that the

'...incredibly lopsided nature of the current UK economy affects both Scotland and the regions of England. The dominance of London and the South East skews UK government priorities to an extent which is deeply damaging to other regions' (The Journal, 2012a).

Similarly, Scotland's First Minister, Alex Salmond, MSP has spoken of the North East as *'our closest friends in economic and social terms'* (quoted in The Journal, 2012b), while one Scottish journalist recently described the region as *'our cousins on the warmer side of Hadrian's Wall'* (Fraser, 2012). But not all Scottish commentators are so reassuring. Indeed, it is clear that the question of Scottish Independence remains a highly contested issue within Scotland itself. One of the First Minister's (Liberal Democrat) political opponents, Willie Rennie, MSP, has argued that:

'The SNP's plans for corporation tax are designed to draw economic activity away from the North East. They would result in cuts to public spending both there and in Scotland and rely on a gamble that revenues will pick up in Scotland before lasting damage is done. The SNP are no friends of the north of England.' (Heraldscotland.com 2012)

1.12. At this stage, the report can only speculate about how much of an impact greater Scottish autonomy might have on the North East and Cumbria. Although there is an increasing amount of policy discussion and analysis, (see for example, Devo+, 2012; RSE, 2012; McLean et al, 2013), we cannot know how much autonomy Scotland will eventually accrue. Nevertheless, speculation is both necessary and worthwhile if we are to identify challenges and opportunities for the North East and Cumbria – and identify ways of responding to them. A good starting point is to set out possible outcomes for Scotland. The range of options includes:

- At the most radical end of the spectrum, Scotland would be an *independent state*, perhaps in a monetary union with the rest of the UK, still sharing the

monarchy, and with various arrangements in place to deal with border and bilateral issues.

- *Devo Max* would be a compromise and might mean devolution of almost everything to Scotland apart from defence, foreign affairs and monetary issues. That would imply full fiscal autonomy, with all taxes set and collected by Scottish authorities.
- Another, less radical option is *Devo Plus*, which might still involve a considerable devolution of fiscal powers. It might involve income tax, VAT and, perhaps, Corporation Tax, and also the devolution of some welfare functions. A recent IPPR North report refers to a *Devo More* option which allocates the Scots a devolved fiscal package including: *'local taxation, personal income tax, an assigned share of 10 "points" of VAT, alcohol and Tobacco duties and land taxes. This would see 55 to 60 per cent of devolved public spending directly in the hands of the Scottish Government. Between 43 and 50 per cent of that would be taxes fully under Scottish control, which contrasts with the Scotland Act 2012, which puts around 30 per cent of devolved spending under devolved control'* (Trench, 2013, p 3-4).
- Even with the *status quo*, the proposals already contained in the 2012 Scotland Act allow the Scottish Parliament (from 2016) to bring in a new Scottish rate of income tax and utilise borrowing powers worth £5bn. Stamp duty, land tax and landfill tax are also devolved.

1.13. It is reasonably safe to assume that Scotland will gain greater autonomy, whatever happens in the referendum. Retaining the status quo therefore looks unlikely. And, arguably, options such as *Devo Max* or *Devo Plus* are at least as worrying for northern England as independence, as they would still enable Scotland to cut taxes and compete for inward investment. Moreover, it may be argued that:

'More devolution for Scotland could cause more problems for the north of England economy than a vote for independence. It's argued Scots would be pushing to grab the best of both worlds: fiscal autonomy with transfers of spending from Whitehall' (Fraser, 2012).

1.14. Recent research by IPPR North has attempted to provide a balanced view of the evidence on economic and fiscal impact impacts, and concluded that the room for manoeuvre for a more independent Scotland to cut taxes will be limited by the scale of recession, EU regulations, and the level of spending required to support the extensive welfare state in Scotland. In particular:

'..the likelihood of Scotland being able to slash corporation tax to 12.5% in the short to medium term seems remote. Basic calculations indicate GDP growth of approximately 8% could be required to make up the lost revenue – a tall order, especially in the current economic climate' (Schmuecker et al, 2012, p 24)

The IPPR North report also considered that the evidence on the importance of tax competition on industrial location is inconclusive, and suggested that infrastructure, skills and labour costs are equally as important to business location as rates of taxation. IPPR North argued that it is likely to be smaller initiatives, such as capital allowances to aid investment in key economic sectors, or a reduction in Air Passenger Duty, which may prove potentially more damaging to the north of England, given its proximity to Scotland (Schmuecker et al, 2012).

1.15. The recent House of Lords report, on the economic impacts of Scottish independence for the UK, asserted that the implications are *'not symmetrical'*, since Scotland's GDP is *'around one-tenth of that of the rest of the UK'*. Hence, the main economic effects of independence would be felt in Scotland itself, *'with an early transitional problem involving assuming its share, perhaps £93bn, of the UK's public sector debt'* (House of Lords, 2013, p 7). In a similar cautionary vein, a recent UK Government analysis paper on Scottish independence (HM Government, 2013a) has argued that, *'the current currency and monetary policy arrangements within the UK serve Scotland well'* (p 6). It goes on to argue that there can be no guarantee that the UK and Scotland would be able to come to an agreement on a currency union and that, *'Even with constraints in place, the economic rationale for the UK to agree to enter a formal sterling union with a separate state is not clear'* (HMG, 2013a, p 50).

The impact of independence on Scottish financial services and banking was also reviewed by the UK Government, who argued that an independent Scotland could have *'significant difficulties'* in providing protection for savers and pensioners:

'As part of the UK, firms and individuals benefit from a world-leading financial services sector and a large, integrated domestic market for financial services, with clear and effective arrangements for protecting consumers. This position would be put at risk if Scotland were to become independent, fragmenting the market and the bodies that have been put in place to protect customers' (HM Government, 2013b, p 10).

On a smaller financial scale, there have been recent reports that a number of English councils are so concerned about the level of financial risk produced by the possibility of Scottish independence, that they are *'backing away from offering cheap loans to their counterparts in Scotland'*, and that one local authority, Fife, had already been denied a loan by an English local authority as they, *'refused to deal past the referendum date in 2014'* (The Times, 7/6/2013).

1.16. Not surprisingly, the Scottish government has developed a different narrative. Not only will an independent Scotland fully carry out *'its obligations in terms of deposit protection'* (Nicola Sturgeon, MSP, quoted in BBC 2013b), but the Scottish government is also confident in its rational and considered case for the *'establishment of a sterling zone that can operate in the interests of both an independent Scotland and the rest of the UK'* (BBC, 2013c).

In its recent publication, *Scotland's Economy: the case for independence*, the Scottish Government reported on the conclusions of its own Fiscal Commission Working Group that, *'There is no doubt that Scotland has the potential to be a successful independent nation'* (Scottish Government, 2013, p 4). The detailed report goes on to make the economic case for an independent Scotland based on the view that, *'by international standards Scotland is a wealthy and productive country'*. For example,

- Scotland has been in a stronger fiscal position than the UK as a whole over the last five years to the tune of £12.6 billion, and that even when North Sea oil is excluded, GVA per head in Scotland is 99% of the UK average and the highest in the UK outside London and the South East.
- Scotland's share of the UK national debt is lower as a percentage of GDP than the UK's.
- Scotland also performs well compared to the rest of the UK on other key economic indicators, such as the labour market, with unemployment currently lower in Scotland than in the UK.

However, the report also confirms that over the last 30 years Scotland has grown more slowly than the UK as a whole and that it lags behind many of its international competitors in key areas. Hence a one-size-fits-all approach to UK economic policy decided in Westminster denies Scotland the policy levers it needs to *'boost Scotland's economic performance, to compete on a level playing field with other countries and to create greater opportunities for all'* (The Scottish Government, 2013, p 11).

1.17. The growing debate on the potential economic implications of greater Scottish autonomy is clearly highly contested, and shrouded in considerable uncertainty. As one in-depth study of the issue acknowledges:

'Whether Scotland would be richer or poorer as a result of becoming independent is simply not possible to determine: there are too many uncertainties about not just the terms of independence, but the approach of any future Scottish government, not to mention what happens to the UK, European and world economies' (McLean et al, 2013, p 46).

Whatever the outcome of the referendum however, the *'debate in Scotland is gathering steam: in almost any eventuality, the Scottish Parliament is likely to be able to build upon its existing ability to act in its own interests'* (Northern Economic Futures Commission, 2012, p 8). There is clearly then, a lot to play for as far as the North East and Cumbria are concerned: in this context, the aim of the report is to highlight the issues, stimulate debate and help to identify a positive way forward.

The rest of the report is divided into the following sections:

- A more powerful Scotland: concerns
- 'Close friends': the case for collaboration
- Opportunities for collaboration
- Conclusions and recommendations

2. A More Powerful Scotland: concerns

2.1. In the interviews, discussions with LEP boards and in the round table conversations, stakeholders from both sides of the border expressed a number of genuine concerns about the implications of greater Scottish autonomy for the North East and Cumbria. Many of the issues they raised echoed points that had been previously made in evidence to the Calman Commission – and, indeed, in debates about devolution as far back as the 1970s. Essentially, this is the view that a more powerful, more autonomous Scotland will seriously undermine economic fortunes south of the border.

2.2. It is worth noting, however, that some of those consulted in this research felt that the issue of Scottish independence had to be seen in the wider context of the challenges facing the North East and Cumbria. In short, they felt that there were other, much more important, things to worry about than Scottish independence, such as the state of the UK economy, cut-backs in public spending, and the impact of welfare reform. There was also a cautionary reminder from one participant, that,

We'll end up focusing on Scotland as "the problem".....rather than focusing on London, the real problem'.

Research undertaken by IPPR North has confirmed for example, that Transport spend per head in the North East is just £5, compared to £2,731 in London (Cox and Schmuecker, 2011).

2.3. Many of the concerns that people expressed were connected to a perceived imbalance in institutional capacity. It was felt that the demise of the RDAs and Government Offices had created a vacuum that the new Local Enterprise Partnerships were finding a challenge to fill. In comparison, Scotland has the ability to '*speak with one voice*', and key Scottish organisations *have 'direct access to the First Minister and his government colleagues'* (Business Stakeholder). Some participants also attributed Scotland's consistent inward investment performance to the stability, as well as the strength, of its economic development institutions.

One North East commentator has neatly summed up the contrast:

'An investor looking at the North East has to traipse round the whole of the region knocking on a variety of doors. They go up to Scotland, they go and see Scottish Enterprise, it sorts out grants for the land, it sorts out grants for training, it sorts out all of the support that they require and that obviously makes it a whole lot easier for them.(Keith Burge, ERS Consultants, quoted in BBC, 2012a).

2.4. But there is also a good deal of realism, an understanding that the North East and Cumbria need to 'move on' and accept that the RDA era is now over. Furthermore, it is also recognised that there is no point blaming Scotland for this

outcome. At the North East Economic Forum in November 2012, the First Minister made that clear. He declared:

'I'm not the politician who abolished the Regional Development Agencies in England. I'm not the politician who left, not just the North East, but the regions of England without an effective agency to promote their interests' (The Journal, 2012b).

2.5. A key message from both business and political leaders was that *'The North cannot compete with Scotland as it stands, unless there is a much more level playing field'* (North East Councillor). The importance of the region responding to the challenge of Scotland *now*, was similarly expressed by one businessman who felt that it was *'a real battle at present'* and that *'things could well get worse'*. There are considerable concerns about the powers Scotland already possesses and, looking ahead, about the powers it might well get through the Devo Max option in particular. In the words of one senior local government officer in the North East, *'the Scots can't lose – Devo Max is a fantastic consolation prize'*.

2.6. The Scottish Government's ability to vary Corporation Tax was highlighted as a concern by a small number of stakeholders. But it was understood that this was neither straightforward nor inevitable, and that *'Scottish nationalists hopes of becoming a Celtic Tiger with low business tax face a number of significant obstacles'* (Fraser, 2012). Such obstacles were noted in the IPPR Borderland Report in October 2012, but that might not be the end of the matter. One of the participants in the Edinburgh round table offered a word of caution:

'What the Borderland report doesn't factor in, is the sheer amount of political will in a post-referendum Scottish government to have a low tax economy. There will be real pressure to do that'.

Indeed, the Scottish Government's recent report on the economic case for independence says that a three per cent cut in corporation tax could increase the level of output by 1.4%, boost overall employment in Scotland by 1.1% (equivalent to 27,000 jobs) and raise overall investment in the Scottish economy by 1.9% after 20 years (The Scottish Government, 2013, p 40).

2.7 The issue of Airport Passenger Duty (APD) was felt to be a more pressing concern. One of the North East's business leaders said that:

'Airports are a big issue. Reductions in APD for Scottish Airports could make a really big difference to passenger choices and small shifts in passenger numbers at Newcastle airport could make an important difference to the viability of some services provided by budget airlines'.

The Scottish airports certainly recognise the importance of APD. Aberdeen, Glasgow and Edinburgh airports recently commissioned a review of APD that reported that the tax could cost Scotland more than two million passengers a year by 2016, which

could cost the Scottish economy £210m a year in lost tourism spend. The report concluded that:

'In terms of the knock-on impacts to the Scottish economy, APD will over the long-term reduce traffic and connectivity from Scotland's airports, impacting on inward investment, trade and competitiveness' (BBC, 2012b).

This issue is likely to remain politically salient, given the Chancellor's announcement in the recent budget that APD will now increase at the highest rate of inflation for the next two years. Under the Treasury plans, the duty could add £94 to the price of a long-haul economy flight of more than 6,000 miles and £188 to business and first class tickets (Daily Telegraph, 2013b).

2.8. There were also concerns about the enhanced 'offer' that a more powerful Scotland could provide in order to attract companies. This was coupled (particularly in Tees Valley) with a concern that the level of support existing businesses could expect from both Scottish Enterprise and individual local authorities, such as Edinburgh, would see them enjoying a considerable advantage over companies in the north of England competing in similar markets. Furthermore, some already found it difficult to penetrate the Scottish market: one North Eastern business leader said that, *'for an English company it can be very difficult to get orders in Scotland'*. A more powerful Scotland could make that situation worse.

2.9. Such contemporary concerns seem real enough, rooted in genuine anxieties – and are hard to dismiss. But it is possible to identify opportunities as well. In the next section the report looks beyond the concerns and explores more hopeful possibilities.

3. 'Close friends': the case for collaboration

3.1. The interviews and discussions generated some interesting and optimistic ideas about how the North East and Cumbria could benefit from greater autonomy in Scotland. It could, for example, provide for a new perspective on how the region sees itself. One of the round table participants commented:

'We are so used to being governed by the South East that we have tended to forget just how much we have in common with the Scots in terms of our social and economic challenges. If we could forget that imaginary line on the map, we would see benefits from cross-border co-operation.'

3.2. Many of the people we consulted were able to imagine opportunities and possibilities (see Figure 1). This more positive view seemed particularly evident among those from both the public and private sectors in the border areas of Northumberland and Cumbria; some business sectors in the North East; and among some local authority senior officers and politicians from both the North East and Cumbria. Capturing this mood, the Mayor of Middlesbrough recently said:

'If recessions know no boundaries, co-operation shouldn't either. Like the North East, Scotland was built on shipbuilding, steel, mining and construction. Maybe we should be looking at the successor industries – wind and wave power, processing, technology and tourism – to build a common economic and investment policy. To do that, business and local government will need a sense of common purpose and willingness, through the Local Enterprise Partnerships, to pool resources to make a convincing case for joint working. We will also need some of the freedom of movement that has been allowed to our neighbours' (Ray Mallon, quoted The Northern Echo, 2013b).

3.3. Several contributors to our discussions pointed to the common bond between the north of England and Scotland. This was viewed as partly reflecting their shared experiences during the industrial revolution and the deindustrialization of the 1970s and 1980s, and partly their geographical peripherality. The bond between the North and Scotland was also seen in their common commitment to economic and social progress: what one participant referred to as *'a sense of fairness'*. The economic and social links between proximate areas on both sides of the border were also deemed significant:

'Border towns such as Berwick, Carlisle, Galashiels and Hawick, arguably have more in common with each other than with Newcastle, Manchester, Edinburgh or Glasgow' (Round table participant).

Figure 1: Greater Scottish Autonomy: Ten Opportunities for the North East and Cumbria (Quotes from the Round table events)

- *'There's a shared sense of values between Scotland and the north of England about wanting to live in an equitable country with a sense of fairness'*
- *'A campaign on economic cross-border collaboration focusing on a few distinct themes, such as tourism for example, could be run alongside the independence campaign'.*
- *'We can maximise opportunities and make common cause with Scotland on issues such as transport'*
- *'Cross-border collaboration between universities is an area where there could be scope for innovation'*
- *'We mustn't be too negative....a growing Scotland could lead to a growing north of England if we are able to share in that growth'*
- *'The North East, Cumbria and Scotland have considerable natural resources such as wind, water, coastline, and space. Scotland plus the north could become a centre for renewables.'*
- *'Our region could use the focus on possible Scottish independence to reinforce the argument for greater fiscal devolution in England'*
- *'The Scottish issue could be a catalyst to bring northern business and political leaders together'*
- *'Greater devolution to Scotland will spill over into the north of England, making us define ourselves in relation to what we're good at – not just in relation to Scotland and London'*
- *'There is still great uncertainty in Scotland about how things will pan out; this is an opportunity for the north of England to get stuck into the debate about constitutional change'*

One example of cross-border linkages highlighted was that of The Lanes Shopping Centre near Carlisle, where apparently 40% of customers come from north of the border. This economic interdependence is important. One participant in the Edinburgh roundtable (writing, the next day, in *The Scotsman*) reminded his fellow Scots that the whole of northern England:

'...with a population of 14.8 million... [is] an important part of the UK market for Scottish goods and services, the rest of the UK representing by far our biggest export market. It is also a critical area for Scottish banks and life assurance companies. Blight across the border is not at all in our interest' (Jameson, 2013).

3.4. It was felt by some that the North East and Cumbria would now have to look more seriously at trying to develop a more cohesive approach and a stronger voice. In addition, it was thought that the Scottish Government would, in the run-up to the referendum, be genuinely receptive to new ideas for collaboration with its nearest neighbours. One Scottish observer thought that the north of England would also have a strong claim to be heard in any post-referendum negotiations on the relationship between a more independent Scotland and the rest of the UK. Not only could a workable alliance between the two help both, but it would also strengthen

the North East and Cumbria's collective case to the UK government for a more level playing field.

3.5. In IPPR's Borderland study it was argued that, *'as Scotland's nearest neighbours it is important that the North joins the debate about Scotland's future'* (Schmuecker, et al, 2012, p 25). Participants in our research seemed to agree with that; as one said, *'people from the [North East] region need to be going to Edinburgh to develop links, to talk to them, to get involved -- now'*. Another noted that this was certainly needed, but:

'...we have to show what we can offer Scotland if Scottish leaders are to be interested in collaboration. It's no good going up to Edinburgh cap in hand'.

Highlighting the 'offer' that the North East and Cumbria could make to Scotland is clearly important. The offer could highlight how the north of England is a very important trading partner for businesses based in Scotland. There are also opportunities for Scotland and northern England to work more closely together in areas such as energy, transport —particularly HS2, major roads, seaports and airports, and public transport – and also in relation to Borderland tourism, forestry and food industries. The North East and Cumbria can also add substantial strength to a 'northern voice' that embraces Scotland and northern England, in the face of the continuing dominance of London and the South East.

3.6. Effectively representing the north of England's views to Whitehall was also seen as important:

'At present, any debates and dialogue between the Scottish Government and Whitehall are not taking account of the North's views. There is a need to ensure that our voice is heard' (North East business participant).

There seems to be a strong view that engagement should begin now, rather than wait until after the outcome of the September 2014 referendum. In considering how the North East and Cumbria might represent their views to Whitehall, it was pointed out by one regional civil servant that the key issue for government would be how any new approaches would *'deliver private sector-led economic growth'*. It was also said that government departments would be more willing to discuss new approaches to collaboration with Scotland in the context of powers already in operation - or about to come into force via the 2012 Scotland Act - rather than speculate on an independent Scotland which the Government would prefer not to acknowledge as a possible outcome. Hence, the challenge for the North East and Cumbria is to adopt a nuanced approach that works within the existing framework of Scottish powers and influence, but which can also incorporate discussion of more discrete elements that might form part of a Devo Plus or Devo Max agenda in the future.

3.7. Throughout the consultations, there was much agreement that what the North East and Cumbria needed in order to make the most of this situation was clear

leadership, a sense of common purpose, and a realistic, 'pragmatic' offer to Scotland in areas where collaboration can bring mutual benefit. In the words of one Round table participant,

'We certainly don't want Scottish independence to make the border "harder". We need to define our offer so Scotland sees the North East and Cumbria as a more flexible border'.

3.8. In both the North East and Cumbria there were those who hoped that the focus on a more independent Scotland would provide a useful agenda around which to reinvigorate what one participant called 'east-west co-operation' within the north of England. In the Carlisle round table, it was noted that Cumbria had, in any case, been part of the same administrative region as the North East, a member of the T. Dan Smith-led Northern Economic Planning Council in the 1960s, and included within the boundaries covered by the former Northern Development Company. Local authorities in Cumbria and the North East had also been members of the Northern Regional Councils Association.

3.9. It was accepted that agreeing and articulating a consistent message that everyone can get behind was likely to be a major challenge. It was not clear what the best approach might be.

Some felt that encouraging the three Local Enterprise Partnerships in the area (North East, Tees Valley and Cumbria) to engage with this issue would help to establish a more coherent view and would represent an appropriate level of economic governance for discussing collaboration with Scotland. Others thought that there were real opportunities for a strong business-led governance structure, as that sector would find it easy to 'unite around the question of greater Scottish autonomy as it is very much a business issue' (North East business leader). But it was acknowledged that broad-based representation was essential:

'Voice has to come from the politicians; it can't be just private sector. We need leadership—that's what it comes down to. A good leader can transcend poor structures. Salmond is an effective salesman for Scotland who gets beyond internal divisions'.

In the context of the recommendations of both Lord Heseltine's report, *No Stone Unturned: In Pursuit of Growth* (BIS, 2012) and the report of the *North East Independent Economic Review*, chaired by Lord Adonis (NEIER, 2013), the recent decision of the seven local authorities within the North East LEP area to create a Combined Authority to work together to promote economic growth (with transport and skills seen as key priorities) offers opportunities for more co-ordinated - and collaborative - cross-border approaches (Gateshead Council, 2013).

4. Opportunities for collaboration

'What is the current situation in terms of hard collaborations between the north and Scotland? Where are we starting from? We need to know about the different economic interactions and links between the two' (Round table participant).

4.1. It is evident that there has not been a sustained or consistent approach to joint working between the north of England and Scotland in recent years. An institutional audit of current linkages revealed few examples of shared approaches or partnerships. A political leader in the North East felt that *'the number of cross-border linkages between the North East and Scotland have actually declined following devolution after 1997. Scotland hasn't been very interested in working with the North East and tended to go its own way'*. Another North East participant felt that the RDA, (One Northeast), *'didn't engage with Scotland and focused purely on things to the south'*. Similarly, one Scottish stakeholder *'found collaboration with the RDAs hard...you got a warm welcome but not much genuine desire to work together'*. Economic strategy teams in the local authorities next to the border also reported that there was little collaboration, and that this was felt to be almost inevitable owing to differences in funding regimes and initiatives on the two sides of the border. Where cross-border engagement does take place, it tends to be sporadic, often dependent on individual initiative, and oriented around specific projects or issues.

4.2. As well as little formal cross-border co-operation, one participant at the Carlisle round table described *'east-west'* collaboration as *'patchy'*:

'Given the previous RDA boundaries, Cumbria needed to look down to Lancashire. But many, particularly in Carlisle, felt that important links across to the North East were being ignored'.

Some joint approaches have emerged. For example, Northumberland and Cumbria County Councils are presently working together to promote public service improvements, while in October 2013 North Cumbria University Hospitals Trust and the Northumbria Healthcare NHS Foundation Trust will merge into a single organisation. In 2010 there were also discussions (subsequently abandoned) to merge the Fire Services in Cumbria and Northumberland. However, given the potential developments north of the border, it can be argued that there are now new opportunities for enhanced joint-working between the North East and Cumbria.

4.3. A few years ago, some preliminary work on economic linkages was carried out by The Northern Way to underpin their evidence to the Calman Commission. The work reviewed the literature on links between the three regions covered by the Northern Way initiative (North East, North West, and Yorkshire and Humberside). It was concluded that there is:

'...potential for collaboration on a number of common areas of interest including off-shore wind, subsea industries, energy and high speed rail, as well as on local economic development work in the Borders region' (Northern Way, 2009, p 1).

4.4. Some studies in the last few years have shed light on existing and potential linkages. The 2008 Economic Strategy for the Carlisle City Region acknowledged that since *'City Regions are places that can be defined in terms of their economic footprint', within which labour markets, housing markets and retail markets operate, then Carlisle is the City in a city region covering north and west Cumbria, parts of Northumberland and Southern Scotland'* (Carlisle Renaissance, 2008, p 26). It also acknowledged the similarity of economic challenges north of the border – a sentiment echoed in the South of Scotland Competitiveness Plan 2008-2013 (South of Scotland Alliance, 2006). A more recent review of Glasgow-Edinburgh economic linkages showed that – after each other – Tyne and Wear is the most significant destination for freight and business trips from both cities (AECOM, 2011). But there is still no detailed empirical information on the economic linkages between the north of England and Scotland.

4.5. Despite the contemporary lack of collaborative working, the recent interviews and round tables did identify a range of potential collaborations between the North East, Cumbria and Scotland. These included:

- Joint approaches to economic development in terms of key sectors
- Joint approaches across a range of sectors based on relevant geographical areas
- Policy co-ordination
- Development of a common 'voice' and capacity to influence

There was also general agreement on the range of economic sectors where greater cross-border collaboration could benefit both the north of England and Scotland. These were:

- Transport (including High Speed Rail; Roads; Ports; and Airports)
- Energy (particularly renewables and North sea oil and gas)
- Tourism (particularly in the border area)
- Rural Development (including superfast broadband, food and forestry)
- Business Development (including SME support)
- Education and Skills (including the role of further and higher education institutions)

In the main, these **sectors** were recognised as appropriate for collaboration by participants on both sides of the border. Focusing more specifically on 'key' sectors' was also felt to be an effective way for the North East and Cumbria to *'identify where the strategic and tactical opportunities lay'*, as one participant put it. This emphasis is also found in the report of ANEC's Economic Development Task and Finish Group, where the key 'tools' for delivering local economic growth were defined as: Access

to Finance; Digital and Broadband Communications; Transport and Connectivity Infrastructure; Energy; and Promotion and Inward Investment (ANEC, 2013). This also chimes with the approach adopted by Scottish Enterprise (2012), which has identified a number of key economic sectors:

- Oil and Gas
- Food and Drink
- Technology and Engineering
- Renewable Energy
- Life Sciences
- Tourism
- Creative Industries
- Financial and Business Services
- Chemical Sciences
- Construction
- Forest and Timber Technologies
- Textiles

4.6. A comparison of key sectors in Scotland and in the North East and Cumbria LEPs (Figure 2) highlights a fair amount of overlap, which suggests a number of opportunities for collaboration. The priority sectors that feature both north and south of the border are Renewables, Chemicals, Life Sciences, Tourism, Food and Drink and Creative Industries. Some of these - Life Sciences, for example - are global growth sectors and there could be considerable potential for collaborations of mutual economic benefit. A Scottish participant summed up the opportunities when he argued that:

‘Collaboration is about a better understanding of each other’s priorities. At the operational level, this involves looking down the supply chain for opportunities, such as in relation to the automotive components sector. But there is also a need for more strategic thinking. On offshore renewables we can either compete against each other – and lose out to Denmark and Germany - or collaborate and, hopefully, succeed’.

4.7. Businesses in the North East and Cumbria acknowledged that greater Scottish autonomy and a stronger Scottish economy could present opportunities for them:

‘.....we could further develop our existing links. Engineering on Tyneside already serves the oil and gas companies in Aberdeen; Scotland uses the Port of Tyne; while NAREC is also a national facility vital to the renewables sector in both Scotland and the north of England’ (Business Leader).

Figure 2: Key Economic Sectors (complementarities in bold)

| Scotland | North Eastern | Tees Valley | Cumbria |
|---|--|---|---|
| <ul style="list-style-type: none"> • Creative Industry (especially the games industry) • Energy (especially oil and gas and renewables. Within renewables especially offshore wind) • Financial and Business services • Food and drink (especially red meat, salmon and whiskey) • Tourism (especially ‘experiential’ tourism – golf, mountain biking etc.) • Universities • Life Sciences (especially stem cells and translational medicine) <p><i>Other key sectors</i></p> <ul style="list-style-type: none"> • Aerospace • Defence • Chemical sciences • Construction (especially timber) • Textiles | <ul style="list-style-type: none"> • Automotive industry (including low-carbon vehicles) • Energy (North Sea oil and gas; renewables, including offshore wind) • Chemicals and process industries • Creative industries (digital) • Healthcare and life sciences • Advanced manufacturing • Tourism • Food and Drink | <ul style="list-style-type: none"> • Digital • Advanced manufacturing • Health and social care • Logistics • Chemicals and process industries | <ul style="list-style-type: none"> • Nuclear and diversification • Specialist manufacturing • Low carbon and renewable energy • Visitor economy • Food & Drink • Agriculture, land and sea-based |

The reference to developing links between *oil and gas sectors* in the ‘two North Easts’ is important, as there is already evidence of growing collaboration between Aberdeen and the North East of England (see, for example, *A powerful partnership in the pipeline*, The Journal 2013a). There is an increasing recognition that the two can work together and complement each other – in what has recently become a booming industry, boosted by Government tax breaks.

For one representative of the North East offshore industry, the relationship between the two is based on their respective strengths: ‘*Aberdeen has always been a primary location for project management and design and it looks to North East England for support for engineering and manufacturing projects*’. The Chief Executive of the Aberdeen and Grampian Chamber of Commerce says that:

'Many of the companies in Aberdeen are global players with very extensive supply chains. Some of the companies in Aberdeen are finding that all of their needs cannot be serviced in the surrounding areas and are looking at supply chain developments across the UK including North East England...there are some supply chain opportunities to be explored to the benefit of both regions' (quoted in The Journal 2013a)

4.8. Another area highlighted in discussions, as being especially ripe for collaboration, was *Transport*. East Lothian, the Scottish Borders and Northumberland Councils have all prioritised the upgrading of the A1 as a crucial ingredient in stimulating local economic growth. In relation to rail, ANEC leaders attended the High Speed Rail Summit organised by the Scottish Government in Glasgow in November 2012. At that event, both Scottish and North Eastern political leaders highlighted the vital importance of the North East and Scotland being linked to High Speed Rail infrastructure and investment right from the outset. Current plans are that the new connections will only go as far north as Leeds and Manchester, so there may be merit in mounting a joint campaign to secure UK government commitment to extending HS2 to York, Newcastle, and Edinburgh.

In arguing that Newcastle needs to see the benefits of HS2, the city council's leader, Nick Forbes, recently acknowledged the importance of *'the Scottish question. It is as important for us to be connected to Scotland as it is for us to be part of the route to London, and we need to bear that in mind'* (The Journal, 2013b). Similarly, both sides of the border also have a direct interest in the reallocation of the East Coast rail franchise, with the new operator due to commence in February 2015. Connectivity between Carlisle and Scotland on the west coast line is also very important, and the re-opening of the Waverley line between Edinburgh and the Scottish Borders is a significant development.

4.9. It was said that, whatever the threat of more intensive competition from north of the border, it was important not to forget that the major divergence in resources, capacity and economic performance is not between the north of England and Scotland. Rather, it is the divergence between the rest of the UK and the Greater South-East, which is pulling away in economic terms from the rest of the country. In this context, the economies of Scotland and the north of England *'arguably have more in common with one another than [with] the Greater South East'* (Schmuecker et, al 2012). From this viewpoint, taking just one example, a joint objective for *'Newcastle and Edinburgh airports could be to work together to persuade people to avoid flying to their destination via London'* (Business Participant).

4.10. In examining previous approaches that might be relevant to the development of new cross-border relationships one previous initiative - *The Border Visions Partnership* - was mentioned by several people consulted. This initiative operated in the early 2000s and brought together the county councils of Cumbria and Northumberland and the Scottish regional councils of Borders and Dumfries and Galloway.

It was underpinned by a Memorandum of Understanding which recognised that: *'the borderlands of England and Scotland share a proud common history and a continuing sense of common interest today'* (Dumfries and Galloway Council, 2002, p 5). Border Visions had a strong focus on rural regeneration, and provided an opportunity for the partners to discuss issues of common interest and work together to enhance the economy of the borders area, whilst sustaining environmental quality and a shared heritage. It also developed joint bids for EU funding under the LEADER+ programme. The particular policy areas identified for collaboration by Border Visions were: Tourism; Transport; Food Production and Marketing; Forestry; and (given the circumstances of the time) Foot and Mouth Recovering Planning (Peck et al, 2002; 2003).

4.11. The Border Visions format - of an annual conference with a set theme – ensured that it was hard to maintain momentum throughout the rest of the year. In addition, the limited resources available to build an organisational infrastructure, the lack of clarity over what the joint issues were, and the absence of tangible outcomes, meant that the Partnership ran out of steam after a few years. However, while one of the round table participants confirmed that, *'it didn't really go anywhere at the time'*, they also added that, *'Border Visions did leave issues that we can pick up again, and this is probably the right time to do it'*.

4.12. Whatever else, this attempt to create a single voice to articulate common concerns does seem to offer some interesting lessons for cross-border collaboration today. Firstly, while involving the four local authorities, the four annual conferences organised through the partnership were chaired by an independent figure, Eric Robson, a well-known writer and broadcaster, who has strong links to Cumbria and the wider region. This seems to have been widely regarded as a successful appointment which added value to the partnership. Secondly, research support for the partnership was provided by the Centre for Regional Economic Development at the University of Cumbria, which produced reports on: Economic Regeneration; Transportation; Foot and Mouth Economic Recovery Plans; and Forestry. The reports each analysed the position throughout the area, identified areas of competition and overlap and potential joint working opportunities (Peck, et al, 2002; 2003). Border Visions was seen to be at its most successful when focusing on very specific issues or sub-sectors, such as forestry. Finally, those reports from the University of Cumbria were produced over ten years ago, in a different political and economic climate, but it is interesting to consider the continuing relevance of a number of the issues identified at the time in relation to economic development (see Figure 3).

Figure 3: Border Visions Partnership: suggested areas for joint working in Economic Development (Border Visions Partnership, 2002)

Agriculture

Exchange ideas on ways to improve business support for farmers and jointly develop the region's role in terms of agriculture/environment/stewardship.

Food

Collaborate on food processing activities to ensure secure economies of scale to allow for local access where possible.

Integrate 'quality' food activities to minimise product duplication and devise complementary marketing strategies.

Diversification

Collaborate on diversification proposals for natural resources, especially forestry, woodland and energy production.

Tourism

Consider shared promotions for existing and new niche markets and joint approaches to campaigns targeting new visitors.

Consider common customer databases and customer relationship management systems to increase visitor numbers across the Borders area.

Business Support

Share expertise to maximise new inward investment and re-investment in existing business and exchange good practice relating to the evaluation of rural business support schemes.

Communities

Improve co-ordination of funding sources within each of the four geographical areas and improve ease of access to resources for communities and targeted areas of need.

Infrastructure and ICT

Work to ensure that broadband connectivity is secured for public and private sectors throughout the Border area.

Funding

Collaborate on responses to Common Agricultural Policy reform and work towards a joint response to these changes.

Training and Skills Development

Collaborate on training to ensure that appropriate skills development takes place throughout the region, possibly through joint funding of projects and promote collaboration between further/ higher education institutions to provide a wide range of educational opportunities for people in the Border area.

4.13. In terms of **place-based** collaboration, the four areas covered by the Border Visions partnership continue to provide opportunities. The four 'borderland' local authorities are similar on many economic and demographic indicators (Figure 4) and, by extension, experience similar economic problems. They all have a large proportion of their populations living in rural areas which provides challenges in relation to connectivity and business engagement. They also both have an above average percentage of tourism-related jobs and relatively large proportions of self-employed workers.

Figure 4: Demographic and economic indicators in the ‘Borderlands’

| | Northumberland | Cumbria | Scottish Borders | Dumfries and Galloway | Great Britain |
|---|-----------------------|----------------|-------------------------|------------------------------|----------------------|
| Population | 316,300 | 499,800 | 113,200 | 148,100 | 61,425,700 |
| Unemployment rate (%) | 6.2 | 6.1 | 5.9 | 8.0 | 7.9 |
| % economically active | 76.6 | 79.8 | 76.7 | 75.9 | 76.7 |
| % self employed | 11.0 | 12.7 | 11.7 | 11.3 | 9.6 |
| % Retired | 21.7 | 26.5 | 21.7 | 25.4 | 16.5 |
| % No qualifications | 9.5 | 10.6 | 9.9 | 12.2 | 10.6 |
| NVQ4 and above | 31.4 | 26.4 | 35.9 | 27.0 | 32.9 |
| % Gross weekly pay (full time workers) by residence | 465.2 | 481.4 | 449.5 | 419.6 | 508.0 |
| Tourism-related employee jobs | 11.6 | 12.7 | 8.7 | 10.4 | 8.2 |

Source: NOMIS (2013).

Analysis of key sectors, (Figure 5), shows some significant similarities between the border areas: thus, tourism and food and drink are key sectors for all these areas. Each of these areas has an unemployment rate below, or at, the national average, ageing populations and low pay. Cumbria and Dumfries and Galloway, also have low proportions of their adult populations with ‘NVQ4 and above’ qualification levels. Many people in the ‘borderlands’ have difficulty accessing job opportunities and services compared with those residents in more densely populated areas.

4.14. *Tourism* was generally regarded as an area ripe for cross-border collaboration within a Borderlands framework. Possibilities cited included, for example, collaborative marketing of walking and cycling routes, efforts to encourage longer stays, greater spend and out of season tourism. Such collaboration could form part of the agenda of the Rural Growth Network being developed across Cumbria and Northumberland and Durham (Defra, 2012). While one Scottish council participant said that: ‘*Visit Scotland is now interested in looking south – as both areas face many of the same challenges*’. The border areas have much to offer in terms of the visitor economy but lack the brand of their neighbours, the Lake District and Scotland.

Figure 5: Borderlands: Key Sectors

| South of Scotland | Northumberland | Cumbria | Carlisle |
|--|--|---|---|
| <ul style="list-style-type: none"> • Food and drink • Tourism • Forestry • Construction • Textiles | <ul style="list-style-type: none"> • Tourism • Advanced engineering • Renewables and resource-based industry • Creative industry • Food and drink • Agriculture and Forestry • Logistics | <ul style="list-style-type: none"> • Nuclear and diversification • Specialist manufacturing • Low carbon and renewable energy • Visitor economy • Food & Drink • Agriculture, land and sea-based | <ul style="list-style-type: none"> • Logistics • Food and drink - including related manufacturing • Construction • Tourism • Certain manufacturing specialisms |

Branding of the area around the border was also considered a possible way forward not just for Tourism, but also for a shared economic strategy; it could help to promote the area and counter perceptions of peripherality: According to one round table participant: *'We could even think of a new brand which involves place-marketing based on The Borderlands'*. It is also interesting in this context, that one of the recommendations of the North East Independent Review is for the new Combined Authority (covering 7 local authorities) to develop a funding plan for tourism, heritage, and culture (NE Independent Economic Review, 2013). A Cultural Partnership for the North East is also currently being established which will secure a renewed voice for culture in the area and foster linkages in the region, nationally and internationally. It will also create a focus for sharing resources and collaboration through the development of added value activities.

4.15. It was also highlighted that *superfast broadband* is in the process of being rolled out across rural communities on both sides of the Border over the next couple of years. In the South of Scotland, investment has come from both the Scottish Government and the Local Authorities, with both Dumfries and Galloway and Scottish Borders recently committing £21m to the rollout of next generation broadband. This level of funding will not meet all needs however, and up to 15% of the region will remain to be covered. There are hopes that the £5m Community Broadband Scotland fund (which targets small community projects) can be accessed for the purpose (The Berwickshire News, 2012).

In the North East of England, Northumberland County Council recently announced an £18.9m deal with BT to roll out high-speed fibre broadband to 95% of homes and businesses in the county (The Journal, 2013c). Given that Northumberland was also awarded funding from the Rural Community Broadband Fund to deliver a community - led broadband project in Rothbury (The Northumberland Gazette, 2013), there are opportunities for a more co-ordinated approach to the different funding regimes that exist on both sides of the border. More generally, there are also arguments in favour of exploiting cross-border agglomeration, where the critical mass provided by

an area covering four local authorities (and a population of over 1m) may be more likely to attract infrastructure investment in superfast broadband.

4.16. Given the importance of enhancing *Transport* infrastructure on both sides of the border, it is also useful to refer to the research undertaken over a decade ago for the Border Vision partnership, which set out a wide range of possibilities for collaboration (Figure 6). Many of these still seem relevant today, and in the case of areas such as 'Walking and Cycling' and 'Tourism', provide practical suggestions which could be taken forward.

4.17. There may also be opportunities for joint working on cross-cutting issues such as *labour market interventions*. For example, investment in skills needs to be coordinated, especially within labour market areas that span the border. As one participant in the Carlisle round table suggested, there needs to be greater recognition that functional economic areas do not stop neatly at the border: '*A common approach to skills support might be possible. For example, if someone is made redundant in Longtown, but they live in Scotland, they can't access the higher level of support. Cross boundary harmonisation is an issue*'.

4.18. A more general implication of this view is that the border could be seen more in terms of a 'fuzzy' administrative boundary, with local authorities, LEPs and other relevant sub-national institutions being able to fund both projects and programmes that stray, in part, across the border. The rigidity of administrative areas - and of the funding that flows through them - was cited by local economic teams close to the border as a crucial factor inhibiting increased levels of collaboration. Indeed, in the Carlisle roundtable, there was interest in exploring the possibility of shared '*borderland exemptions*' or '*flexibilities*' for individuals and communities on both sides of the Border in relation to issues such as tuition fees, health, and social care costs.

4.19. The recent North East Independent Economic Review (2013) highlighted how, in accelerating economic growth the North East there are lessons to be learnt from approaches to economic policy in the Devolved Administrations, including Scotland. One particular example highlighted, was how Scotland has used its diaspora as an international network to provide support to growing companies: '*Scotland has created a Global Scot network to give Scottish companies access to richly connected individuals in countries that they might wish to enter*' (2013, p 13). The report also argues that the '*business case for improvements to the A1 between Morpeth and Alnwick/Berwick/Scotland should also be updated*' (NEIER, 2013, p 28), and that there are opportunities to strengthen the links between Scotland and the region's port facilities (NEIER, 2013, p 30).

4.20. It is important to recognise that while it may well be possible to identify issues and opportunities for both sectoral and place-based collaboration which can secure a measure of consensus (such as upgrading transport links through the north and to Scotland), the North East and Cumbria will still need to find suitable mechanisms for promoting and representing its case to Scotland and to the UK government.

Figure 6: Border Visions: possible areas for joint working identified in Transport Plans (Peck et al, 2003)

Passenger rail services

Support work to enhance the rail network throughout the Border area and between the Border area and adjacent centres of population in central Scotland and northern England.

Ports and ferries

Support work on-going to enhance the commercial activity of the North Channel ports in South West Scotland.

Bus services

Share best practice in relation to bus services in rural areas e.g. community transport, subsidised routes, Dial-a-Ride schemes; extend and strengthen existing joint negotiation with contractors.

Road improvement priorities

Lobby at national and local level to maintain existing roads to an appropriate standard and provide mutual support for improvement campaigns for north-south and east-west proposals.

Freight/timber movement and routes

In collaboration with the industry and communities develop inter-modal strategies for the movement of freight and timber within and outwith the Border area.

Walking and cycling

Work together to promote the Border section of the National Cycle network and share good practice in establishing circular routes in each locality.

Air travel

Participate in the on-going consultation on UK airports with particular support for the development of Carlisle for West Coast links south.

Choice for transport users

Share best practice in developing projects to provide inhabitants with a range of movement options, including walking to work and school; car sharing schemes by large employers; and free travel for elderly people throughout the Border area.

Tourism

Establish consistent signage, particularly along the Border itself, to enhance the attractiveness of the area and contribute to road safety. Ensure visitor and travel information about the Border area is available as appropriate at stopping places.

5. Conclusions and Recommendations

5.1. The prospect of further autonomy for Scotland is stimulating a new interest in developing collaborations between the North East, Cumbria and Scotland. There certainly appears to be scope for joint approaches to economic growth based on both sector and place, and there are opportunities for policy co-ordination. There seem to be possibilities for the North East and Cumbria to come together to engage with the Scottish Government and other Scottish interests. There would be opportunities, too, for the North East, Cumbria and Scotland to develop a common 'voice' and influence the UK Government. But it is not clear how collaborations and dialogues should be developed and undertaken. As the House of Lords Select Committee (on the Economic Implications for the UK of Scottish Independence) makes clear, both Governments have responsibilities in terms of leading the debate:

'Scotland needs and deserves a fully-informed debate, based on fact and free from rancour, well before the referendum vote. To help bring it about the Scottish and British Governments should be more open about how they see the outcome of negotiations after a "Yes" vote; each should indicate the "red lines" of its negotiating stance... before the referendum so that voters can make an informed choice' (House of Lords, 2013, p 8).

5.2. Thus, timing seems to be crucial. In the period leading up to the 2014 referendum, the Scottish Government may well be receptive to new ideas and approaches. On a more practical level, the next year and a half will clearly be a period of uncertainty in Scotland, not least for the business sector. This might present opportunities for the North East and Cumbria to make their own offer to Scotland on how collaboration could contribute to Scotland tackling its own economic challenges, whilst also recognising that a stronger Scottish economy would also bring benefits to the North East and Cumbria.

5.3. There are clearly areas where economic competition is now, and will continue to be, vigorous - irrespective of the outcome of the coming referendum. Any new relationship between the North East, Cumbria and Scotland would need to accept that, inevitably, collaboration in some areas will exist alongside fierce competition in others. The issue of Scotland's competitive advantage now, and after 2014 (most likely via Devo Max or Devo Plus), should certainly inform attempts by the North East and Cumbria to convince UK ministers of the need for a more level playing field in respect of economic development, and opens up debates - on the need for greater decentralisation and devolution of power within England - already taken up by the Heseltine and Adonis reports (BIS, 2012; NEIER, 2013). Entering into a friendly, yet robust, debate with the Scottish Government may also serve to reduce some of the north of England's concerns about how Scotland would use any additional economic and fiscal powers. While the need for fiscal 'pacts' and inter-state tax agreements may be considered highly unlikely after 2014, there is much to be said for considering such arrangements as compacts or cross-border partnership agreements.

5.4. Responding to the likelihood of greater Scottish autonomy also requires the North East and Cumbria to look 'inwards' and place a premium on leadership, joint-working and the development of an effective common voice on this side of the border:

'We cannot just sit back and wait for the First Minister to embrace us. That just isn't going to happen. But if we say we want to be part of this agenda how do we do that? Who provides the voice for the forgotten North East and Cumbria? Can we actually develop new arrangements and linkages ourselves?' (Round table participant).

5.5. Arguably, the different institutional frameworks and capacities (particularly since the abolition of RDAs and the Government Offices) place the North East and Cumbria at a disadvantage. Scotland has a more effective institutional framework, not least because it has one focal point: key organisations such as the Scottish Local Authorities, Scottish Enterprise, Visit Scotland, the Scottish Funding Council and Skills Scotland all speak directly to the First Minister and colleagues on a regular basis. There is obviously an institutional mismatch; as one Scottish stakeholder said, somewhat bluntly:

'...the Holyrood government like doing things at a "Scottish level" and will not be too keen on doing business with a County Council in England'.

This problem was also identified by a North East participant:

'South of the border, we are all over the place...while in Scotland the Chief Executive of Scottish Enterprise gets a personal invitation from Alex Salmond. How do we address this? How do we do it?'

5.6. This 'mismatch' is not an easy issue to resolve. It may be suggested, however, that this issue provides an excellent opportunity in both the North East and Cumbria for local authorities, LEPs, business interests and economic development bodies to come together to produce a collective response - an 'offer' - to Scotland. At the same time, it could reinvigorate co-operation between the North East and Cumbria around areas of mutual concern.

5.7. In terms of the nature of collaboration, it was widely acknowledged that in the present context, collaboration would need to:

- Be realistic, both in terms of political feasibility and resource availability
- Genuinely add value to what is already available
- Identify where collaboration would be able to make a difference to economic growth
- Avoid more 'talking shops'

- Be careful not to assume a ‘one size fits all approach’
- Be clear over what the joint issues are, and specify tangible outcomes.

As one participant commented:

‘...what we don’t want are any new permanent structures or partnerships based on complicated boundaries. It’s more about informal networks to get together, share ideas, and take them forward’.

5.8. To underpin this new approach to Anglo-Scottish relations, it is essential that a more informed debate about opportunities for collaboration is underpinned by an up-to-date and detailed study of the economic inter-relationships between Scotland and the north of England. The need for this was also pointed out by the House of Lords Economic Committee in its review of the economic implications for the UK of Scottish independence (House of Lords, 2012). Participants in our research considered that this was important; as one said,

‘I’m sure the opportunities are there – but it would be good to have more understanding of the supply chains that run from the North East into Scotland’.

5.9. The North East and Cumbria, and Scotland, need to show they wish to support each other’s future development and growth, that they wish to retain and further develop their mutual links, and contribute to each other’s resurgence. To facilitate that, the North East, Cumbria and Scotland need to establish connections that help create and sustain cross-border relationships, and identify potential synergies that can be the basis for collaborations. At the same time, there are also opportunities to reinvigorate co-operation between the North East and Cumbria around areas of mutual concern.

5.10. The main recommendations stemming from this research are:

Promoting Economic Development

- The three Local Enterprise Partnerships in the North East and Cumbria, in partnership with Scottish Enterprise, could encourage and facilitate sector-based groups covering areas of the economy that have strong cross-border interests, such as transport, tourism, renewables, oil and gas, skills, universities and port facilities. Each of the groups should include representation from a range of relevant organisations and might usefully be chaired by business leaders from both sides of the border.
- All key partners should be involved in looking at ways of improving transport connectivity on both sides of the border. This would include a joint approach to HS2, discussions over the East Coast Rail franchise, and possibly also

exploring collaborations with Network Rail and ScotRail to upgrade cross-border road and rail services.

- There are also opportunities for the offshore and subsea sectors in North East England to benefit from the current expansion of the oil and gas sector in Aberdeen. While the region has traditionally competed with North East Scotland, there is now a recognition on both sides that there are supply chain opportunities that will benefit both 'North Easts' and that there is potential for more formal links between the two in the oil and gas sector.
- As rural economic development is a major challenge and opportunity on both sides of the border, there is an opportunity to develop a network that brings together rural councils in Scotland, the North East and Cumbria to share best practice and consider collaborative approaches to European funding, broadband, transport, and tourism. On the south of the Border, this approach could be facilitated through the Rural Growth Networks within Cumbria and in Northumberland and Durham.

'Voice' and Influence

- Working through the LEPs, local authorities and the business community, the North East and Cumbria should consider opening up a dialogue with Scotland on fiscal changes that may have a negative impact on their competitive position. This would also help the North East and Cumbria reach an informed view, allowing more effective dialogue with UK government departments on issues such as Air Passenger Duty (APD), and creating opportunities for a joint campaign with Scotland to lobby for the eventual removal of APD's, on the basis that they restrict the growth of regional airports on both sides of the border.
- The LEP areas could use the current economic development powers available in Scotland as a model for securing enhanced autonomy in the North East and Cumbria, particularly in relation to the offer for skills and training, business support and transport. In particular, this could help extend the range of policy levers available to attract inward investment south of the border.
- More effective use should be made of individuals outside the 'normal channels' - but with strong links to the North East and Cumbria – whose voice could be of value when developing new ways of working across the border. Such individuals should have the national profile to gain access to, and engage in discussions with, the UK and Scottish Governments.
- Since UK government departments are likely to be more willing to discuss new approaches to collaboration with Scotland in the context of powers already in operation - as the Government would prefer not to acknowledge independence as a possible outcome - the challenge for the North East and Cumbria is to adopt a nuanced approach that works within the existing

framework of Scottish powers and influence, but which also can incorporate discussion of more discrete elements that might form part of a 'Devo Plus' or 'Devo Max' agenda in the future.

Collaboration, Partnerships and Networks

- ANEC, in conjunction with public and private partner organisations in the North East and Cumbria, should consider facilitating a Strategic Forum event bringing together key stakeholders from Scotland, the North East and Cumbria
- ANEC should consider taking the lead in developing a network through which the 12 local authorities in the North East and the 7 in Cumbria could meet regularly to discuss issues of mutual concern and develop collaborations.
- ANEC and the individual local authorities concerned could look at the possibility of revitalising the earlier 'Border Visions' approach by convening a similar network facilitating collaborative working across the four local authorities on both sides of the border: Northumberland, Cumbria, Dumfries and Galloway and the Scottish Borders. They could work towards a 'Borderlands deal' to be taken to both the UK and Scottish Governments.

Evidence and Analysis

- ANEC, in conjunction with partner organisations in the North East, Cumbria, and Scotland should consider jointly commissioning a detailed analysis of the economic linkages between the north and Scotland, covering travel to work, shopping and leisure flows, labour markets, migration, inward investment, and sectoral linkages, including supply chains.

5.11. This report has shown that the north of England views with some envy and admiration the sophistication and stability of much that Scotland has to offer in economic development policy and practice. It is also clear that the north of England shares many of the same challenges that face Scotland. In the period up to and beyond the Independence Referendum, there is an opportunity for Scotland's 'closest neighbour' to find new ways of working together with Scotland on ideas and common interests - to get beyond the '*red lines*' described by the House of Lords Select Committee (House of Lords, 2013).

5.12. This report has highlighted some of the real benefits in Scotland and the north of England working collaboratively in economic sectors such as energy and transport, tourism, forestry and food. The Scottish Borders, Cumbria, Dumfries and Galloway and Northumberland, which form such a substantial area between Scotland and England, also share a common challenge. This combined area, which is bigger than any of the cities, could share and provide new services to support businesses, such as broadband technology. The north of England is also a very important trading partner for businesses in Scotland. The report sees considerable benefit in

developing a better understanding of the strong and growing economic relationships that lie not just across the border, but between the cities as well, in relation to growth sectors, notably advanced manufacturing, oil and gas, life sciences, creative industries and professional business services. The North East Independent Economic Review provides one example of a recent economic appraisal (albeit only of one of the constituent parts of the Borderlands) that could usefully help clarify areas where collaboration would be a more effective approach than competition.

5.13. Developing a new relationship with Scotland is neither a panacea for the many economic and social challenges facing the North East and Cumbria, nor will it be easy to achieve. In addition, the scale of economic competition provided by a powerful Scotland *now*, irrespective of the outcome of next year's referendum, is clearly an issue that the North East and Cumbria will want to address. However, this report places emphasis on the positive benefits for the North East and Cumbria that stem from the granting of greater economic and fiscal powers to Scotland. In doing so, the report also identifies how working more collaboratively with Scotland raises issues *within* the North East and Cumbria in relationship to leadership, joint-working and the identification of a common 'voice'. And, whilst acknowledging the uncertainty of the result of the 2014 referendum and the post-referendum outcomes, the report has argued that, despite the undoubted anxieties created by this situation, there are genuine opportunities, now, for creative and innovative approaches to emerge.

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