

the future of the North East

Edited by Professor John Tomaney



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This monograph, the second in a series on the future of the English regions, takes forward our work on regional policy by looking at regionalism from the viewpoint of the region itself, rather than from a national policy perspective. By so doing we hope to promote greater awareness of the complexities of, distinct opportunities for, and challenges facing each region, not least among key stakeholders, opinion formers and decision makers inside and outside the region. Our intention is to raise the level of debate about the future of the North East, and to highlight what policy changes – locally, regionally, subregionally and nationally – are needed to make a real and lasting difference.

The Smith Institute thanks Professor John Tomaney (director of the Centre for Urban & Regional Development Studies at Newcastle University) for editing this collection of essays, and gratefully acknowledges the support of One North East, Newcastle University and the Teesside Business School, University of Teesside towards this publication and the associated seminar.

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Introduction

Rt Hon Nick Brown MP, Regional Minister for the North East

During the past two decades, no English region has done more to help itself than the North East. Comparative studies of the English regions often highlight the continuing income gap between our region and others. It is more instructive to look at where we were and how far we have come over the past two decades.

With recessionary forces at work in the economy, this series of studies published by the Smith Institute is timely. The Smith Institute's earlier work on regionalism has helped set the agenda for what is in the North East a very important and vigorously debated series of topics. In taking stock, this publication attempts to look ahead and to reflect on recent developments.

When I was appointed the regional minister, I made it clear that my objective was to drive up the prosperity of the region. My key instrument for doing so was to work closely with the private sector. I wanted to further expand and diversify the region's employment base and to build stronger sectors, particularly service sectors, which were historically under-represented. Of the region's employment base, 32% is in the public sector, compared with a national average of 27%. Manufacturing employment counts for 12.5%, compared with a national average of 10.7%. Until the recession struck we were doing well, with the fastest economic growth rates of any English region.

The reasons for the region's success and for our ability to work our way through the slowdown are not always understood by outsiders. The city-region analysis is a good fit for the North East in terms of economic development, housing policy and spatial strategy. It also has quite a lot to offer to the debates about transport policy. However, there are all sorts of other nuances to the North East – cultural, sentimental, traditional – which add huge passion and value to the region's political life, but which tend not to show up to the cold, analytical eye of an outsider. One of the great strengths of the North East of England has been the remorseless growth of institutional co-operation at regional and subregional level.

The twin drivers of the region's economy are the conurbation of Tyne and Wear, with its hinterland in South Northumberland and North and East Durham, and the Tees Valley, which would count South Durham as its hinterland. Co-operation at political level, working closely with the region's economic development agency One North East across political boundaries, has been the largest single driver of change over the past decade.

As regional minister, I have invested a lot of time in bilateral meetings, placing the emphasis on economic development in the private sector. More than anything else I see the role of regional minister as being the region's champion within the government.

As the labour market loosens, I see it as my job to try and tighten it. There are a number of really exciting private-sector-led projects which can make a real impact on the employment base of our region, and which the region will take to its heart. Nowhere is this more true than in the renewable energy sector. There is enormous enthusiasm, right across the region, for doing our bit to combat climate change. This is as true of the university sector, the regional Trades Union Congress and the region's strategic local authorities as it is of the private sector and the general public.

Perhaps the most exciting single development is the prospect of a UK centre of excellence for renewable energy on the north bank of the Tyne. Located in the old shipbuilding and ship repair yards, there is a real prospect of creating something like 4,000 jobs on the back of an offshore wind farm industry. The whole region is behind these exciting plans to bring the river back to life and to give effect to the prime minister's vision of employment based on new green industries.

Similarly, the Teesside regeneration programmes, with the potential to be joined together by a Tees Metro public transport system connecting with Darlington and the East Coast mainline, is a project that has captured the enthusiasm of the region.

In other areas, as varied as the expansion of Teesport and the underdeveloped potential of the region's cultural, tourist and hospitality attractions, there is an energy and a practical determination about the North East that is unique to the region. The success of the Sage Gateshead music centre on the bank of the Tyne shows our region at its best. As well as attracting artists of international standing, its outreach work bears comparison with anything else in the country.

This pride in the region's achievements and its history is exemplified by the campaign to rescue the Lindisfarne Gospels from the vaults of the British Library and to showcase them to the world in their proper home in Durham Cathedral. When the Gospels were last allowed into the North East on loan they attracted record visitor numbers. The region kept them safe during the Viking invasions, so it's safe to say we can look after them now.

The challenge for our region should not just be seen in economic development terms. The region still has far too many youngsters not taking part in skill development or higher education. Retention rates are high, but we have too many who don't participate

at all. As a region, we have to turn this around. Our future is not as a supplier of unskilled labour, but as a vigorous, dynamic, well-skilled and well-educated community shaping its own future. The region is a great place to live and work. If my strategy of driving up the region's prosperity is the right one, it has to be a strategy in which everyone can participate and reap the benefits of the success to which we aspire.

Chapter 1

The triple crunch and the future of the North East

Professor John Tomaney, Director of the Centre for Urban & Regional Development Studies at Newcastle University and Professor of Regional Studies in the Institute for Regional Studies at Monash University in Melbourne, and Dr Andy Pike, Senior Lecturer in the Centre for Urban & Regional Development Studies

The triple crunch and the future of the North East

The unfolding economic crisis requires us to address the results and prospects of the economic changes that have taken place in the North East over recent decades. We should recall that the pattern of spatial disparities and the North East's position in the economic hierarchy of regions was established in the inter-war period.¹ The region shared in full employment after the Second World War, but since the 1960s, the North East region has consistently underperformed in economic terms – measured in terms of the percentage deviation from real UK gross value added per head – and remains at around 20% below the UK average (see figure 1). In a national economy still ranked the sixth-largest internationally, and in a Northern European context, this is a relatively large gap.

Huge changes have occurred in the regional economy since the 1960s. Notwithstanding the attraction of some high-profile manufacturing investments, during the 1970s and 1980s and even into the 1990s the story of the region continued to be one of relative economic decline as the traditional industries (coalmining, steelmaking, shipbuilding and heavy engineering), which underpinned the rapid growth of the region in the 19th century, either shrank or disappeared, and even newer manufacturing industries contracted or closed.

Paradoxically, manufacturing continues to contribute an above-average share of regional GDP – partly reflecting some enduring strengths, but also as a consequence of the slow growth rate of the service sectors (notably financial services), which underpinned the expansion of London, the South East and the East of England. The relative size and growth of the public sector mitigated some of these impacts in employment terms, but the North East forms a group of regions with Northern Ireland and Wales that performed relatively worse even than other regions outside the Greater South East.²

New approach of regional development agencies

Since the 1960s, regional policy has been concerned with addressing the growing geographical disparities within the national economy, although there has been a marked policy shift from the redistribution of economic activity away from the Greater South East towards a strategy of stimulating growth in each and every region. Drawing inspiration from European experience and from Scotland and Wales, the regional development agencies were rolled out across the English regions in the late 1990s.

1 *Productivity in the UK 3: The Regional Dimension* (HM Treasury, 2001) (<http://www.hm-treasury.gov.uk/d/ACF1FBD.pdf>)

2 For an overview of the historical trends, see: Tomaney, J *North East England: A Brief Economic History*, paper for the North East Regional Information Partnership conference in Newcastle on 6 September 2006 (http://www.nerip.com/reports_briefing.aspx?id=238)

The creation of One North East in 1999 represented a new approach to improving the performance of the regional economy, based on the case for more co-ordinated forms of public intervention, cross-boundary working, a business-led economic focus and the flexibility to respond to economic shocks. There is a strong theoretical justification for co-ordinated regional intervention through development agencies in order to shape economic development, notably in fields such as innovation and enterprise, and there is evidence of the practical value of such an approach from around the world.³

Given the entrenched nature of regional disparities in the UK and the fact that it controls less than 1% of public expenditure within the region, it is unreasonable to expect One North East to have closed the gap between the region's performance and that of the UK. But the development of a regional economic strategy represented a major step forward in achieving more effective public interventions in the economy, while more recent proposals to integrate regional economic strategies and regional spatial strategies (concerned with land use), and for local authorities to prepare their own economic assessments, represents the desire for a stronger evidence base for public intervention and for regional development agencies to work more closely with local authorities within their region (see chapter 2 in this pamphlet).

A capacity for joint working to plan and develop effective strategies is likely to be vital in the economic circumstances that are unfolding and will have particular impacts on the North East. Recent suggestions that One North East should either be abolished, or merged into a super-RDA for the whole of the North, are likely to disadvantage the region.⁴

During the mid 2000s there was some evidence that long-term regional trends were being modified. The relative performance of the region, especially its city regions, began to improve across a series of measures, notably GVA per head (see figure 1). The region's performance on key labour market measures such as employment rates also improved, although these changes were relatively modest when measured against the size of the gaps. Given the present context, we are now compelled to ask: did these improvements – which, it appears, were to be short-lived – signal the first signs of the successful restructuring of the regional economy, or do we need to reassess them in light of what we now know

3 Tomaney, J, Henry, N, Coombes, M and Pike, A "Is There a Case for Regional Level Intervention?" unpublished paper, Centre for Urban & Regional Development Studies, Newcastle University (2006)

4 According to Sir Peter Hall, "In this historical context, the Centre for Cities proposal, to merge the three northern RDAs, feels like rearranging the deckchairs on the Titanic. Each has a huge geographical remit – the North West Development Agency stretches from Chester to Carlisle – and a huge spending programme. Apart from the delicate question of where to locate the super-RDA's HQ – maybe where the three regions meet on the trackless Pennine wastes west of Barnard Castle? – a merger would simply remove the agency further from the scene of the action." From: "Think Tanks State the Obvious on North" in *Regeneration & Renewal* (9 January 2009)

about the nature of the "growth" occurring during this period, which created an economy based upon debt-fuelled speculative property development, leisure and shopping?

The relatively positive performance of the North East on some key economic measures prior to the current crisis, at least in some popular accounts, contained the danger of obscuring enduring structural problems such as weak productivity. In addition, in terms of broader measures of regional well-being such as health and educational attainment, although there was evidence of some improvement, overall the region continued to lag well behind most national averages. Notably, the region continued to lose population, except briefly when it benefited from immigration from Central and Eastern Europe – a phenomenon which, although it excited much attention from some policy makers at the time, appears now to have passed.

Finally, despite many investments and some improvements, the region's economic performance occurred along a low-skill trajectory marked by low levels of qualification, innovation and enterprise (see chapters 5 and 9).

It is becoming more evident that the present crisis is one of historic proportions. The region has been severely affected by its fallout; notably through the consequences of the failure and nationalisation of the Northern Rock bank, but also by waves of job losses in other sectors such as manufacturing and retail as the crisis has widened. Despite initial optimism that the fall in sterling might aid the export-oriented businesses in some regions, in the initial stages of the downturn job loss grew at a faster rate in the Northern regions than in the South and has affected parts of the North East severely.

Impact of the "triple crunch"

The scale and nature of the crisis are still unfolding; it is a complex conjuncture of events and it is nigh impossible to say what precisely its particular impact will be on the future of the North East, although it is very likely to be linked to major geopolitical shifts and restructuring of the international division of labour. Moreover, responses to the global financial crisis are likely to intersect with a series of other challenges, notably climate change and looming energy shortages – a process that has been termed the "triple crunch" – which will require co-ordinated and integrated policy responses: that is, a Green New Deal.⁵ Second-guessing the implications of such unprecedented conditions is fraught with danger. However, some things look likely to change, and it is worth sketching out what these might be as a prelude to thinking about the future of the North East.

5 Green New Deal Group *A Green New Deal: Joined-up Policies to Solve the Triple Crunch of the Credit Crisis, Climate Change & High Oil Prices*, first report of the Green New Deal Group (New Economics Foundation, 2009)

In the short run, the credit crisis has had a particularly severe impact on regeneration, with projects in regions like the North East shown to be at greater risk than those in the South East.⁶ Beyond this immediate impact, however, it is clear that we are moving towards a new regulatory environment that, at the very least, will recast the relationship between finance and the real economy, although in ways that are difficult to predict.

The model of regeneration based on city-centre property development is likely, however, to be profoundly challenged by these developments. The growth of debt and private consumption has underpinned the recent regeneration of the major Northern cities and it is questionable whether this model will be sustainable in the future. Moreover, regeneration in Northern cities has been underpinned by inflows of foreign investment, and it seems uncertain whether such flows will be available in the future.

There have been increasing suggestions that the banking and finance sector should be shrunk and that the key challenge in the UK will be to rebalance the economy by expanding the manufacturing sector, and tradable activities more generally.⁷ The idea of manufacturing as the "flywheel of growth", because of its potential for productivity growth, is being given a new hearing.⁸ Notably, Peter Mandelson, the secretary of state for business, has called for "a new industrial activism" to help promote manufacturing industry, to make up for the inability of other sectors to provide employment and output.⁹

This case is by no means universally accepted, but despite the daily news of job losses, the argument in favour of "reindustrialisation" to create a more sustainable development model and green-collar jobs is powerful. Moreover, given the enduring relative importance of manufacturing to the North East, this might present an opportunity for the region. The region has continued to place a value on manufacturing when elsewhere it has been derided as smokestack. The task is to develop advanced manufacturing activities, ideally linked to the region's knowledge base. The nature of the opportunity and what would be needed to meet it need careful analysis, although some of the proposals discussed by Kevin Rowan in relation to the manufacture of renewable energy equipment certainly justify attention as part of a Green New Deal (see chapter 6).

6 Parkinson, M, Ball, M, Blake, N, Key, T *The Credit Crunch & Regeneration: An Independent Report to the Department for Communities & Local Government* (Department for Communities & Local Government, 2009)

7 Richard Lambert "British Manufacturing is at a Critical Point" in *Financial Times*, 8 September 2008; Peter March "Make and Mend: Reindustrialising Britain" in *Financial Times*, 8 February 2009

8 Kaldor, N "The Irrelevance of Equilibrium Economics" in *Economic Journal* vol 82, no 328 (1972)

9 Peter Mandelson "The New Industrial Activism", RSA lecture, 17 December 2008 (<http://www.berr.gov.uk/aboutus/ministerialteam/Speeches/page49416.html>)

The potential importance of manufacturing for a region like the North East is heightened given the prognosis for public services. The region remains disproportionately dependent on the public sector for over a third of its jobs. The impacts of the bank bailouts on public finances are likely to lead to further pressure for efficiency savings, and these will have uneven regional implications. Local government, in particular, will face straitened conditions.¹⁰ In the midst of a public finance squeeze, any Keynesian-style boost for effective demand from the public sector is likely to be derailed by rationalisation and retrenchment just as demands upon its services increase. The North East looks particularly vulnerable on the jobs front and in terms of welfare impacts, which are likely to hit the poor hardest.

"Pockets of deprivation"

It has been common in recent times to describe the region as one experiencing improvements in economic performance, but still characterised by "pockets of deprivation" with problems of "worklessness". The issue for the North East, of course, was that these "pockets" were relatively large and "worklessness" seemingly intractable. It is now evident that the region will experience very large increases in unemployment in 2009. This new group of unemployed is likely to look different: it is likely to be better qualified and probably more feminine than the existing "workless". Such newly redundant workers may displace the existing unemployed in the competition for vacancies, bumping them further down the labour market.

This throws up profound questions about how we deal with the "pockets of worklessness" which may in fact be augmented in the current recession. By contrast, the phenomenon of migration from Central and Eastern Europe – which had less impact on the North East than other regions, but which stimulated what now appear to be overly optimistic growth projections – is likely to be a diminishing factor in economic change for the foreseeable future.

In addition to the challenges of the present economic crisis – which are likely to bring structural, not merely cyclical change – there are a number of other issues. Of global importance is the threat of climate change, which calls for not just a shift to a low-carbon economy, but radical changes in the way our economy and society is organised and how we think about the nature of production, consumption and regulation (see chapter 4). The threats posed by climate change and credit-induced economic crisis both require us to place questions of sustainability more firmly and deeply at the heart of thinking about the future of the North East.

¹⁰ Tony Travers "Be Afraid, Be Very Afraid" in *Public Finance*, 19 December 2008

The framework of sustainability is also a useful one for thinking about security threats in relation to markets for energy, water and food. What are our endogenous energy resources and how should we best use relative abundance of water? How can our green spaces and quality of life attributes be valued and managed in sustainable ways? Where and how should we source our food? How can we construct an approach to development that focuses on human well-being rather than simply consumerism?

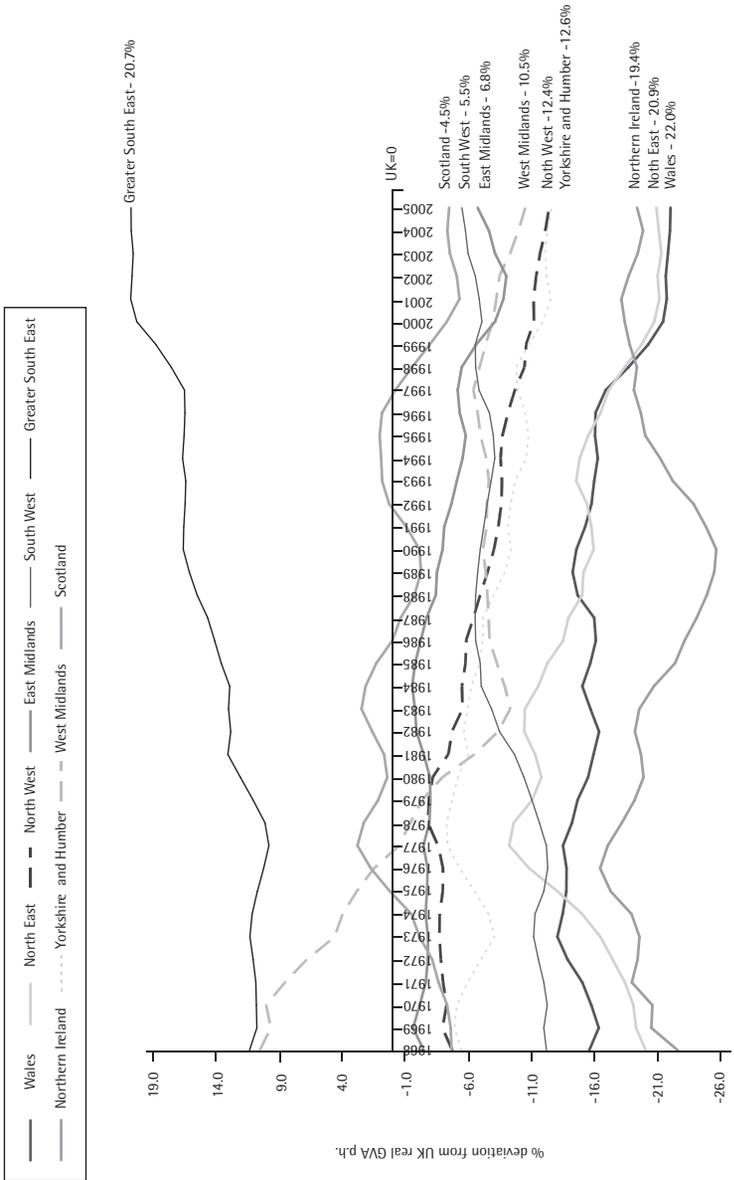
The economic crisis is a global one, but its impacts will be uneven. It will affect social groups and places differently. While the pain will be universal, the weakest in society are the most vulnerable. In the UK context, there are reasons to think that the North East is especially vulnerable and that the outcome of the recession may be a widening of social and economic gaps within and between regions but in perhaps new and unanticipated ways. The scale and nature of the economic crisis, together with the additional challenges mentioned above, mean that the present juncture should be one in which we ask profound questions about what kind of development we want and for whom.¹¹

There is a growing consensus that the theories and approaches to understanding the operation of the economy – and its geography – that dominated debates in the last quarter of the 20th century are in crisis, along with the economy they sought to explain. Problems of regional development and problems of climate change have all been conceived as forms of "market failure", but the way we think about markets is likely to change significantly. Similarly, government intervention and regulation have hitherto been characterised as sources of bureaucracy and "government failure", but are now being understood as vital stabilisers and leaders in shaping the responses to the crisis.

It seems likely that the approach to economic policy and the nature of economic activity will draw on new ideas and revitalise some old ones, including macroeconomics. This presents us with opportunities to think anew about how we develop the North East in ways that are economically, social and environmentally sustainable in the future. In short, we should be asking, what should the "Green New Deal" look like in the North East?

11 Pike, A, Rodríguez-Pose, A and Tomaney, J *Local Et Regional Development* (Routledge, 2006); Pike, A, Rodríguez-Pose, A and Tomaney, J "What Kind of Local and Regional Development and for Whom?" in *Regional Studies* vol 41, no 9 (2007), pp1,253-1,269

Figure 1: Relative (headline) GVA per head, 1968–2005, UK regions



- Confirms North East has consistently underperformed (GVA per capita)
- Currently around 20% below UK average

Chapter 2

Leading the way – closing the gap

Alan Clarke, Chief Executive of One North East

Leading the way – closing the gap

Over the past 10 years, North East England has experienced an economic, social and cultural renaissance. Organisations from the public, private and voluntary sectors have worked together to maximise opportunities to achieve success. As with all regions and nations, the downturn in the economy is providing significant challenges for the North East.

This chapter sets out the strategic context and the investment priorities identified to close the gap with the national average on a variety of indicators. Consideration is also given to the macroeconomic climate, and how the region is addressing challenges presented by the credit crunch.

Leading the Way: the North East's regional economic strategy

The North East's regional economic strategy has provided the blueprint for regional development activity since 2000. This strategy has been reviewed twice, and the latest version, *Leading the Way*, was published in 2006.

Leading the Way and the associated action plan for 2006 to 2011 set out what One North East and partners would do to move from 80% to 90% of the national average gross value added per head. To do this, we need to create around 20,000 new businesses and 70,000 new jobs in the North East. This is highly ambitious in a region with a historically low business stock¹ and high levels of worklessness.²

I believe that the real successes of *Leading the Way* are both the strong support for the content of the strategy across the region, and the way it has mobilised partners to deliver the shared goals.

Our strong evidence base has contributed to the development of clear priorities to enable us to begin to close the gap with the national average. This evidence is shared with that of the regional spatial strategy, ensuring a coherent strategic approach within the North East. Among other areas, our evidence base draws on lessons learned from international regions, in recognition of the need to be outward-looking to achieve our goals.

1 Although over the past five years rates of VAT registrations and employment have increased at a faster rate than the national average (the VAT-registered business stock grew by 11% between 2002 and 2007 in the North East, compared with a 9.4% increase across the UK overall), the region performs below the national average, particularly on business stock indicators. If we could maintain current trends, then, in theory, we could close the gap with the national average. 2 The region's employment gap halved from around 100,000 in early 2003 to around 50,000 by the end of 2007, but 2008 has seen the gap start to widen again.

An inclusive strategic futures process, SHINE (Shaping Horizons in the North East), undertaken in 2003/04, led to businesses, public and voluntary organisations thinking creatively about the future of the region. My view, which is shared by many others, is that this activity not only directly informed the content of *Leading the Way* but also paved the way for organisations across the region to deliver the shared priorities.

Leading the Way covers business, people and place, with the concept of strategic leadership setting the tone throughout. All organisations and networks must place increased emphasis on strong leadership and collaboration. One North East has embraced this approach through, for example, working with stakeholders to identify the strategic priorities in the region, and galvanising partners to respond in an effective and co-ordinated way to economic shocks. This, I believe, is the only way we can truly achieve our goal of closing the gap in the long term, and in the shorter term of addressing the credit crunch and potential economic recession.

Business

Unsurprisingly for this region, business priorities include driving up enterprising activity. This involves both setting up new businesses, and seeing existing businesses acting in a more enterprising way. The formation of Business Link North East, managed on behalf of One North East by Business & Enterprise North East, to ensure a more streamlined approach to business support will be key to achieving this. This has already led to much greater consistency and collaboration across regional agencies in the simplification of business support.³

One North East and business organisations are providing support to existing manufacturing⁴ and service sector businesses within the region and further enabling access to finance as a key driver of business growth. In addition to this, we have a targeted approach to attracting international business investment, and are working collaboratively to restructure the economy to ensure that we are at the leading edge of global economic activity.

A great example of leading-edge activity relates to our work on innovation. We have identified three priority areas for translational research and innovation: healthcare; energy and environment; and process industries. These "three pillars" are based on our existing strengths in research and industry, and also on an understanding of the future direction of the global economy.

3 One North East *Interim Evaluation of Business & Enterprise in the North East* (unpublished report, November 2008)

4 For example, through the North East Productivity Alliance

Specifically in relation to the process industries, the Wilton Centre in Tees Valley is a focus for this sector's advancement. This includes technology and research and development, as well as business development and inward investment. The Wilton Centre can be described as an "innovation connector". Such connectors allow us to invest in innovation excellence in a specific place, and maximise positive impacts economically, socially and environmentally in the locality and wider region.

Newcastle Science City is another good example of an innovation connector, as it builds on a key strength of the region and incorporates strategic property investment, integration, leadership, joint working and a long-term perspective. I think that the work undertaken to date captures the essence of the added value and strength of One North East and the longer-term, strategic approach adopted by our universities and local authorities. One North East, Newcastle University and Newcastle City Council have invested £100m in Science City. The programme aims to bring science and business together and develop mechanisms to successfully commercialise research, particularly in key sectoral strengths including: stem cells and regenerative medicine; molecular engineering; and energy and environment.

People

Leading the Way also identifies people as being key to the future success of the region. This means ensuring that those living and working in the North East have the right skills to maximise their potential. The North East regional skills partnership, Skills North East, co-ordinates regional activity on skills development, working to ensure that skills provision meets business demand, both now and in the future.

A great example of meeting business skills needs is the partnership between the Learning & Skills Council and One North East to align services by jointly funding and procuring "train to gain" skills brokerage. The North East was the first region to integrate its skills and business brokerage, and our innovative approach has been recognised as good practice. This integrated approach has now been replicated nationally.

In addition to skills, it is important for regional bodies to work collectively to remove further barriers to economic activity. Such barriers include, for example, poor health, caring responsibilities and public transport provision. The regional employability framework has led to greater alignment of funding streams and has been key to facilitating access to sustained employment among those excluded from the labour market.

An excellent example of a joined-up and effective approach to enhancing access to employment is the Aim High Routeback in Easington, County Durham. This project was set up to test a new approach to providing health advice and employability support to

people living in Easington. A total of 373 people took part in this innovative programme, which involved close working between regional partners including One North East, Jobcentre Plus and the NHS (Easington Primary Care Trust). After two years, 60% of the long-term unemployed people involved had started work. An additional benefit has been a positive impact on the health of those involved, with around 41% of those supported reducing their medication.

Place

Leading the Way is far more place-specific than previous economic strategies, and is closely aligned with the regional spatial strategy.

As a region, we are moving towards a city-regional approach. The aim is to achieve more co-ordinated planning and investment. The analysis underpinning this was advanced significantly through thinking within the Northern Way, a partnership between Yorkshire and Humber, the North West and the North East. In addition, the approach was further informed by the Organisation for Economic Co-operation & Development, with its review of Newcastle and its contribution to the city region and region.⁵

The city regions (Tees Valley and Tyne and Wear) are useful vehicles for understanding geographical patterns of economic activity – for example, commuting and shopping. This recognises that not all activity takes place neatly within local authority borders; for example, the role of South East Northumberland and Durham City in the Tyne and Wear city region, and the role of North Yorkshire in the Tees Valley city region. Such an analysis is useful in understanding the roles and opportunities of housing and transport developments in relation to the economy of the region, and in identifying priorities for future investment.

For example, a regeneration project identified as being key to the Tyne and Wear city region is the New & Renewable Energy Centre (NaREC) in Blyth, south-east Northumberland. The centre represents not only leading-edge technology and research and development on a global basis, but also a key opportunity for future energy generation within the region, for industrial and domestic consumption. Wind, wave and tidal power, in addition to photovoltaics, also have the potential in the long term to address fuel poverty issues and help us meet the UK government's target of an 80% reduction in carbon emissions by 2050. The regional approach to energy, guided by the Energy Leadership Council, also demonstrates the ability of the region both to align its activity with national priorities and to become a leading region in an increasingly important field.

⁵ Organisation for Economic Co-operation & Development *Territorial Review of Newcastle & the North East* (2004/05)

Our rural areas are key regional assets. *Leading the Way* details our focus on rural service centres, and the role of businesses and people within rural areas in taking forward our sector strengths; for example, food and drink and tourism.

Clearly, economic activity also extends beyond the region's borders. The Northern Way approach demonstrates that we are adopting this thinking at regional level. We are also keen to develop links further north, with Scotland.

Image and culture

As a region, we are much more outward-looking than we used to be. This is partly as a consequence of enhanced communications technologies and more cost-effective transportation, making the world a smaller place. It is also, however, due to a concerted effort by regional and local bodies to develop stronger national and international linkages. This opens up significant opportunities, including business investment and access to skilled workers.

One North East's award-winning regional image campaign, *Passionate People, Passionate Places*, has captured the imagination of the public, and has contributed to an increase in visitors to the region. The campaign is now changing focus to raise awareness of the region's business strengths and assets – both in the UK and internationally – positioning North East England as the location of choice for relocators and business investment.

Our countryside and environment are integral to the quality of life in the North East, in addition to offering significant economic opportunities. Similarly, our rich culture offers major economic, social and environmental opportunities, with, for example: two world heritage sites;⁶ assets such as Middlesbrough Institute of Modern Art and the Sage Gateshead; world-class museums; and our high sporting profile. They also, critically, contribute to our regional distinctiveness and pride.

Opportunities going forward

Looking ahead, the government's recent announcement that legislation is proposed for the production of single integrated regional strategies⁷ presents a real opportunity for the region. The agency is keen to use and build upon our experience with the regional economic strategy to take this task forward jointly with the local authorities in the region, and ultimately achieve sustainable economic development. While existing regional strategies are closely linked, differences in their purpose and status have prevented real

⁶ Hadrian's Wall and Durham Cathedral and Castle

⁷ *Prosperous Places: Taking Forward the Review of Sub-national Economic Development & Regeneration – The Government Response to Public Consultation* (Department for Communities & Local Government, November 2008)

integration. We have already started the groundwork on producing this. The key is to recognise that we are not starting from scratch. We need to build on the work, consensus and goodwill outlined above.

Linked subnational policy provides further opportunities for the North East. Local authorities are encouraged to work collaboratively. Tees Valley city region has been recognised nationally for the progress it has made on developing a multi-area agreement and close working across authorities and agencies. In addition, we are working closely with the subregions in the production of economic assessments; it is now clear that this will be a statutory duty on local authorities. These assessments will help to inform the content of the new regional strategy.

And, finally, the new "growth point" bids in the region could also enable the North East to achieve sustainable growth. This initiative is designed to provide support to local communities who wish to pursue large-scale, sustainable growth through partnership with government; this includes new housing. The five successful bids in the North East cover Tees Valley, South East Durham, Newcastle and Gateshead, South East Northumberland and North Tyneside.

The economic recession

The regional economic strategy and action plan were produced in a period of relative economic stability. The present economic climate does not make them irrelevant. On the contrary, they set out how regional partners will work together to maximise opportunities and minimise risks in our response to the macroeconomic environment. We have a shared vision for the region – one to which we are all committed, and one that is still highly relevant.

It is vital that we do not take our eye off the ball when it comes to long-term thinking. We must align this with shorter-term measures to address the recession.

Business confidence and activity have, unsurprisingly, suffered as the economic slowdown takes hold. This is echoed in recent economic forecasts. Our exports far exceed the national average,⁸ but are likely to contract as overseas markets are affected by the economic downturn. Levels of employment are also starting to show signs of falling, as are levels of self-employment.

One North East is committed to supporting businesses through the current uncertainty.

⁸ Last year saw a huge leap in exports from the region – over £2 billion more than in the previous year. The total value of goods exported from the North East rose by 26%, which has bucked the national trend, where total UK exports rose by just 8%.

During summer 2008, we announced a £10 million package of additional support for businesses. This includes helping small and medium-sized firms to expand, and enabling access to finance for growing firms. Measures included within the chancellor's pre-Budget report in November 2008, such as the Transition Loan Fund – aimed at supporting small and medium-sized businesses suffering from short-term liquidity problems caused by the current economic climate – will make a real contribution to business sustainability. Further initiatives (for example, the £125 million JEREMIE fund, which provides access to finance for micro to medium-sized enterprises) will further increase the resilience of the region's economy.

The agency is also increasing investment in the Energy Resource Excellence scheme to help firms cut rising fuel bills. In addition to this, we are providing £1.8 million to Business Link North East to provide a package of measures to support businesses and, further, we have launched a £2 million Economic Shock Response Fund with Business Link North East to enhance business resilience.

The downturn in the regional economy has led to an increased likelihood of economic shocks. Northern Rock, in particular, has been a casualty of the decline in the financial services sector. One North East has been working closely with public and private organisations in the region to anticipate and co-ordinate the response to economic shocks. I chair the Northern Rock Response Group to support the restructuring of Northern Rock, and an appropriate package of support has been put in place with the active participation of business organisations, Jobcentre Plus, Business Link North East, the Learning & Skills Council and local authorities.

In conclusion

All in all, I think there is a very positive story to tell in the North East. The region is in a much stronger position in facing up to the current recession than in previous economic downturns. Our economy is now more diverse, and therefore increasingly resilient. In addition, our economy has been growing faster than other regions over recent years.⁹

The next couple of years will undoubtedly be very challenging, but I truly believe that national, regional and local organisations are well positioned to respond to the consequences of the global economic downturn in the North East.

In the longer term, I feel confident that regional organisations and partnerships – together with the people of the North East – will work to deliver shared goals, and ultimately to close the gap that separates us from the national average.

9 The North East had the fastest-growing GVA per capita of all UK regions in both 2005 and 2006. Between 2001 and 2006 North East GVA per capita grew at around 2.5% pa year-on-year in real terms, compared with 2% nationally.

Chapter 3

Providing the knowledge base – professional and organisation development for the North East

Dr Jenny Naish, National Teaching Fellow and Assistant Dean
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of Teesside

Providing the knowledge base – professional and organisation development for the North East

One of the conventional fallacies of business practice when economic times are tough is for organisations of all sizes to cut their education and training budgets back to the bone. Longer-term wisdom has proven time and time again that this is precisely the wrong thing to do; rather, this is the time when education and training budgets need to be sustainable to ensure that businesses are robust enough to grow and adapt their talent for the leaner times in order to be competitive.

Universities should be well placed to work in partnerships with the organisations in their regions to provide flexible, responsive and modern portfolios of learning to suit the communities they should be serving. Universities have the potential to be the crucibles for professional and organisational development in these communities, because they ought to be the repository of local economic, social and political knowledge, nurturing the talent and knowledge economy and the growth of innovation, enterprise and higher-level skills.

The University of Teesside is very much a local regional university and Teesside Business School in particular is grounded in its business community, working with the public, private and third sectors, building on the Tees Valley's rich and unique history of manufacturing, especially with the process industries. Recently Teesside Business School became the locus for the university's provision in work-based learning, and in this chapter I would like to share an example of the enormous potential such learning provision has for professional and organisational development by illustrating how this was used by another university in the South of the country in partnership with the retailer Marks & Spencer. What I hope this will demonstrate is that learning at, through and for work is a timely, modern and resource-effective response in the current climate and for our region.

Context

At the heart of this chapter is a debate about the nature of work-based learning and the nature of work-based learning partnerships. I will explore what happens when a large, complex private organisation (M&S) allies itself to a large, complex university with the express intent of implementing an innovative (and therefore radical) learning programme for a vast number of key staff, with the specific intent of improving the bottom line and effecting essential organisational change. Along the way you will find observations about the nature of learning within the tradition of learning organisations, the more modern discussions about intellectual capital and the nature of work-based learning for the learners themselves.

In the process, I seek to analyse aspects of the learning experiences for those who might perceive themselves as intentional learners (the "students") and those involved with the programme in other ways. While it would be unjustified to label such persons as unintentional learners, it would be fair to say that the learning of these people (including myself) undoubtedly became a major influence for how the partnership evolved. Indeed, as any action researcher knows, the learning and therefore actions of this group of people played a key part in influencing the corporate agenda for change.

The evolution of the programme and the partnership has to be understood within the organisational culture and context of M&S, which continues to experience immense change of a structural and even a turbulent nature, as witnessed in the press. Of more significance for M&S, but less known within the public domain, is a major retail change programme within the business that sought to modernise the culture and operation of this major retailer, not least by giving more autonomy to store staff within a historical culture of high levels of hegemonic corporate control.

By way of summary therefore, suffice to say that one of the features of work-based learning partnerships is that "context is all".

Background to the development of the Foods Unwrapped programme

The Foods Unwrapped programme was developed by M&S through a long-term collaboration between its foods division experts, learning department and main food learning and training supplier. The programme arose out of an in-depth core functional analysis of the foods division systems and the competencies needed to be a food manager. M&S has a history of training being delivered on the shop floor as well as through traditional workshops delivered in-house and/or by consultants, so it was culturally unusual (in the organisation as well as in the retail sector more generally) for university accreditation to be sought.

Foods Unwrapped was designed to develop, accredit and progress the learning of all managers in its substantial foods division. This involved approximately 1,500 managers and comprised nine modules, taking on average between 10 and 18 months to complete, and delivered within a "just-in-time" paradigm. The modules were: manage stock, manage the team, manage sales and profitability, manage peak (that is, Christmas), manage third parties, manage the look (visual merchandising), manage service, manage the business and manage yourself. The delivery method was work-based by CD-ROM, involving a range of materials to be completed online with a portfolio assessment strategy – features highly unusual within the M&S tradition of training, but highly appropriate and relevant for work-based learning. The portfolio also required candidates to keep a learning diary and reflect on their learning.

The programme was accredited entirely at postgraduate level, and M&S appointed senior staff from its foods division as internal assessors – known as food performance managers – who were trained jointly by M&S, the university and the training provider. An M&S accreditation board was established to manage the assessment, with the university in the role of external examiner. Issues of scale, scope and quality assurance were necessarily paramount, given the magnitude of the programme and the fast-moving commercial environment of M&S.

Phase two of the programme enabled Foods Unwrapped completers and the experienced assessors (who are acknowledged to have significant expertise in the programme) to progress to postgraduate qualifications in work-based learning studies at the university. Feedback from all these groups forms a major part of the evaluation covered by this chapter.

The evaluation process

Data was collected in the form of semi-structured questionnaires and focus groups, together with project reports researched and written by candidates, as well as from documentation arising naturally from the Foods Unwrapped accreditation board. This documentation included the extensive database created and maintained by the M&S senior manager responsible for the programme, comprising a region-by-region, store-by-store and candidate-by-candidate record of module completions in chronological order. The very nature of board activity was developmental, and minutes from its meetings charted the learning curve of all participants relating to the processes and procedures required by both M&S and the university, to ensure the rigorous maintenance of all quality assurance procedures.

Questionnaires were sent to all candidates who progressed to work-based learning programmes, with a 100% return rate. What M&S wanted to know was how this radical and innovative programme improved its bottom line and represented a real return on investment.

The focus groups were asked the following questions:

- What have you got out of the programme?
- Why did you do it?
- What did you expect?
- Were your expectations met?
- What difference has this made to you?
- What difference has this made to the business?

The questionnaire asked a range of mainly qualitative questions, including:

- usefulness of the programme in improving work performance;
- how well the programme supported learning development;
- what was most liked about the programme;
- what was least liked about the programme; and
- how the programme built on learning from Foods Unwrapped.

Depending on the formulation of the question, respondents were asked either to provide free-text comment or to answer on a three-point Likert scale of excellent, good and adequate, with these questions giving the opportunity for additional free-text comment.

Foods Unwrapped completers

Data from the focus group was wide ranging, and differed from the informally noted data where candidates completing individual modules might comment on the subject's relevance to their work role or simply use it as a reinforcement mechanism for things that candidates perceived they already knew well. The main overlap in data from the two sources was in respect of candidates commenting on how completion of individual modules as well as the entire programme enhanced their ability to support their teams through staff development and coaching:

I now have a team of experts and have also delivered training across my area. Over the last year I have increased my takings by 18% and 64% over a four-year period. This has also been achieved with my waste budget on target.

In [my] store we are now 6% ahead of our current plan, with waste and theft and loss under control.

In my store five section managers and my ... champion have all completed the "manage stock" module. We are the only store in the area to have met plan for sales, waste and theft.

This is exactly the kind of information that is of commercial value for M&S, and is specifically linked to Foods Unwrapped completers' enhanced understanding of the huge range of interconnected ICT systems for delivering core objectives of the business. A commonly held view is encapsulated by the following:

After 30 years in the business, Foods Unwrapped has really taught me about the systems that I have to use and how to manage them effectively.

This is not just due to completion of the modules, but to the dedicated role of the food performance managers in supporting learning through systems-specific training:

As a completer and [food performance manager], I have been able to coach an individual to highlight their knowledge, ability and skills. This has helped this person to work through the Foods Unwrapped programme.

This shows a good understanding of the complexity of the food performance manager role, and participants readily acknowledged that even with substantial experience of the business, Foods Unwrapped provided new learning.

Despite my 14 years in the business I realised that I still didn't know everything. Working through the programme meant that I learnt something new every day. Foods Unwrapped gave me the opportunity to reflect back on what I should have been doing.

Within the context of work-based learning, this focus on people gaining an increased understanding of their work roles enhances their and the organisation's intellectual capital. Participants not only were able to comment on their own learning development and its impact on the business, but also demonstrated a level of meta-cognition in terms of their understanding of it as a valuable and effective training programme.

New managers to the business need to be shown that Foods Unwrapped is the only tool to be used for training and is the definitive way of running our food business.

Postgraduate candidates

The evolution of learning for these people raised a series of issues around learning at, through and for work that ranged from confidence building, acquisition of new skills and knowledge and, through project work, applying their learning so as to be of tangible benefit for the business.

In response to how useful the module or programme was in improving work performance, the majority said it was "excellent" and the remainder said "good". This data was further supported by a range of comments:

The individual drive required to complete both the [Foods Unwrapped programme] and postgraduate certificate has given me the confidence and knowledge to challenge my line managers and the business. I can now give alternative solutions when presented with issues. I am able to probe and to question through my improved knowledge.

Candidates commented that working at postgraduate level had reinforced earlier learning and development from the programme:

It has reinforced my learning from [Foods Unwrapped] modules and built a great foundation for [the] future.

Of special significance for everyone was the impact of their project. Here the integration of engaging in practical work of real importance to the M&S foods division (negotiated and agreed through a learning agreement) and critical reflective thinking enabled all candidates to produce products and research of quantifiable benefit.

From completing my project I have been able to save £18,000 for my store and have released £1 million of equipment for the business to use.

Such business benefits were astutely noticed by managers:

The projects presented by the ... candidates have shown that they can have real value. As a business we could have paid many thousands of pounds to a consulting company to deliver the same results.

Other projects included important work on food technology, critically evaluating aspects of Foods Unwrapped – including a valuable exploration of extending the programme from shop-floor staff to “backstage” managers – a logistics-based project to improve deliveries over Christmas to a busy, road-locked London store and a simple but highly effective analysis of tilling strategies over lunchtime to reduce complaints and improve brand image.

Projects were explicitly aligned to M&S performance targets – the reduction of food waste, customer service and Sunday trading – while training remained business-critical in an organisation that has huge numbers of part-time staff with low retention rates. Of particular interest were projects critically reviewing the annual stock take, which feeds directly into the annual audited accounts; on customer impulse buying; and on employment of staff who are also in higher education, which is of course of great interest to the university.

I will end this section with a quote from one of the MA candidates, which provides an insightful summary of the significance of Foods Unwrapped within the business together with her understanding of the additional impact and value of the MA in work-based learning studies.

I relate [Foods Unwrapped] as being the foundation course for completing the MA. The [programme] feels a long way from where I am now. Its relevance to my research however has never been stronger.

Conclusion

It was fairly well agreed from the early days of Foods Unwrapped that encouraging and supporting over 1,500 managers through a nine-module programme was going to be logistically challenging. However, the evidence indicates that the challenge was to get managers started and through the first few modules, as once this was achieved candidates were motivated to remain on and complete the programme. Fundamental to their successful completion was the importance of internal peer support. All the evidence showed that the food performance manager role was vital to candidates and for the future success of the programme. It was also essential for the quality assurance of the programme and the accreditation function, as the food performance managers had the specialist product and procedural knowledge required and easy access to university expertise.

Evidence from the people who progressed to the postgraduate programme shows they were a motivated group of high achievers, both from a business and academic perspective, and projects demonstrated their real quantitative and qualitative benefits to the business as well as to the individual. Participants developed a growing awareness of themselves as work-based learners, where they engaged in being both a worker and a learner within the complex and demanding culture of M&S. Engaging with a complex range of stakeholders for their professional developmental (including the university) broadened and deepened their application of knowledge.

The models used for this work-based-learning partnership evolved over its five years of existence. The fundamental model of accreditation, progression to postgraduate programmes using learning agreements, work-based research methods and projects is, however, an enduring and successful one.

Implications for the region

Work-based learning is new to Teesside Business School, and it provides a robust model for working in partnerships because it is a shared model for learning that is facilitated by a university, building on knowledge that already resides within businesses but is not yet fully exploited. While the work with M&S was on a large scale, this is also a model to fit all sizes, time scales and sectors. It is timely and builds relationships between businesses and higher education – Teesside Business School is embracing work-based learning as a major feature of our real-world approach to professional and organisational development.

Chapter 4

Great cities, successful region, healthy planet – can the North East benefit from truly sustainable development?

Neil Murphy, Associate Director of Beyond Green

Great cities, successful region, healthy planet – can the North East benefit from truly sustainable development?

In this piece I outline how the North East might find purpose in sustainable development. I argue that *places* exercise a profound influence on our ability to enjoy prosperous lifestyles that have a benign impact on the environment; that many of the actions that will confer a better environment and a lower carbon footprint on the North East will also confer other advantages; and that there is potential to carve out a distinctive agenda for sustainable development that could bring a "low-carbon advantage" to the North East.

What are we talking about? A popular analogy for sustainable development is of a three-legged stool, a structure in which economic, social and environmental elements are inter-dependent; take any one away and the stool collapses. This is being overtaken by the "environmental imperative" – the fact that the planet is now so stressed that action to mitigate further damage is simply unavoidable and cannot be traded off against or made conditional on other goals – which finds its clearest expression in the arithmetic of climate change.

Few now doubt the reality of anthropogenic climate change or that we must keep global average temperature rises below 2°C above pre-industrial levels to avoid calamitous, self-reinforcing, potentially runaway climate change. Even the debate about exactly how much and how fast we need to reduce humankind's impact on the biosphere is down to variations on "very". The question now, especially for those who believe that environmental sustainability is entirely compatible with social and economic progress, is: *How can we shape our society to prosper within radically tighter environmental limits?*

The central response

Commendably, at a time of recession and despite apparent swing voter apathy, the state is starting to address this question. The seminal 2006 Stern review quantified the costs and benefits of tackling climate change and identified the three kinds of action necessary to do so: evolution of a comprehensive international carbon market to correct "the greatest and widest-ranging market failure ever seen"¹ by giving pollution a price (a language everyone understands); technological innovation; and removing barriers to behaviour change in the use of resources.

In late 2008 a new Department for Energy & Climate Change was created out of the Department for Environment, Food & Rural Affairs and the old Department of Trade &

1 *Stern Review: The Economics of Climate Change* (HM Treasury, 2006), pi

Industry; the Climate Change Act legally obliged the government to reduce by 80% the UK's carbon emissions by 2050 on a 1990 baseline; and in December the government-appointed UK Climate Change Committee published its first report,² in which it called for the adoption of five-yearly national carbon budgets to establish a trajectory to a lower-carbon future, setting out a quite detailed strategy for meeting an interim target of a 42% emissions cut by 2020.

The focus of this first big push is the decarbonisation of energy use in the built environment. Beyond 2020, contributions are likely from, among others, new electric vehicle technologies, further methods of energy generation (potentially including coal carbon capture and storage) and the evolution of international carbon-pricing regimes. The committee asserted that "the challenge now is for the government to strengthen the policy framework and for individuals and businesses to respond"³.

Is this a roadmap to a prosperous low-carbon society? There can be little doubt that drastically reducing emissions from energy use in buildings should be a top priority for achieving the deep, early carbon reductions needed: they account for around half of emissions generated in the UK; the task is principally a technocratic one involving little political contention (although the aesthetics of wind turbines will probably occupy the letters pages of the press for some time yet); while the scale is daunting, the necessary technical know-how largely exists; and the investment should confer other benefits, such as helping to reduce fuel poverty. It also seems sensible to assume a certain level of invention in later years, even if we cannot yet be sure how or how quickly particular technologies will become viable.

But the conceptual framework emerging at national level also risks entrenching two misconceptions: that a shift to a truly sustainable, low-carbon society over the next 40 years is possible without profound changes in the way we live (that we can essentially just "decarbonise"); and that necessary change can be secured through top-down, unitary processes – policy frameworks, global technological change, orderly implementation of centrally devised programmes – augmented by modest personal lifestyle adjustments.

Moreover, the present debate seems to disregard the possibility that a low-carbon future might be a *better* one and that, rather than delaying as long as possible the need to ask people to make unpopular sacrifices, political leaders might see in the challenge of climate change an opportunity to set out a new vision of the good life.

2 Committee on Climate Change *Building a Low-carbon Economy: The UK's Contribution to Tackling Climate Change* (2008)

3 *Ibid*, pxxix

Place matters

The missing link in all of this is the role of *places*: the communities in which we live and work, and the social and cultural relationships and norms they lead us to establish. Place matters in this context for three reasons. First, circumstances of place determine much of our environmental impact. People who can buy many of the things they need daily in local shops and from local producers, walk to work or school, linger and play in streets and spaces that are safe and pleasant and access facilities elsewhere by good public transport services are better placed to live sustainably than those who cannot. They need to travel less, are less reliant on the car for essential travel, and the “embodied” carbon footprint in their consumption choices (which for most people is actually higher than their domestic energy footprint) is reduced.

Second, the impact both of already inevitable climate change and of measures likely to be implemented nationally and internationally to help mitigate it further will be felt in and by communities. In places set up to support sustainable lifestyles, the transition to a world in which commodity prices rise faster – and are made more volatile by carbon pricing and other factors such as “peak oil” – will be easier than in less resilient and adaptive places.

Third, many of the qualities of place that make for sound fundamentals for sustainable living are also good for other reasons: they foster human exchange and interaction, support a sense of community and identity, and increase people’s reliance on shared assets relative to private means. They help to build what economists call “spillovers” and what sociologists call “social capital”.

These qualities can be many and varied, but four seminal characteristics stand out. Places need to be *dense*: to concentrate enough people and activity in an area to sustain a weight and diversity of demand for everything from local shops and services to decentralised low-carbon energy to great public transport. They need to be *connected*: internally, with short blocks and fine-grained streets and spaces that people actually want to use, and externally, through a wider network of streets that integrate one neighbourhood with another.

They need to be *mixed*: exclusivity – an excess of wealth or poverty or of one use over another – is the antithesis of social, economic and environmental sustainability. And they need to have *scale*: big places are more apt than small ones to achieve the combination of density, connectedness and mix that enables them to meet diverse human needs and expectations. With these given, it is a small step to incorporate “sustainable design” features such as local renewable energy generation, living roofs and water recycling.

Think of your favourite neighbourhood in your favourite town or city: it will almost certainly demonstrate these four characteristics and a few more good ones too. It's also a decent bet that that place will largely date from more than 100 years ago (even though it might now incorporate some beautiful modern architecture); that, consequently, traffic does not dominate pedestrians; and that the wit and variety on display as you walk among its streets and buildings forms a major reason why you like it. They quite literally don't make them like that any more. Apart from a few high-quality city regeneration schemes, the logic of the market has dictated low-density, car-bound housing estates and business and retail parks on the urban fringe; and, in cities, monolithic commercial and apartment buildings that can have no life as anything else even though some stand empty.

Although sustainable development has been the "primary purpose" of the planning system since 2004, cul-de-sac development remains a common sight, if temporarily curtailed by the credit-crunch travails of the house builders; even though it is quite possible to design inexpensive, high-density, low-rise family housing with gardens that is at the same time profitable, attractive and sustainable.

A sufficiently serious and positive vision for a sustainable society cannot, therefore, be framed in terms of "zero-carbon homes" (sprawl with solar panels is still sprawl), energy transformation and eco-technology. They will neither deliver the deeper carbon cuts needed after the horizon of the UK's first carbon budgets nor be enough to enable people to make the lifestyle changes that will be needed to do so; still less inspire a vision of a better and more resilient society. Rather, this needs to be an agenda for places and, substantially, a vision for the future of our cities and their relationships to the hinterlands around them.

The logic is simple: fewer, bigger places, better conceived and shaped for exuberant sustainable living and greater economic and social progress. It is no coincidence that, worldwide, those cities that have gone furthest towards becoming sustainable are increasingly recognised as among the most economically competitive and the best places to live. *Monocle* magazine in July 2008⁴ rated Copenhagen – city of a million bicycles and a model of compact, integrated urban development – as the world's most liveable city. Helsinki and Stockholm were also in the top 10, and smaller North European cities like Malmö and Växjö also offer examples of exceptional sustainable city making.

4 "Are You Resident in the World's Top Liveable City?" in *Monocle*, July 2008

The regional dimension

The regional dimension is this: by striving single-mindedly to make the North East a pioneer of modern North European sustainable urbanism, we can plant our flag in the territory of sustainable regional development and carve out new advantages and sources of prosperity and well-being. While participating fully in centrally directed initiatives to transform our energy supply and use, we can look beyond them to the need to enable a culture of sustainable living that is endemic in everything we do, and realise that only by thinking and acting differently now about the relationship between places and lifestyles can we bring about the right outcomes 30-40 years hence.

In doing so, we can meld the famed quality of life to be had in our cities and countryside with a new kind of resilience and adaptability: the kind that confers a “low-carbon advantage” on businesses and families as the costs of carbon intensity rise, and attracts new people and investment as a new regional *brand* – as distinct from an *image*, because it is based on authentic reality rather than wishful thinking – emerges.

This will not be easy. The North East has been as susceptible as anywhere else to fragmentation and sprawl; the northern edges of NewcastleGateshead, for example, are fringed by business parks housing what might instead be components of one of the densest and most vibrant central business districts in Northern Europe. The problem has been reinforced by the dispersed settlement pattern that is a legacy of the region's industrial and mining past, as agencies have sought to create jobs and ameliorate population loss in every community.

Moreover, well-intentioned concern about the North East's relatively low rate of car ownership, which is associated with poverty, has tended to combine with a body of influential rural-dwelling commuters to create a strong lobby for preserving the ascendancy of the private car. And sustainability is a hard sell in a recession.

But with good leadership and clarity of purpose, it can be done. We cannot transform our cities and major towns to become more sustainable overnight, but we can make a clear statement of intent that will deliver that transformation over time. We can start by saying “no” to the lazy mediocrity that characterises much of modern development and become as obsessive about design quality and sustainability in ordinary neighbourhoods as we are about iconic projects. We can agree that we need to grow the population but reduce the spread of our cities, by intensifying and mixing land uses, accelerating the rate of replacement of obsolete and unsustainable building stock and, over time, evolving tighter urban boundaries.

We can refocus our regeneration efforts on streets and spaces as much as buildings, and so create the basis for more active and integrated city networks and a more democratic public realm. We can restate the economic, social and environmental importance of our city centres as places of business and stop asking them to compete with cheap sheds on the outskirts, at the same time increasing their creative potential through greater proximity among higher numbers of skilled workers. We can make a shift to more sustainable modes of transport a priority of urban policy, and by doing all the above support the case for a new generation of urban transit systems and a culture of walking and cycling (as well as better, more viable links between major towns and cities). We can make a central measure of success our ability to attract families of all incomes to live in proper, mixed urban neighbourhoods. And, in doing all this, we can build capacity and tradable and transferable skills in a host of industries that we can apply and export to slower-moving places.

A pro-urban sustainability agenda is not an anti-rural one: on the contrary, it offers the prospect of a renewed purpose for rural and semi-rural areas in functions that are complementary to urban ones and essential to a systemic bioregional sustainability. These include: the production of abundant local food and of construction and other raw materials; renewable energy resources including any or all of wind power, biomass and perhaps in due course clean coal; and recreational and leisure activities. If these occupations sound somewhat traditional in nature, that is because the bite of the environmental imperative is likely to make cities and towns that can feed and power themselves from their hinterlands as strong and resilient in the future as they were in the past.

Governance challenges

Can the North East show the leadership and clarity of purpose that a radical and positive vision for sustainable development needs? There is little in major policy statements to contradict such a possibility: both the regional economic strategy⁵ and the regional spatial strategy⁶ emphasise the importance of sustainable development throughout. On the other hand, there is little reason either to doubt that both are consistent with continuation of the broad status quo. After all, though both are policy documents, they are not in any real sense *political*: they are largely products of deliberation between appointed agencies that are region-wide in their responsibilities (the regional development agency, regional assembly, government office and membership bodies like the Confederation of British Industry and Trades Union Congress) and local authorities that are elected but are rightly focused on sticking up for their areas.

5 One North East *Leading the Way: Regional Economic Strategy for North East England* (2006)

6 *North East of England Plan: Regional Spatial Strategy to 2021* (Government Office for the North East, July 2008)

As such, these policies (like so much in British public life) are the product of many compromises and trade-offs, which reduce their ability to articulate and resolve contentious ideas. Unfortunately, the kinds of change that we need to make in order to render truly sustainable development possible, still less an organising vision of the North East's future, are contentious and political and will require both a sophisticated debate and brave decision making.

Some people favour the introduction of metropolitan mayoralties with powers over the environment, planning, transport and economic development (as in London) to provide visible political leadership across conurbations. This idea has merit, but the fact is that if we reach a position where central government has to impose governance or policy changes from above (or assume for itself yet more powers and responsibilities that are properly the remit of city and local governments) then the opportunity to build the kind of positive advantages through sustainable development I have described may already have been lost.

Modest recent proposals to adjust the balance of power between regional and local bodies contained in the government's "sub-national review" are unlikely to alter the underlying political logic. Perhaps more significant is the emerging agenda at subregional level, which in the North East is translating into the creation of powerful new unitary local authorities in Northumberland and Durham, while the conurbations are asked to form bottom-up partnerships to work more closely on economic, planning and transport issues – a process that appears to be working more smoothly in the Tees Valley travel-to-work area than in the amalgam of those of NewcastleGateshead and Sunderland.

In the worst-case scenario, this is a recipe for further anti-urbanism and fragmentation as powerful counties and squabbling boroughs compete for project funding, housing allocations and other largesse from above. In the best, though, these changes might herald a new era of municipal leadership in which the metropolitan areas and counties implement a robust common vision, supported by a beneficent tier of regional expertise and resources. It is in the interests of the planet and the people of the North East that it does.

Chapter 5

A strategic assessment of the economy of the North East of England

Lord Michael Bates, Shadow Minister for the Cabinet Office

A strategic assessment of the economy of the North East of England

The North East of England is a very special place to those of us who have the privilege to live and work here. The people, the humour and the natural and historic beauty are perfectly encapsulated in the promotional slogan "Passionate People, Passionate Places". There is no doubt that there is a huge amount that is good about the North East, but – as management guru Jim Collins says – the good can often be the enemy of the great.¹

In this essay I would like to explore what it would require for the North East to move from being a good region to a great one. In doing so I am drawing not so much on the academic literature but on a series of personal empirical judgments collected together to form a strategic assessment. They are based on being raised in the region, having established a business here, having represented the region in parliament, having served as a sponsor minister for the region in Whitehall, having lived on Tyneside, Teesside and now on Wearside and, finally, having spent seven years outside the region looking in, through which I have gleaned some insight into how the region represents itself to, and is perceived by, an external audience.

There can be few terms more misused in both public and private sectors than the word "strategy". In some settings this word is applied as an epaulette to a series of tactical responses to perceived events. The term "strategy" should be used to indicate a long-term plan to achieve certain goals. Strategy is not reactive to events but is based upon careful analysis of trends and examination of possible responses given a range of plausible scenarios. The word is derived from two words in the ancient Greek: the first "stratos", which refers to an army, and second "ago", which means to lead. We can therefore say with some certainty that the aim of strategy is to achieve a victory, and that no matter how brilliant the *stratos*, the victory will not be achieved without leadership. The victory in a corporate setting is to secure a competitive advantage in the chosen marketplace.

I would propose that the victory we should aim for in looking at the North East economy is for it to achieve a competitive advantage over other regions and countries in the UK and Europe. Sometimes policy makers shy away from such ambitions; we want to talk about co-operation rather than competition. My response would be that you may be able to take a magnanimous approach once you have reached the top, but it is impossible for the North East to progress from its present position as the smallest, least prosperous, most public-sector dependent and most peripheral region of England without cultivating a sense of competition.

¹ Collins, J *Good to Great* (HarperCollins, 2001)

The focus of that effort should be to pose the question: what would it take for the North East to overtake Yorkshire, the North West and the East Midlands in terms of wealth creation and academic excellence? What would it take for this region to reclaim the position it held in the 19th century as an economic powerhouse of the country and of the world – to use a football metaphor, what would it take for us to be striving for a Champions League place at the end of each season, rather than fighting off relegation? In short, without ambition and leadership, and, above all, unless we embrace a healthy spirit of competition, then talk of a regional strategy is meaningless – and, worse, it can serve to obscure the realities of our position. Competition is a driver of productivity.

This leads to the necessity of establishing a working benchmark of the region against our competitors – we can all have our opinions about the validity of measures, but facts are essential for underpinning strategy and measuring performance. Data sourced from the ippr north publication *The North in Numbers*² is given in table 1.

Table 1: Performance indicators across competing regions

Indicator	North East	Yorkshire	North West	East Midlands
Gross value added (GVA per capita) 2005	£14,084	£15,423	£15,545	£16,643
Overall GVA growth 1990-2005	30.2%	31%	31%	34.2%
Regional GVA forecast growth 2009	1.9%	2.5%	2.2%	2.8%
Regional productivity –where UK average is 100	86	90	87	95
Stock of VAT-registered companies per 10,000 of adult population (2008)	249	345	350	388
Rates of new VAT registration of companies per 10,000 of the adult population (2007)	28	35	37	37
Proportion of working-age population with qualifications at level 4 or above	23.1%	23.6%	23.4%	26.5%
Proportion of super-output areas in the 20% most deprived in England	38.1%	29.6%	32.8%	17.6%

² Johnson, M, Mrinska, O and Reed, H *The North in Numbers*, paper 1 from the Northern Economic Agenda project (ippr north, 2007)

The precursor to any strategic assessment will be to have a thorough command of the strengths, weaknesses, opportunities and threats that will inform the strategic goal setting. Typically this is called a SWOT analysis. The objective of the analysis is to pose the following questions:

At what does this region currently excel?

This informs decisions on the allocation of resources. It is axiomatic that winning strategies put resources behind winners to help them grow faster than they otherwise would; "backing winners" is fundamentally different from "picking winners", as the results show. The first rule of any successful corporate strategy is that it should emphasise the existing competitive strengths of the organisation. Often corporations are all too aware of their weaknesses and insufficiently vocal about their strengths – I think this has been the case in the North East.

What are the areas in which our principal competitors do better than we do?

It is important in assessing weaknesses to focus on the competition we need to beat. This is a valuable approach because it means we need to learn from our competitors and understand what they are offering. We are not seeking to build some utopian dream world; in the scenario I am presenting I am arguing that we want to be competing with the East Midlands and the South East, and to do that we need to understand what they have that we lack. In some areas, such as proximity to London, we will never be able to compete, but could we think of that attribute in terms of strength?

What are the opportunities we have as a region?

This forces us to think long-term, beyond the present recession to the shape of things thereafter. Long-term thinking is important because corporate success is seldom an overnight thing; it is more about identifying future trends and trying to exploit the opportunities coming down the track ahead of your competitors.

What are the threats we face as a region?

This again is a long-term question, and it reminds us that we must always be mindful that whilst new opportunities may come along, some of the current product lines that we thought would be around forever may themselves be superseded, or that there may be events that, if they occurred, would have a disproportional impact upon our region compared with our major competitors.

Because I am by instinct an optimist, I will begin with strengths and conclude with opportunities.

Strengths

Quality of life

The quality of life enjoyed by residents in the North East is high when compared with other regions. It has always been an attraction for those relocating to the region that property prices are lower, commuting times are less and, as a result, on average the working day is shorter while social and family activity time is longer. As such there may be less financial capital, but there is considerably more social capital. In the Metro Centre and Eldon Square we have two of the best shopping centres in the country. We have a vibrant sporting community, and of course the "party capital" of Europe, Newcastle.

One of the most unsung surveys carried out in recent years was on perceptions of "regional tranquillity" by the Campaign to Protect Rural England.³ In this survey the North East was identified as by far the most tranquil region in the UK, and Northumberland the most tranquil county – the North East scored 15.3, compared with London's -76.7 and the South East's -9.12. Northumberland scored 28.62, compared with 17.14 for North Yorkshire and 3.04 for Wiltshire.

People

There is a strong sense of community and a genuine warmth in the welcome extended to visitors to the region. The region possesses a committed work ethic, alongside a pride in craftsmanship, especially in manufacturing and engineering. There is a loyalty in the workplace combined with a teachable attitude.

Transport

We retain a vibrant network of ports, most notably Teesport – with the new Northern Gateway Container Terminal – and Port of Tyne, named Port Operator of the Year by Lloyd's List in 2008. Together they provide a world-class international gateway to and from the region. The East Coast mainline offers an outstanding service to the capital, albeit at an outstanding cost. Newcastle International Airport is a truly world-class regional airport. The road links south of Tyneside are good. The Tyne and Wear Metro system is a unique system and a unique selling point for the region.

Research and development

Durham University is a top 10 university in the UK.⁴ The Centre for Process Innovation on Teesside is a world leader, Newcastle University's Newcastle Biomedicine is undertaking world-leading research and Codeworks is promoting digital media innovation. NETPark's

³ Campaign to Protect Rural England and Countryside Agency *Mapping Tranquillity – Defining & Assessing a Valuable Resource* (2005)

⁴ *Sunday Times* university rankings, September 2008

research into new forms of electric lighting in partnership with Thorn is cutting-edge, as is Kromek (formerly Durham Scientific Crystals), also based at NETPark in Sedgefield; the New & Renewable Energy Centre holds the prospect of doing equally well in Blyth.

Public service

There is a strong public service ethos in the North East, with 36,830 civil servants employed in the region in 2007. HM Revenue & Customs and the Department of Work & Pensions each employed 13,000 people in the region in that year.

Business

Nissan (UK), Arriva, AMEC, Garlands, Greggs, Northumbrian Water and Sage, along with new technology companies like Leighton and Eutechnyx, are all examples of world-class businesses headquartered in the North East. Of these businesses, Sage is one that particularly gives the region a competitive advantage by the calibre of employees it either attracts to or retains for the region.

Weaknesses

Location

The North East is a peripheral region geographically and it is perceived to be so commercially and economically, most crucially by the City of London and the media.

Role models

It can be the case that those whom we as a region exalt are celebrities and sportsmen and -women, at the expense of those who achieve great success in business, research, public service or innovation.

Transport

Road transport around the A1 Western bypass, or the A19 Tyne Tunnel, creates serious bottlenecks that restrict the promotion of business and enterprise around the region. There is also insufficient capacity on the East Coast mainline.

Business stock

There were 49,435 VAT-registered businesses based in the North East at the end of 2006. During 2006 there were 4,630 registrations and 3,475 de-registrations, resulting in a net increase of 1,155. This is the lowest business stock of any region or country in the UK. Achieving a rate comparable with the next lowest region, Scotland, would require the addition of 13,000 businesses.

Headquarters

The lack of major corporate headquarters in the North East is a significant weakness, not because of the prestige but because of the high skills they bring to or retain in the region. The loss of major headquarters such as those of Procter & Gamble, Barratt Developments and Reg Vardy plc, and the troubles faced by Northern Rock have resulted in the loss to the region of highly skilled employees, and as such have contributed to the expansion of the productivity gap.

Basic skills

The Skills for Life survey conducted in 2003 found that 27% of the adult population of the North East did not meet functional numeracy standards and 22% did not meet functional literacy standards – these are the highest percentages for any region or country in the United Kingdom. To these basic skills I would add basic IT skills, which are indispensable in the modern communications era, as an area in which improvements need to be made.

State-managed culture

There is a stronger state-reliance than self-reliance. This culture is understandable, given the past dominance of nationalised industries and the ravages of unemployment as those old industries gave way to new ones, but it remains a cultural weakness that reflects the past and a lack of self-confidence about the future, and as such it should be left in the past.

Threats

Decline of North Sea oil and gas exploration

A major strength of the North East economy has been the servicing and operation of off-shore facilities in the North Sea and the associated petrochemical processing onshore. It is widely acknowledged that the peak for production of the North Sea was in 1999/2000, and that the abandonment of the remaining fields in the North Sea may occur by 2030 – depending on international wholesale prices. We must be better prepared as a region for the inevitable decline of the North Sea oil and gas industries than we were for the decline of the Durham and Northumberland coalfields.

Depression

Economists have argued that the North East is well placed to meet a recession because of the strong public-sector component in the regional economy. However, if the current recession extends into a prolonged depression lasting several years, then it is inconceivable that the precarious state of the national finances would not extend into significant reductions in public expenditure, in which the North East would be more vulnerable than

other regions. An illustration of this potential vulnerability is provided by the comparative funding allocations of the nine regional development agencies: in 2007 the budget of One North East was equal to £110 per head of population, in Yorkshire the equivalent figure was £61, in the North West £59 and in the East Midlands £42.

Brain drain

If the opportunities for highly skilled graduates in the region are not growing at a faster rate than the number of graduates entering the employment market, then we risk a brain drain in which the brightest and best leave the region, contributing to the expansion of the productivity gap rather than the narrowing of that gap.

Planning

There are few more important functions in the promotion of economic development than the local and regional planning function. Delays in planning consent frustrate prospective investors in the region, and a "can't do" rather than a "can do" application of regulations by local inspectors and councillors can send out the wrong message that business is not welcome. Planning applications should be a priority and every effort should be made to expedite their progress.

One size fits all

We must avoid the danger of closing down intra-regional competition through insistence on the region speaking with one voice and having one view. There is a suspicion outside Tyneside that when we speak of a regional view we are actually speaking of a Newcastle view. To avoid this we need to foster pride and progress in the urban centres of Redcar, Sunderland, Middlesbrough, Hartlepool, Hexham, Darlington, Gateshead, Berwick and Blyth, and in the rural areas of Durham, Northumberland and East Cleveland. We need to build strategy from the bottom up, not impose it from the top down. Corporations have long proved that business units flourish where local people are allowed to take initiative and responsibility – the same works for economic development.

Lack of ambition

This is undoubtedly our greatest threat.

Opportunities

Technology

The advancement of technology and the next generation of broadband provide substantial opportunities for the North East to eliminate the geographic gap that separates us from the rest of the country and the world. The region must ensure that it is at the front of the queue for the installation of the new infrastructure and an early adopter of the new technology.

Recession

Leveraging the quality of people, low cost of living and quality of life arguments of the North East and combining them with improvements to technology infrastructure could prove a seductive lure for cash-strapped businesses or government departments.

Sage cluster?

Northwest Arkansas was on the extreme periphery of the American economy until Sam Walton forged a strategic alliance with Procter & Gamble to harmonise stock control systems and pass on the savings to the customers of his store – Wal-Mart. Wal-Mart is now the world's largest private company, and north-west Arkansas has been transformed into one of the most dynamic corners of the US economy. We have witnessed this to a degree with Nissan and its cluster of suppliers, but could Sage do more of this at the same time as being a standard bearer for digital technologies in the North East?

Enterprise promotion

The promotion of the concept of "creating" rather than "getting" a job when leaving education must be interwoven into the education of young people in the region. As the memories of and nostalgia for the era of heavy industry and mining ebb away, the next generation of young people hold out huge hope for the region's economy. Organisations such as the Entrepreneurs' Forum and Young Enterprise are doing ground-breaking work in schools and colleges in raising the horizons of young people through initiatives such as "If we can – you can".

The government has helped by giving each school a grant of up to £17,000 for the promotion of enterprise; sadly, in most schools in all regions this money goes on repairing the school minibus or resurfacing the car park. If we are to take this culture change seriously, then this funding must be ring-fenced by local authorities and governing bodies and spent for the purpose for which it was given – wouldn't it be a great signal of intent if the North East adopted this practice before the legislation arrives?

Foreign direct investment

This is often looked upon as an opportunity of the past, but with the emerging markets beginning to mature and cost advantages beginning to narrow, and with the possibility that the world will become more protectionist as a response to globalisation, many businesses that located plants in Asia and Eastern Europe may be receptive to the business case being made for the North East.

Tourism

With the collapse in the value of sterling making the UK a favoured destination again for

our Scandinavian, American, Japanese and Continental European friends, and the recession making British families look for low-cost holidays, there has never been a better time to promote tourism in the region. The quantity and quality of hotel accommodation are increasing, the passion for fine cuisine is extending and the warmth of welcome remains. We are also beginning to see the end of the equivocation over the role of the North East as the cradle of Christianity in England, stretching from Holy Island in the north to Whitby in the south and covering Durham and Jarrow; all with the modern emblem of the Angel of the North, which has surely replaced the Tyne Bridge as the most iconic structure in the North East.

Capital from the capital

Much has been written about access to capital finance for start-up companies in the region. There have been some impressive success stories coming from North East Finance (formerly NStar), especially in the high-tech field and through its Proof of Concept funds. There are now 14 equity funds for new ventures focused on the region, a further 15 loan funds and a large number of private business angels.

There is, however, a fundamental question as to whether, for a commodity as mobile as corporate finance, we need to be developing strong facilities here or should rather be leveraging the fact that the largest and most sophisticated capital market in the world is under three hours away by train. We have the opportunity to go it alone or to tap into the wealth of expertise in London and Edinburgh as major financial centres, and channel our efforts into forging strong networks with key individuals and institutions.

Often investors are looking for the investor who can help them grow as much as for the capital investment they bring. In all things we should go for the best expertise we can for businesses in the region. We should care less where that expertise is physically and more that it is of the highest quality.

Moral capitalism

The North East is home to some great social entrepreneurs, with organisations like Acumen Development Trust, Aquila Way Housing and Traidcraft – it is, I believe, no accident that social entrepreneurship should have taken off in the North East, because it goes with the grain of the culture: a pride in the local community and a desire to help and to serve. This I would see as a trend that will emerge from the bursting of the credit bubble in the UK and around the world.

Not all social or moral enterprises need to be not-for-profit – Eaga is a company that has a successful international operation promoting energy conservation, and the Ethical

Superstore is tapping into the new mantra of "doing well by doing good". Of all the areas which the North East is well equipped to exploit, the new and renewable energies market must be at the top of the list, and already there are some staggering breakthrough technologies in solar power and wind power being developed in the region. The development of new and renewable energies provides us with a "hedging strategy" against the decline of fossil fuels and exploits transferable engineering skills.

Summary of the region's strengths and weaknesses

Strengths	Weaknesses
Quality of life	Location
People	Role models
Transport	Transport
Research and development	Business stock
Public service	Headquarters
Business	Basic skills
	State management
Threats	Opportunities
Decline of North Sea oil and gas	Technology
Depression	Recession
Brain drain	Sage cluster
Planning	Enterprise promotion
One size fits all	Foreign direct investment
Lack of ambition	Tourism
	Capital from the capital
	Moral capitalism
	Leadership

Conclusions

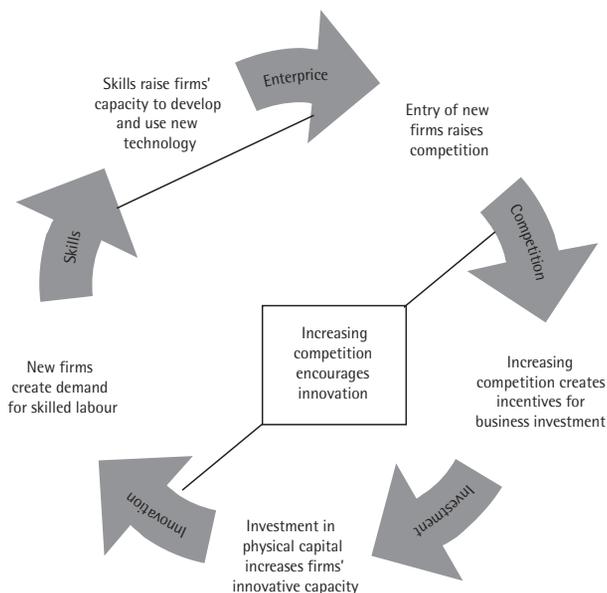
I would contend that we need to stir up a new spirit of ambition through which we will compete against our neighbouring regions – Yorkshire and the North West – but also benchmark our progress against the "best in class", which I would argue is the East Midlands. If this is to be achieved then I would contend that we need to focus on raising our game in some crucial respects.

Productivity

It is logical to state that there tends to be a linkage between the skill level of the worker and the value of the output. Hence, in order to narrow the productivity gap with our

competitor regions we need to get behind businesses and public-sector roles that create high-skill opportunities. There are five key drivers of productivity.

Figure 1: Important linkages between drivers of productivity



Source: *Devolved Decision Making: 2 – Meeting the Regional Economic Challenge: Increasing Regional & Local Flexibility* (HM Treasury, 2004)

Continuous improvement

Nissan runs the most productive car plant in Europe, so when we are looking at trying to raise productivity in the region we would do well to learn from the company's model – in particular the philosophy of *kaizen*, a Japanese word used for "continuous improvement", in which "kai" means good and "zen" means change. Kaizen works in that all employees of Nissan UK are encouraged to seek out improvements in their working environment – no matter how small. For example, a line worker may have to bend down to pick a part out of a box as each vehicle goes past. This could have health and safety implications, as well as wasting time. Kaizen teams would then investigate, and possibly introduce a method in which the box is stored at an optimum height, within easy reach of the worker.

This may not grab the headlines, but the effect is cumulative and significant. I mention this because there is a well-meaning tendency among policy makers, civil servants and

elected representatives to announce grand schemes with headline-grabbing figures for investment and jobs created, and sometimes this is done at the expense of making the small changes in the way in which we work that may result in big changes for businesses and individuals. Innovation is a driver of productivity.

Enterprise culture

We need to promote enterprise and celebrate the success of entrepreneurs from the region. The regional and national media have a role to play, through the avoidance of the stereotypical images of the region normally based around youth crime and alcohol abuse. We have some outstanding business leaders in the region – Sir John Hall, Sir Peter Vardy, Duncan Bannatyne, Les Bell, Paul Callaghan, Carole Beverley, Dr Tony Trapp, Dame Margaret Barbour, Trevor Mann, Margaret Fay, Paul Walker, Hugh Morgan Williams and Steve Gibson – to name but a few.

If we want to get the right message across about the region then we need to take care that we use the right messengers too. One of the most successful chapters of the North East was through the Northern Development Company, which was a private-sector-led organisation headed by Dr John Bridge. The Northern Development Company served as a catalyst for the attraction of over 500 investment projects worth £9 billion and securing or creating 75,000 jobs. Enterprise is a driver of productivity and entrepreneurs are the drivers of enterprise.

Skills

We need to invest effort and resources into ensuring that all our adults entering into the employment market have minimum skills of literacy, numeracy and IT. The right place for this to be done is in primary and secondary schools. Gateshead, a town with significant socioeconomic challenges, has shown how this can be achieved in schools like Emmanuel City Technology College and St Thomas More Roman Catholic School. It is not just basic skills that need to be developed; at the other end of the scale we need many more graduates in subjects for which there is strong market demand – maths, computer programming and engineering. The Institute of Hazard & Risk Research is a world-class facility in the region, and we need more centres of excellence of this type in order to narrow the skills gap, and therefore the productivity gap, with other regions. Skills are a driver of productivity.

Service

We need to recognise that the North East has proven itself to have an aptitude for the delivery of public services. Those major departments that have located in the North East have made a sound choice in terms of taxpayer value for money and customer service

levels. There is no doubt that the public services will continue to play a vitally important role in the regional economy, and that is welcome.

Given the proven track record of the region in delivering public services, it would be good to see the number of senior-grade civil servants based in the region increase. There are 50 North East civil servants who are members of the Senior Civil Service, or 0.1% of the total in the region. This is lower than the English average of 0.9%. At G6/7 level there are 840 (2.3%), which is again lower than the English average (6.1%). All other grades account for 34,940 (97.5%), which is higher than the English average of 92.1%. Raising the numbers of top civil servants would not only help in influencing public policy but also contribute to the narrowing of the productivity gap through the attraction of highly skilled professional to the region.

Finally, we need to be ruthless in our pursuit of excellence in all that we do. It may be public-sector but that does not mean it should not be professional; it may be not-for-profit but that does not mean that it should not be to a high standard. We should not plough public resources into entrepreneurs promising excellence, but rather moving heaven and earth to support those who are delivering excellence. We need to have ambition to the extent of seeing no reason why the North East should be bottom of the list on every major business and economic indicator.

The first part of real strategy is to face up to the facts and be candid about strengths, weaknesses, opportunities and threats; the next is to respond. I would not claim to have perfected the analysis, but I have tried to set out some clear goals of narrowing the productivity gap with other regions by exploiting our strengths – chiefly our people and our quality of life – and at the same time addressing some of our weaknesses, most notably in the promotion of enterprise and skills. There are enough grounds in our strengths and in our opportunities for optimism, and insufficient in our weaknesses and threats for undue pessimism.

What is required is that we recognise that the change, if it is to be achieved, will: (a) be accomplished through the enterprise and creativity of the people of the region – often business needs less a government handout and more a government “hands-off” in terms of regulation and taxation; and (b) be achieved gradually, over 20 years or 30, through small, incremental steps along a road of continuous improvement. As the Chinese proverb says, “A journey of a thousand miles begins with a single step.” Being clear about our goals and honest about the facts may not get us to the destination, but it might just be the first step.

Chapter 6

Manufacturing now

Kevin Rowan, Regional Secretary of the Northern Trades Union Congress

Manufacturing now

“Once were warriors”

There can be little doubt – taking one step back from immediate economic and fiscal crises, and one step further back to recent relative success in employment and economic growth in the region – that the North East continues to face significant and dramatic challenges. Steady employment growth throughout most of this new century has marked a progressively diversifying economic base, coupled with some strongly performing sectors contributing to the region enjoying the fastest-growing GVA in the country at the end of 2006.

The North East has enjoyed more significant, more dramatic increases in fortunes in the past. Opportunities now could establish this moment as decisive if the North East is not to falter once more, to follow the historic path of growth and decline, but instead to choose a course of action that rebuilds and re-establishes an economy of the future famed for its global contribution.

So far has the region fallen that our most ambitious aspirations would still be dwarfed by the substantial growth spurts of the 18th and 19th centuries on the back of industrialisation and modernisation, when the North East prospered fantastically on coalmining, iron, then steel, and bloomed as the producers of a quarter of the world's ships in the first quarter of the last century.¹

Dramatic growth preceded equally severe decline in each of these sectors, contributing to today's North East: disproportionately reliant on the public sector, scarred by the fleeting benefits of foreign direct investment (matched only by the scale of foreign direct disinvestment), aspiring for a cultural revolution that will change not just our economic base, but the whole collective outlook of a region desperate for self-confidence as much as self-reliance.

Within that volatile bicentennial economic history, the North East has never stopped being a location for excellence in manufacturing, and manufacturing remains a critical foundation of an economy poised to progress into its next bright future.

The sick patient that never died

It does seem that many succumb to an astonishingly inaccurate view of manufacturing as something “of the past” – dark, dirty and dated, preferring a focus on the so-called new

1 Tomaney, J *North East England: A Brief Economic History*, paper for the North East Regional Information Partnership conference in Newcastle on 6 September 2006

industries, financial and professional services, the "invisible trade" (in that it produces something no one can see) that has helped to change the structure of the North East economy.

There can be no doubt at all that manufacturing continues to be vital to the UK's prosperity. In 2005, it added £150 billion to the economy and accounted for around a seventh of total UK output, including generating 60% of UK exports. Nationally over 3 million people are employed in manufacturing, supporting many more jobs in the service industries. Manufacturing is demonstrably the country's most innovative sector, representing three-quarters of the country's spending on business research and development.²

In a labour market where quality of employment is increasingly deteriorating, manufacturing jobs are at the upper end of the scale. As the EEF points out, the sector contains a relatively high proportion of managerial, professional and skilled occupations, with higher than average salaries and relatively better terms and conditions; a set of factors particularly important in an area with the lowest average pay in any English region and increasing relative levels of vulnerable and insecure work.

While enjoying the largest increase in GVA of any English region in the most recent figures, published at the end of 2007,³ the North East remains bottom of the productivity league. In seeking to reduce the disparity between regional economies, tackling the productivity gap must be a key feature. In securing this outcome, manufacturing is a determining, critical sector. While employment in manufacturing has continued to decline, productivity, GDP and GVA have all continued to grow. In an economy that is progressively diverse, in the North East manufacturing stands out as being of high importance in efforts to close the gap with other regions, nationally and internationally, consistently outpacing productivity growth in the economy as a whole.

Despite welcome diversification of the economic base in the North East, manufacturing has consistently been and remains more important to the economies of the Northern regions than other areas of the UK. It's an old adage that "manufacturing matters" in the North of England. It is the Southern regions, however, that now produce a greater volume of UK manufacturing output. Contrary to common perception, the West Midlands is no longer the largest manufacturing region; that title is now taken by the North West, with the South East second. The three Southern regions of England (the South West, the South East and London) collectively account for 43% of manufacturing output in the UK, compared with 39% in the three Northern regions (Yorkshire and Humber, the North East

² EEF *Where Now for Manufacturing?* (2006)

³ North East regional and subregional GVA estimates from the North East Regional Information Partnership, 2007

and the North West).⁴

In 1989, all three enjoyed reasonably similar industrial compositions, with manufacturing making up about 30% of total output. No other sector came anywhere near this level in terms of their relative share of output.

By 2004, each of the three Northern regions had experienced similar economic trends. Manufacturing output now made up less than 20% of total GVA in each case. The non-manufacturing part of the economy expanded more quickly than the manufacturing part. While this represents a significant shift in the economic composition of the North East, and reflects a more than 80-year-long trend throughout advanced industries, the effects have been more dramatic in the North East as, arguably – not unlike other Northern regions – it was historically disproportionately reliant on manufacturing.

Despite the relatively steep and severe loss of manufacturing jobs in the North East – over 100,000 in the last quarter of the last century alone – around 14% of workers in the region continue to be employed in the sector, and it contributes around a fifth of the North East GVA. While it is tempting to see the story of manufacturing as a tale of terminal decline, it should certainly not be regarded in this way. The sector has seen new growth in areas such as microelectronics, alongside rapid expansion in the oil and gas industries as well as biotechnologies and automotives (thanks largely to the continued success of Nissan).

Within the North East manufacturing base there are strongly performing sectors of national importance. The North East Process Industry Cluster (NEPIC) represents 500 pharmaceutical, biotechnology, speciality, polymer and rubber, petrochemical and commodity chemical companies based in the North East of England, and there are at least an equal number of companies in the supply chain of these industries based in this region. The combined economic power of NEPIC companies generates in excess of £10 billion of sales, employing about 40,000 people directly – around 30% of the manufacturing base – and having a direct impact on the income of a further 280,000.

The oil and gas, automotive, and chemical and pharmaceutical industries are consistently the drivers of a positive balance of trade in the region. The North East remains one of an increasingly select band of regions that contributes positively in this area. In 2006 the North East had a positive balance of trade of £2.5 billion, up £100 million on 2005.

⁴ Johnson, M, Mrinska, O and Reed, H *The North in Numbers*, paper 1 from the Northern Economic Agenda project (ippr north, 2007)

This puts the region in a relatively strong position, with an export value representing 59% of total international trade in goods. The North East has maintained a positive balance of trade of between £2 billion and £3 billion every year since 1998 – whilst the UK overall has seen a continued increase in its negative balance of trade annually up until 2004. Maintaining this balance, on the basis of manufactured goods, ensures manufacturing in the North East consideration as a spatially focused sector of national importance.⁵

The statement that “manufacturing matters to the North” may be justly called an adage, but it is a truism that resonates in a future context too.

A phoenix from the flames

It is with almost tragic despair that the negative refrain associated with “manufacturing” and “the past” still echoes within public policy discussions, especially outside the Northern regions. These views are not universal; the recent review of manufacturing strategy from the Department of Business, Enterprise & Regulatory Reform locates the sector in the next generation, identifying manufacturing as a key component of 21st-century aspiration, from the growing nanotechnology opportunities to the significant demand for alternative sources of green energy supply.⁶

Under the European Union’s 20% renewable energy target, the UK government is required to provide 15% of all its primary energy from renewable sources by 2020. One of the key issues determining success in meeting these targets will be the availability of an appropriately skilled workforce and a significant ramp-up in manufacturing capacity – a development opportunity that the North East, in particular, is well placed to exploit.

In one key manufacturing sector, NEPIC member companies are investing a further £7 billion into the region by 2015. This expansion, together with the current demographics within the sector, requires the industry to attract some 16,000 new employees. The Tees Valley in particular sees a new and prosperous future in biotechnology, alternative fuels and nanotechnology.⁷

The wind, wave and tidal power sector is set to grow significantly over the period to 2020, and it is now widely recognised that the offshore wind industry has the potential to be largely responsible for delivering the cumulative growth to meet the otherwise challenging renewable energy targets. The UK government’s commitment to the Offshore Wind Round

5 North East Regional Information Partnership data on supplies to and exports from the region, 2008

6 At: <http://www.berr.gov.uk>

7 At: <http://www.nebusiness.co.uk/business-news/latest-business-news/2008/11/04/tees-to-fuel-green-success-51140-22175375/>

3 build programme is worth an estimated £7 billion, and has brought a renewed interest in and confidence to an industry that now sees the UK, and increasingly the North East, as a potentially pivotal investment location for new manufacturing capacity.

In the offshore wind industry, the first four phases of the value chain – planning and development, design and manufacturing, construction and installation, operations and maintenance – all require the most technical and highly skilled personnel. All of these skills sets, however, are resonant within the contemporary shipbuilding, oil and gas, aerospace and offshore engineering experience of the North East.

Whilst the UK has no major wind turbine manufacturing capability and limited supply chain capacity with a track record, the experience within and opportunities to transfer from existing engineering sectors have the potential to transform the regional economy. The North East is leading on a number of major opportunities in the wind sector, thanks to the availability of manufacturing sites and local labour that offer the required access to major projects in the North Sea and beyond. Further stimulus is provided by the Crown Estate's announcement that it will support the investment of turbines to generate up to 33GW off the UK coastline.⁸

The proximity of sites of construction, assembly and installation is not insignificant. The North East offers the ability to manufacture a high mass of sizeable components with lower transport costs; for example, towers, blades, hubs, rotors, shafts and generators. This is of huge benefit to investors looking for new capacity in the UK/European market, building on an existing shipbuilding and offshore engineering supply chain.

It is hard to overstate the importance of the development of blade and generator testing facilities at the New & Renewable Energy Centre in Blyth. The centre is a leading research and development platform for new, sustainable and renewable energy technologies, offering an essential set of services vital to the development of the offshore wind sector, including testing and consultancy services.⁹

The regional development agency, One North East, is leading on a number of major potential investment projects in the offshore wind sector in addition to supporting the growth of the local supply chain to support incoming companies. Castings for the large offshore turbines are now sourced entirely in the Czech Republic and transported throughout the EU. One large US company, Clipper, is homing in on the North East to establish and support its offshore engineering centre for the 7.5MW Britannia turbine. Additional

8 At: <http://www.thecrownestate.co.uk/newscontent/92-round3-grid-study.htm>

9 At: www.NaREC.co.uk

investment opportunities are sure to follow.

The current portfolio, which has a heavy focus on the River Tyne, could see close to 2,000 engineers employed in new manufacturing facilities and the supporting supply chain within two years. The skills requirement will predominantly be in the NVQ level 2/3 areas and will be of a production-led electrical and mechanical type.

There is a high degree of confidence within the region that at least two major manufacturers will make a decision on the location of new facilities for wind turbine blade manufacturing and large electrical generator manufacturing by the close of 2008. These initial projects will see in excess of £50 million invested on the Tyne, providing high-quality jobs in the first phase to be operational from 2010.

In terms of the benefits for the economy, the generator facility alone will bring an additional £25 million GVA per year. With co-located assembly and supply chain activity, this figure could easily be doubled.

In the longer term, a healthy number of additional enquiries could lead to the establishment of a major new industry for the North East, with many thousands of jobs created in the supply chain together with a rapid increase in GVA.

Indeed, the British Wind Energy Association duly announced at this year's 30th annual conference that the North East of England could easily become the "offshore wind manufacturing capital", thanks to its heritage and commitment to the offshore industry.¹⁰

Many companies in the offshore wind manufacturing supply chain have argued that there are difficulties in recruiting individuals with the types of skills required. Over the longer term the situation could ease, as the number of engineering and technology graduates is expected to grow. Also, higher-education institutions are increasingly in tune with the need to provide tailored courses to meet the needs of the sector. Ambitious plans for increasing the number of apprenticeships certainly need to be realised.¹¹

Can we make it?

Tales of the demise of manufacturing in the North East have been simultaneously accurate and miles off. At the same time that manufacturing as a share of the employment base in the region has suffered disproportionately in a global contraction, subsequent strategies

10 At: <http://www.telegraph.co.uk/earth/main.jhtml?xml=/earth/2008/10/20/eawind120.xml>

11 *Today's Investment – Tomorrow's Asset: Skills & Employment in the Wind, Wave & Tidal Sectors*, report to the British Wind Energy Association (SQW Energy, October 2008)

have sought to progressively diversify the economic base, with a degree of success.

Even given the dramatic scale associated with these dynamics, manufacturing remains a key cornerstone of present and future prosperity in the region. The sector continues to provide decent-quality employment to a substantial portion of the North East population and still contributes a disproportionate share of the region's GDP. In maintaining our occupation of playing catch-up with the other regional economies in the UK and elsewhere, manufacturing consistently demonstrates a better than average productivity boost and supplies the major element of both the region's GVA and its trade surplus.

These reasons alone should afford manufacturing special attention and consideration in economic, skills and spatial strategies. However, perhaps what ought to determine a focus on interventions to support and enable the development of manufacturing as a key sector is the position of the region's industrial base in tomorrow's world. From renewable energy to the sharpest cutting-edge nanotechnologies, the North East has the potential to house global leaders in manufacturing of the future – manufacturing for the future.

Housing and communities

Fundamental to the long-term success of any region is the relative balance between economic and housing opportunities. There is no prescribed equilibrium to achieve success. For example, London clearly has a buoyant economy, yet it also has some of the worst housing in England and the cost of residential property and density of housing far exceed that in the regions.

It is evident that it is not necessarily the property characteristics that make a successful house; there is a wider range of dynamics at play, not least the community it is within and how robust this is perceived to be.

Regional context

Housing built to meet the needs of the major Victorian industries is still very apparent in the North East. The rows of terraced houses that still exist along the Tyne, Tees and Wear were constructed rapidly to meet the needs of the growing shipbuilding and iron and steel industries. Much of the coalfield areas of County Durham and south-east Northumberland are characterised by similar housing. The region has a high proportion of low-value and social housing, compared with national averages. Many homes do not match modern patterns of living and aspirational standards.

Whilst the Victorian industries existed, these houses and their communities generally prospered. However, the realignment of the regional economy has left many of these communities deprived of their purpose for existence and the loss of employment opportunities has led, in many cases, to socioeconomic deprivation. In many instances the skilled workers and their families moved on, leaving their house behind. These properties found new occupants, often transient households, and many have subsequently fallen vacant. A new era unfolded for these communities; some are not responding well to the challenges and could find it even harder in the economic downturn.

The North East has too many areas considered for decades to be some of the most deprived communities in the UK. These places include the West End of Newcastle, central Hartlepool and north Middlesbrough. These areas have been subject to a series of attempts to tackle their endemic problems but invariably these initiatives have failed to stop the rot.

At the other end of the perspective the region also needs to create housing and communities which meet the requirements of an aspiring society, particularly if the North East is to compete in a high-skill economy.

Policy responses

The policy responses to failing housing areas through the 1980s and 1990s focused extensively on supporting community infrastructure and providing training for residents. The assumption was that providing these opportunities would make neighbourhoods more sustainable. However, in effect such schemes often failed in their objectives. Residents who became economically empowered would often move elsewhere. The vitality and viability of such neighbourhoods continued to dissipate.

Regeneration initiatives often failed to address the demographic problem of neighbourhoods. They have been ignorant or unable to respond to the evident changes that have been occurring, particularly in respect of the loss of aspirational and economically active residents. Underpinning this is a problem of a limited housing offer restricting socio-economic diversity. The lack of choice in housing availability is consequently generating communities bound by their own socioeconomic strata.

Housing market renewal programmes have seen a return to the more radical approaches of public-sector interventions, including targeted demolition activity. Clearly, decisions to bulldoze houses are never made lightly. However, some of these programmes may break the socioeconomic stranglehold in neighbourhoods and their endemic deprivation – provided that new, aspirational housing stock can be delivered.

The regional strategies for housing, economic and spatial planning all recognise the problems of failing housing and the need to meet aspirations. However, this has not been reflected in the 2008 resource allocations from the Department for Communities & Local Government, which placed its emphasis on affordable housing. It is to be hoped that the advent of the Homes & Communities Agency will allow greater fiscal autonomy in the regions to address local needs and not slavishly adhere to a centralised and generic Whitehall prescription. Whilst new housing will continue to be a priority, under present economic conditions there is a danger that policy makers will park renewal programmes. This must be avoided if the North East is to have places and communities that will respond to the eventual economic revival.

The region has been successful in achieving improvement to the social housing stock through the transfer of council housing or through arm's-length management organisations. These policies have been critical in providing communities with decent social homes to live in. However, many of the homes improved are in estates struggling to be vibrant communities, rather than where people want to live.

Challenges for the next decade for housing and communities

Irrespective of the current economic downturn, the challenges facing housing in the region remain unaltered from those in the previous years. The main housing challenges in the region are to use housing investment to help to create more balanced, mixed communities; to reduce isolation between different social groups; and to provide housing for the needs of the economy. Housing and planning policy will be central to meeting such challenges.

There are also too many failing neighbourhoods in the region. The social, economic and political fallout as a consequence of these community meltdowns is huge. The West End of Newcastle and Gresham in Middlesbrough are testament to endemic deprivation and the need for strong responses. However, responses are too often reactionary to failure; they need instead to be proactive and to address the problems of areas before they slide into such terminal decline.

There are many challenges for the future, but three key areas of particular concern are:

- a) failing terraces and private landlords;
- b) unpopular social housing estates; and
- c) balanced new housing provision.

Failing terraces and private landlords

Let there be no doubt: there is nothing fundamentally wrong with a terraced house. Indeed, such homes are an economic and environmentally sustainable form of housing provision. However, the region's terraced housing and its associated communities could be a cause of great concern to public policy makers in forthcoming years.

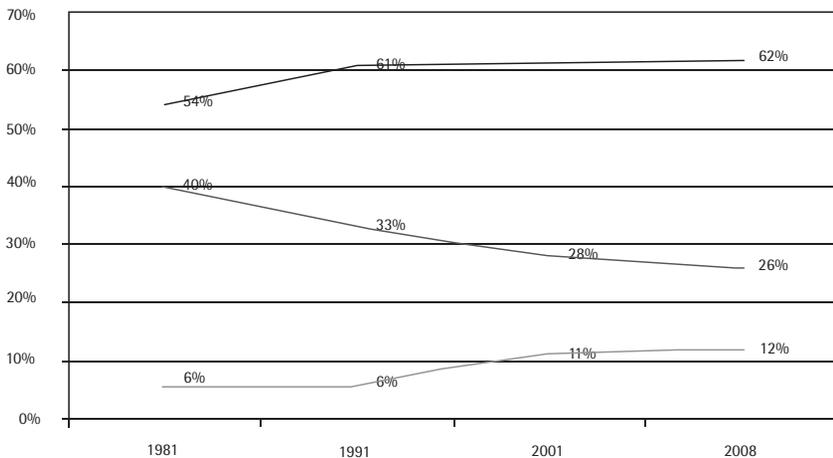
It is argued by some that the terraced housing provided to meet the needs of the industrial economy is sound. In reality, the region has too many terraces in monolithic blocks, poorly constructed and with limited demand. They do not meet the aspirations of upwardly mobile communities who desire a better quality of life than previous generations. These neighbourhoods are often not seen as desirable places to live by many of their residents. Those who are economically empowered have voted with their feet and moved elsewhere. The community suffers death by a thousand cuts.

Many local authorities across the region have been concluding that the quantities of such properties are not meeting the aspirations of a society where the long-term economic performance is improving. As a consequence, extensive housing clearance programmes have been put in place. The re-engineering of the worst of these areas is required – it would be misguided to seek to save those areas that have gone over the brink of viability.

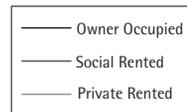
Aligned with failing terraced areas is the notable rise in the stock controlled by private landlords. The proportion of houses managed by private landlords has been increasing rapidly since the introduction of assured shorthold tenancies in the Housing Act 1989.

The activity of private landlords is often tightly focused geographically. In Middlesbrough, the focus is on inner wards close to the town centre, also notable for their multiple deprivation. Uniform streets of terraced housing typify this area, with some of the cheapest properties in the region. Since 1991, owner-occupation has fallen rapidly and some housing associations have also been withdrawing, highlighting the loss of confidence in these communities. There is no evidence to suggest that the economic downturn and slowdown in new house building are changing this trend – indeed, there are concerns that there is a further loss of property confidence in these challenged communities. Figure 1 shows that in three inner wards in Middlesbrough between 1991 and 2001 there was a marked reduction of owner-occupation of almost 20%, with the shift going to the private rented sector.

Figure 1: Abingdon, North Ormesby and Gresham combined tenure split 1981–2008



Source: Tees Valley Joint Strategy Unit/Census Data



At present, private landlords are invariably seen as a negative influence, bringing in poor tenants, not investing in their properties and adversely affecting community cohesion and sustainable neighbourhoods. In the most challenging neighbourhoods, their properties become difficult to rent and often end up being occupied by dysfunctional households. This consequently adds to the problems of a stressed community and contributes to a process of irreversible decline.

The sector is, however, picking up the pieces as a consequence of the gaps in public policy. It is accommodating the “chuck-outs” from the social housing sector. The social sector is expelling its undesirable tenants, yet these are the same people the public sector probably most needs to manage. It seems ironic that one social agency boots these people out of their homes and yet the public sector continues to give them their housing benefit. That is simply not logical. There is also a significant void between policy on housing benefit and the other areas of housing.

Private landlord licensing has been introduced in a limited number of areas in the North East. However, this is primarily seen as a controlling measure to tackle the symptoms of a problem and not the cause. Furthermore, private landlords are often unable to access grant aid support to improve properties which is available to owner-occupiers.

It is a concern that despite their stake in the region's housing portfolio, the private landlord market remains outside the more proactive policy considerations and is poorly understood. Private landlords could, however, provide an opportunity to meet housing needs. The sector is already helping many households to access housing, especially those that may find it hard to be prioritised by housing associations and letting policies. Their properties are provided in a tenure-blind manner, which must be a positive factor for community cohesion. Limited investment from the public sector in this market could stimulate cost-effective opportunities to provide good-quality rented accommodation. If embraced there, the likely future decline of some terraced neighbourhoods could be addressed.

Unpopular social housing areas

In the not too distant past, social housing estates were places people aspired to live. They offered space, energy efficiency and gardens. However, the characteristics of many areas dominated by social housing have changed fundamentally and they are becoming increasingly unsustainable neighbourhoods.

Underpinning this problem is the lack of social mix within these areas. Of particular concern are the decreasing economic activity rates, the sense of stigma and low aspiration.

Too often social housing estates have become home to a disproportionate number of residents dependent on welfare, the elderly and broken families.¹ Households are often trapped by housing poverty. Many would leave if they could. Table 1 highlights the number of 16- to 74-year-olds in employment in seven wards that have a dominant number of social houses. This shows that in most of the identified wards those in employment remain significantly below the town and national averages.

Table 1: Employment change 1981–2001 in Middlesbrough

	Employed		
	1981 (%)	2001 (%)	Change from 1981 to 2001 (%)
Berwick Hills	48.20	39.20	-9.00
Easterside	50.90	39.40	-11.30
Grove Hill	49.80	42.90	-6.90
Pallister	46.40	34.20	-12.20
Park End	48.60	51.10	+3.50
St Hilda's	42.90	30.20	-12.70
Thorntree	40.40	36.70	-3.70
Middlesbrough	52.40	45.00	-7.40
England	60.00	52.62	-7.38

Source: Tees Valley Joint Strategy Unit, Census Data

This lack of social mix and diversity has much wider effects on the community and individuals' ability to prosper and achieve. Many of these areas experience severe problems of crime and antisocial behaviour. The schools are unpopular and public services are often under pressure.

Many of these areas have seen substantial investment in community infrastructure through a variety of government-sponsored programmes, such as City Challenge and the Single Regeneration Budget. However, without achieving a balanced and socially mixed community, it will always be a challenge to make them places where people aspire to live.

The reasons for such decline are complex. Clearly, letting policies play a major role. There is insufficient social housing to meet the needs of all those wanting to rent, meaning that rationing must take place, and therefore those who have the greatest challenges rise to the top of the waiting list. The consequences are that for many people social housing

¹ The 2007 Hills review of social housing has useful figures on low rates of employment and so on.

could be a viable and worthwhile option, but they are not considering it as an option, either because they feel disadvantaged in accessing it or it fails to meet their aspirations.

For social housing to be successful in today's society it needs to be within balanced and mixed communities. Management and letting policies must be fundamentally reconsidered.

Failing social housing areas are not necessarily located in undesirable localities. There are many examples in the region where house builders have built a new development adjacent to a social housing area with poor perceptions, and found their products sold well. Anecdotally, builders regularly report that many of those buying are either those already living on the social housing estate who have aspired to move to a better housing product – but were too attached to their community to move to another part of the town – or are returnees, people who originally came from that area but have moved elsewhere, and are returning to where they see as home. It is often the housing supply rather than the location that is preventing communities from being mixed and successful.

Whilst new-build opportunities can assist in creating more balanced communities, a challenge remains for policy makers in getting a better mix in the existing social housing estates. This may require some creative approaches to traditional views on tenancies if sustainable neighbourhoods are to be achieved. Housing associations may need to look at the sale of stock within social housing areas, either outright or as intermediate housing, to encourage a planned approach to increased owner-occupation. Private-sector infill development or clearance and new building may have a role to play.

There is also a need to be responsive to changing socioeconomic needs. As an example, many of those in employment require flexibility in their housing requirements to allow them to move to meet their job requirements. Social housing letting policies are not traditionally well-placed to assist such requirements. Breaking down lettings policies restricted to local authority boundaries is critical.

With the advent of the economic downturn, the availability of public money for new affordable and intermediate housing programmes is being challenged. However, it is critical for the economic prosperity of the region and for securing balanced communities that the focus returns to making new, quality properties available for owner-occupation as quickly as possible.

Balanced new housing provision

In common with all regions, local planning authorities are required to provide a set amount of new housing land through the regional spatial strategy. It also identifies the

need for a mix of housing, but leaves delivery to local planning authorities. However, the approaches then adopted too often lack sophistication and there is a need to develop more robust policies that achieve housing for inclusive communities.

The planning processes need to make provisions for housing to meet a much wider range of requirements. Housing opportunities must be created for society overall. In the North East this should include genuinely executive homes, as well as housing to meet the needs of the homeless, those family groups who have a disabled member, the elderly and other excluded groups. Without strong planning policies the private sector will not or cannot address such challenges. Planning and housing must develop a more joined-up approach.

Planning policy needs to be more in tune and able to respond to the local policy objectives for creating sustainable communities. For example, strategic housing market assessments can result in outcomes that perpetuate housing poverty. By measuring need according to existing income and tenure circumstances, counter-intuitively the results show that areas with high levels of low-value housing and low incomes require more affordable properties than high-priced, high-demand areas dominated by owner-occupation. In Derwentside, the more prosperous rural area has little affordable need identified, simply because fewer people with such needs already reside in that area. However, the relatively deprived Stanley area was identified as having high affordable needs. Such assessments are not responsive to the need to provide more aspirational homes and socially balanced communities.

Planning authorities are working in regimes designed for their accountability rather than the outcome they should be achieving. There is a need to plan for genuinely mixed communities. This may mean promoting the release of edge-of-town sites – greenfield sites – for appropriate schemes. The constraints imposed by government on the planning system have created a lag in the thinking of professionals.

There is a need for visionary schemes, such as that at Coulby Newham. This mixed community, an urban extension to the south of Middlesbrough, has been extensively analysed by the Joseph Rowntree Trust and shown to be a success. Such schemes require critical mass to succeed. The planning system needs to be used as a tool for change rather than being preoccupied with control.

There are evidently some well-designed housing schemes being developed in the region, creating places where people want to live. However, for each success there are many examples of new developments that have not created new good-quality communities. The planning system needs to put more effort into creating good places, defined by quality.

Conclusions

There is a need for government to devolve housing policy solutions to regions to meet their needs. The region has too many deprived neighbourhoods, and related to this is a housing offer that is not what is required for an aspirational economy and also some excluded social groups.

There is a need for policy approaches to embrace private landlords; failure to do so will restrict opportunity and also probably lead to more failing terraced neighbourhoods.

There is a need to rethink how the large social housing areas work as communities. They are not places where residents are aspiring to live. There is a lack of socioeconomic balance, and strategies need to be developed to address this.

Finally, the planning system is responsive to the need to provide land for housing supply, but there is a need for it to become more sophisticated to address the broad range of housing requirements and provide well-designed, mixed communities.

Chapter 8

The role of local government

Councillor John Shipley OBE, Leader of Newcastle City Council

The role of local government

Although significant physical, economic and educational progress has been made in the North East over recent years, there remains much to do. In this article, I will look through the lens of local government at progress to date, our need and capacity to do things differently in the future, the potential impact of the recession, and the role of councils across this whole agenda.

A study of Newcastle in the North East region by the Organisation for Economic Co-Operation & Development in 2006 set out a number of clear questions for the region. Do we have a clear, agreed and realistic long-term vision that we collectively set out to deliver? Or, as perhaps the OECD thought, do we have lots of different visions, with very little consensus other than that working together is a good thing (along with better skills, an active knowledge economy, more businesses, and better transport infrastructure); a jumble of structures with confusion over who delivers what; and more policies, strategies and plans than are good for us, with relatively insufficient capacity for actual delivery?

Already I have used the preposition "we". Exactly who this "we" is remains debatable, but for these purposes I take it to mean local government, central government agencies, business representative organisations, higher and further education, the national health service, and other organisations that tend to get called "partners", probably too much for their own liking.

Changes made over the past few years have mostly been helpful, although the approach has been patchwork: built up incrementally leading to an incomplete and often baffling picture, with barely anyone who really understands how it is all meant to work. There is a real danger that in abolishing regional assemblies, we will put even more bodies in their place (and I say that as someone who fervently wishes we had a directly elected regional assembly, because it would simplify so much if we did).

Regional development agencies (and I am a board member of One North East) have been a very good thing compared with what went before. They have already been through two phases of evolution in their short lives – the first being the management of programmes that they had largely inherited; the second, the development of regional economic strategies that had some impact in the regions and Whitehall. Who knows what the third wave might bring – a business-led voice (with its implicit democratic deficit), crashing through local parochialism and "getting things done"; abolition, with powers going to the subregional or local level; or a hybrid of the two (which is the most likely, as subregions and local government end up delivering more).

Regional development agencies now have new challenges to face – city regions with a better fit to a real-world economy; a powerful sibling in the Homes & Communities Agency, where boundary discussions could occupy much time and effort; the move to a greater strategic rather than an operational role, after some years of building operational functions; and perhaps, above all, the challenge of creating a regional strategy that will actually address issues the region has shied away from for some time. What will be the balance between competitiveness and inclusion? Where will sustainable growth come from? How can we reduce business and personal dependency on the private car? All are big questions on which regional development agencies must lead thinking.

What regional development agencies have not been, however, is standard bearers for a more devolved approach from Whitehall. Yes, the single-pot approach has been a positive outcome, but levels of delegation remain low, permission is required around all sorts of operational matters, and the different demands from Whitehall departments (not to mention the top slicing of resources) make any talk of real devolution at best optimistic and at worst disingenuous.

Over-centralisation remains a problem

Indeed, the government's rhetoric around devolution more generally is pretty hollow. Britain remains a country of astonishing over-centralisation. The most minor changes to fiscal or financial powers are argued over endlessly for years between central and local government and as a result any genuine devolution gets caught in an intractable debate. Never mind fiscal issues, public expenditure in localities remains almost wholly tied to Whitehall departments, with local discretion heavily supervised. Within local government, area-based grant is an interesting innovation, but next year in Newcastle it represents £24 million of expenditure, as opposed to a mainstream budget of £266 million. And government departments that at one point spoke of their commitment to a localised flexible pot able to respond to local needs pretty soon withdrew their participation when they realised that some of their favourite schemes might lose out.

Local area agreements are a good thing in principle, but have they really led to new powers, new resources, and a more devolved approach? It would be hard to argue so. They have been an excellent way of ensuring that local partners collectively decide priorities, but may be more effective in some areas than others. A local area agreement does not structure the activities of its partners in a meaningful fashion in the way that, say, the Research Assessment Exercise shapes the activities of a university, or the NHS funding regime that of a foundation hospital.

Devolution must be about raising and spending money, and deciding on what is most

important to a place. We have a very long way to go before we get to the point where we can compare to our European colleagues. It is worth remembering that only 40% of the funds spent by Newcastle City Council in any year is raised in Newcastle.

Have all these new structures led to more streamlined and effective ways of working? Let me give a personal example – admittedly for effect, but surely my situation is not too dissimilar to that of many council leaders. I am Newcastle City Council leader; I chair the Newcastle local strategic partnership; I am a director of various agencies that the council has helped establish, such as the NewcastleGateshead City Development Company; I actively participate in all sub- and city-regional structures including at the NewcastleGateshead, Tyne and Wear, and Tyne and Wear city-region levels; I will be a member of the new regional leaders' forum; I am a board member of One North East; and I attend various meetings of the Northern Way, including the Transport Compact. It is not so much the issue of time (or even remuneration, although it could only be someone who is retired or who nurtures serious political ambition to do the job who could manage it) but the sheer array of bodies, committees and boards that is a problem. No wonder the private sector, looking in, wonders how seriously they should commit to participation in these various forums.

And of course each of the institutions in the region tends to have its policies and plans. But what of our ability to make those tough decisions? The most recent test – the approach to the (now in effect defunct) regional spatial strategy – does not augur well. The talk in the region remains of strong partnership working, of getting the key people round the table quickly, and of leaving local vested interests at the door. But this has yet to be tested, and the economic downturn combined with significant reductions in public expenditure will be a real test.

An example, building on the kind of challenges I set out earlier: For 30 years, under both Conservative and Labour governments, we have seen a suburbanisation of our communities and our economy. Out-of-town business parks have flourished, often with government incentives. Out-of-town shopping centres have done the same, with free car parking. New housing has gone to the locations where developers can make most money quickest, supported by over-eager local planning departments stripped of design capability.

Yet all international evidence is clear that the city is the single most efficient tool we have yet invented if we are to solve the overwhelming economic, environmental and social challenges of the coming era. This is hardly contentious internationally, but its implications in a region such as ours are still fought over almost on a daily basis, with no political structures to drive through change. The urban-rural relationship could be completely

recast if we wanted, but too often our policy making is hidebound by institutional interests. Our rhetoric on issues like this and others will be sorely tested over coming months because of the recession and the international credit crunch.

Impact of the credit crunch

Newcastle was an early victim of the inability of one of our few major ples to access capital on the open markets (and how many regional policy makers understood that Northern Rock's business model would be so susceptible to tightening international markets?). It is obviously a blessing in disguise that we are not as reliant on business and financial services as some other cities. But construction and retail are major employers, both of which are suffering. Some have said our dependence on the public sector is a comfort. But this is not supported by recent unemployment figures, and given the government's need to bring down public spending to fund borrowing, seeing the public sector as a haven in a storm is pretty shortsighted.

These conditions make the importance of locally generated economic programmes even more important. We have traditionally found it difficult to attract international investment and build local businesses. Now it is even harder to do so. But it is a key route to sustained prosperity, and local agencies will have to be much smarter against huge competition from much bigger and superficially more attractive places. Our offer to business, investor, talent and resident must be compelling.

So what of local government in all this? Are we up to the job? Some have claimed the central importance of local government because, uniquely with MPs and MEPs, we have a democratic mandate. We should do *this*, because we are accountable, or we should decide on *that* level of resources, because we are elected. I do not know anyone in local government who wants to go back to having councils run further-education colleges and higher-education establishments, and most now accept our new role in areas like social housing. Just because half of the residents in your ward elect you, once every four years, does not grant the rights some local government champions would wish for.

We must get used to new models of local democracy. Local strategic partnerships are an attempt to get us into a more participative democracy route, with some (limited at present) success. Attempts to bring in new models – the botched approach to reform of police governance was an example – are often resisted. We talk about the new role of ward members, but far too few can genuinely act as champions of their communities across all public and private service providers with flexible resources and innovative means of empowerment to draw on. Most ward councillors still see it as a triumph if they get a local bus re-routed. This should be an everyday power at their disposal.

And the word "empowerment" is important. It means giving power from one place to another. That is what councils need to do if we are serious about this new role. We should be at the centre of a place, knowing what is happening on an everyday basis but also looking at longer-term trends. But, increasingly, we should be empowering properly resourced, often third- or private-sector led, delivery organisations to make change happen against clear and attainable targets right across the public sector.

This new role, around which there is so much rhetoric shared between central and local government, demands new ways of working. It means elected members and officers have to know as much about the health service as they do about traditional council functions. In a city like Newcastle, it also means we need to know the demands and drivers on higher education, airports, railways, sporting clubs and, yes, the international marketplace. Local government still tends to employ most of its staff based on the professions of the last century – planners, surveyors, social workers and so on. Increasingly, we need to employ people who can connect different agendas and domains, who can speak the language of the citizen and family, as well as the language of the bureaucratic machine. These new languages and skills needs are a challenge we have yet to address on any systematic basis.

All politics is local

Local services matter to local people – or, as someone once said, all politics is local. When the post office closes or the pub closes, the community suffers. Not that councils should be running pubs or post offices (though occasionally they do), but this recognition of what makes a place sustainable is key. Most people's ambition for where they live is modest: a good variety of housing; access to a park; good schools within walking distance; decent local shops and health services; a pub or two; a decent bus or (in our case) metro service; access to broadband; and the environment being well looked after and safe. This is pretty basic stuff, but most places in Britain, never mind a city like Newcastle, fail to match this description on many counts. The power to achieve this simple vision at a local level too often remains outside the reach of local government and its councillors.

A new approach to local government is bound to arise. There is simply not enough public money to sustain the way we work now. Change is likely to involve place-based budgeting (looking holistically at all aspects of public expenditure in a place), which will be more difficult for Whitehall than for the town hall; statutory merging of back-office and shared service functions; leaner management structures with a new approach to pay and rewards; a rigorous approach to efficiency and effectiveness, with business models that protect the front-line service regardless of delivery arrangements; and much greater user involvement in the planning and delivery of services, where we are still too far behind the private sector.

So the agenda for the region is pretty daunting. We face continued change in our demographic make-up, economic profile and everyday lifestyles; we face huge challenges with declining public resources and a mixed track record of decision making; and we must work with a fractured, confused and ever-evolving institutional landscape. And in local government we need a new skills base, a new settlement with our communities, and a new business model, which gets the right things done in a leaner, more efficient way. And whilst we all represent our own areas, we must realise that residents, service users, businesses and visitors do not respect local boundaries, and expect our areas to be at least on a par with anywhere internationally.

The labour market challenge

In recent years the North East's labour market has made a series of important gains relative to its longer-term position as one of Great Britain's poorest-performing regional labour markets. It is possible that these recent gains are evidence of an eventual transition from the longer-term structural weaknesses of an old industrial region, with a restructured – and still important – manufacturing sector co-existing alongside an ever more dynamic service sector. However, it may also be that the improved performance of the region's labour market reflects the more general buoyancy of the UK economy over the past decade. Either way, the sustainability of the region's recent improvements will be more thoroughly examined in the face of the current recession.

Nevertheless, the region has witnessed improved performance across an array of labour market and productivity parameters, including:

- **Participation:** The number of economically active persons in the North East has increased substantially and the region's employment rate has continued to grow relative to the national average, registering 76.2% in 2008.¹ However, this rate is still around 2.5% lower than the national average. Only Wales and Northern Ireland perform equally or worse.
- **Productivity:** Since 2000, North East GVA-per-head growth has been slightly above the national average, suggesting a possible narrowing of the productivity gap. In part, this improvement has been based on a 3.5% (35,000) rise in employment since 2000, largely unpinning by growth in public service employment (up 47,000).²
- **Migration:** Since 2001, the North East has reversed its long-term historical trend of net migration losses by registering modest net gains through both domestic and international in-migration. However, the region has been by some considerable distance the lowest recipient of EU accession state migrants since 2004.³
- **Education:** The educational attainment of the region is improving, with near spectacular improvement in the levels of pupils attaining five or more GCSEs at grades A* to C. The region now trails only the South East and East of England in regional performance.

1 Labour Force Survey, October–December 2008

2 Skills North East *Review of Employment & Skills Issues in the North East: Final Report* (2007)

3 *Summary of North East Labour Market Intelligence* (Centre for Urban & Regional Development Studies, 2008);

Stenning, A and Dawley, S "Poles to Newcastle: Grounding New Migrant Flows in Peripheral Regions" in *European Urban & Regional Studies* (forthcoming, July 2009)

- **Workforce qualifications:** There has been a positive shift in the qualifications profile of the workforce. Over the past decade the North East has achieved growth at levels 3 and 4, and has achieved an important shift in volume from level 2 to 3.

Despite the recent growth rates, the region continues to lag the national average across a variety of employment and skills indices. Within this context, this article will sketch out some of the key structural dynamics shaping the trajectory of the North East labour market and highlight the challenges faced in terms of breaking out of the "path dependency" of an underperforming labour market.

A central theme throughout is the need constantly to connect the dynamics of the labour market with the structural nature of the region's industrial profile and economy. Whilst the interrelations between a region's labour market and its industrial structure are all too frequently considered implicitly, this connection must be made more explicit when developing longer-term strategic visions. In particular, attention needs to be paid to the structural nature of demand within the labour market. This refers not simply to the sectoral mix of the regional economy but also to the qualitative functions performed by the region within those sectors.

Skills equilibriums and trajectories

To better understand the importance of the "demand side", we can look to ideas developed around notions of regional skill equilibriums⁴ and trajectories. The North East has long been recognised as characteristic of a region in a low-skill equilibrium. It is widely accepted that the demand side within the region's labour market is structurally weak and underperforming. The structural characteristics of the North East's recent economic history – the high proportion of branch plant operations, relatively limited high-technology, knowledge-based and research-and-development activities, and the small size of the SME sector – served as a powerful influence over the character of skills demanded within the region. This lack of overall demand within the labour market is represented in the region's poor record of employment growth.

Consequently, the interaction of low employment growth with other labour market processes and economic drivers produces a reciprocating process whereby the inadequacies of the demand side feed through and produce comparatively poor supply-side performances. More recently, attention has moved from the relatively static and dualistic concept of the skills equilibrium to one of skills trajectories, which better reflects the mixes of organisations

⁴ See, for example: Finegold, D "Creating Self-sustaining, High-skill Ecosystems" in *Oxford Review of Economic Policy* vol 4, no 3 (1999); Jones, I and Stone, I *The North East of England Labour Market Study* (Centre for Urban & Regional Development Studies, 1999)

and sectors that are situated at differing points along the spectrum of low-skill and high-skill demands within any region.

Put simply, high-skill sectors can exist within otherwise relatively low-skill economies, and vice versa. Therefore, when the components of a regional labour market are unpacked, especially at the sectoral and organisational level, it is possible to identify the ways in which different sectors and organisations may follow very different paths. An important implication is one of balance; for example, what proportions of organisations in an economy are following a high skills trajectory and what proportion low skills? These challenges have been captured within the North East's recent economic strategies:

- The 2002 Regional Economic Strategy argued that the "crux of the problem is: low demand for advanced skills among employers dampens individuals' aspirations to gain qualifications, develop new skills and seek advancement in their job"⁵
- The 2006 Regional Economic Strategy claimed: "The concept of the trajectory is useful as it recognises that many sectors and individual firms are at any time moving towards one end of the spectrum or the other (ie high or low skill) ... it emphasises the central role of decision-making processes ... of firms. In some sectors of the economy, for example, improving the level of skills may fail to make any difference where owners have decided against 'up-skilling' the workforce ... [and] regions risk the outmigration of mobile, highly skilled workers in search of employment appropriate to their skills"⁶

Exploring the structural dynamics of the demand-side Sectors

In terms of sector profiles, manufacturing continues to account for around 12% of employment of the working-age population (national average 11%),⁷ and at 18.5% the contribution of manufacturing to the North East's GVA exceeds the national average (13.7%) by almost 5%.⁸ Whilst several of the region's key manufacturing nodes are undergoing a series of rationalisations in the wake of the recession (for instance, Nissan and the automotive supply chain), the sector's core strengths (such as petrochemicals, process industries, maritime and renewables) will continue to play an important role in generating employment, skills and productivity for the region.

5 One North East *Realising our Potential: Regional Economic Strategy for North East England* (2002), section B2

6 One North East *Leading the Way: Regional Economic Strategy for North East England* (2006), pp83-84

7 Learning & Skills Council *Skills in England 2007* (2007)

8 Braidford, P and Stone, I *North East 2008 Labour Market Review* (Durham University, 2008)

In particular, research suggests (for instance, across the areas of microelectronics, maritime and so on) that the horizontal movement of workers across sectors is a key competitive strength of the region, especially in the reutilisation of valuable and distinctive engineering and process industry skills (for example, the potential use of engineering skills in the emerging energy sector). In particular, the region has a long history of developing responsive skills and training solutions within these areas – demand-led and vocationally orientated training, for intermediate to higher-level occupations (such as technical and associate professional).

However, whilst manufacturing employment remains important, it is the service economy that has replaced hundreds of thousands of North East manufacturing jobs lost over the past three decades. Yet the quantitative and qualitative nature of service-sector growth provides a number of structural challenges in the region's attempts to move up the value chain.

- The North East continues to be disproportionately reliant upon public-sector employment. Reflecting the weakness of private-sector employment growth, government and other public services account for higher proportions of both employment (36%) and productivity (29%) than is the case nationally (31% and 24%, respectively).⁹
- Indicative of the region's past dependence on manufacturing, since 2000 employment growth across most service industries has exceeded the national average, especially in transport and communications; banking and insurance; professional and related services; IT and digital; education and public administration.
- Between 2003 and 2006, the three largest areas of service employment growth were real estate, renting and business activities (20.5%), financial intermediation (17.6%) and hotels and catering (10.5%).¹⁰

Within the service growth then, there is a clear structural dimension to the qualitative nature of employment:

- **Inter-service sector dimensions:** The region's overall composition of service employment is disproportionately (above national average) situated in retail and distribution; tourism and hospitality; education; health and social care; and public administration and call centres. In contrast, and of particular qualitative importance, employment remains under-represented (below national average) in banking and insurance;

⁹ North East Regional Information Partnership *The State of the Region* (2008)

¹⁰ Braidford and Stone, op cit

professional business services; computing and R&D.¹¹ Indeed, business services contribute 10 percentage points less to regional productivity than is the case nationally (23%, compared with England's 33%).¹²

- **Intra-service sector dimensions:** Many of the aspects of the "branch plant" characteristics of the region's former manufacturing economy have been transferred to services. In two of the region's key service sectors, the functional role is important. For example, the majority of the region's civil service offices (such as HM Revenue & Customs and the Department for Work & Pensions) are large employers but remain confined to relatively low-skilled back-office functions. Similarly, much of the recent growth in the region's financial services sector has been generated through sales (for example, call centres) and data processing. Moreover, the scale of Northern Rock's 2008 redundancies (1,300) equates to roughly a third of post-2003 growth (17.4%) of employment in the region's financial services sector Skills Council footprint. Whilst Northern Rock continues to serve as a large employer and undertakes high-skilled HQ functions, it is reasonable to assume a relatively limited level of absorptive capacity in the remaining elements of the sector in the wake of the 2008 redundancies.

Occupations

The qualitative nature of the region's sectoral composition is further revealed by the occupational profile of the workforce. Again, despite recent improvements, the workforce remains disproportionately structured towards intermediate and low-level occupations:

- Only 37.6% of jobs in the North East are classified as managers and senior officials; professionals; or associate professional and technical, compared with 42.5% across Great Britain.
- Half of the North East's workforce are employed within the five middle to lower occupational groupings (49.8%, against the GB average of 45.3%), with considerable growth in sales, customer service and personal services occupations. In addition, the region continues to have disproportionate levels of process operative and elementary employment.
- When analysed using England's 47 Learning & Skills Council boundaries, the North East's four subregions have the lowest level of management occupations in the workforce (see table 1). In contrast, County Durham has the highest proportion of skilled trades workers and the second-highest level of operative workers in England. Tyne and Wear performs exceptionally well compared with the other subregions of the North

11 Skills North East *Review of Employment & Skills Issues in the North East*, draft report (2005)

12 North East Regional Information Partnership, op cit

East in employment of administrative and clerical workers. Since 2005 Tyne and Wear has moved from the 39th to the 24th highest-ranking local learning and skills council for professional occupations.

Table 1: Ranking of occupational structures by local local learning and skills councils

	Occupations								
	Managerial	Professional	Associate professional	Admin/secretarial	Skilled craft	Personal	sales	Operative	Operative
Tees Valley	46	37	30	35	21	17	4	11	4
County Durham	47	28	42	46	1	38	13	2	2
Northumberland	44	31	33	42	16	8	2	23	1
Tyne and Wear	45	24	19	9	35	23	3	18	10

Note: Rank 1 is highest concentration of occupations and 47 the lowest

Source: Learning & Skills Council *Skills in England 2007* (2007)

Exploring the structural dynamics of the supply side

The 2006 regional economic strategy for the North East sets an aspirational target for raising regional levels of gross value added per capita to 90% of the national average by 2016. This will mean halving the 20% disparity between the national and regional GVA rates. Calculations suggest that 60% of the gap is caused by problems with workforce productivity, and 40% is due to a lack of participation in the workforce.

Participation rates

The proportion of economically inactive persons in the North East is the second-highest in England, standing at 23.8%, 2.5 percentage points above the national average.¹³ Whilst national levels of economic inactivity have remained relatively stagnant, the North East's levels have fallen rapidly but still lag the norm. The region possesses the second-highest proportion (14.8%) of persons of working age in workless households across the English regions,¹⁴ with significant localised concentrations in deprived former mining and manufacturing localities.¹⁵

¹³ Ibid

¹⁴ Braidford and Stone, op cit

¹⁵ Worklessness is defined as those people who are unemployed – ie people of working age who are looking for a job and are registered, for example, for job seeker's allowance, and those people who are economically inactive, ie people of working age who are neither working nor looking for work and may be registered, for example, incapacity benefit (Social Exclusion Unit/Office of the Deputy Prime Minister *Jobs & Enterprise in Deprived Areas* (2004), cited in One North East *Leading the Way: Regional Economic Strategy for North East England* (2006), p11

Moreover, at 10.2%, the North East has the highest regional proportion of working-age population receiving disability and sickness benefits (second only to Wales within Great Britain). However, this represents a reduction in numbers from 163,000 in 2003 to 160,070 in 2007,¹⁶ and indicates the effectiveness of many innovative and leading-edge policies and programmes piloted in the region – for instance, Pathways to Work and the Regional Employability Framework.

Yet, even though the levels of economic inactivity have fallen, the rise in employment has not kept pace and therefore has led to a rise in unemployment.¹⁷ This process will accelerate in the recession, and early indications suggest that the rate of growth in regional unemployment has been highest in the North East.

- Labour Force Survey headline statistics reveal an unemployment rate (of total economically active) for October–December 2008 of 8.4%, the highest regional rate within the UK, some 6 percentage points higher than the second highest, the North West. For the North East this represents a 0.4 percentage increase on the previous quarter and a 2.6% on-year change – the latter being the highest percentage change of any region.
- The percentage change on quarter rates is higher for women (0.5%) than for men (0.2%), but the change on year rates is slightly higher for men (2.8%, compared with 2.3% for women).¹⁸
- Similarly, in terms of claimant count data, in January 2009 the North East recorded the highest rate of claimant count unemployed (denominator = claimant count + workforce jobs) at 5.8%. This demonstrates a 0.3 percentage change on December 2008. This builds upon a 7.1% on month change between November and December 2008 in terms of claimant count inflows and a -2.9% change in outflows for the North East region.

Qualifications of the labour force

As a proxy for skills, despite recent signs of relative improvement (see table 2), the region's population continues to trail the national qualifications profile at NVQ level 4 and above (degree-level equivalent and above), with 22.7% against England's 27.1%. The region does, however, compare favourably to national averages at the intermediate scale (NVQ level 3), and there has been considerable uplifting in the composition of the labour force from level

16 Ibid

17 Ibid

18 Labour Force Survey, February 2009

2 to level 3 in recent years. The region continues to have a higher level of working-age population with qualifications below level 2 or none at all, but this has dropped considerably since 2001 (33% for the North East, against 32.7% for England).

Table 2: Qualifications of North East working-age population, 2001–06

	2006		England	2001/02
	No.	%	%	%
NVQ 4+	346,300	22.7	27.1	18.6
NVQ 3+	661, 200	43.4	45.8	37.9
NVQ 2+	1, 021, 100	67.0	67.3	60.2
Below level 2/no qualification	502, 500	33.0	32.7	39.8

Source: Table 33 in Braidford, P and Stone, I *North East 2008 Labour Market Review* (Durham University, 2008)

At the overall level, research undertaken using a human capital index¹⁹ to illustrate the regional variations in the qualifications of residents on weighted averages ranks the North East as the worst-performing region in England.²⁰

Table 3: Human Capital Index regional values

Regions	Human Capital Index		
	16- to 74-year-olds	16- to 59-year-olds	25- to 49-year-olds
<i>North East</i>	<i>1.782</i>	<i>1.873</i>	<i>1.917</i>
West Midlands	1.819	1.907	1.966
Yorkshire and Humber	1.826	1.913	1.960
East Midlands	1.843	1.933	1.994
North West	1.864	1.954	2.023
East of England	1.909	1.998	2.077
South West	1.952	2.037	2.110
<i>England</i>	<i>1.957</i>	<i>2.053</i>	<i>2.136</i>
South East	2.048	2.138	2.230
London	2.296	2.405	2.527

Source: Green, A and Owen, D *The Geography of Poor Skills Et Access to Work* (Joseph Rowntree Foundation, 2006)

¹⁹ The Human Capital Index is formed from cumulative measures of proportions across all NVQ levels.

²⁰ Green, A and Owen, D *The Geography of Poor Skills Et Access to Work* (Joseph Rowntree Foundation, 2006)

Graduate retention

The region's universities continue to act as a net annual importer of students – by some 4,274 – but 40% of students entering the North East to study subsequently find their first graduate job outside the region.²¹ The important relations between demand and supply are highlighted by recent research suggesting falls in the numbers of graduates employed in graduate-level occupations (standard occupational classifications 1 and 2 – managers or senior officials, and professionals) within particular sectors.²² The problem of “under-employment” has been identified as a “market failure in economic participation” in the 2006 regional economic strategy,²³ citing weak regional demand for high-level occupations. Recent evidence suggests an increase in the proportion of graduates entering public administration, social security, business services and financial services.

Connecting the employment and skills challenge with regional development

The 2006 regional economic strategy identified the need to support sectors and firms that could be moved up the value chain to both create and sustain higher-level skills, whilst recognising that many businesses or sectors will continue to operate along mid- to low-skill trajectories (serving cost price competition in mid-to-low value-added markets). As a result there is a need to adopt a balanced approach to employment and skills policies within the region, especially as there is little evidence that a skills supply push would be fully utilised or alter the nature of the demand side.

Therefore, skills and employment policy must connect through to a realistic appraisal of the restructuring of the region's broader economic and industrial profile, and work symbiotically to enhance the productivity and participation of the North East.

Why is the balanced approach important?

- For a region such as the North East, certain sectors may be strategic in terms of incremental and gradual improvements in employment and skills (for instance, entry-level employment for long-term unemployed; or intermediate-level employment for vocational training), but may not be high-skill sectors.
- At the same time, whilst recognising some of the “glass ceiling” impediments due to sectoral and functional constraints, balanced and targeted support may be able to address latent skills gaps within low- to mid-level sectors and move them up the value-chain.

21 North East Regional Information Partnership, op cit

22 One North East *Graduates Et the North East*, key issues paper (2005)

23 One North East *Leading the Way: Regional Economic Strategy for North East England* (2006)

- High-skill programmes and projects should be developed in a way to connect to and pull through from existing sectors and labour market legacies, allowing the region to build upon and convert skills and experience within engineering and manufacturing sectors (as is taking place with marine design, renewable energy and similar industries), whilst also developing a skills base that can adequately serve and encourage attempts to strengthen and broaden the business services base of the region.

Following the raft of skills reviews and strategies developed since 1997, and most recently crystallised by the Leitch review, UK skills policy is to be more responsive to the demands of employers and sectors. Whilst the region's labour market performance has lagged the national averages, the activities and innovativeness of its policy community have exceeded the national norms. The North East has a pioneering track record in both these areas (see, for example, the Framework for Skills Action and Adult Skills Pilot), and this must continue and connect more with the service sector than has been the case in the past. In terms of sectoral focus, then, additional alignment is required between the region's priority sectors and the sectoral footprints of the national sector skills councils.

Furthermore, issues of balance and selectivity must be effectively managed when deciding on strategic priorities (sector, subregional geography, client group and so on). Incremental and balanced approaches to employment and skills are required – approaches that both build upon and adapt existing strengths vertically (value chain) and horizontally (between sectors) to enhance resilience and flexibility. As the recession takes hold, many commentators are talking of a more balanced future UK economy; perhaps then the North East can look “back to the future” in this sense.

