



Leading the way

**Regional Economic Strategy
2006 - 2016**

Passionate people. Passionate places.

north east
england

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FOREWORD

Achieving sustainable, inclusive economic growth

Improved communications, greater levels of population movement and increased mobility of industry are features of the 21st century economy. To thrive economically as a region, we must identify areas of global competitive advantage, meeting our challenges head on and grasping opportunities.

Within a UK context, we in North East England must work to close the economic gap between ourselves and the rest of the country - an output gap that currently stands at £8bn.

Closing this gap means improving levels of productivity, for example through increasing levels of business start ups and improving the skills of the workforce. It also means

increasing economic participation, particularly by addressing worklessness, a challenge which is particularly acute in the Northern regions.

We believe we can make a difference, and we are ambitious and aspirational in our vision of the future. This revised Regional Economic Strategy (RES) 'Leading the way' sets out how we will meet the above challenges. The strategy belongs to everyone in North East England, and we will only succeed in achieving the vision for the region if we take collective responsibility for its delivery.

The Shaping Horizons in the North East (SHiNE) process, which preceded and informed this strategy, demanded that we become more focused and prioritise our activity more effectively. This Regional Economic Strategy emphasises the importance of strong leadership, and we are confident that we can demonstrate this strength in its delivery. We will have developed an Action Plan by January 2007, with a fundamental aim to use our collective resources more effectively and efficiently.

The region has many strengths upon which we can build. The quality of our natural, heritage and cultural assets, and our considerable progress in the fields of innovation, science and design are providing a new world of opportunities. So too is our drive to promote the positive image of the region through the **Passionate People. Passionate Places** campaign. It is crucial, however, that everyone within the region has the opportunity to contribute to and benefit from success, ensuring sustainable and inclusive economic growth.

It is also important that we work together as a region to improve levels of dialogue with central Government, enhancing awareness of the challenges we face and opportunities we can maximise to reduce regional disparities.

As key strategic and delivery partners in the region, we fully endorse this Regional Economic Strategy - *Leading the Way*. We look forward to working together to make it happen, meeting the vision for North East England in 2016.

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Chairman, Northern
Business Forum



Peter Carr
Chair, North East Health
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Director, Voluntary
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Councillor Alex Watson
Chair, North East
Assembly




SECTION A

Meeting the challenge

This Regional Economic Strategy (RES) sets out how we¹ are going to deliver greater and sustainable², prosperity to all the people of the North East over the period to 2016.

A1 Vision

The RES is a strategy for the sustainable, inclusive economic growth necessary to underpin the fulfilment of the overarching vision³ for the North East region. The shared vision will promote greater alignment across regional strategies and policies, and will facilitate a greater understanding of the kind of region we want to be in the future.

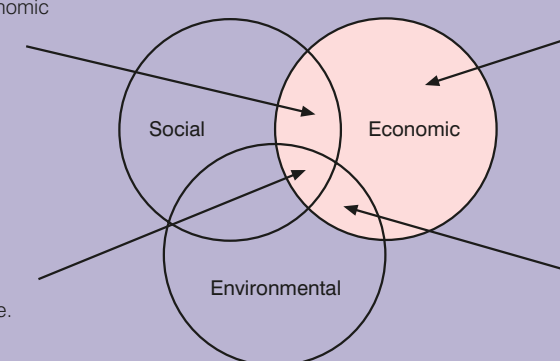
VISION

The North East will be a region where present and future generations have a high quality of life. It will be a vibrant, self-reliant, ambitious and outward looking region featuring a dynamic economy, a healthy environment and a distinctive culture. Everyone will have the opportunity to realise their full potential.

The diagram below illustrates how this strategy complements policies in the social and environmental spheres. Although this is a simplistic representation, it illustrates the way we intend to deliver sustainable, inclusive economic growth.

Achieving sustainable, inclusive economic growth

Promoting participation and economic inclusion through activity to help people contribute to and benefit from economic growth.



Drivers of economic growth including innovation, skills, investment, enterprise and competition (Department of Trade and Industry five productivity drivers)

Developing, preserving and promoting a vibrant and healthy cultural climate to facilitate improved economic performance.

Activity to provide the physical environment to enable growth. Activity to protect and enhance the environment, while using the region's environmental assets sustainably to promote economic growth.



Bamburgh Castle, Northumberland

Contributing to the achievement of sustainable development

Throughout this strategy, actions are highlighted which actively promote the achievement of sustainable development. In particular:

Leadership

A commitment to work in partnership to improve leadership around sustainable development, including implementing the commitments and principles outlined in the Government's *Securing the Regions' Futures Strategy*

Business

- Specialist business support for encouraging resource efficiency
- A strong focus on the development and deployment of low carbon technology and renewable energy within the 'Three Pillars' work
- A strong focus on the delivery of the Energy White Paper 2003.

People

A strong focus on economic inclusion including activities to:

- Improve access to employment
- Raise economic participation in deprived communities
- Promote equality and diversity.

Place

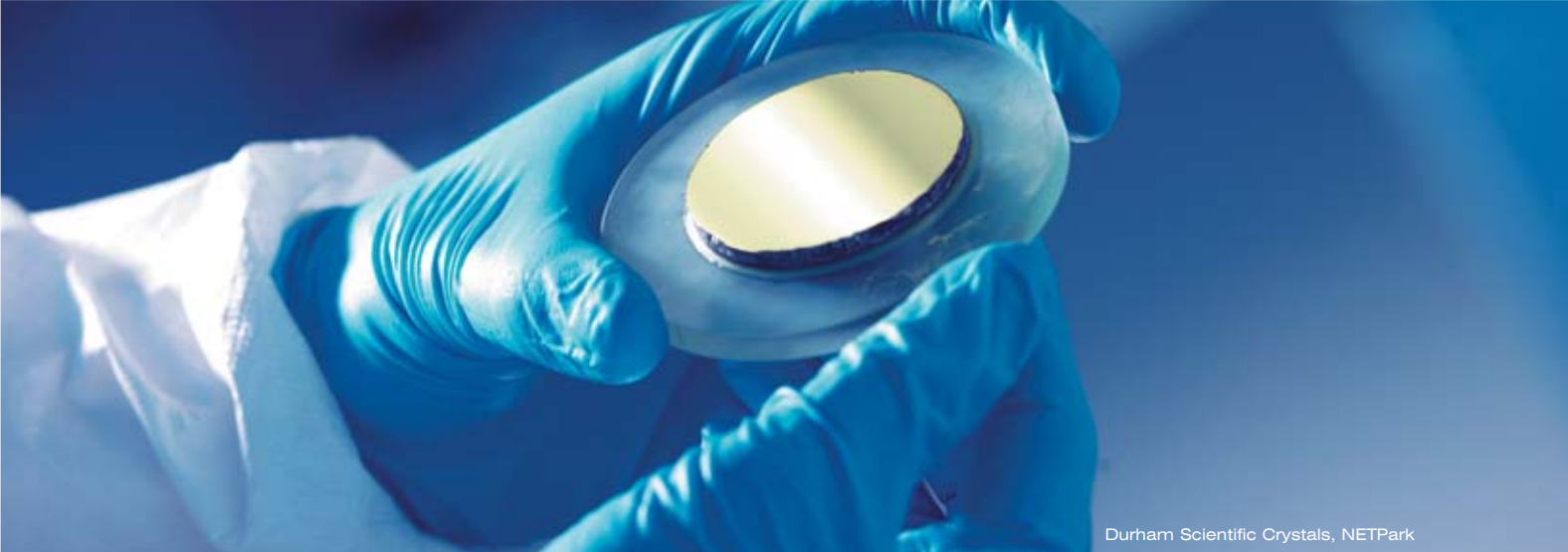
A strong focus on delivering sustainable development best practice in regeneration and planning, including activities to:

- Ensure the incorporation of sustainable development principles and best practice in the planning, management and design processes of regeneration schemes
- Concentrate on demand management and energy usage in transport schemes
- Promote, enhance and protect our natural, heritage and cultural assets.

¹ "We" refers to the partners within the region who will work together to deliver this prosperity, as the success and impact of this strategy is dependent upon the support and efforts of all partners.

² "The goal of sustainable development is to enable all people throughout the world to satisfy their basic needs and enjoy a better quality of life without compromising the quality of life for future generations" - *Securing the Future: UK Sustainable Development Strategy*, Department for Environment, Food and Rural Affairs (2005). The five core principles of sustainable development as set out in this strategy are: living within environmental limits, ensuring a strong healthy and just society, achieving a sustainable economy, promoting good governance, and using sound science responsibly.

³ This was agreed between the North East Assembly, Government Office for the North East (GONE) and One NorthEast, and stakeholders within the Shaping Horizons in the North East (SHINE) process.



Durham Scientific Crystals, NETPark

A2 Strategic context

In seeking to provide the underpinning economic conditions necessary for achieving the region's vision, the RES both sits within the context of, and seeks to influence, a number of European, national, pan regional, regional and sub regional policy frameworks and strategies.

The Lisbon and Gothenburg agendas

The RES has been produced with a strong awareness of the opportunities and threats presented by a global economy. In adopting an outward looking perspective, it is important to understand the region's role within the European Union (EU). The Lisbon and Gothenburg agendas⁴ commit the EU to becoming 'the most competitive and dynamic knowledge based economy in the world, capable of sustainable economic growth with more and better jobs, and greater social cohesion'. This RES describes how North East England can contribute to this aim.

North East England has undergone a period of significant change over the last few decades and structural funds have played an important role within this. Looking forward, the RES seeks to be an effective, prioritised strategy which can play an important role in the architecture of European regional policy post 2006, through its influence on the National Strategic Reference Framework to implement the Lisbon and Gothenburg agendas.

National policy

This strategy will also contribute to national policy objectives. Regional Development Agencies (RDAs) are key mechanisms through which the Government seeks to increase the economic competitiveness of the UK and reduce regional disparities. This strategy seeks to achieve the Government's Public Service Agreement (PSA) target for the North East.⁵ In so doing, it will deliver on the five key productivity drivers identified by the Department for Trade and Industry (DTI): **Investment, Innovation, Skills, Enterprise and Competition.**⁶

In addition, sustainable development principles will underpin the goal of economic growth and enable the region to contribute to the Government's PSA target 1.⁷ The RES will play an important role in ensuring that where possible, the economic regeneration of the region positively promotes environmental sustainability. Through this approach, it will ensure that the North East pursues a more sustainable growth pathway⁸ and maintains its indigenous advantages, such as relatively low congestion levels and high quality environment.

In turn, individual sections within the RES will contribute to the achievement of departmental targets and aspirations, for example, those set out in the Government's Science Strategy, the Energy White Paper and the Sustainable Communities Plan.

Pan regional

On a pan regional basis - specifically through the Northern Way - the North East is working closely with Yorkshire and Humberside and the North West to identify and tackle those areas where working across the North could add value to activities being undertaken within the individual regions. Informed by the three regions' economic priorities, *the Northern Way: Growth Strategy* and subsequent *Business Plan*⁹ outline the action being taken on a pan regional level in relation to: employment, innovation, entrepreneurship, business sectors, skills, transport, sustainable communities, and image.

Building on all the Northern RESs, the role of the Northern Way is to address identified issues which are of common and particular significance for the whole of the

North, due to scale or uniqueness of circumstance, and which require action by central Government or the sharing of best practice. It also has a role to address issues which cannot be tackled by one region in isolation, for example, the North's road, air and sea transport infrastructure and pan Northern supply chains and sectors. This RES seeks to influence the Northern Way in identifying opportunities, barriers and interventions¹⁰ relevant to the pan regional level that the region would like to address.

The region will also work to enhance links with the devolved administrations, particularly in Scotland, but also in Wales to establish areas for partnership working and learning from best practice. The link to Scotland is particularly important due to its geographical proximity.

Regional

The RES complements and contributes towards a number of other regional strategies, including the *Regional Spatial Strategy* (RSS), *Strategy for Success*, *Regional Transport Strategy*, *Regional Cultural Strategy* and *Regional Housing Strategy*. *The Integrated Regional Framework* (IRF) underpins and helps to integrate all of them. The RES seeks to provide the economic context and help to inform each of the strategies of the economic contribution which they can make.

In particular, this strategy has been produced in parallel with the Regional Spatial Strategy (RSS). The RES aims to provide the context for the contribution that the RSS could make to the region's economy through the appropriate supply and location of land suitable for housing, economic development and regional transport priorities. Work undertaken to identify alternative 'scenarios' of future economic growth has underpinned both documents.¹¹ As a result of this options analysis, within which we gave clear consideration to the role of the RES in setting out how we are going to deliver greater prosperity to the North East, we are adopting an aspirational aim to reach the level of 90% of the UK average Gross Value Added, a key measure of economic performance, per head by 2016.¹² This allows for some flexibility while remaining ambitious.¹³



Wind turbines at Blyth



Central Park, Darlington

⁴ The key to bridging the Gothenburg (2001) and Lisbon (2000) EU agendas is to ensure that Europe can increase its competitiveness by promoting efficient environmental policies, thereby decoupling economic growth and environmental pressures.

⁵ The PSA target is: "To make sustainable improvements in the economic performance of all the English regions by 2008 and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006". *PSA Target 7: Regional Economic Performance* - DTI/ Her Majesty's Treasury (HMT)/ODPM joint target (2002).

⁶ Productivity in the UK 5: Benchmarking UK Productivity Performance, HMT (March 2004). It is also worth noting that employment/employability is identified as a key to productivity by the Institute of Public Policy Research (see Adams, J *Towards Full Employment: tackling economic inactivity* (2006, London, IPPR)).

⁷ PSA 1 target is: "To promote sustainable development across Government and the country as measured by achieving positive trends in the Government's headline indicators of sustainable development".

⁸ *Environment and Sustainable Development - A Guide for the Ex-Ante Evaluation of the Environmental Impact of Regional Development Programmes*, DG16 (May 1999) Evaluation and Documents No. 6.

⁹ Published in June 2005.

¹⁰ The rationale for Government intervention is essentially twofold: 1)The achievement of economic objectives by addressing inefficiencies in the operation of markets and institutions; and 2) The achievement of an equity objective, such as local or regional regeneration.

¹¹ CEBR (2004) - see box on Shared Evidence Base - The Positive Economic Scenarios in Section A3 for more details.

¹² This aim implies a slightly higher rate of growth than that used to underpin the RSS, which is based on an average 2.8% annual growth (CEBR recommended rate, 2004) assumption between 2001-2021. This difference, as identified through a rigorous options analysis of the alternative scenarios, reflects the different purpose and nature of each of the strategies and different time scales of each. It does not imply an incompatibility between the two. The adopted target in the RSS arguably strikes the right balance between supporting economic growth while avoiding the negative impacts of oversupply. The housing market is particularly sensitive to oversupply and consequently the adoption of the slightly lower target as the basis of RSS housing policy is sensible.

¹³ Current best estimates for growth stand at 1.75 - 2% per annum. DTI/HMT response to the RES (2005).

REGIONAL SPATIAL STRATEGY

The assent of the Planning and Compulsory Purchase Act 2004 heralded the launch of the new planning system, and with it brought the requirement for regional planning bodies to produce Regional Spatial Strategies (RSSs). The regional planning body for this region is the North East Assembly. The new statutory RSSs are required to 'articulate a spatial vision of the region and demonstrate how this will contribute to achieving sustainable development'.¹⁴

It is important that the RES is complementary to the RSS and that they both play their part in delivering a better region for the future. In order to achieve this, the North East Assembly and One NorthEast have worked in close collaboration on the production of the RSS. This has enabled the adoption of a common vision for the RES and RSS, with the documents sharing a common evidence base.¹⁵

In Government guidance, there has been a great deal of emphasis placed on achieving synergy between the various regional strategies. The use of economic scenarios and their development through the SHINE process forms the basis of the joint evidence base. The development of the Northern Way Growth Strategy and the production of City Regional Development Programmes will enable a shared focus within the strategy development process.

The RES and RSS have very different, but complementary purposes. The RES is economically focused and the RSS has a much broader spatial role. Consequently, their production and adoption require different processes. The statutory RSS is developed in consultation and was subject to an Examination in Public (EiP) in March to April 2006. The EiP Panel report was published in July 2006. This will be followed by Ministerial endorsement of the RSS, which is expected in Spring 2007. The document will then have statutory status.

Although this strategy focuses on economic indicators of success, we also recognise the increasing prominence given to alternative measures of regional performance. Regional partners will work to ensure the North East improves its position in relation to other indicators, for example, quality of life and health indicators, as captured within the Integrated Regional Framework.

Sub regional strategies and plans

This strategy focuses on outlining the economic challenge and opportunities at a regional level. It seeks to build on opportunities which will benefit the regional economy of the North East and tackle barriers to its economic success. In some instances these opportunities and barriers will be common to the whole of the region. In others, they will relate to some parts of the region more than others. In both instances, the most appropriate spatial level of intervention (pan regional, regional, sub regional, city regional, or local) will vary according to the nature of the challenge.

As such, the RES seeks to provide a clear steer to sub regional partners including city regions, Sub Regional Partnerships, and local authorities as they develop their own approaches to economic development through City Regional Development Programmes¹⁶, Sub Regional Partnership Investment Plans and Local Area Agreements¹⁷.

¹⁴ *Planning Policy Statement 11: Regional Spatial Strategies*, (ODPM) (2004).

¹⁵ *Guide to Improving the Economic Evidence Base supporting Regional Economic and Spatial Strategies*, ODPM (2005).

¹⁶ Tyne & Wear City region is currently developing a business plan.

¹⁷ One NorthEast delivery mechanisms are currently being reviewed. This will take place alongside the RES Action Planning process.



A3 North East England's economy

This section discusses the relative strengths and weaknesses of North East England's economy over recent decades and how this links into growth potential for the future.¹⁸ This is followed by an analysis of the twin drivers of economic growth for the region's economy - productivity and participation.

Signs of an improving economy

The North East is the smallest of England's nine administrative regions in terms of population and, with the exception of London, is the smallest geographically. The size of the region can be viewed as an advantage in that we have the potential to be more flexible and responsive in relation to the movement of people and goods, particularly given our relatively low levels of congestion.

The most distinctive feature of the North East for many people is the contrast between the vibrancy of our cities and the beauty of our rural hinterland, and the ease and speed with which it is possible to move from one to the other. From East to West, in little more than an hour by car, the region offers huge expanses of unspoilt coastline peppered with historic castles and fishing communities. A vibrant and modern city culture is complemented by miles and miles of breathtaking countryside bordered in the North by the Cheviots, to the West by the Pennines, to the East by the North Sea, and to the South by the Cleveland hills and the North York Moors. A major

strength then, is the diversity of natural, heritage and cultural environments offered by the region within this relatively small geographical area.

The key characteristic of the North East's historic economic performance has arguably been relative decline, certainly during the later decades of the 20th century, as evidenced by the growing 'productivity gap' between the North East and the national average in terms of economic prosperity. This was caused by a variety of complex factors including the capacity of the region to respond to the growth of globalisation and the decline of heavy industry.¹⁹

However, in the more recent past, there are positive signs. Significant progress has been made in absolute terms over the past decade. Between 1996 and 2004, the working age employment rate increased from 66.5% to 70.0%.²⁰ Business survival rates have improved by over 7% since 1993, an increase above that seen in any other region.²¹ In addition, our quality of place has played an important role in increasing levels of participation and contributing toward potential increases in productivity. Evidence suggests that the bidding process for NewcastleGateshead Capital of Culture led to an increase in visitor numbers, improved visitor perceptions and resulted in increases in private sector investment and sponsorship.²² One piece of research concludes that a new generation of creative professionals and knowledge workers is being drawn to live in the area which is having a direct impact on the region's economy.²³

It is clear through the most recent evidence that our economy is continuing to improve in absolute terms, and that its relative performance may also be getting better in some areas (see box overleaf).

¹⁸ Please note that the statistics within the document are based on 2005 data. Recently released statistics suggest that the trends set out within this document and the State of the Region report (as technical annex) are continuing.

¹⁹ *Twenty Years On...* Beatty, Fothergill and Powell, Sheffield Hallam University (2005).

²⁰ During the same period rates for England increased from 72.5% to 74.6%. *Annual Labour Force Survey (LFS) and Annual Population Survey (APS)*, Office for National Statistics (ONS) (2005).

²¹ The latest 3 year survival rates for businesses set up in the North East in 1999 stood at 65.5%, just 1% below the national rate. *Regional Competitiveness and State of the Regions*, DTI & ONS (April 2005).

²² *NewcastleGateshead Initiative: Cultural Futures*, PWC (2003).

²³ *Northern Soul*, DEMOS/RICS (2003).



REASONS TO BE OPTIMISTIC

More jobs

Between 1996 and 2005, the number of jobs in the region rose significantly - from around 1,054,000 to 1,116,000.²⁴

Lower unemployment

Between January 2001 and January 2005 the North East's claimant count numbers fell by a third in contrast to the 19% decrease seen nationally.²⁵

Greater levels of entrepreneurship

The number of business start ups in the region has increased, as has the region's overall number of businesses.

Broadband coverage is extensive

The key now is to ensure that businesses and individuals are utilising this capability.

More new businesses are surviving and thriving

Both one and three year business survival rates have improved by over 7% since 1993, which is more than in any other region. The gap between the North East's survival rates and the UK average is narrowing.

Business confidence is rising

Recent business confidence surveys indicate a more positive outlook in the region.

Educational attainment is improving

The proportion of pupils in the region attaining five or more GCSEs at grades A* to C has increased, narrowing the gap with the national average.²⁶

The skills of the workforce are improving

The proportion of economically active people qualified to at least level 3²⁷ has increased more than the national average increase²⁸ and the proportion of economically active people with graduate level qualifications (Level 4+) has also increased.²⁹ In addition, since April 2001, 113,100 adults in the North East have improved their literacy and numeracy skills. Of these, just under 50,000 have obtained Key Skills qualifications.

Despite the positive trends set out left, there can be no denying that the size and scale of the region's economic challenge, as summarised right, is still significant. While progress in absolute levels of economic performance has been positive, our level of economic performance in comparison with other UK and international regions has been poor. Over the last decade, the North East was one of the slowest growing regions of the United Kingdom, and levels of prosperity are now among the lowest in the country.

This poor performance relative to the rest of the UK has manifested itself in lower rates of productivity, participation, skills, wages, investment and business start ups, than in the nation as a whole. There is significant geographic variation within the region in terms of economic activity, with concentrations of areas of severe deprivation, poor health, and high rates of unemployment and economic inactivity.

²⁴ Total Civilian Workforce Jobs, ONS (April-June 2005).

²⁵ Claimant Count Unemployment, ONS, NOMIS. Note: Many websites such as ONS and NOMIS (National Online Manpower Information System) hold freely available up to date information and data from official sources.

²⁶ 4.4% increase between 2001/02 and 2003/04 compared to a 2.1% increase for England. In addition, there has been an increase in the number of young people moving on to education and training at age 16, with over 13,000 currently studying for apprenticeships. *Statistical First Releases: GCSE and equivalent results for young people in England*, Department for Education and Skills (DFES)/ONS (2001/02 and 2003/04).

²⁷ Intermediate level skills equivalent to 2 A levels.

²⁸ In the North East, Level 3 skills increased from 40.6% in 2000/01 to 45.2% in 2004/05, while England as a whole saw an increase from 45.4% to 48.7% over the same period. LFS, ONS, NOMIS (June-May four quarter averages, 2005).

²⁹ Level 4 qualifications increased from 21.2% in 2000/01 to 24.6% in 2004/05 in the North East, which compares to a rise for England over the same period (from 26.5% to 29.3%). LFS, ONS, NOMIS (June-May four quarter averages, 2005).

CONTINUED CHALLENGES

Relatively slow growth

The North East's economy grew by an annual average of 4% in current price terms between 1989 and 2001. This compares to average growth across all UK regions of 5.4% per annum and 6.3% in the fastest growing region, the South East.

Low GDP

In 2000, the North East attained only 77% of the EU GDP average (not including the enlargement countries), which was the lowest in the UK.

Intra regional variation

There are significant variations in prosperity within the region. The North East has 89% of the national average Gross Disposable Household Income per head. The lowest in the region is Sunderland with 82% and the highest is Northumberland with 96% of the national average.

Future growth prospects

Existing forecasts for growth are relatively negative in comparison with other UK regions. This is because they are based on historic trends data.³⁰ However, there is wide recognition within the region and beyond that we can make a difference to our growth prospects through prioritising strategic interventions. This is the purpose of the Regional Economic Strategy.

As highlighted within both the Shaping Horizons in the North East process (SHiNE - see section B2) and the RES consultation process, it is important to recognise that we must build on existing and past strengths as part of moving forward. We should not forget that during the Industrial Revolution and many of the earlier decades of the 20th century, the North East was one of the powerhouses of the United Kingdom - and even the global - economy, recognised for its strengths in enterprise, innovation and engineering.³¹ Can we replicate this success in the context of a 21st century global economy, gaining competitive advantage through targeted intervention?

The region is undergoing a long term restructuring of the economy and positive signs, as set out in the 'Reasons to be Optimistic' box are emerging. However, the economy remains fragile and there is a need to consolidate and accelerate the restructuring process. The RES aims to act as the catalyst in this process. It sets out areas where we believe we have significant strengths and growth potential to capitalise upon through targeted intervention. This strategy captures a sense of future ambition and confidence for which we can take responsibility (as set out in section B - to buck the trends of the past).

Worklessness,³² in particular the relatively high proportion of Incapacity Benefit claimants, is arguably the biggest economic challenge facing the region. If we address this challenge, we will make significant progress towards closing the gap with the national average. In addition, improving employment rates should have a positive effect in terms of addressing health inequalities and improving learning and aspiration levels due to close interdependencies between these areas. This is crucial in order to make the step change required to reduce regional disparities and improve both participation and productivity levels. One NorthEast will work with JobCentre Plus and the Learning and Skills Council to develop a radical new, regionally focused approach (see section D2 for further details).

Priority areas for intervention, such as worklessness highlighted above, are set out throughout this strategy. However, it is worth focusing on two areas in particular - the region's spatial and sectoral strengths and areas of weakness - to set the context of what follows.

³⁰ One NorthEast and North East Regional Information Partnership (NERIP) are working with Durham University Business School to model the North East economy, enabling the development of regionally specific scenarios for growth. The region has also invested in and was a prime mover in the REAP and REWARD modelling projects which are now aligned in the SCP network with Cambridge Econometrics.

³¹ For example, through influential 19th century figures such as Swan, Armstrong and Stephenson.

³² Worklessness is defined as those people who are unemployed, i.e. people of working age who are looking for a job and are registered, for example, for Job Seekers Allowance, and those people who are economically inactive, i.e. people of working age who are neither working nor looking for work and may be registered, for example, for Incapacity Benefit. *Jobs and Enterprise in Deprived Areas*, Social Exclusion Unit, ODPM (September 2004), p.4.



Angel of the North, Gateshead



Introduction to the geography of the North East's economy

The map below highlights the wider context of the North East region, illustrating the main linkages with Scotland to the North, Cumbria to the West and Yorkshire and Humberside to the South. The region's main port and airport linkages are also shown in addition to main transport routes. Later maps on page 113 and 115 highlight the main conurbations of Tees Valley, Durham, Sunderland and Tyneside. The smaller settlements of County Durham and South East Northumberland can also be seen, together with the more sparsely populated rural areas of North and West Northumberland and the Durham Dales, and the market towns that serve them, on page 118. Each of these areas has the opportunity to contribute to the step change in the economic development of the region as a whole. These opportunities vary depending on the strengths and weaknesses of the area in question.

One of the particular strengths of the region is its quality of place. We have what is often seen as the most distinctive regional identity of any part of England, together with outstanding natural and heritage assets – two World Heritage Sites, a varied coastline, a National Park and two Areas of Outstanding Natural Beauty. The challenge facing the region in order to create the step change in economic performance is to successfully utilise and protect this natural competitive advantage, while strengthening the role that the North East's urban centres can play in terms of driving economic growth.

Strong urban cores at the heart of the North East's city regions

In addition to their role as drivers of regional economies (see below), city regions provide a tool for analysis of regional priorities and issues, both in addressing market failures and creating market opportunities. As such we can utilise them within a regional framework, which can be used to analyse and provide the evidence for the development of strategic priorities. The city regional approach recognises the dynamic economic geography of the region - where to live, work, travel to work, shop and visit for entertainment and leisure – alongside the activity of firms and investors with customers and suppliers, in order to demonstrate important economic, environmental and social linkages. Critically, important linkages and interactions between neighbouring towns and surrounding commuter areas, including market towns are also recognised within the city region concept.

Recent research³³ has emphasised the importance of strong city regions, centred on thriving urban cores, as the focus for driving wider economic growth and productivity. Such city regions offer a unique combination and interaction of market factors to enable the development of the critical mass needed for a sustainable and dynamic economy. They encompass knowledge based sectors in, for example, high value business services, science and technology and the creative industries; a dynamic

'buzz', particularly at the heart of the city region; and effective transport links to ensure full economic inclusion. Within city regions, strong urban cores can provide an attractive combination and concentration of innovation, diversity, connectivity, skilled human capital, quality of life and strategic decision making capacity.³⁴ They form the type of 'brand' to attract creative talent nationally and internationally, and the environment to foster innovation and economic development.³⁵

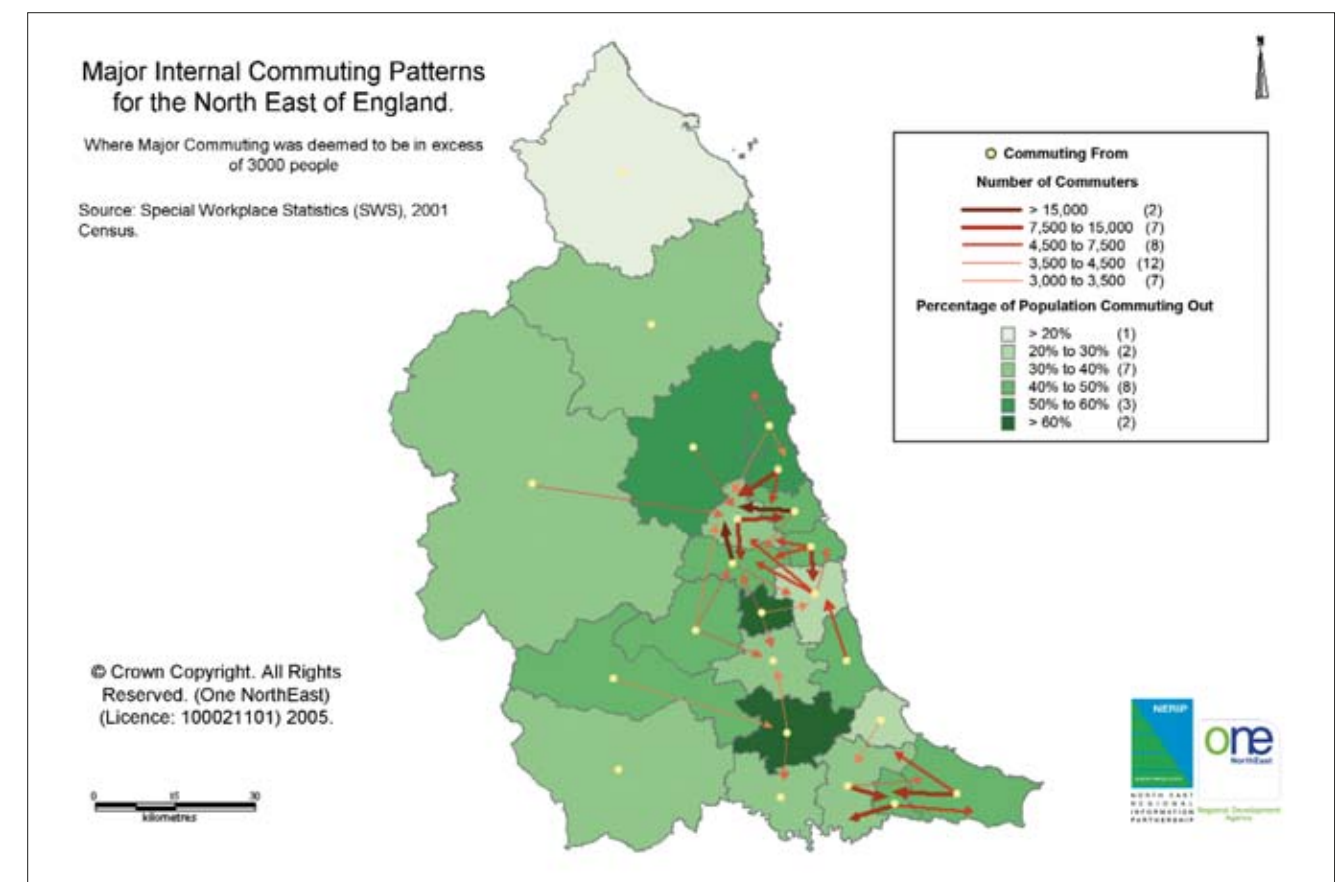
As the map below illustrates, commuting patterns within the North East centre on two city regions: Tyne and Wear and Tees Valley. The conurbations at the heart of these two city regions offer our core labour markets alongside the location of major employment centres (see maps overleaf).³⁶ As well as being at the centre of the region's economic activity, these areas also house many of the region's economic assets, including universities, ports and airports.

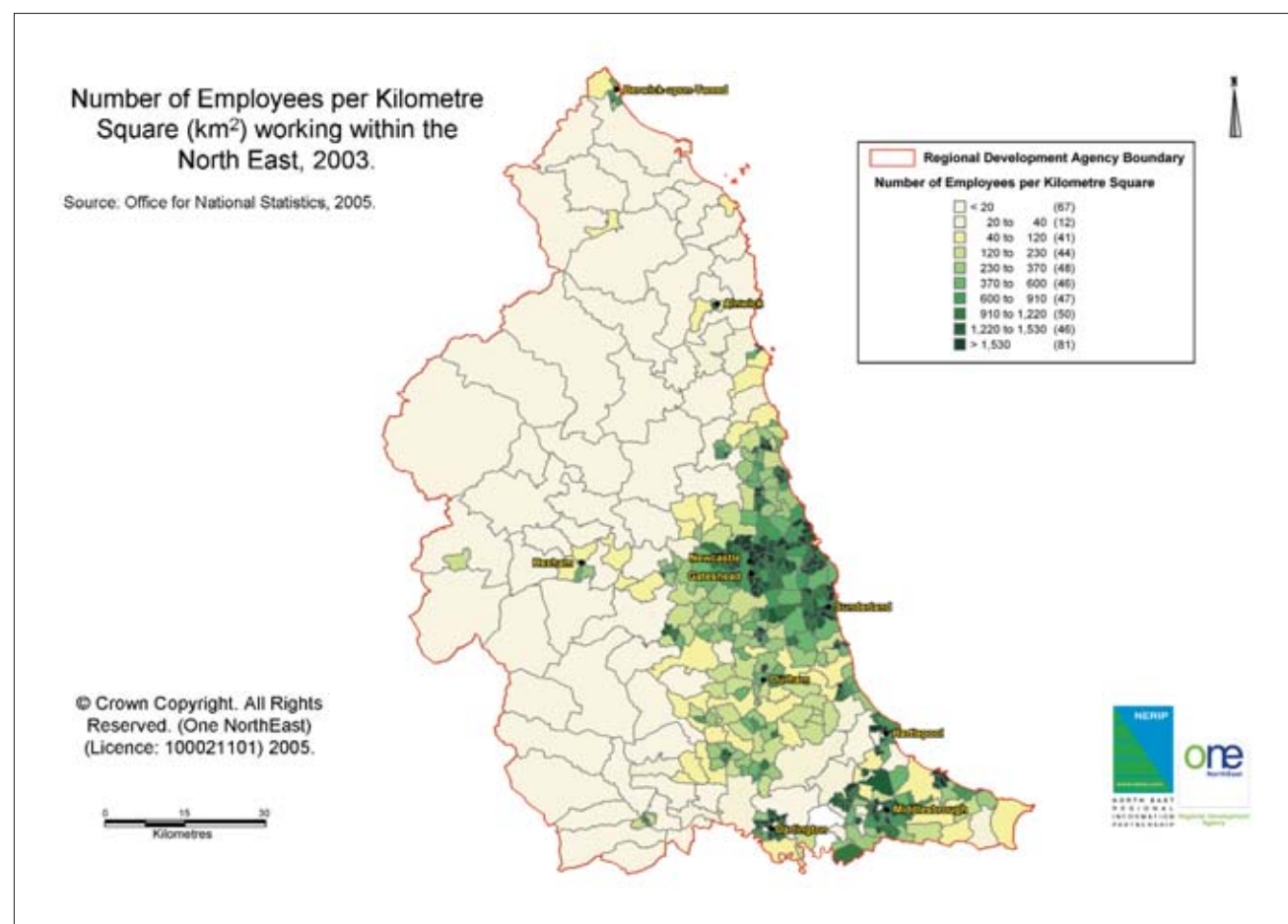
³³ Including that commissioned by the *Core Cities on Cities, Regions and Competitiveness*, ODPM (2003) and also that recently published by SURF (Sustainable Urban and Regional Futures), Salford University on GVA trends in cities and regions. *Northern Way New Horizons Study*, SURF (2004), as well as the recent OECD Territorial Review of Newcastle and the city region.

³⁴ *Competitive European Cities: Where Do the Core Cities Stand?* ODPM (2004).

³⁵ *The Rise of the Creative Class*, Richard Florida (2002).

³⁶ This is based on measuring the core and extent of an employment area.





The Tyne and Wear city region is based on the travel to work areas around Tyneside, Wearside and Durham City. It includes the urban centres of Newcastle, Gateshead, Sunderland, North Tyneside, South Tyneside and Durham City. These areas are highly interdependent, with intense commuting flows in multiple directions, supported by transport networks and with a multitude of citywide public service functions. The city region also includes parts of the neighbouring counties of Northumberland and County Durham. In Northumberland, there is a core industrial zone in the South East (Blyth Valley and Wansbeck) which has very strong links into the conurbation. Castle Morpeth and Tynedale are more rural areas but with small towns and villages with strong commuting links into Newcastle. To the south, the districts of Derwentside, Chester-le-Street, Durham and Easington have very strong interactions with the conurbation, with some parts having development which is physically coterminous with the built-up area.

The wider area has a population of approximately 1,650,000, of which around 1,000,000 are of working age. While 65% of the population lives in the urban cores, 15% lives in South East Northumberland and the Tyne Valley, and 20% lives in the North Durham area. Each area plays a distinctive and complementary role in a highly integrated city region.

The Tees Valley city region has a population of approximately 875,000 people, almost half of whom live within the Teesside conurbation - Middlesbrough, Stockton and Redcar. There are a number of settlements across the area including the Teesside conurbation and the main towns of Darlington, Hartlepool and Sedgefield. However, the sphere of influence extends from Peterlee in the north to Northallerton in the south and from Richmond in the west to Whitby in the east.

As has been stated above, thriving urban cores potentially have a key role to play in terms of driving wider regional and pan regional economic growth and productivity. However, while the North East's GVA per head is highest in the two city regions, each shows very different rates of GVA growth. In recent years, relatively more of the North East's economic growth has taken place in Tyne and Wear and in Darlington. In contrast, other than in Darlington, GVA growth in the Tees Valley has been at a lower rate compared to the rest of the North East.

The North East therefore faces two challenges - firstly to tackle disparities in the economic performance of the region in comparison with the rest of the UK, and secondly, to tackle disparities in performance within the region itself. We believe that strengthening the urban cores of the North East's two city regions is key to addressing both of these challenges. Both Tyne and Wear city region and (in particular) Tees Valley city region are underperforming in comparison with the national average.

For example, while at £15,176, Darlington shows the highest level of GVA per head within the region - together with the highest rate of growth in GVA - its GVA is still less than the UK average of £15,614 GVA per head. There is significant potential for growth in these locales, but strategically targeted investment is required to realise their benefits as key spatial drivers of the region's economy.

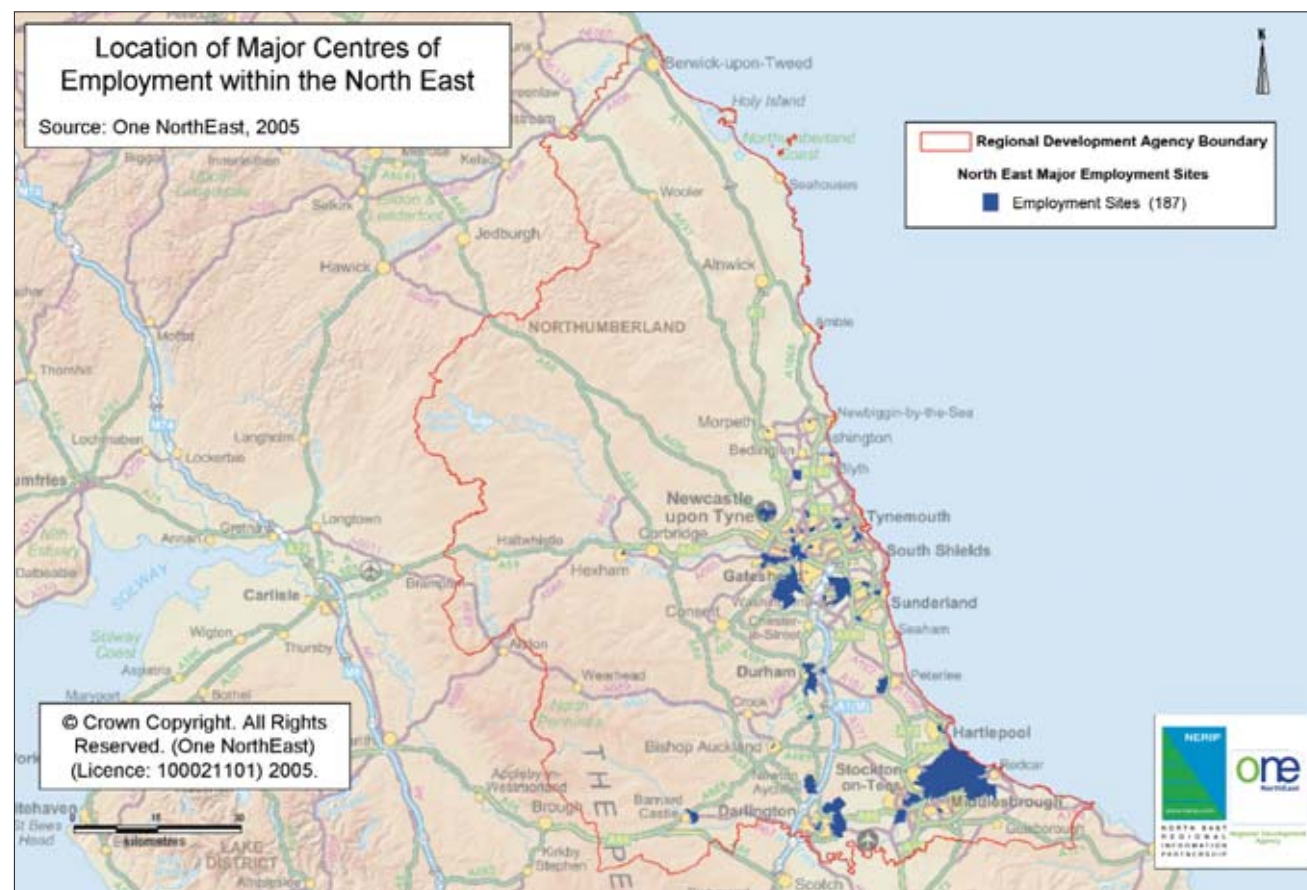
Linking areas of opportunity with areas of disadvantage

This pattern of relative economic strength within the region is reflected in the size of business stock, start up levels and levels of educational attainment. For example, concentrations of business stock and business start ups per head of population are strongest in Darlington, Newcastle, Gateshead and Tynedale, and weakest around coastal towns and former coalmining areas. Similarly, skills attainment levels are highest in Newcastle, Gateshead, Durham, Sedgefield, rural parts of the region and again weakest in former coalmining areas and at the edge of the central conurbations. As is described in more detail in section D2, patterns of deprivation and worklessness also vary across the region. Areas of deprivation are particularly concentrated in the inner city, riverside and coastal areas of the Tyne and Wear and Tees Valley city regions; in the former coalmining areas on the edge of these city regions; and in parts of Berwick District, Tynedale and Wear Valley.

The region's low economic participation rates are not only a huge drag on our economic performance, but they also have profound social consequences. Section D2 (Economic Inclusion) sets out the challenge of the relatively high proportion of worklessness and deprivation within the region. In focusing on strategic activity to drive up economic participation rates in the region, we must not rely on 'trickle down' economics. Rather, concerted efforts will be made to link areas of opportunity with areas of disadvantage, and to work with communities to overcome the barriers they face in economic engagement. These linkages must be both tangible (e.g. effective, integrated transport networks) and 'cultural', in the sense of engendering a wider sense of place and opportunity which lies beyond the local level.

Building a thriving rural economy

The region's rural areas represent some of our greatest assets. The Northumberland and Durham coasts, Northumberland National Park, the North Pennines, the market towns and our cultural and heritage assets offer huge opportunities for regional prosperity. This is not just in contributing to tourism and the image of the region, but also in offering a complementary alternative to the cities for some types of knowledge based business location. As the maps earlier demonstrate, parts of our rural economy are performing relatively strongly compared to the wider North East region.



The city region approach is not an exclusive one, despite the fact that the city regions are viewed as the main growth drivers for the region. Rather, in adopting this perspective we recognise the valuable contribution of the region's more rural areas to both the regional economy and the quality of life, identity and cultural distinctiveness of the North East. It is worth noting that not all hubs of activity take place at the 'cores' of the city regions. We value the broad range of strengths within the North East, in particular, our market towns. Market towns - as hubs of employment, business and services - are an essential part of a sustainable rural economy. It will be important to build on the potential of these towns to support the often fragile, more remote economies and communities of the settlements around them.

Sectoral strengths

Despite the export successes of the region's manufacturing sector, the relatively slow economic growth of the North East in recent decades is partly reflected in - and is a result of - its characteristics. This includes, for instance, the region's unique mix of industries and businesses with a stronger reliance on the less productive elements of manufacturing, and a lower share of internationally tradeable services than the UK as a whole.³⁷

Also, as a small region, the North East has often felt at the mercy of wider national and global trends and less able to influence them. In addition, the region's location, somewhat on the periphery of the United Kingdom and the European Union has counted against it in an era when proximity and low transport costs have been key drivers of business location and activity. In addition, the decline experienced by heavy industry has partially contributed to a significant proportion of the North East's productive capacity lost to unemployment, long term sickness and disability, and to the region's dependency on benefits.

Meanwhile, its efficiency in many organisations has further reduced the productive capacity of the region. This is as a result, at least in part, of a 'branch plant economy' where companies' operations in the North East are distant from best practice and research and development elsewhere. This has been positive in some areas, for example the wealth created through the Nissan plant in Sunderland, the most productive car plant in Europe.³⁸ The nature of the large scale employers of the past and branch plant employment of the present suggests an 'employee' as opposed to 'employer' culture.³⁹ The consequent shortage of enterprise and dynamism has significant implications for the economy of the region.

International developments, for example the enlargement of the European Union, place greater pressures on the manufacturing and other sectors, such as call centres, to respond effectively (see box right).

GLOBALISATION AND EUROPEAN UNION ENLARGEMENT

Globalisation offers many opportunities for the North East, and these are set out throughout this document. Significant opportunities exist for high value manufacturing and service companies. In addition, greater growth in world trade and international air travel has highlighted the increased importance of ports and airports to regional and national economies. However, there are also threats if we do not take action now, for example, to the prospects for our low value manufacturing and export economy. To turn these threats into opportunities, we must improve both product bases and productivity levels. Innovation and design of products, processes and services are crucial in meeting this challenge.

EU enlargement offers a significant opportunity for the North East. The region now operates in the largest multi country single market in the world with over 455 million consumers (bigger than the US and Japan combined). The DTI estimates that enlargement could add 1.5% to the GDP of the new member states, raising purchasing power and potential demand for exports, but that it will also add 0.2% (€11 billion) to the GDP of existing member states. This would result in an annual increase to UK GDP of £1.75bn.

However, the region must position itself to take advantage of these opportunities. We must build direct relationships with other European regions and city regions. A number of the RES ambitions in particular will be underpinned by our ability to realise the economic potential of EU enlargement. New markets for regional businesses will emerge from an enlarged EU, barriers to trade will be reduced, and the size of the skilled labour market will expand. Competition will, however, increase at the same time as business opportunities develop.

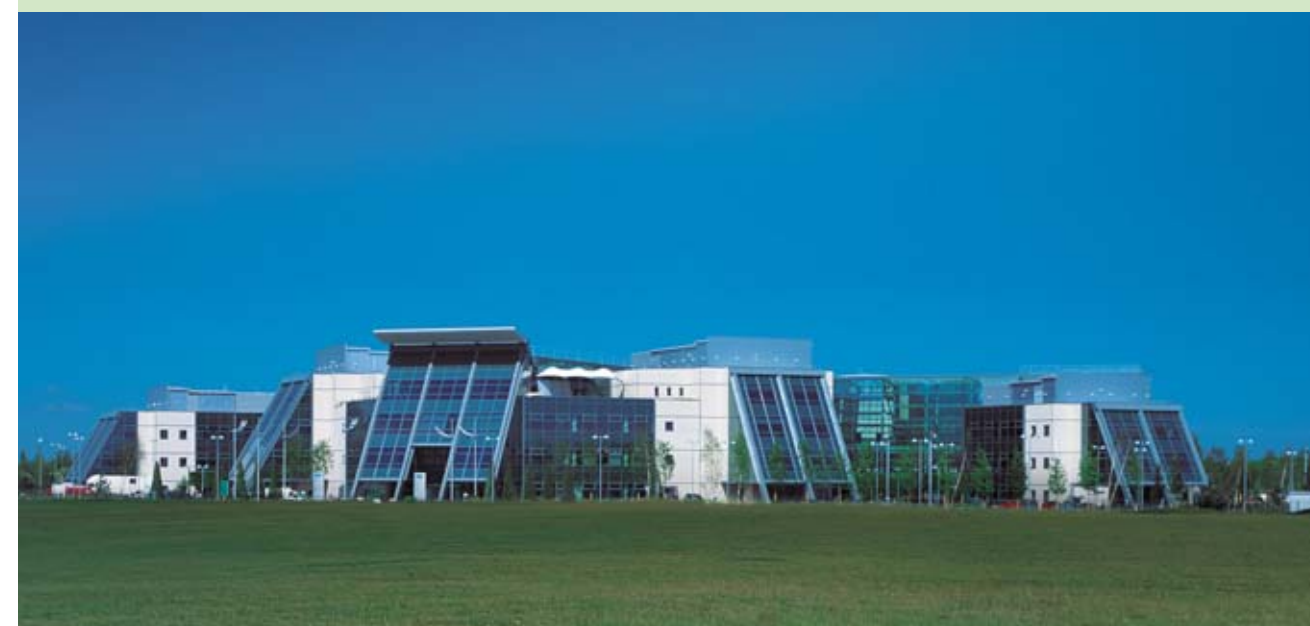
³⁷ The North East has higher rates of people employed in manufacturing, construction and non-marketed services (i.e. public administration, defence, health and education) than nationally, but lower rates in distribution and transport and especially business services. Data derived from ONS, NOMIS, Annual Business Inquiry (ABI) (2003).

³⁸ *European Automotive Productivity Index*, World Markets Research Centre (2003).

³⁹ *Why Businesses Fail*, GONE (2001).

CASE STUDY

Sage Group plc



The Sage Group plc is proud to be a leading provider of business management software to 4.5 million small and medium sized businesses around the world, and to have retained its roots in the North East. With offices in 17 countries and over 9,000 employees, the company has come a long way since its creation in 1981. Today, the business is listed on the FTSE 100 and has enjoyed year on year growth, delivering solid financial success and continuing to expand into new territories through acquisition. Despite its global presence, the company states that essential to its success has been a powerful local focus, through which it maintains a thorough understanding of the issues its customers face in the day to day running of their businesses, wherever they are in the world.

Sage's move last year to its new purpose built global headquarters at Newcastle Great Park signalled the start of the next phase of the company's growth, and is further evidence of Sage's investment in the North East. The move has proved an extraordinary success, bringing all 1,200 of Sage's Newcastle based employees under one roof to enjoy an outstanding working environment with state of the art facilities which include over 50

meeting rooms, a gym, restaurant, coffee shop, free parking and bus service. Sage has been able to recruit talented people to meet its business needs.

Its products have now developed beyond accounting to encompass the complete software needs of a business including payroll, customer relationship management, business intelligence, HR, and fixed asset management. These products are scaled according to the size and complexity of the business which they support. In addition, the company has expanded into specialist versions of its products for specific markets, such as construction, distribution, manufacturing, accountants in practice, and the not for profit sector - all supported by outstanding award winning customer service.

On a local level, Sage (UK) Limited's involvement with Business in the Community, the Tyne and Wear Community Foundation and The Sage Group plc's sponsorship of the Sage Gateshead all provide great opportunities for Sage to support the local community - a community from which the business emerged and a community within which it continues to thrive.

Key to addressing the challenges facing the North East's economy is a more thorough understanding of sectors which are currently of key importance to the region's economy in terms of contributing to productivity and/or participation. One NorthEast has therefore recently completed a business-led research project. This research aimed to identify the strengths and weaknesses of the North East economy across different sectors, the potential growth and trade paths of these sectors, the potential risks that surround continued development of these sectors within the region, and the level and type of market failures faced by different industrial sectors.⁴⁰

The sectors identified through the research improve our levels of understanding of which industries are currently vital to our continued economic success. However, it does not follow that any additional public sector funding will be invested in these sectors, at the expense of other sectors. As is stated throughout this strategy, public sector resources will be utilised to achieve maximum return on investment, and this remains the case. Good ideas will be supported, no matter from which sector they emerge.

This work, along with existing research and evidence gathered as part of the RES consultation, has helped to more clearly identify current key strategic sectors on the basis of their contribution to GVA and employment, the future growth opportunities they present, and/or their ability to increase levels of participation. Key manufacturing sectors identified are Automotive, Chemicals and Pharmaceuticals, Defence and Marine, Energy and Food and Drink. Within Services, the sectors identified are Commercial Creative, Health and Social Care, Knowledge Intensive Business Services, Tourism and Hospitality (see box below).

⁴⁰ This research consisted of three elements: 1) a review of published data on different industries: GVA contribution, employment, past performance and potential future performance based on forecasts. (This exercise encompassed the whole of the North East economy). 2) An academic assessment of respective sector strengths. 3) A business-led qualitative review on a smaller number of sectors that were selected as a result of stage 1. This stage of work focused on gaining insight from industry leaders on the relative strengths and weaknesses of the North East, across different sectors and a range of factors to gain a greater understanding of where the public sector can add value.

⁴¹ CURDS on behalf of Sunderland City Council (2005).

⁴² Published February 2005.



KEY MANUFACTURING SECTORS IDENTIFIED THROUGH RESEARCH

Chemicals and Pharmaceuticals

The chemicals industry in the region employs approximately 12,000 people. Of this total, employment is roughly split 50/50 between petrochemicals and fine and speciality chemicals. The petrochemical cluster at Wilton, Billingham and Seal Sands is the largest integrated chemicals complex in the UK in terms of manufacturing capacity. It contributes £3.5 billion to the UK economy and 70,000 jobs in the UK depend upon it. Half of the UK's remaining petrochemical industry is based in the North East. Due to the interrelated nature of chemicals and pharmaceuticals businesses, as well as the geographic co-location of a number of these businesses, there are significant opportunities for networking and clustering activities. This is primarily through the North East Process Industry Cluster (NEPIC). This sector closely links to science and technology innovation within the Process Industries pillar (see section C3 for further details).

Automotive

The Nissan car plant in Sunderland has been a key driver of growth for the region's automotive sector. Nissan directly employs around 4,750 people,⁴¹ with the North East automotive sector in total employing approximately 20,000. The development of companies within the region alongside continuing foreign direct investment has positioned the North East as nationally significant to the industry. There is already significant business support activity in this area with academic centres of excellence and evidence of world leading manufacturing practice. In addition, productivity initiatives such as NEPA have resulted in transfer of skills to other industry areas.

Defence and Marine

The region's history of heavy engineering is reflected in the sector by long established companies such as BAE Land Systems. Marine and defence companies with traditional roots in the region are supplemented by a growing base of high tech companies in the defence and homeland security sector. Employment within the sector remains at around 6,000, with strong potential growth areas. Existing support for the sector includes the continued development of the supply chain organisation, Northern Defence Industries (NDI).

Food and Drink

Food and Drink manufacturing, excluding primary production, is a significant employer in the region, providing employment for around 25,000 people. A particular strength of the North East is the secondary processing, which has responded well to the shifts in demand towards convenience within the food market. However, best practice is not uniformly found across the sector in the region.

Energy

The region has a history of operating within the energy sector, reflected by companies such as Parsons which have led the world in energy technology. The region has a strong company base in sub-sectors such as power generation, oil and gas, nuclear and more recently renewables and low carbon technologies. In this broad sector, the region has approximately 450 companies, employing a significant number of people. In addition, academics in the region are involved in the research and development, to add value to the future technology of this sector. This sector links to science and technology innovation within the Energy and Environment pillar, representing a key vehicle for delivering research to industry (see section C3 for further details).

KEY SERVICE SECTORS IDENTIFIED THROUGH RESEARCH

Knowledge Intensive Business Services

This sector - which includes activities such as banking, accountancy, legal and engineering consultancy - has grown substantially as a proportion of national employment in the last quarter of a century. It also accounts for an increasing share of productivity growth. Knowledge intensive business services are central to increasing productivity levels, and the region will be unable to sustain productivity improvements if it fails to develop this sector.

Tourism and Hospitality

The sector supports over 10% of the region's jobs, but has potential to greatly increase its proportion of the country's tourism expenditure (currently around 4%). The North East Tourism Strategy (NETS) 2005-2010⁴² articulates the steps which will be taken to increase market share, largely by attracting more and higher spending visitors throughout the year. Key actions include: using effective marketing to develop the appeal of the strongest tourism experiences underpinned by the Regional Image Campaign, strengthening and integrating information and booking services using improved Information and Communications Technology (ICT) capability, investing in upskilling the workforce, improving the quality and quantity of visitor accommodation, and generally upgrading the quality of the experience of both business and leisure visitors. There are strong links with the need to improve the quality of the region's cultural, natural and heritage assets as one of the main motivations behind visiting North East England.

Commercial Creative

Commercially creative businesses compete in the internationally tradeable service sector and make a significant contribution to modern economies. For 1997 - 2004, for instance, creative industries employment grew at a rate of 3% per annum, compared to a rate of 1% for the economy as a whole. The major elements of the commercial creative sector are those businesses which offer opportunities through the commercial exploitation of creative intellectual property (IP). Examples include digital industries, television, film and commercials, new media, music and content creation. Commercial creative businesses have particularly specialist needs around the exploitation of IP and wider technology issues, for example distribution and access to market. This links closely to section E4.

Health and Social Care

This sector employs over 128,000 people, or 13% of the total North East workforce. The public sector is the main employer and private sector employment tends to be largely dependent upon public funding, either directly or indirectly. There are significant opportunities for the re-employment of lower skilled people within this sector, helping to increase economic participation levels. There are also opportunities for increasing productivity levels through the growth in biosciences and healthcare technologies, driving high tech business growth. Technology and science innovation within the health arena links to the Healthcare and Health Sciences 'pillar' (see section C3 for further details).

Given the city regions section earlier, it is helpful to consider industrial strengths in a spatial context. These sectors are locationally specific and have the potential to benefit surrounding areas, providing that routes are established to facilitate access to opportunity. Some sectors are strongly represented in the south of the region (e.g. chemicals and pharmaceuticals), some in the north of the region (e.g. automotive), and some in our rural areas (e.g. tourism and hospitality). Patterns of economic activity vary among these sectors, but utilising a city regional analysis helps to plan the development of sites and premises to meet these sector needs and to provide access to opportunity for surrounding communities.



Chemistry at University of Sunderland

SHARED EVIDENCE BASE - THE POSITIVE ECONOMIC SCENARIOS⁴³

One NorthEast and the North East Assembly have developed a set of positive future scenarios for North East economy in order to inform and align the development of regional strategies. The 'positive scenarios' set out a view of how the North East economy might look in 2016 if the economy grows robustly and develops positively, facilitated in part by successful implementation of the Regional Economic Strategy and the Regional Spatial Strategy, as well as underlying economic growth.

The purpose of this exercise was to provide a robust basis for policy makers in the North East to move away from planning and policy making on the basis of historic economic trends in the region. This shift is essential if the disparities in economic performance between the English regions are to be reduced and the region is to deliver the aspirations emerging from the SHiNE process, or the rates of growth envisaged in the *Northern Way Growth Strategy*.

Within the context of encouraging recent evidence (see 'Reasons to be Optimistic' box on page 11), a range of 'positive scenarios' for the North East economy were considered, including:

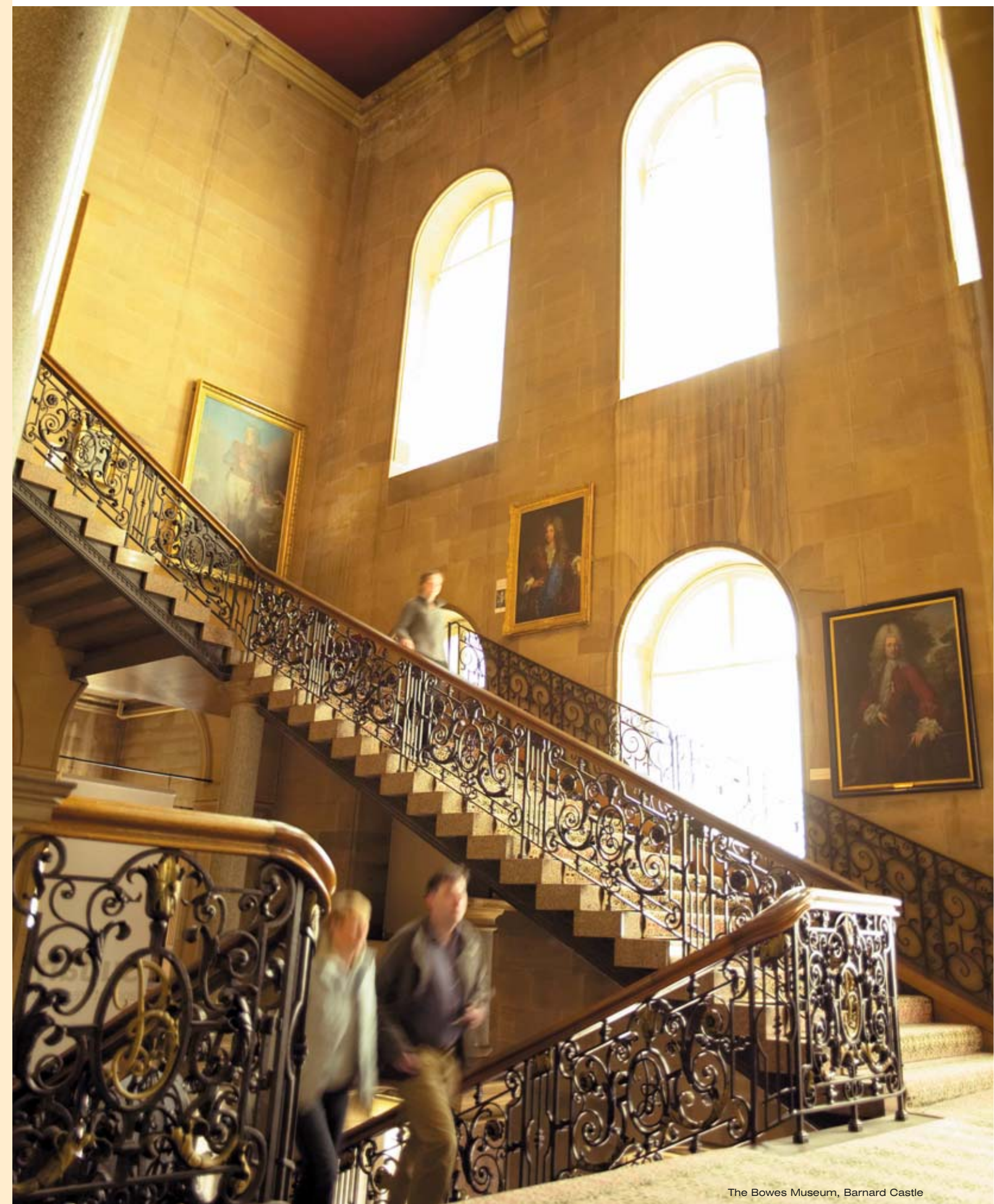
- **Gold scenario:** The North East exceeds/reaches the UK average gross value added per head by 2016 (i.e. the North East attains 100% or more of the national average by 2016)
- **Silver scenario:** The North East achieves an average of 3.4% annual growth in real gross value added in the period up to 2016 (i.e. The North East moves toward 90% of the national average by 2016)
- **Bronze scenario:** The North East achieves an average annual rate of growth in gross value added over the period up to 2016 equal to the UK average of 2.3% (i.e. the North East remains around 80% of the national average by 2016).

A number of 'stopping off points' between these headline rates were also considered.

The Positive Economic Scenarios begin to build a relationship between economic policy interventions to improve economic performance, such as in levels of participation, educational achievement and productivity, and the implications this will have for spatial policy. An example of this is the volume, location and type of housing required to meet the aspirations of a modern, knowledge economy.⁴⁴

If the headline rate is broken down, the opportunities are clear. For example, much of the growth in the positive scenarios can be achieved by enabling more of the working age population to enter the labour market, thus improving economic participation rates. In addition, creating more businesses within the region could generate a step change in growth rates through increases in productivity levels and in participation.

This package of scenarios has been developed to provide a robust framework and common evidence base from which to align regional policy. There is a need for us to test this work to ensure it remains robust and continues to underpin a positive economic approach in individual regional strategies as they are developed. Further details on the positive economic scenarios can be found through the RSS process at: www.viewnortheast.co.uk/documents/docs/paper_2.pdf.



The Bowes Museum, Barnard Castle

⁴³ One NorthEast and the North East Assembly commissioned the Centre for Economics and Business Research (CEBR) in August 2003 to develop a set of positive future scenarios for the development of the North East economy.

⁴⁴ More detailed study has then gone on to explore these spatial issues. For example, *Regional Housing Aspirations Study*, NLP (2005), *Future Regional Employment Land and Premises Requirement*, NLP (January 2004) for One NorthEast, *Sub Regional Partnerships and North East Assembly*, and *Development Sites and Premises Study*, King Sturge (December 2003).

The contribution of the public sector, voluntary and community sector and universities and colleges to the economy of the region

The importance of business sectors to the region's economy has been set out extensively, and is reiterated throughout this strategy. Other partners in the region also make a significant contribution to productivity and participation levels, and ultimately have the potential to contribute to sustainable, inclusive economic growth.

The public sector plays an important role in the economy of the North East, accounting for 30% of the workforce and 23% of our GVA. This compares with national averages of 26% and 23% respectively. However, the apparent higher representation of employment in public services such as health and education in comparison with the national norm is a consequence of a lower level of economic activity in the North East, typified by the lower business stock.⁴⁵ What is needed in the North East, therefore, is a stronger private sector rather than a smaller public sector.

Within the key sector of health and social care, the public sector is the main employer and as such it plays a particularly important role in helping to provide opportunities for economic participation. The public sector is also a significant purchaser of goods and services within the North East, with the region's NHS alone responsible for a budget of £3 billion. The role of public sector procurement in the region's economy is likely to further increase over the period of the RES, given the current trend towards outsourcing of products and services.

The voluntary and community sector, including trusts and foundations, also contribute to the region's economy⁴⁶ in

terms of employment and wealth creation. Research carried out in the North East by Voluntary Organisations' Network North East into the contribution of the sector to the economic life of the region estimated that it contributed 2.5% of regional Gross Domestic Product and employed 4.4% of the workforce of the North East - 23,200 full time equivalents. As with the public sector, the organisations comprising the sector (in this case largely small to medium sized enterprises - SMEs) support local businesses through purchasing goods and services within the region.⁴⁷

The previous RES, *Realising Our Potential* singled out the contribution of universities and colleges to the economy.⁴⁸ The education sector is a key employer in the North East, accounting for around 10% of regional employment. In addition, employment in education has grown faster within the region than nationally.⁴⁹ In terms of contribution to GVA, our five universities alone have an annual expenditure of £645m, which is around 3% of regional GDP. Higher education also contributes to the region's economy in terms of export levels and earnings through research activities and overseas student fees. Indirectly, this sector is helping to restructure the region's economy through scientific and technological developments and, it could be argued, its spend on R&D (amounting to £169 million in 2002) makes a significant contribution to productivity levels.

⁴⁵ *OECD Territorial Review of Newcastle and the North East Background Report*, CURDS (2005), p. 32.
⁴⁶ *The Contribution of the Voluntary and Community Sector to the Economic Life of the North East Region*, VONNE (2000).
⁴⁷ *Contribution of the Voluntary and Community Sector in Realising the RES*, VONNE (2003).
⁴⁸ Objective B4, *Realising Our Potential*, One NorthEast (2002).
⁴⁹ *Sectors research report*, Cardiff Business School and CURDS (2005).

A4 Moving forward: increased GVA⁵⁰ through productivity and participation

Over the past decade the North East's economy has been constantly renewing and reinventing itself, undergoing a lengthy period of structural change. Over this period, the region has been successful in terms of increasing output, number of jobs, income and investment. However, despite these successes, the North East economy still lags behind the UK average on most standard measures of performance.

The headline measure of the region's economic performance is the level and growth rate of Gross Value Added (GVA).⁵⁰ For comparative purposes this is translated into GVA per person, which allows for meaningful comparisons of performance across different sized regions.⁵¹ Currently, GVA per head in the North East stands at around 80% of the UK average, this places the North East near the bottom of the UK league table in terms of GVA performance.

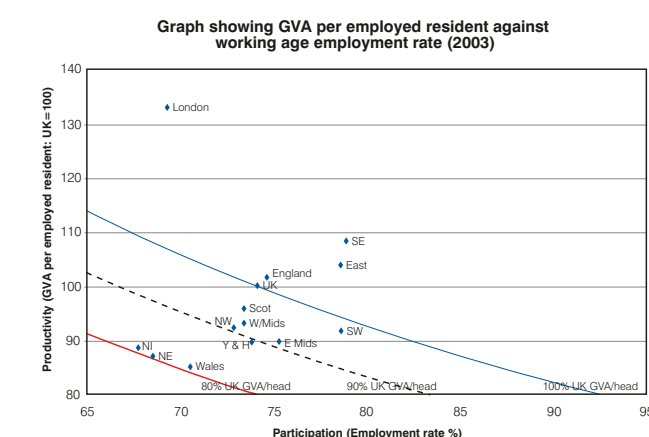
There are a number of reasons why GVA per head in a region may be relatively low. The principal causes are that **productivity** (of those in work) lags behind the national average and the **participation** rate is below the national average. An additional cause is that the ratio of people not of working age to people of working age is above the national average (see box below). Skills levels, mix of businesses and cultural/attitudinal issues also have a significant impact on both participation and productivity.

POPULATION IN THE NORTH EAST

If no action is taken to retain population and attract people to the region, and recent trends continue, the North East's population is forecast to decline over the next 20 years. This is in contrast with other English regions, all of which are forecast to gain population.⁵² This will have a significant impact on the North East economy, in that the workforce will decline as a proportion of the general population as people reach the end of their working lives and retire. This creates a greater imperative for the North East to attract in and retain its skilled workers, entrepreneurs and leaders to create a vibrant, globally competitive economy, and ultimately to increase the quality of life for all those who live in the region. Positive action in this respect is therefore vital.

Regional performance on productivity and participation

The graph below illustrating GVA per employed resident against working age employment rate (2003) shows how the North East currently performs against other UK regions on the two most significant factors determining economic performance: participation and productivity. It highlights the way participation and productivity rates combine to drive GVA growth. The participation axis (employment rate)⁵³ illustrates the extent of worklessness among adults. The productivity axis focuses specifically on GVA per job, i.e. the contribution to GVA of the average worker.⁵⁴ It is important to note that the GVA of the average job will to a large extent be determined by three elements: efficiency, the value added of individual businesses (e.g. the quality of the product or service) and the mix of business activities in the region.



This graph illustrates the current weak position of the North East on both key factors of GVA growth (productivity and participation). More importantly, the graph also allows various scenarios of growth driven by increases in participation or productivity to be considered. The thin blue line illustrates all possible combinations of productivity and participation that would lead to a region achieving GVA per head at the UK average, while the black dotted line illustrates all possible combinations that would lead to a GVA per head of 90% of the UK average. The thick red line indicates where the North East currently stands, at 80% of the UK average.

⁵⁰ Gross Value Added (GVA) measures the contribution to the economy of each individual producer, industry or sector in the UK. At the regional level GVA is defined in terms of the total income earned by individuals (e.g. wages) and corporations (e.g. profits) in the production of goods or services. GVA/head is calculated as GVA divided by the total resident population. (ONS definition).

⁵¹ There are many aspects of economic well being which are not completely captured by GVA, however GVA is the most accepted measure of economic performance, and therefore must remain a key measure of the region's performance.

⁵² *Population forecasts to 2028*, ONS (2004).

⁵³ "In addition to employees and the self employed, includes those on Government supported employment and training programmes, and unpaid family workers, as a percentage of all people of working age," Labour Force Survey definition.

⁵⁴ The productivity axis focuses specifically on GVA per employed resident i.e. the contribution to GVA of the average employed resident. This is used as a proxy for the usual productivity measure of GVA per filled job and produces a very similar picture.



University of Sunderland swimming pool

The first map below illustrates 2002 GVA levels and the relatively low levels of GVA in the North East. This helps to illustrate the regional disparities between the North East and the UK, in particular the Southern regions. The second map illustrates intra-regional disparities in levels of GVA. This highlights the need for joined up, targeted approaches to improve performance across the region, and achieve sustainable, inclusive economic growth.

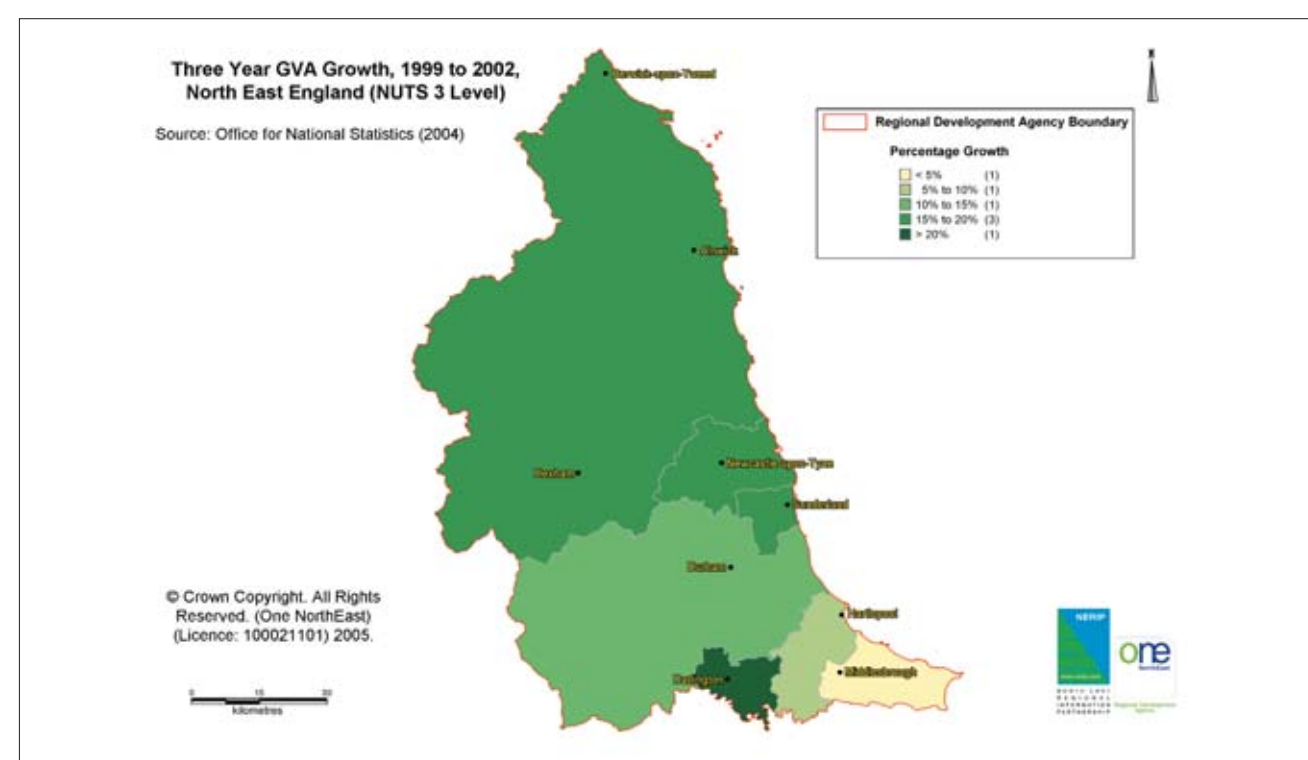
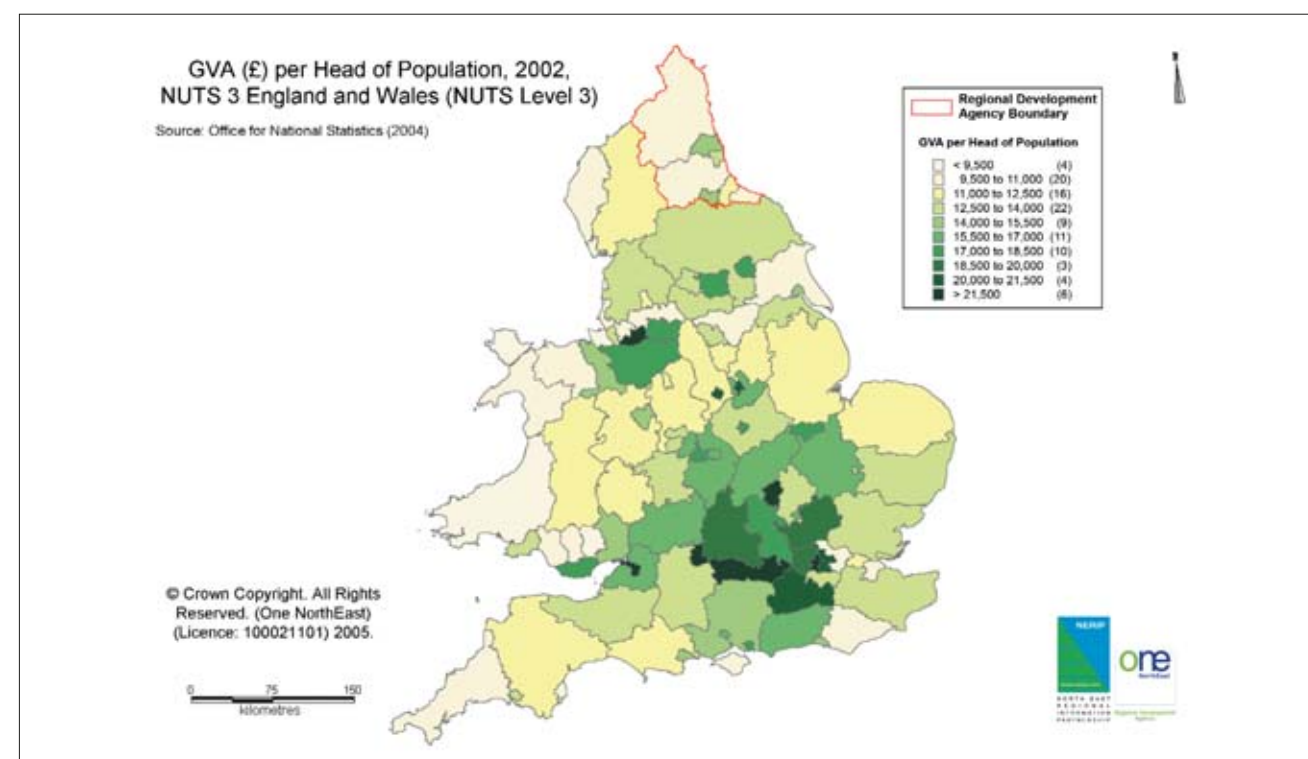
In principle, it would be possible for the North East to close the GVA per head gap with the UK average by increases

in productivity alone. However to achieve this, the region would need an economy that was more productive than all UK regions excluding London. While this is technically not impossible, it would require a complete restructuring of the regional economy on a scale which would take decades to achieve.

It would also, in theory, be possible to close the GVA gap by simply increasing participation, leaving productivity levels unaltered. This would, however, mean that the North East moved from being a region with very low rates of

participation, to a region with high rates of participation, outperforming all other regions of the UK.

For the North East to move towards closing the GVA per head gap with the UK, it must therefore adopt policies which act to increase both participation and productivity. Around 60% of the shortfall in GVA in the North East is related to productivity and 40% to participation factors.⁵⁵ Undoubtedly, however, the balance of interventions between participation and productivity will need to be different across the region dependent upon local circumstances, and it is helpful to adopt a regional perspective to identify the mix of interventions. The overarching objective of all participation and productivity activity must be to add value to the economy (see box below).



ADDING VALUE - MOVING PEOPLE AND BUSINESSES ON AND UP THE VALUE CHAIN

The fundamental objective of all public sector interventions directed at improving economic growth must be to add value to the business or individual receiving support and addressing market failure. The test of added value must be that the individual or business becomes a greater contributor to economic growth after the intervention, even if the effect takes a long time to work through the system.

Value can be added in many different ways and at different stages of the value chain. It can be created by either increasing productivity or participation. For example:

- An economically excluded individual, who initially through volunteering, leading to targeted training and other support, re-enters the labour market and gains employment
- A window cleaning business, which becomes more efficient through the application of a new bookings system
- A manufacturing company, which adopts best practice in “lean” methodology, and therefore becomes more competitive
- A derelict industrial site within an urban centre, which through focused remediation, attracts residential and commercial interest and becomes a sought after location for businesses and individuals
- A high tech creative software business which brings a new product to market through the commercialisation of intellectual property (IP) from a local university.

By 2016 (the lifespan of this RES), we aim to increase our GVA per head from 80% to 90% of the UK average. Although this may not initially appear hugely ambitious, this 10% increase actually requires a significant step change in economic performance.⁵⁶ Our targets in this document are aspirational, but ultimately are grounded in reality - a 100% target would require truly exceptional performance. The region would have to grow at a rate similar to that seen in London and the South East over the past decade to reach 90% UK GVA/head by 2016. To reach the UK average would require growth above these rates, i.e. at rates generally seen only during ‘boom’ periods such as the late 1980s in the UK.

All public sector support, therefore, needs to improve individuals’ and businesses’ relative position on the value chain. This may be done in two ways:

- Businesses and individuals may be pushed up the value chain through direct interventions such as the application of best practice techniques in manufacturing or through undergoing training
- Businesses and individuals may be pulled up the value chain by new opportunities being created at the high end of the value chain. For example via the creation and exploitation of Intellectual Property, or as a result of the creation of a new spin-out business. These new opportunities will create demand and pull people and businesses through, via the natural operation of the market.

The concept of a value chain has implications for the way interventions are carried out in different geographical areas - a targeted approach is likely to achieve the greatest return on investment. For example, in an area of high unemployment and inactivity it would be value adding for an enterprise policy to focus on creating high volume businesses to help bring people into the labour market, rather than necessarily focusing on only supporting high quality businesses which are likely to export or create new markets. Conversely, in an area of very low unemployment and high skills, it may not be adding relative value to focus on creating high volume local market businesses, and here it may make more sense to have a more targeted approach to encourage high growth, high tech businesses. This implies that interventions in different locations should be assessed to ensure that relative value is being added at all times.

⁵⁵ “On average, productivity differentials account for around 60% of regional GDP per capita differentials”. *Productivity in the UK: 3, The Regional Dimension*, HMT (2001). CEBR (2004) states that “the North East’s gross value added would be 17% higher if each division operated at British average rates of value added per employee”. While HMT’s analysis shows that gaps in UK regions’ GVA per head are due to 60% productivity and 40% participation, CEBR figures imply that in this region, for 2003 the gap in GVA per head between the North East and the UK average is due to 66% productivity and 34% participation.

⁵⁶ As stated previously, current best estimates of growth stand at between 1.75 – 2% per annum. DTI/HMT response to the RES.



Wind turbine blade, NaREC

Raising levels of productivity and participation

Theoretically, the region could reach its target of 90% of UK GVA per head solely through increasing productivity to 97.4% of the UK level. Alternatively, it could also theoretically meet it solely through increasing the employment rate in the region from its current rate of 68.5% to a level of 76.6%. This would mean increasing the number of people in employment in the North East by over 120,000.

More realistically, the region could achieve these improvements by increasing both productivity and participation by more modest levels. For example, if North East productivity increased to 90% of the UK average, the region would need to match the UK employment rate of 74.1% to achieve 90% of UK GVA/head (i.e. an increase in employment of around 85,000).

However, it is clear that with the exception of London, the majority of regions tend not to exhibit high productivity levels combined with relatively low employment rates. The tendency for many of the northern regions particularly is for relatively low productivity levels combined with participation rates, only marginally below the national rate. In the short term, moves towards increasing employment will usually result in initially lowering levels of productivity⁵⁷ of the workforce as a result of bringing in marginal workers with typically lower than average skills levels. However, as these new workers settle in and become more skilled and productive, productivity levels will generally recover. This implies that movement towards the 90% dotted line on the graph on page 24 will at first be through increasing

levels of employment in the region, followed by increasing levels of productivity.

Sections C, D and E of this strategy examine in more detail the economic drivers which are key to improving productivity and participation levels within the North East economy. There are many different possible paths that the region could take towards increasing levels of GVA to 90% of the UK average. However, if the region is to achieve this goal, it faces three interlinked challenges: increasing the number of people in employment, increasing the level of the region's business stock, and improving productivity levels of existing businesses. For this reason, the RES sets out two indicative ranges in terms of levels of additional employment and companies which we believe need to be generated if the region is realistically to meet its overarching economic goal.

Clearly, the absolute number of new businesses and additional employment which need to be generated will vary in proportion to each other, according to the types and employment opportunities and businesses generated.

The table on page 28 presents some possible scenarios around the effect on GVA per head which increases in employment and business creation might have.⁵⁸

⁵⁷ UK Productivity and Competitiveness Indicators, Economics Paper 6, DTI (2003).
⁵⁸ This analysis is based on the calculations behind the graph showing GVA per employed resident against working age employment rate. It should be noted that it is very difficult to determine the precise effect that any changes in one particular economic indicator may have on the economy overall. Indeed, employment and productivity have a high degree of correlation, i.e. changes in one have an effect on the other. These estimates are indicative only but give an indication as to the scale of the employment and business stock gaps.

Possible effects on GVA/head of employment and business creation with unchanged productivity

% of UK GVA/head	NE employment rate %	Increase in NE employment rate %	Increase in NE employment	Increase in number of NE businesses
NE base – 80	68.5	0.0	0	0
81	69.5	1.0	15,300	4,600
82	70.3	1.8	27,500	8,300
83	71.1	2.6	39,700	12,000
84	71.9	3.4	51,900	15,700
85	72.7	4.2	64,100	19,400
86	73.5	5.0	76,300	23,100
87	74.3	5.8	88,500	26,800
88	75.1	6.6	100,700	30,500
89	75.8	7.3	111,400	33,800
90	76.6	8.1	123,600	37,500
95	80.6	12.1	184,700	56,000
UK base – 100	85.1	16.6	252,800	76,600

Note: Linear relationship between number of businesses and employment assumed. Business employment size calculated as the median of local units at approximately 3.3.
 Source: ONS, UK Business: Activity Size and Location - 2004. Productivity and population assumed constant. These estimates are indicative only.

While the above table assumes that productivity remains unchanged, increases in the business stock would have knock on effects in the form of increased competitive pressures. These pressures are likely to boost efficiency and productivity across the region's economy. Uncompetitive and unproductive firms will find survival more difficult and be forced to improve efficiency, or else will have to settle for a smaller market share. Overall productivity levels will increase as a result.

Evidence of the precise impact of these new businesses is limited, but an investigation of productivity growth across a number of OECD countries found the difference between the productivity of new businesses and those leaving the market accounted for around 20-40% of

aggregate productivity growth over a five year period.⁵⁹ This means that the overall contribution to GVA of new small businesses is likely to be understated in the above table.

As outlined above, it is most plausible to achieve improvements in GVA/head through a combination of increased business stock and employment alongside improved productivity levels. The table overleaf presents some possible combinations of productivity and participation/new business creation which could increase GVA per head to 90% of the UK average.⁶⁰

⁵⁹ A Government Action Plan for Small Business: Making the UK the Best Place in the World to Start and Grow a Business, DTI, Small Business Service (2004).
⁶⁰ Again, this analysis is based around the graph showing GVA per employed resident against working age employment rate and all figures are indicative.



Pro-Lite Solutions, County Durham

Combinations of productivity and participation required to achieve 90% UK GVA/head

Productivity (UK index = 100)	Employment rate %	Additional employment	Additional businesses
97.4	NE base - 68.5	0	0
97.0	68.7	3,100	900
96.0	69.5	15,300	4,600
95.0	70.2	25,900	7,900
94.0	70.9	36,600	11,100
93.0	71.7	48,800	14,800
92.0	72.5	61,000	18,500
91.0	73.3	73,300	22,200
90.0	UK base - 74.1	85,500	25,900
89.0	74.9	97,700	29,600
88.0	75.8	111,400	33,800
NE base - 87.1	76.6	123,600	37,500

Note: Linear relationship between number of businesses and employment assumed. Business employment size calculated as the median of local units at approximately 3.3.
Source: ONS, *UK Business: Activity Size and Location* - 2004. Productivity and population assumed constant. These estimates are indicative only.

Taking the other two northern regions as a benchmark, it could be argued that the most realistic scenario, whereby the region can meet its target of achieving 90% of the UK average of GVA per capita, appears to be for us to increase our current levels of productivity by around 4 or 5% to 91 or 92% of the UK average (the shaded area in the above table). In turn, this would imply that we would need to increase our levels of employment by between 61,000 and 73,000 and create between 18,500 and 22,000 new businesses.

Drivers of increased GVA through productivity and participation

As outlined above, the major causal factors behind the North East's relatively low GVA per head are low levels of participation and productivity in the region. It follows that all of our interventions should be designed to increase one or both of these if we are ultimately to achieve sustainable, inclusive economic growth.

The Shaping Horizons in the North East (SHiNE) process identified that the opportunities for investing in the economy through activities to improve participation and productivity are greater than the resources available. Therefore, strategic decisions have to be made on where our interventions can add most value, by considering the likely return on investment of all activity. To this end we have identified priority areas for action where we believe real progress can be achieved by 2016. These actions build on the priority themes identified through the SHiNE process, and around which this RES is structured.

Business (see section C)

The North East has a low level of enterprise as measured by the rate of business start ups and also suffers from low productivity within its existing business base. There is therefore a need for strong enterprise and business support activities within the region to both increase the

level of business start ups and increase the productivity of our existing businesses. The focus on enterprise and business support will help to promote greater productivity through increased competition, innovation and adoption of best business practices. It will also support participation through the creation of new jobs from more successful existing and new businesses, as well as providing individuals with the opportunity to choose entrepreneurship and self employment as a career option.

In addition to general business support, there are certain sectors and business issues which require more specialist interventions. In an era of increasing globalisation, all businesses must take advantage of new opportunities by accessing new markets both within the UK and overseas, and the North East must continue to be a location of choice for quality inward investment. The primary focus within section C2 (Business Solutions) is on increasing the productivity of existing businesses. However, through the success of existing business and businesses moving into the region, more jobs will be created leading to increased opportunities for participation.

Moving people and businesses towards the higher end of the value chain requires specialist support around knowledge transfer, and access to appropriate finance. This support will help to establish an innovative, creative environment in which collaboration and competition and the application of knowledge and ideas leads to business growth, both through increases in productivity and through the introduction of new and innovative products. Such an environment will benefit both the existing business base and new businesses within the region, whether they are innovative start ups or inward investors. The growth in businesses as a consequence of innovation in processes, products and services, will provide greater employment opportunities and hence help to increase participation.

People (see section D)

The majority of productivity improvements in the western world in recent years can be explained by increases in human capital, i.e. the skills of our workforce. Therefore, key to raising productivity levels is that we have a highly skilled, adaptable, healthy and motivated workforce. Without this, as a region, we will not be able to compete now or in the future. This will partly require improving skills levels within the region, including basic educational attainment levels, but also an increase in the number of people with higher level creative and innovative skills. The size and demography of our labour force means that in order to generate a step change, we should be looking to attract more skilled workers into the region from elsewhere. The importance of increasing participation and retention of the region's workforce should not, however, be overlooked. In fact, unless as a region our workforce has the skills which businesses require, employment opportunities will be reduced and participation will decrease.

The region's relatively low employment rate and low skills levels act as a barrier to participation, as well as a drag on productivity. Significant work therefore needs to be undertaken to encourage economic inclusion, and ensure that economically inactive people in the North East have easy access to appropriate training, and are made aware of the employment opportunities that this training will open up. Volunteering schemes, developed and championed by the voluntary and community and cultural sectors, can provide pathways to more specific training. In addition, promoting healthy, safe, sustainable communities with environmental and accessible cultural assets is important in tackling the multiple causes of deprivation, helping to provide opportunities for all.

Place (see section E)

To help increase productivity we need targeted investment around specific spatial priorities. These are transport and ICT connectivity, commercial and business premises, cultural and natural assets, and high quality living environments to enable economic prosperity within the region. This will be through providing access to: quality employees, fit for purpose and efficient sites, and markets for goods and products, especially in relation to the North East's manufacturing industry. Provision of quality environments will contribute to retaining and attracting highly skilled people, a crucial factor in raising productivity levels. Investment in infrastructure also contributes to increased participation through providing access to employment and skills opportunities.

There is increasing evidence that in the post industrial economy, the major comparative advantage is an area's image. Successful businesses must attract and retain skilled and motivated people. The image of a region is key to attracting such skilled people as well as visitors and tourists to a region. It also contributes to raising aspirations within the region. North East England's image is therefore a driver of both participation and productivity.

Principles underpinning investment arising through this strategy

This section has set out the need to raise productivity and participation levels to increase levels of sustainable, inclusive economic growth. The themes above - which have the wholehearted support of the region⁶¹ - will enable us to clearly target areas for intervention. This strategy is not an implementation or detailed investment plan,⁶² but its role is to gain collective support for the region's vision and both guide and direct investment among all regional partners to move towards this vision. Interventions set out in this strategy, and more detailed actions arising from them, should also be viewed as delivering the criteria set out below.

Firstly, we should only intervene in urban and rural areas where we can achieve **maximum return on investment**. In city regions, this will focus on those fewer, bigger actions that enable us to achieve the required step change to move towards 90% of the national average, ensuring that all communities are linked up effectively to contribute to and benefit from increased prosperity. In rural areas, market towns as hubs of activity will be the focus, again ensuring that rural areas - particularly deprived rural areas - are effectively linked to access opportunities.

Secondly, we should focus on intervening in areas of **market failure**, i.e. where the outcome generated by the unregulated market is not the 'right' result from the perspective of society as a whole.

Thirdly, linking to the above points, consideration must be given to the prospects of **levering in private sector investment** into programmes and projects in the region. The public sector should be viewed as working in partnership with the private and voluntary and community sectors in identifying areas for investment, with a shared understanding of how investment will be maintained in the long term.

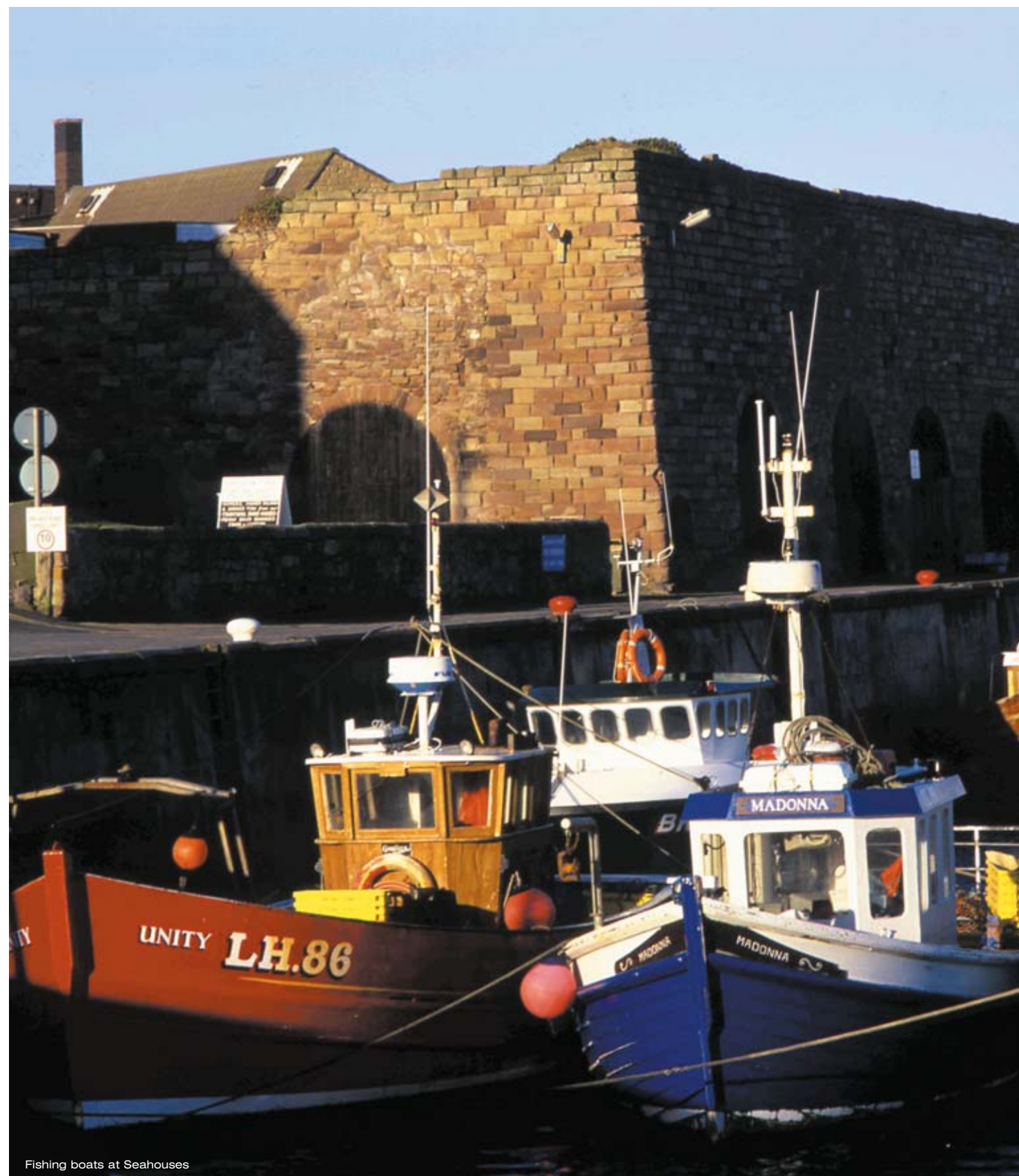
Finally, in order to deliver **sustainable, inclusive economic growth**, we must enable all people in the region to contribute and benefit from economic growth, and also ensure we understand the long term consequences of the delivery of this RES. For example, this strategy recognises both the opportunities and threats presented by climate change. For example, there is growing importance for renewable energy sources and the wind energy market and its development within the region. Partners will work to further understand and where possible act to mitigate and adapt to the issue of climate change. The strategy is also positive in its promotion of business efficiency and the Energy and Environment pillar set out in section C. In addition, in order to successfully achieve sustainable implementation of the strategy and remain competitive

⁶¹ As established through the SHiNE process and RES consultation events and responses.

⁶² The Action Plan was developed over the latter half of 2006 - discussions with partners are underway.

and attractive to investors, regional partners must continue to work towards a low carbon economy, tackling carbon emissions through resource efficiency modelling and carbon offsetting of major developments, such as the proposed airport expansion (see section E3).

These guiding principles will ensure that investment arising from this strategy is targeted and prioritised. This more focused, collaborative approach to economic development is set out in more detail in the next section, 'Collective regional leadership'.



Fishing boats at Seahouses

SECTION B

Collective regional leadership

Leadership and prioritisation is fundamental to a region's global competitiveness.

By 'leadership' we are referring to collective regional leadership, where partners work together to achieve the region's vision, taking shared responsibility for prioritising interventions to improve the economy.

As is clear within other sections in this document, globalisation represents both opportunities and threats for regional economies across the world. Those regions which are sufficiently prepared for the effects of globalisation will be in a stronger position to reap the benefits of a global economy. Examples include: a clear emphasis on innovation of products and processes, flexible and highly skilled workforce, effective intelligence/information sharing systems, and strong relationships with other regions and international companies.

Productivity levels within regional economies can be improved by leaders within organisations making and effectively communicating long term investment decisions, resulting in greater levels of support and clarity of objectives among all regional stakeholders. Leadership development activity also contributes to increased participation and higher aspiration levels. Those exemplifying leadership characteristics are also more likely to adopt innovative approaches to increase skills and employment levels.

A number of recent research reports support the claim that effective leadership and governance is crucial to local and regional success. 'It is still true that all of our competitive cities emphasise the notions of vision, leadership, partnership and politics in shaping long term development'.⁶³ An investigation into world best practice in regional economic development⁶⁴ identified vision and leadership as key characteristics of successful regions. These attributes have been employed in very different ways in regions, be it via: strong coordination, strong collective leadership, effective networks, high levels of investment in a particular area, and/or regional autonomy.

STRONG LEADERSHIP IN NORTH EAST ENGLAND

Recent examples of effective, goal orientated intra-regional working include the NewcastleGateshead bid for Capital of Culture 2008, the South East Northumberland North Tyneside Regeneration Initiative (SENTRI), the Local Government Improvement Partnership and the Stockton-Middlesbrough Initiative. The OECD territorial review of Newcastle as a city region is a key example of regional and local bodies joining together to take advantage of a significant opportunity for the region. Further examples include the formation of business-led leadership councils to take forward the 'Three Pillars' (see section C - Business) and the formation of the voluntary and community sector led Invest 2006 campaign to address the impending decline in funding streams from 2006. Such focused, constructive intra regional working must become the norm.

⁶³ Parkinson et al (2004) p.59.

⁶⁴ IWA (2001).

B1 Meeting the leadership challenge in the North East

The challenge facing the region has been set out in section A. We urgently need to improve both productivity and participation levels in order to become increasingly competitive and move toward the national average. This is an ambitious aim, as it requires significant targets for business creation and employment rates to be realised.

Central Government can support the North East in closing the gap, but we cannot take the view that we have absolutely no control over our own destiny. We must develop stronger strategic leadership and collective responsibility to influence national policy to ensure that it captures the North East's economic needs. In addition, we must build on the region's strengths as a starting point for economic prosperity, primarily in terms of its businesses, people and places (see sections C, D and E) for further discussion of these points).

- We have examples of highly successful businesses within the region. We must replicate success, targeting those businesses and sectors which offer real opportunities to improve economic participation and productivity levels.

- The people living and working in the North East are our greatest asset and are key to our economic future. Regional partners must work together to ensure that opportunities exist for everyone to contribute to and benefit from the region's prosperity.
- The quality of place in the region, including the close proximity of our rural and coastal areas to the region's towns and cities, is widely recognised. We must ensure that the image of the region held by those who live and work here, and those outside the region, truly reflects modern, innovative, culturally vibrant and distinctive North East England.

As has been set out in section A4, the region has limited financial resources and these must be used wisely in order to achieve an improvement in both productivity and participation rates. What actions can we take individually and collectively to achieve the greatest return on investment? The Regional Economic Strategy aims to set out these interventions and represents one stage in a process which will require strong leadership.

Although much activity will take place below regional level at city regional, rural, sub regional and local level, utilising the additional capacity and expertise in economic development at regional level enables the identification of areas for focused investment, opportunities for cross boundary working, and best practice to be shared throughout the region and with other regions.

This section does not address the development of individual leadership skills, although it is recognised that training and honing leaders, as well as increasing the diversity of the region's leadership, is key to our future prosperity. Rather, it sets the scene for the remainder of the strategy and identifies the key areas through which we can achieve strategic leadership. We view the exercise of strong strategic leadership as a mechanism through which to increase participation and productivity, and ultimately our competitive edge.



Community Springboard, Durham



Sara Eke Recruitment Ltd, Tynemouth



UK Trade & Investment



Amble, Northumberland

B2 Prioritising the Regional Economic Strategy

The priorities, interventions and actions set out within sections C, D and E of this strategy were developed in an open and transparent way. The description of the process through which these were developed is set out below. This sets the context for the remainder of the whole document. It emphasises the need for us all to take ownership of these priorities and work together, exhibiting strong leadership to ensure we deliver the regional vision set out in section A1.

The North East Assembly's scrutiny and policy development process⁶⁵ has been important in terms of understanding the impact of previous Regional Economic Strategies and advising on the effectiveness of One NorthEast's programme activity. Recommendations arising from this process have contributed to this revised strategy, as well as One NorthEast's programme activity. This close working relationship will continue in the delivery of this strategy.

The strategy has also been influenced by the Strategic Environmental Assessment and Sustainability Appraisal (SEA/SA) process, which commenced in March 2005. The SEA/SA steering group - including statutory



Oilseed rape field, Northumberland

consultees,⁶⁶ other interested partners and the independent consultants undertaking the Appraisal and Assessment⁶⁷ - advised on sustainable development throughout the process, directly informing both the consultation draft and final version of the RES. This process has ensured that it fits with and helps to deliver sustainable development, particularly indicators set out in the Integrated Regional Framework.

This section details the findings of the SHiNE process and the evaluation of the last RES. In addition, substantial research has fed into the production of this strategy, for example, the extensive research into sector strengths set out in sections A3 and C2. As clarified within section A2, the strategic priorities have also been influenced by the current strategic landscape - ensuring alignment with existing European, national, pan regional, regional, city regional, sub regional and local strategies. Where appropriate, this strategy seeks to influence the development of other strategies. Linkages to other strategies and evidence are cited throughout the strategy.

We can learn a lot from what has and has not worked in the past. An evaluation of the original RES produced in 1999 (Unlocking Our Potential), was undertaken to inform the 2002 review process. It concluded that although a step change in progress was not yet evident, the structures for delivery were being finalised, and that the huge levels of awareness and support for the strategy were major successes in their own right.

The evaluation of the most recent RES (produced in 2002, Realising Our Potential, underlines the RES process as a 'journey' of improvement in economic development policy making in the North East from 1999 to the development of this current strategy. Leading the Way is the third Regional Economic Strategy,⁶⁸ and it looks different to the previous two documents. The evaluation of Realising Our Potential and the consultation on this RES have both made it clear that while the previous RES reflected the extent of knowledge on key issues within the North East at the time, the state of the region's collective understanding in this respect has moved on considerably since then, in large part as a result of the SHiNE process.⁶⁹ It is important that this higher level of understanding is reflected in this RES.

⁶⁵ Regional Chambers have a statutory duty to scrutinise the activity of their respective Regional Development Agencies as part of the 1998 Regional Development Agencies Act. During 2006 the North East Assembly is working with One NorthEast to scrutinise Leadership. The next scrutiny round will focus on the research and evidence base in the region.

⁶⁶ Including English Heritage, the Environment Agency, English Nature and the Countryside Agency.

⁶⁷ Environmental Resources Management.

⁶⁸ One NorthEast has a statutory duty to produce a Regional Economic Strategy on behalf of the region every three years. The first strategy (*Unlocking Our Potential*) was produced in 1999, and was reviewed in 2002, when *Realising Our Potential* was produced. The six key objectives remained largely unchanged following the review in 2002.

⁶⁹ More details of SHiNE can be found at 'Reports & Publications' on www.onenortheast.co.uk

Evaluation of *Realising Our Potential*

The evaluation of Realising Our Potential⁷⁰ sought to provide: an academic assessment of economic performance over the life of that RES; an evaluation of its content; and an evaluation of the process by which it was developed and implemented. The evaluation confirmed that the region's economy had improved in absolute terms and also in relative terms in some instances over the period 1999 to 2003. The conclusions of this economic analysis are drawn on in the Introduction within 'The North East's Economy'. However, the evaluation concluded that it is not currently possible to determine the impact of Realising Our Potential on the region's economy.

The evaluation concluded that Realising Our Potential did not set out an explicit economic development model and had a lack of clarity around some key definitions, including productivity. The evaluation strongly makes the case for developing an explicit economic model that is based around increasing GVA through increased productivity and increased employment activity (participation). This finding is reflected in the underpinning economic model contained within this RES.

The other key point to emerge from the evaluation was the need for a much stronger degree of focus and prioritisation. In particular, it was suggested that the RES needed to determine the priorities for investment. Again,

this RES seeks to address this finding by placing a primary focus on investment that will provide the highest return for the region in terms of economic outcomes, recognising that social and environmental outcomes are important, but that these are the responsibility of other strategies.

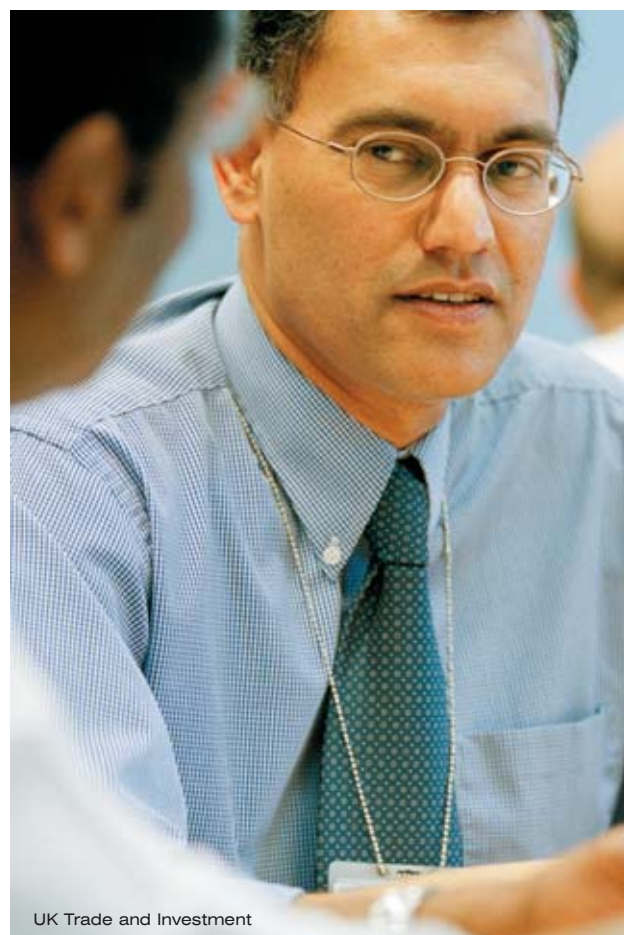
Other key findings relate to individual subject areas and as such are referenced in the relevant parts of this document. In summary, though, key evaluation findings for Realising Our Potential include:

- The need for more emphasis on the region's business start up, as opposed to closure rate
- Lack of clarity in relation to key clusters
- Lack of evidence in relation to the role of regional culture as a key driver of economic development
- Over emphasis on a supply side approach in relation to skills development
- The need to consider the creation of job opportunities alongside activity to bring people back into the labour market
- Questioning the focus of investment in deprived areas as a prerequisite for business competitiveness.

⁷⁰ Reports & Publications on www.onenortheast.co.uk



North East Productivity Alliance (NEPA) engineers



Shaping Horizons in the North East (SHINE)

This RES has also been strongly informed by the SHINE process. The purpose of SHINE was two fold:

- 1) To inform priorities within the Regional Economic Strategy and other regional strategies
- 2) To encourage the people of the North East to take collective responsibility for the future.

SHINE was both instigated and wholly funded by One NorthEast. It took place during 2003 and 2004 and identified the key opportunities and threats facing the North East over the next few years. Regional strengths and weaknesses were also identified through an inclusive and challenging scenario planning process. The process enabled participants to confirm their support for the shared vision of the region in 2016. The participatory, qualitative element of SHINE was complemented by a programme of research and analysis of quantitative data.⁷¹ This research ensured informed discussions of the drivers impacting on the region, and also that the outcome of SHINE was not just anecdotal evidence, but was informed by a mixture of both quantitative and qualitative research.

SHINE introduced radical thinking to regional development. Participants felt it was a powerful process which encouraged people to be honest about future prospects, without feeling defensive about the current economic and institutional landscape. Over 1000 people were

involved, and over 200 interviews with stakeholders and 120 events and meetings were held during the process. SHINE participants felt that a key strength of Realising Our Potential was that it had achieved the support of most regional partners. It became apparent, however, that some priorities were not reflected within the six existing objectives.

Specific headline issues identified through SHINE included the following:

- The importance of strong leadership in overcoming the major problems of the region was not reflected at all
- Realising Our Potential is rather inward looking - the revised strategy should be set within a global context
- The document is not distinctive and this fails to give us any competitive advantage
- The next Regional Economic Strategy must be more prioritised - participants acknowledged that this would not necessarily please everyone in the region, but felt strongly that effective leadership is required to remain focused
- The importance of regional distinctiveness and image should be reflected within the revised strategy
- People and participation, particularly in terms of young people's aspirations and attitudes should be more strongly emphasised
- The SHINE process was an interesting and enjoyable exercise, but it must lead to change in stakeholders' strategies and corporate plans, as well as integrating futures thinking within organisations.

What is different about this RES?

It will become apparent on reading that this strategy differs from previous Regional Economic Strategies, although some of the key themes in previous strategies have been built upon in this version. The issues identified above through SHINE and the evaluation of Realising Our Potential have directly informed this iteration of the strategy. In particular, there is a greater emphasis on economic development. This RES is also more people focused than previous iterations as is most clearly evidenced in the emphasis on participation as a guiding economic principle (see section A). This is taken forward through cross cutting issues, for example, the need to raise aspirations and effect cultural change, and the need to retain and attract highly skilled, creative and entrepreneurial people. In addition, the insertion of a theme on Economic Inclusion further illustrates the people-focused nature of the document.

⁷¹ *Brakes and Drivers on the Region's Economy*, CURDS (2004), along with detailed analysis of consumer trends, Henley Centre (2003-04) and detailed work on the North East's business base, Ron Botham (2004).

INTERNATIONAL BEST PRACTICE

Achieving economic step change through focus and prioritisation - Queensland: the Smart State

Queensland is arguably Australia's equivalent of North East England. Over three million people live in the state and its economy is dominated by SMEs and branch operations, with few corporate headquarters and largely commodity-based industries. These characteristics mean that business investment in R&D and innovation has been low, although publicly funded research has a strong record.

Queensland's Smart State strategic plan was initiated to change the perception of Queensland, to one of a forward thinking economy, encouraging entrepreneurship and innovation. There are several key elements

● Government leadership

In the absence of a strong business R&D base, the state has taken a lead with investment in science, research and innovation, a detailed R&D strategy, and vigorous measures to develop Queensland as an Asia-Pacific hub for new knowledge based industries. The state aimed both to drive economic growth in emerging industries (biotech, ICT and nanotechnology), and to enhance innovation and competitiveness in Queensland's traditional industries.

● Investment in R&D infrastructure

To allow the private sector to excel, for example through the provision of incubator space and the Smart State Research Facilities Fund, providing funding on a competitive basis for R&D infrastructure in any field where Queensland has a comparative or potential advantage.



Queensland, Australia

● Innovation and commercialisation funding schemes

To address funding gaps for entrepreneurs and small companies.

● Innovation and commercialisation support schemes

To provide non-financial innovation and commercialisation support, such as programmes to provide the specialist skills, tools and strategies needed by local SMEs and entrepreneurs.

● Entrepreneurship programmes

Including a support network to help young people achieve their dreams through the developing contacts and interacting with experienced and successful business people.

An important aspect of Queensland's success has been the clarity of the strategic plan, and the clear focus on specific areas such as biotechnology where Queensland can exploit its natural advantages. In this way, investment in innovation and R&D builds on existing strengths rather than trying to build a new sector from scratch. The Smart State strategy has paid off, with Queensland's economic growth now leading Australia.



IGNITE launch



UK presidency conference



14 19 conference

B3 Delivering this Regional Economic Strategy through strong leadership and effective partnership working

The information above illustrates the open and consultative process through which the RES priorities were identified. The RES is the region's strategy. We must all own it and shape our own corporate strategies and plans to fit with it in order for us to successfully realise the region's vision. The private, public and voluntary and community sectors are crucial to the delivery of this strategy and must work together to achieve this. The way that we all use our assets and resources to maximise productivity and participation is vital to the success of the North East's economy.

Businesses have already been closely engaged in the SHINE process, RES consultation, and research into industrial sector strengths within the region. This sense of regional ownership must be built upon both to increase understanding of the needs of business among the region's public sector, and to deliver the strategy through contributing to priorities such as increasing the aspirations, skills and enterprising behaviour of the workforce.

Our strengths in **public sector** working provide significant opportunities in terms of developing and learning from best

practice. The whole of the public sector including regional bodies such as Government Office for the North East, the North East Assembly, the Association of North East Councils and One NorthEast, in collaboration with all other public authorities, the education sector and Government agencies in the region, must work to effectively deliver the strategy.

The public sector has a key civic leadership role within the region and exercising this role effectively involves, for example: opening up procurement opportunities within the region, changing public bodies' mindsets to intervening in areas of market failure, providing high quality services as efficiently as possible, employing best practice in environmental management, resource efficiency, sustainable consumption and production, and working on a demand, rather than supply basis. It is also important that public bodies based in the region recognise their responsibility to deliver the RES, even if they respond to national policies and targets.

Although it is recognised that sustainable development is the responsibility of all regional partners, SustainNE, as the regional partnership for sustainable development in the region, is currently best placed to provide the overarching leadership role in this area. Regional partners including One NorthEast will work together to implement the findings of the Sustainable Development Commission's review of activity at regional level, and to address associated capacity issues.⁷²

The **voluntary and community sector** will play a key role in the delivery of this strategy in terms of employment, wealth creation, and especially levering in investment from a wide variety of sources. The role played by voluntary and community organisations in regeneration and economic participation, raising aspirations, generating social capital, developing and sustaining cultural assets, and creating an enterprising culture, makes them an essential partner in achieving sustainable, inclusive economic growth.

As with the previous two Regional Economic Strategies, there is a clear recognition of the central role of the **universities and colleges** in delivering this strategy. This can be seen, for example in terms of restructuring the region's economy through scientific and technological developments and increasing the skills base of the North East, as well as in their role as large scale employers and owners of land and property.

Each of these sectors will contribute to the delivery of the whole of this strategy. Discussions will continue to take place between partners to determine who will lead on the delivery of each of the strategic priorities set out in the document. This will include identification of capacity and resource limitations, and how partners can work together to overcome such issues.

⁷² Regional partners will also determine how to take the recommendations in the Governments *Securing the Regions' Futures* report forward (DEFRA, April 2006).



B4 A new way of working

Key to partners working together to deliver this strategy and achieve economic step change are the following issues:

- 1. Sectors and organisations within the region must work together more collaboratively to both challenge and champion the North East.**
- 2. Regional partners must demonstrate the ability to prioritise economic development interventions.**
- 3. People living and working in the region must become increasingly aspirational and outward-looking.**

The exercise of strong leadership should be viewed as a means to an end, an improvement in the region's economic performance. Thus, we will know we have been successful if we achieve the following:

- A significant increase in the numbers of businesses and employment opportunities created
- An increase in regional GVA per head
- Greater return on investment per £ of public money spent.

1. Challenging and championing the North East

A running theme throughout this Strategy is the need for existing and future leaders in organisations in the North East to take both individual and collective responsibility for improving the prospects of the region.

This requires leaders to constructively challenge each other in terms of activity planned within the region, and ensuring that such activity fits with the agreed strategic direction, ultimately to deliver the vision of the North East.

In addition, leaders within our organisations must develop a sense of ownership in promoting North East England, for example in championing the Regional Image Campaign within and outside the region (see section E4 for further details). Part of this requires building stronger links with advocates outside the region and outside the UK who can act in the North East's interest, such as people engaged in high profile cultural activity, politicians and senior business contacts originating from the North East.

The 2006 World Culture Summit hosted by the North East provided an example of a major opportunity to showcase and champion the region.

2. Economic development prioritisation

This strategy reflects the views of partners throughout the region in their call for greater focus and prioritisation. The priorities identified within this strategy have not emerged in isolation. They have been informed by the SHINE process, research undertaken over the last two to three years, other strategies including the Northern Way Growth Strategy, the RES consultation period and the evaluation of the previous strategy, Realising Our Potential.

The Regional Economic Strategy represents work undertaken so far in a long term process. The initiatives and research highlighted above have contributed to an increasingly sophisticated understanding of how the region works. For example, we recognise that patterns of economic activity are not generally coterminous with traditional levels of governance and analysis, and the associated growing appreciation of the need to work across borders. Increases in pan regional working, such as through the Northern Way, illustrate a recognition of the growth in competitiveness which can be achieved through collaboration. In addition, city regional analysis provides a more accurate representation of economic patterns than, for example, sub regional borders.

The Northern Way Growth Strategy and City Regional Development Programmes (CRDPs) have made a good start in collaborative working to identify priorities. However, they require further development to ensure they reflect opportunities presented through initiatives such as Local Enterprise Growth Initiatives (LEGI) and Local Area Agreements (LAA). Regional level perspectives play an important role in contributing to prioritisation and sharing of good practice.

Regional Indicative Budgets - enabling regional influence over economic development, housing and transport budgets - generated a greater sense of urgency in terms of developing clear priority areas for investment. In addition, the forthcoming 2007 Government Spending Review provides the opportunity for regional partners collectively to make the case for national resources to be allocated to closing the gap between the North East and the national average. As part of this, we must demonstrate the ability to identify those key areas requiring investment to generate the necessary step change in performance.

While we have gone some of the way to spelling out priorities within this strategy, the challenge now is to ensure that organisations and leaders within the region take shared responsibility for developing milestones and targets to measure 'distance travelled', and delivering on these priorities. The consultation period on the RES revealed a widespread determination to take forward this challenge.

OECD Territorial Review

The OECD Territorial Review of Newcastle and the North East is an independent assessment of the performance of Newcastle within the wider city region context. The high profile review was commissioned in 2004 by Newcastle City Council which funded it jointly with One NorthEast and the Department for Communities and Local Government.

The review has highlighted the importance of strengthening the regional evidence base to inform prioritisation, and calls for a radical reform of governance structures to enable the region to meet its economic aspirations. The report also goes some way in articulating the challenges for the different economic geographies in the region, in particular the Tyne and Wear city region, and this will be built upon during the RES Action Planning phase. The need to address both productivity and participation is a key theme within the report, and as such is wholly complementary with the approach in the Regional Economic Strategy.

Recommendations from this report will be discussed and considered by the region and central Government to enable appropriate actions to be developed, in line with the RES priorities.

Regional partners must also work together to develop a strong, robust evidence base. Progress has already been made in this area, for example through One NorthEast's three year £1.5m evaluation programme, but further work is needed to improve the evidence base in terms of sharing research and learning from what has and has not worked in the past. Future evaluations of the RES will enable us to measure progress on key indicators of success (see section A4).⁷³ The move towards closer working between central Government and regional agencies is also crucial in this respect, and it would be useful to explore further more tangible ways through which central Government can help the region to develop its analytical capacity. In particular, we would be keen to explore the possibility of an institution in the region to take this agenda forward.

The RES goes further in some areas than others in taking things forward. It is fundamental to promoting collaborative working. The SHiNE process was a key catalyst for this in developing shared responsibility and understanding of future trends and drivers at a regional level. The RES also details plans for supporting specific industrial sectors. In areas such as increasing participation and attainment in education, however, a commitment is made to develop an approach between partners including Government Office for the North East, Association of North East Councils and One NorthEast, and it is recognised that the commitment in this strategy is the first stage in a longer process.

It is clearly apparent that due to limited resources within the region, we cannot do everything. As was highlighted within the SHiNE process, it is widely perceived that the

widening of the gap between the national average and ourselves has been exacerbated by 'spreading the jam too thinly'. Our limited resources must be increasingly focused to achieve a greater return on investment. This is already happening. For example, there is a greater focus within One NorthEast's Corporate Plan. This approach will require focusing on particular geographical areas for certain types of activity, while ensuring that other areas are able to access any opportunities generated. A good example of prioritisation informed by evidence can be found in the sector research undertaken to inform this strategy (see sections A3 and C2 for further details).

3. Increasingly aspirational and outward looking

The need for the region's people, businesses and organisations to be more aspirational, ambitious and outward-looking were clear messages emerging throughout the SHiNE process and the RES consultation period.⁷⁴

Everybody living and working in the North East must be encouraged to aspire to leadership and to taking responsibility for their own future. It is important to acknowledge the fact that the region generates successful leaders in a variety of spheres, but they often leave and move elsewhere. Crucial to addressing the challenges of raising productivity and participation levels is ensuring that people and businesses see the North East as a place to remain if they are successful, rather than leaving the region to realise and build upon success.

In addition, understanding our position in the global economy is an important part of exercising strong strategic leadership. This includes identifying opportunities and threats and being able to move quickly to utilise this information for the benefit of the region. A continuation of the future planning activity commenced within SHiNE (now incorporated within Future Matters) will help to build regional capacity in this area. The work of Future Matters will ensure that future iterations of the Regional Economic Strategy capture the key issues and drivers impacting on the region, including, for example, climate change.

We must strengthen our relationships with other UK and international regions, learning from and sharing best practice. In particular, the enlarged European Union provides significant opportunities for the region's economy, and work will be undertaken to understand these clearly and identify the most appropriate way to take these forward.

The relatively low aspirations of children and young people in the North East could inhibit the region's success in the future. In addition to activity already underway to raise aspiration levels, work will be undertaken to communicate the priorities within the Regional Economic Strategy to children and young people, enabling them to understand the importance of their role in the future of the North East.

This chapter sets the tone and context for the remainder of this document. Specific strategic priorities and interventions are set out in sections C, D and E, Business, People, and Place.

⁷³ Research planned to improve the evidence base within the region includes, for example, understanding the interconnections and interdependencies between the North East economy and other regional economies, for example, Scotland and the South East. In addition, during 2006, research is underway to identifying lessons learnt from international best practice.

⁷⁴ This is also a key priority within *A Cultural Manifesto for the North East of England*, Culture North East (2004).

SECTION C

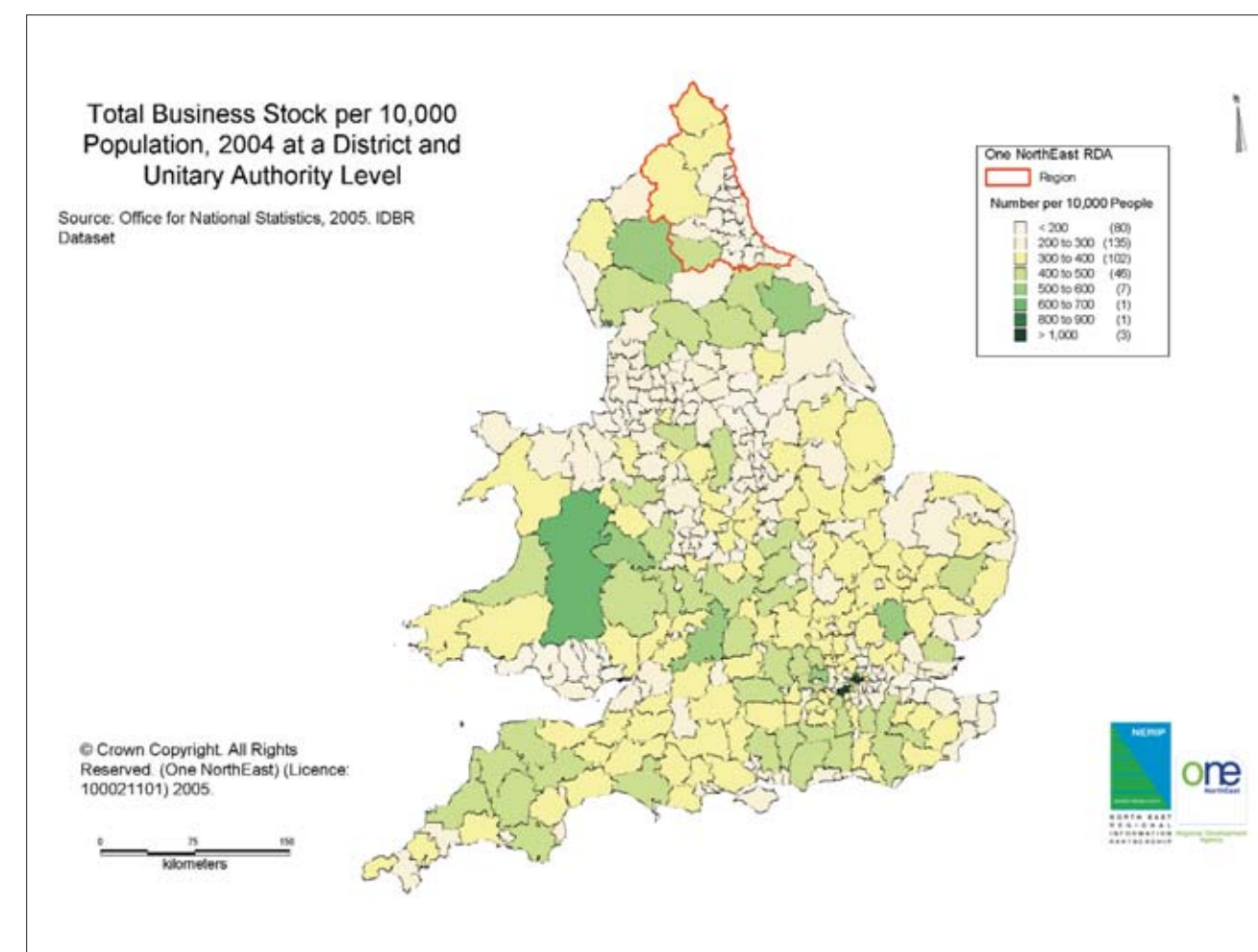
Business

This section of the RES outlines the actions required to support and help grow the business base of the North East. Business is a key driver of economic growth, both through increasing productivity and by providing increased opportunities for employment and hence, economic participation.

Business challenges

The first challenge facing the North East is that we lag behind the UK average in terms of the number of businesses in comparison to our population size. If the North East succeeded in moving towards 90% of national average GVA per head, we would have between 18,500 and 22,000 more Value Added Tax registered businesses, and productivity rates would increase by around 4-5% to

91-92% of the UK average. It is worth noting that the principal cause of the relatively low number of businesses in the region is the low rate of business formation, and not a high failure rate. The map of UK business stock below illustrates the particularly low stock within the North East, and the extent of the challenge we face in closing the gap with the UK average.





NETPark, County Durham

Secondly, productivity levels⁷⁵ in existing North East businesses are below the UK average across most sectors, apart from some manufacturing sectors, which are comparable to national rates. A key cause of this relatively low productivity is due to the region having the 'lower value' end of each sector. This is evidenced through more branch plants, fewer offices and less research and development (R&D) activity than many other UK regions (see value chain box in section A4 for more details). A further cause of low business productivity is that the region tends to specialise in lower growth sectors, generally in the production of lower value goods and services. North East England suffers from being less specialised in higher growth sectors than other regions, typically in the production of high value added, internationally tradeable services and niche or high quality products.

Finally, within a growing global economy and a rapid pace of change in scientific and technological developments, more opportunities are opening up. However, we are also vulnerable to increased competition. Initially, this competition is being felt particularly at the low end of the value chain and tends to be characterised by multi national companies moving production of goods - and more recently services - from the North East and other UK regions to lower cost locations. It is now the case, though, that competition is increasing not simply on cost, but also on quality. The growth in globalisation means that responsiveness to, and application of, new knowledge is crucial to the prosperity of the North East.

⁷⁵ £28,200 as measured by output per worker, *Regional Competitiveness and State of the Regions*, DTI/ONS (April 2005).

The Importance of people and place

While this section focuses on business support, it is important to recognise that people and place are also significant factors in business success.

The value of a highly skilled labour market with the ability to quickly adapt to market changes cannot be overstated. Over recent years, it has been the level of skills and human capital which has driven a large proportion of economic growth in the global economy. Without access to appropriately highly skilled people, existing businesses cannot prosper and new businesses cannot successfully be created or attracted to the region. In fact, skills could be seen as the new competitive advantage.

The quality of place within a region is fundamental to business success. Businesses require appropriate premises in appropriate locations, enabling access to labour and markets, linked to a high quality physical infrastructure with access to modern broadband technology. In addition, skilled people now represent an important driver of economic growth. Because of this, attractive places within which highly skilled, creative and entrepreneurial people want to live and work are a key regional competitive advantage.

Meeting the business challenge

Given that the challenges facing the business sector in the North East are complex and varied, it follows that we need a series of carefully interlinked but differentiated approaches to supporting businesses and individuals to take business ideas forward. Key to all interventions is the need to ensure maximum return on investment,⁷⁶ and that the private sector understands the direct impact of its own investment in business support.

It is important to note that this part of the RES takes a balanced approach to support for manufacturing and service industries, recognising that both are interlinked and key to the future growth of the region.

Enterprise

As outlined above, the North East has a relatively low business stock caused mainly by a low level of business start ups. We therefore believe that activity is required to support an increase in the number of new businesses in the region. Key to achieving this will be ensuring that activity supported by the public sector is 'additional', over and above what would have happened with no public sector intervention. This will require the following approach:

- **Promoting start up**
Raising awareness of enterprise as a concept, and engaging with target groups and communities to help them realise that enterprise and self employment is a viable and rewarding option for them.
- **Encouraging start up**
Supporting individuals and teams to identify and develop the ideas, skills, tools and resources required to start up in business.

Business solutions

Evidence suggests that those businesses sourcing external professional advice and services grow at a faster rate than those that do not.⁷⁷ The overarching aim of business support in the North East is to provide businesses with access to such high quality advice and business solutions. This will enable the business base of the region to grow at a faster rate and therefore directly contribute to GVA growth. However, as outlined in sections A and B, given that resources are limited, there is a need to effectively target support where it is likely to have maximum impact. This will need to be informed by:

- Segmentation of the business market to ensure that the most appropriate business support offer reaches the 'right' businesses, with the most effective messages.
- Assessment to ensure that those businesses coming through to the first point of contact with business support services in the region have their requirements assessed for likely return on investment for the economy, and that relevant support is identified.

The challenges, principles and forward strategies supporting start up activity - the advice and guidance to help the business idea to become a reality - are outlined below as part of our approach to business support.

The resulting model of business support will be that of a "one stop shop" high quality service available to all businesses in the region, supplemented by a number of more specialist, proactively targeted interventions. Some of these will be sector based and all, wherever possible, will be based around a brokerage model. This approach will involve significantly more use of innovative support methods and existing business to business networking.

⁷⁶ As measured by increases in GVA per £ of public expenditure.

⁷⁷ *Enterprise Britain: A Modern Approach to Meeting the Enterprise Challenge*, HMT/SBS (2002).



The Alnwick Garden, Northumberland

Preparing for structural change

One of the main reasons for the North East lagging behind UK average productivity levels is its industrial mix, and the relatively high proportion of businesses towards the lower end of the value chain (see section A4 for more details). This will partly be addressed by specialist business support helping to move businesses up the value chain, and attracting more high value businesses to the region.

However, the pace of structural change in the global economy is growing at an ever increasing speed and we must prepare now to ensure we are in a competitive position in the decades to come. One of the key ways through which we can bring about a step change improvement in the historically poor performance of the North East economy is through a radical, forward looking programme of activity. Such an acceleration of structural change, however, must be effectively managed.

In order to become globally competitive, regions must create world class knowledge which can be exploited effectively. World class knowledge and design can be used to create unique products and services, giving companies a competitive edge based on features of quality, attractiveness and functionality, rather than cost. The 'Three Pillars' approach (see page 68) is aimed at effecting sustainable change in the industrial structure of the North East. This approach invests in the development and application by business of world leading research, much of which is being generated within the region.

The 'Three Pillars' approach is different to sector based support detailed in section C2, but builds on current industrial strengths within the region. Specifically, it is about future activities for long term exploitation of knowledge and intellectual property within the region, while the sectoral approach is about value adding in the short to medium term, combined with clear evidence of direct return on investment. The sectors and pillars are linked through the Chemicals and Pharmaceuticals sector (Process Industries pillar), Health and Social Care sector (Healthcare and Health Sciences pillar) and Energy sector (Energy and the Environment pillar).

The section on 'Preparing for structural change' identifies a few focused areas of innovation and creativity activity. These are the areas within which we believe there is potential for the North East to develop globally competitive R&D and design based industries in growing markets over the medium to long term, often complemented by significant short term 'wins'. The specific elements of creativity discussed in this section are technological R&D and design, activities where we have particular comparative strengths which can be applied over the long term for maximum economic benefit.

C1 Enterprise

The challenges set out in the introduction to this section highlight the large number of new businesses which must be created in the North East in order to have a business base is to move us towards 90% of the national average GVA per head.

The map opposite illustrates the geographical distribution of this challenge, with start up rates varying throughout the region from a low of 15 VAT registrations in Wansbeck to a high of 46 VAT registrations in Tynedale per 10,000 population.⁷⁸

Success will be measured by our ability to close the gap between the regional and UK average start up rates. We recognise that measurement of business creation is notoriously difficult. To address this, partners will continue to work together to map a range of measures with the aim of providing: a clearer picture of the population's enterprising aspirations and behaviours, the number of individuals entering self employment, and the number of start up businesses.⁷⁹

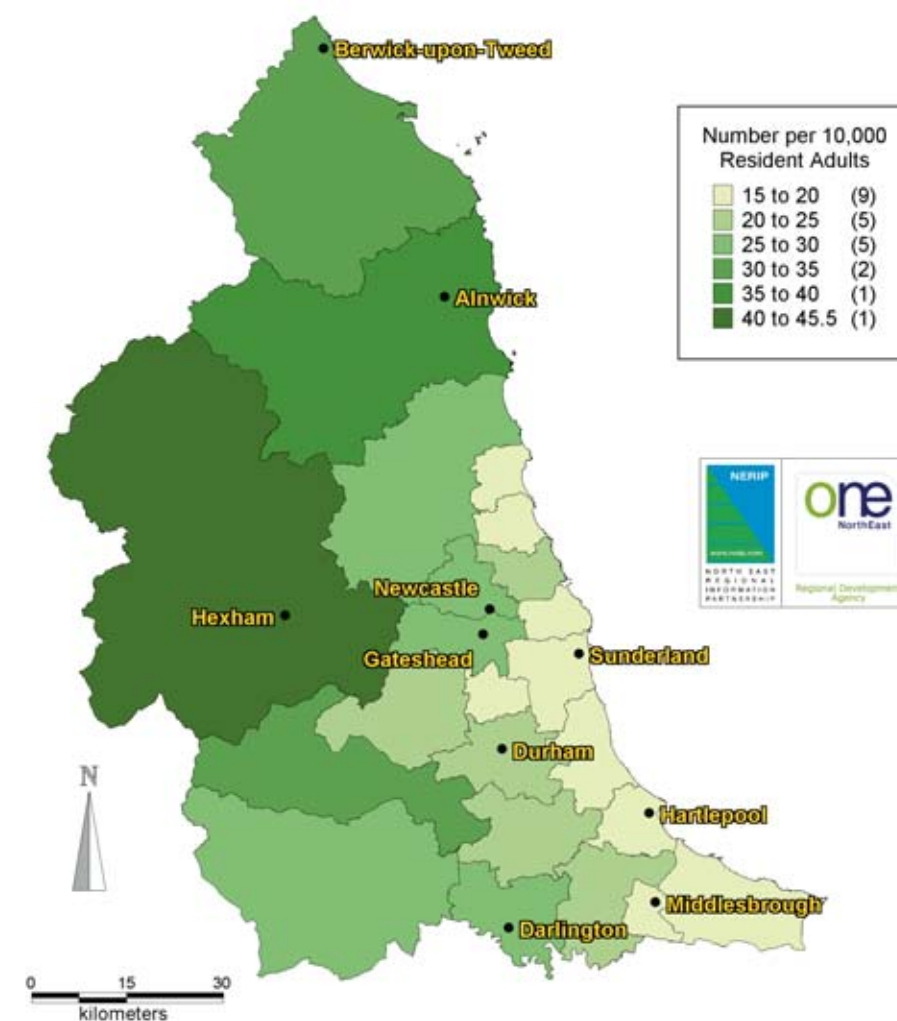
In order to increase the business stock, there must be a significant shift in the entrepreneurial culture of the region to one that values enterprise and encourages risk taking. This challenge will be met by building on and encouraging those geographical areas which already have higher start up rates, and supporting other communities and individuals to realise their start up potential. In addition, we must support microbusinesses and individuals to grow their organisations and register for VAT. This challenge is not new, and nor will it be resolved overnight.

⁷⁸ In the North East, only Tynedale has a higher VAT business registration rate than the UK average of 40. Data derived from SBS, *VAT Statistics* (2003).

⁷⁹ People from rural areas are arguably more likely to be entrepreneurs than people from other areas. *Household Survey of Entrepreneurship*, SBS/DTI (2003).

Distribution of Business Startups in the North East as indicated by VAT Registrations (2003)

Source: Nomis, ONS Crown Copyright Reserved - Data from HM Revenue and Customs



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The way forward

It is clear from the preceding information, then, that we need to invest in the future and find enterprising and innovative ways to encourage more people to start up in business. As each business and individual is different, a broad package of solutions must be made available throughout the region. These can be summarised as follows:

1. Promoting start up
2. Encouraging start up

1. Promoting start up

Within the North East, the proportion of the population considering start up is at one of the lowest levels in England.⁸⁰ The reasons for this have long been debated. Major rationale cited for this trend is our historic propensity to work for large businesses, such as the paternalistic heavy industry of the past. In addition, fear of failure and risk taking is felt to characterise the North East's employee, as opposed to employer culture.⁸¹

⁸⁰ Only 7% of working age population is considering start up in the region, compared with 11% nationally. *Household Survey of Entrepreneurship*, SBS/DTI (2003).

⁸¹ A total of 84% of the North East working population is neither currently engaged in entrepreneurial activity, or has recently thought about becoming so. This compares with 76% nationally. *Household Survey of Entrepreneurship*, SBS/DTI (2003).

In order to reverse this trend, one of the key priority areas for the enterprise agenda must be to get more people to consider self employment and business creation as a viable and rewarding option via a highly visible campaign.

As with any campaign, this activity should segment the target market and be tailored to specific groups. The ultimate aim of the campaign is that the concept of starting up in business is widely perceived to be a challenging, rewarding and achievable goal. This activity will complement the following work: more generic business skills development, raising aspirations, and the worklessness agenda, which is part of the 'People' section of RES, linking with the Regional Skills Partnership priorities.

A significant number of entrepreneurs will be needed to create between 18,500 and 22,000 new VAT registered businesses to reach 90% of national average GVA per head (see section A4).⁸² The focus for achieving this goal will not only be on young people, but also those groups believed to have latent potential to start up more businesses, and those who would benefit from the flexibility of self employment. Target groups will include: young people, women, disadvantaged communities, immigrants and refugees, and those who may benefit from the flexibility self employment brings. By nurturing their talent and providing support so they become self employed, we will ensure individuals get the flexibility they need and continue to contribute to the regional economy.

Particular emphasis should be placed on **young people** as the future entrepreneurs of the North East. If only a small proportion of our young people were to start up in business, the region would be nearer to closing the gap with the national average. This can only be achieved by providing a continuum of awareness throughout the education system (from primary through to higher education), delivered with support from the private sector. Attention must be paid to graduates as a key source of business ideas, skills and enthusiasm. This group of people must be encouraged to stay within the North East and start up in business. Outside of the education system, young people will be encouraged to work within

the community, acting as enterprise catalysts within their neighbourhood. Particular consideration will be given to social enterprise as a solution to social and environmental issues, as well as a source of employment and wealth.

In the North East, only 4.1% of females in employment are self employed. This is in stark contrast to the English average of 7.1%.⁸³ By inspiring **women** and providing positive role models, a large number of new businesses could be created. Many barriers to self employment are the same as those faced by men, but motivations and concerns can vary and should be taken into account when promoting enterprise to female audiences. It is important to note, however, that regionally, only 11.7% of men are self employed compared with 16.8% nationally.⁸⁴

There is a clear correlation between low start up rates and **deprived communities**, a trend which must be reversed if we are to create a step change in business creation rates within this region. This is particularly important given that the North East has a very high proportion of deprived areas compared with other parts of England (see section D2 for a map of deprived areas within the North East). Innovative solutions to this problem need to be embedded at a local level, building on existing partnerships and opportunities such as Local Enterprise Growth Initiatives.

Finally, activity should be targeted at those who may **benefit from the flexibility self employment brings**, such as disabled people and older people nearing retirement or retired, who may wish to stay economically active.

All potential entrepreneurs will be encouraged to start up their own businesses, and at the same time be made aware of any available advice and support. In addition, those communities which have shown a greater propensity to start up in business - for example people in certain ethnic minorities or rural communities - will be encouraged to consider diversifying to become serial entrepreneurs and role models for others. This will involve identifying and fully utilising opportunities which arise, for example broadband enablement, regeneration of market towns and changes to the Common Agricultural Policy.

We must recognise that given the scale of the challenge, not all future entrepreneurs will come from within the North East region. We will work with and through the Regional Image Campaign to develop an *Attracting Entrepreneurs* programme promoting North East England as an exciting and rewarding business start up location. This programme will be targeted at potential entrepreneurs including university alumni, refugees and others to attract new start up businesses into the area.

⁸² It is helpful to note that in order to perform at 100% of the national average in terms of business stock, the region would need to create around 32,000 new VAT registered businesses and a total of some 75,000 more businesses overall. *VAT statistics*, SBS (2004).

⁸³ Data derived from ONS, NOMIS, APS (2004).

⁸⁴ Data derived from ONS, NOMIS, APS (2004).

CASE STUDY

The Mailing House



Jackie Peddie is a winner of the Women into Network 'Susan Dobson' award. She is an ambitious, married mother of three and owner of a successful mailing business, The Mailing House, based in Cramlington.

After starting from her home, Jackie's business soon began to flourish, and moved to premises in Cramlington, with the assistance of a feasibility study from Business Link. Over recent years, her company has gone from strength to strength, and recently it has celebrated the one billionth mailer for Matalan retail. The Mailing House has been

working with Matalan for 18 years, and to reach the one billion milestone is quite an achievement.

The Mailing House employs around 75 staff and is very excited about an upcoming project, which could deliver a further 24 jobs. The company has gained an excellent reputation and around 90% of its customers are in the North West and South of England, Ireland and the USA. Jackie Peddie regularly visits London to advise on national standards within the industry and encourages young people into employment

More information: <http://www.themailinghouse.co.uk>



CASE STUDY

Proaction Training



Gordon Potts and Calum MacGregor have been in business since the beginning of 2005 as Proaction Training, based at Northumbria Centre for Enterprise in Ashington. The two former lifeguards had the vision of setting up their own business delivering first aid and health and safety courses aimed at the leisure industry. Their business has already exceeded expectations, growing from strength to strength. They now deliver a service to areas including the Scottish Borders, Sheffield and Ireland, while still finding time to train a team for the National Lifesaving Speed Championships.

Proaction Training combines this success with a commitment to provide training for unemployed people, giving them a range of basic skills as a helping hand into employment. The company works with employers in their first three months of work, helping employees to gain accredited

qualifications. Partner employers include Blyth Valley Council, Wansbeck Council and David Lloyd Leisure, and many of the people involved come from disadvantaged and hard to reach sectors of the community, such as disabled people, long term unemployed and people with mental illnesses or suffering substance abuse. Gordon and Calum have helped over 60 unemployed people back into work since May 2005, an achievement which won them an award from Working Link.

Proaction's activities are set to expand, with the possibility of offering a broader range of courses and developing links with colleges to increase further the employability of the people it aims to place in work. As well as training others, Gordon and Calum continually update and expand their existing skills to meet training needs.

More information: Gordon Potts 07765 292 078

2. Encouraging start up

The journey an individual makes while starting up in business can take considerable time, involving picking up the requisite skills and resources as they go. Each experience is unique and there are often many challenging times ahead, throughout which individuals may need support, advice, guidance and training.

Target groups, such as those identified in "Promoting start up" will be able to access a range of interventions delivered by the private, public and voluntary and community sectors throughout their journey. The intensity and duration of the support provided will vary, and will be measured by potential return on investment to individuals and communities, as well as the economic potential of the business. It is evident that there are clear linkages between this section and many of the priorities within section D of this RES. Public sector intervention will only occur where there are clear gaps in provision - market failures - and evidence of demand. Such interventions may include the following:

- Idea generation and spin-out support from both academia and industry, linking to the 'Three Pillars' and enhancing creativity (see section C3)
- Confidence development, networking and support programmes, particularly utilising the support of entrepreneurs as mentors and champions
- Business skills development, linking to section D1
- Financial readiness training and support, alongside appropriate accessible finance for all new business starts from micro loan level through to venture capital. There will be a particular emphasis on working within disadvantaged communities and supporting the development of social enterprises
- Legitimising informal economy entrepreneurs through highlighting available opportunities and opening the door to further growth.

C2 Business Solutions

As outlined in both section A4 and at the beginning of this section, North East productivity levels lag behind the UK average. This chapter sets out how effective business support and inward investment can play a significant role in improving overall regional productivity levels. A by-product of this activity, and in many cases a direct result of inward investment success, is that economic participation opportunities increase.

In order to provide a context for this section, it is important to recognise that the resources available to provide business support are limited. As is the case with all priorities within this strategy, we must ensure that well informed decisions are taken about how to address market failures and maximise return on investment.⁸⁵

The way forward

There are many dimensions to effective, accessible and targeted business support. Priorities include the following:

- 1. Provision of high quality and appropriate information, advice and guidance to companies**
- 2. Improving skills for business**
- 3. The future of business support**
- 4. Specialist sector based support**
- 5. Specialist issue based support**
- 6. Utilising information and communications technology (ICT)**
- 7. Access to finance in the North East**
- 8. Global opportunities - Increasing exports and attracting and embedding companies within the region's economy**

1. Provision of high quality and appropriate information, advice and guidance to companies

Evidence indicates that businesses which seek and use outside advice and guidance are more successful than those which do not.⁸⁶ The main reason for this appears to be that there are 'information asymmetries'⁸⁷ between different businesses, and particularly between high performing and underperforming businesses. The role of external advice and guidance is to ensure that all businesses access high quality information and guidance to allow them to become more successful.

⁸⁵ As measured by GVA impact per £ of public expenditure on business support.

⁸⁶ *Enterprise Britain: a Modern Approach to Meeting the Enterprise Challenge*, HMT/SBS (2002).

⁸⁷ Where one firm has more access to high quality information and support than another firm. The information asymmetry is exacerbated by the fact that many businesses do not fully understand where they could improve their performance, what the value of outside advice or guidance may be, or how to obtain this guidance.

CASE STUDY

The Alnwick Garden



The Alnwick Garden has evolved and grown since its first opening to the public. The Grand Cascade and the Ornamental and Rose Gardens opened in 2001, and themed gardens in 2004. The Pavilion and visitor centre were completed in December 2005.

The Alnwick Garden is now a major employer in North Northumberland. The workforce has grown from an initial six full time and 10 seasonal staff in summer 2001 to around 90 full time and 90 seasonal staff in summer 2005. Recognising the drawbacks of seasonal employment, The Garden is working hard to complete the project. The final phase of The Garden's development is designed to smooth the visitor flow across the year and across the day and night time. The Garden will then be able to employ as many staff as possible throughout the year. The enterprise encourages local procurement and has specifically developed 40 local suppliers through its food and retail operations. It is also working with DEFRA and Business Link specialist advisors to maximise benefits to the local economy.

The Alnwick Garden Trust is committed to addressing the wider inclusion agenda and is meeting this through a range of specific initiatives around learning and skills development, following the launch of its "Learning Strategy" in October 2003. The learning programme was enhanced by the opening of the Tree House in January 2005, which has purpose built classrooms and resource facilities. The Garden held 293 activities during summer 2005 and has delivered in excess of 153,000 learning opportunities in 18 months. These include developmental activities for around 60 volunteers, a schools programme including providing a 14-19 vocational curriculum, and a Healthy Living programme which has helped almost 3,000 individuals. More are due to benefit from the roll out of a Drugs Awareness programme, and 460 local residents from deprived wards have experienced training and employment opportunities through the Access to Work programme. The Garden has proved itself both a highly successful enterprise and a force for rural business and inclusion.

More information: <http://www.alnwickgarden.com>

There is a clear role for the public sector in overcoming these information asymmetries. This is through:

- Providing access to a 'diagnostic' to help businesses understand where they could use external help
- Signposting businesses to potential providers of such advice and guidance
- Selectively helping to subsidise the cost of interventions where the benefits may not be fully appreciated or internalised by the business.

In the North East, the principal method for the delivery of such a service is through the Business Brokerage Model – a "one stop shop" approach to business support which will involve working with and through other services. This model enables and encourages the region's businesses to purchase external support from the best quality providers, whoever and wherever those providers may be. In working to ensure that information, advice and guidance is accessible to all, care must be taken within the model to avoid incorrect diagnostics or poor quality follow up advice and guidance.

The brokerage model relies upon the required service being available, usually from the private sector. Where the private sector is not providing a business solution to an identified need, there may be a role for the public sector to provide the solution. This 'market gap' should, however, be properly tested to ensure that no private sector solutions exist. In such a case, the value for money of the proposed intervention should be assessed on the basis of the following criteria:

- Level of contribution from the business
- Return on investment to the business and the economy of the intervention
- Exit routes for public sector funding.

There may also be cases where the private sector will offer innovative business solutions to the public sector, and seek funding to deliver this. In these cases the considerations listed above will also apply.

An increasing number of businesses and business sectors are becoming more specialised, thus requiring specialist support. In meeting this need, support must be provided by individuals with a real understanding of the particular business sector, to ensure credibility and that appropriate support and signposting is made available.

⁸⁸ *Labour Market Trends*, ONS (November 2004).

⁸⁹ The Adult Skills Pilot was established in April 2003, a partnership between One NorthEast, LSC and Jobcentre Plus to support the development of a demand-led funding system for adult skills, aligning funding and planning of the three key partners. The pilot concluded in March 2005.

⁹⁰ The Employer Training Pilot in the North East commenced in September 2002 in Tyne and Wear, funding Skills for Life and first level 2 qualifications for employed people in the workplace, and wage compensation where appropriate. Funded by the LSC from September 2004 onwards, the pilot was extended to cover the whole of the North East and forms part of the North East Employer Skills offer.

The long term aim of the brokerage model is to reduce the need for public intervention in business support.

Businesses should begin to realise the benefit of using advice procured in many cases directly from the private sector, and therefore in the future can go directly to the open market.

2. Improving skills for business

The more productive the workforce is, the more wealth is created for each hour worked. Unfortunately, it has often been the case that businesses have been unable to identify and acquire the skills needed to improve productivity levels in the workplace.⁸⁸

Our economy continues to be characterised by a low demand for skills. This is because many businesses focus on low specification, low value added products, which do not require an improvement in the workforce's skills levels. If we do not work to improve the region's skills base, the strategic priorities set out in section C3 to support the restructure of the region's economy will fail.

Within the North East, provision of skills support for businesses has been developing for a number of years. This has built on the experience of the Adult Skills Pilot⁸⁹ and Employer Training Pilot.⁹⁰ Given that skills support is fundamental to future economic growth and future productivity improvements, skills brokerage is embedded within the region's business support infrastructure. The emerging National Employer Training Programme funded by DfES will further integrate skills support into wider business support provision, taking account of the segmentation and appraisal approaches outlined below. (See section D1 for more details on skills.)



Chemistry at University of Sunderland

3. The future of business support: segmentation and appraisal

Significant progress has been made as a result of the business support review, culminating in the adoption of the brokerage model across the region. However, it is clear that much still remains to be done, particularly to ensure that all support provided is of high quality and that resources are invested to maximise impact. One NorthEast's responsibility for managing the Business Link service provides the opportunity to align publicly funded business support, and ensure that the structure and operation of such support in the region is fit for purpose.

There are currently many businesses which tend not to - or indeed cannot - access mainstream business support. These include sectors such as the creative industries, tourism, farming and fishing businesses, and those operating within the social economy. Specifically in relation to the social economy, partners must develop a coherent approach to meeting the needs of voluntary sector and social enterprise businesses, enabling them to take advantage of opportunities such as those offered by public sector procurement in the future. We must ensure that the benefits of the brokerage model in terms of its accessibility to all are realised, by removing both perceived and actual barriers to appropriate, high quality business support.

One NorthEast, together with partners, has been working on a strategic action plan for enterprise and business support, to enable support to be delivered through one clear model. Utilising the principles of segmentation and appraisal will help to ensure value for money within the new model of business support.

Segmentation

'Market segmentation' is a business approach utilised by almost all large and successful businesses, particularly those operating within consumer markets. The principle underpinning segmentation is that customers are individuals with their own individual needs and should be treated as such. The approach involves grouping customers with similar needs together to create a number of targeted products and services. In addition, this approach provides the opportunity to understand which groups of customers offer the greatest scope for profit and/or growth.

Best practice from elsewhere in the UK, for example within Scottish Enterprise and the Welsh Development Agency, suggests that a similar approach can also be used in the provision of access to business support. This approach recognises that businesses and those who run them are not a homogeneous group. In applying this best practice, we plan to develop a segmentation model incorporating a high quality, high volume product offer, complemented by the identification of those segments which may offer a potential higher return on investment through more targeted and specialist interventions. We believe that this approach will represent a key driver in increasing the effectiveness of business support.

One NorthEast is currently working to develop such a model, and although it is still in development, it is likely that it will include the brokerage based approach to support set out below:

- The provision of easily accessible, cost effective information to businesses.
- High volume, accessible business support, typically dealing with fairly standard requests and involving relatively small amounts of investment.
- A higher level of service - account management - provided to those businesses which both want this type of service and also offer greater potential return on investment. This service may take the form of an account manager building up a long term working relationship with the client, or could be more short term and issue specific.
- Strategic account management/aftercare, which is the highest level of service, is provided to those businesses which request the service and are considered strategic to the region, based on potential opportunities for growth or numbers of employees. This service is likely to be long term.
- Specialist support provided to businesses with more specialist needs. These needs may be based upon issues, for example skills or ICT, or may be sector specific (see below for more details). This service will operate at all levels of brokerage described above.

Appraisal

Along with segmentation, appraisal tools will be required to ensure that the potential value for money and return on investment of each intervention is considered.

Investment should not, therefore, be based on a first come, first serve basis. Such a tool will be developed to support front line business support professionals in taking decisions on support.



Supporting start ups

Through ensuring that the business support principles and approach set out are applied to business start ups, clients will receive a seamless, customer focused service throughout the lifecycle of their business. This will increase the likelihood of their business surviving and contribute to closing the productivity gap.

Segmentation will result in particular focus being given to those start ups which are likely to provide greater return on investment. Return on investment will be measured both as GVA impact per £ of public investment on start up support, and in some cases (particularly disadvantaged communities) where strategic added value (SAV) and social added value can be demonstrated. The types of start ups supported through this strategy will include:

- High growth businesses, where increased productivity would maximise return on investment and ensure a balance of micro, small, medium and large companies within the North East
- Social enterprises, ensuring that social return on investment is also maximised, linking with community based activity set out within section D2
- Start ups within those sectors identified as particular strengths within the region or with potential for the future (see below).

In addition, affordable incubation and managed workspace can make a significant difference to the early stages of many new businesses. Business support within this type of facility will be brokerage based, building on and supporting the infrastructure available elsewhere within the region. Any new facilities supported by public investment will be where clear gaps exist and where no private sector intervention is likely. In determining the location of such facilities, a robust and detailed market assessment and business plan will be developed. Further information on this can be found in section E2.

4. Specialist sector based support

As outlined above, many businesses are now operating within very specialist fields. To ensure that the brokerage model can work effectively with these businesses in addition to more generic businesses, business support

providers must have a good understanding of the businesses and business sectors with which they work. This credibility is crucial for the model to be effective. Given limited resources, however, it is not possible for publicly funded agencies to have a detailed understanding and knowledge of all business sectors.

As set out in section A3, One NorthEast has completed robust, business-led research into sector strengths within the region. Key manufacturing sectors identified through the research are automotive, chemicals and pharmaceuticals, defence and marine, energy and food and drink. Within services, the sectors identified are knowledge intensive business services, tourism and hospitality, commercial creative, and health and social care (see box in section A3 for further details of these sectors). Going forward, One NorthEast will ensure its sector teams are able to provide high quality account management to strategically important businesses within these sectors.

A large amount of evidence exists to show that some businesses become more competitive through collaboration and possible co-location.⁹¹ It is this evidence that has led to the development of cluster policies in the North East and many other parts of the world.

The goal of embedding large businesses within the region can be supported by working with industrial sectors to cascade best practice between different levels of the supply chain. The greater understanding of supply chains gained through such activity can enable the identification of gaps in the market. This information can then be used to actively target inward investment, as well as to identify opportunities for the indigenous company base.

The work of the 'Three Pillars' and Strategy for Success (see section C3), which is primarily focused on longer term technology transfer, also provides major opportunities for a large number of existing businesses to move up the value chain.

Manufacturing

The North East has a greater proportion of manufacturing jobs than the UK average, and this trend is set to continue. Although manufacturing sectors overall are forecast to decline in employment terms, manufacturing will remain of fundamental importance to the regional economy, contributing significantly to GVA through increased productivity. It is interesting to note that if the region's manufacturing jobs were to be replaced overnight by service industries, given the performance of the current North East service sector, GVA would be reduced by around 7%.⁹²

⁹¹ A Practical Guide to Cluster Development, DTI (2003).

⁹² In terms of output, not employment.

In order to achieve an increase in manufacturing productivity, the region must apply best practice techniques to its current manufacturing base. The Manufacturing Advisory Service (MAS)⁹³ will act as a specialist broker for manufacturing businesses in the region, and will operate within the business brokerage model set out above. The MAS will work alongside the North East Productivity Alliance (NEPA) - an alliance incorporating some of the region's most prominent industrialists, academics and public sector agencies. NEPA is supporting the North East's manufacturing base to increase its productivity levels and encourage innovation. Both NEPA and MAS will form the basis of the region's offer of support to manufacturing sectors in the North East.

However, manufacturing is a very broadly defined group of industries. Due to limited resources, it is not possible to resource specialist support professionals across all of these industries. Therefore, as part of the sector exercise described above, we have singled out a number of specific sectors where we believe there is real opportunity to add value, in addition to the current support provided by MAS and NEPA.

Services

Like manufacturing, services are also fundamental to the future of the region's economy. These sectors provide a valuable, internationally tradeable product range, along with employment for 800,000 people within the region. Importantly, they also provide a valuable support service to the North East's manufacturers.

Over the last 20 years, at a UK level, parts of the service sector (particularly financial and business services) have grown at around three times the rate of growth of manufacturing sectors. However, the North East lacks these internationally tradeable service businesses. We must, therefore, ensure that our strengths set out earlier - such as quality of life and access to skilled and motivated people - are built upon to make the North East a more successful region for service sector businesses. In addition, the lower value end of the service sector provides a large number of jobs, many of which provide opportunities for people who would otherwise not be in employment, thus maximising levels of participation.

Moving forward - sector support in the North East

In the past, the region's cluster programme was developed in response to specific opportunities and threats. However, there existed no clear rationale for the approach. We believe that the approach to sectors set out above and in section A3 provides an opportunity to refocus in a systematic way. This focused sectoral approach now sits within the wider business support model, based on the

return on investment and market failures principles set out in section A4.

The strategic sectors set out in detail in section A3 have been identified as providing strengths and opportunities for the North East. In response to this work, One NorthEast will ensure its sector teams are able to provide high quality account management to strategic businesses within these sectors.

In addition, One NorthEast will lead sector reviews in each of the areas set out above, working closely with partners and businesses, both directly and through Sector Skills Councils and trade associations. The aim is to understand both the detailed needs of each of the identified sectors - where market failures exist - and the level of intervention which may be appropriate. These sector reviews will take all business needs into consideration, including business support, infrastructure and skills. The outcome of these reviews will be a series of public/private sector agreements on the development of the sector. Given that each sector is different, it follows that different solutions and intensity of intervention will be applied.

As stated in section A3, this research has enhanced our understanding of the relative contributions of sectors to our economic success. This approach does not, however, imply that simply because a sector has been identified, that businesses within that sector will receive support. The same test of market failure and return on investment will be applied to all business interventions regardless of sector. It is important that we continue to understand the relative importance of other sectors to the regional economy, and the particular needs of those sectors. Examples include construction, environmental goods and services, retail, logistics and distribution and call/contact centres.



Armstrong, Gateshead

CASE STUDY

Electrolux



Electrolux is a global company supplying high street retailers with "indoor consumer durables" such as cookers and hobs. Its site in Spennymoor has been the beneficiary of substantial investment, both from Electrolux and former owners EMI Thorn. The common base platform built at Spennymoor formed the basis of all freestanding cookers and built-in ovens manufactured at the site for 12 years.

A further £10m has been invested by Electrolux to upgrade the platform so that a new range of freestanding cookers could go into production. £1.5m was invested in 2002 in preparation for the new range installing a state of the art enamelling process for the new cookers. Launched in the UK and Ireland on 1st September 2005, the new Electrolux Insight Range is designed to increase the company's share of the Northern European cooker market. The same platform is also to be the basis of a cooker range due for release in 2007.

One NorthEast has supported the project throughout the last three years, investing almost £2m.

As well as securing financial investment, Electrolux at Spennymoor has made excellent use of regional manufacturing support through the North East Productivity Alliance (NEPA). NEPA provided invaluable help in the form of shop based improvement activities and training exercises for the Spennymoor site's 650 staff, working on eight different manufacturing lines. Through working with NEPA, Electrolux has been able to double the rate of productivity improvement. It has become much more efficient in its assembly production lines, and the exercise has been taken on board by Electrolux at other manufacturing sites. Meanwhile, the investment and support for Spennymoor has ensured the future viability of the factory.

More information: www.electrolux.co.uk

⁹³ The Regional Centre for Manufacturing Excellence - jointly funded by the DTI and One NorthEast.

5. Specialist issue based support

In addition to specialist sector based support, the region also recognises the need for specific activity to develop provision around critical business growth factors, and promote these to the business support network and businesses themselves. Examples of such areas are:

- **People issues**
These include management, leadership, creativity, recruitment and workforce development (these issues are covered in section D - People).
- **Procurement**
There is a need to ensure North East entrepreneurs gain access to public and other procurement opportunities, in particular through e-procurement.
- **Succession**
Some business owners no longer wish to continue running their business for a variety of reasons. This provides opportunities for investors and entrepreneurs to take on an existing venture, which they can then develop and grow.
- **Business Resource Efficiency**
It is important that North East businesses can gain access to business support to improve their resource efficiency. Businesses will be encouraged to exercise best practice in sustainable consumption and

production, minimising pollution and managing waste, including waste water, and effective and efficient management of material and energy resources. This will make a significant contribution in decoupling economic growth and environmental degradation.⁹⁴

6. Utilising information and communications technologies (ICT)

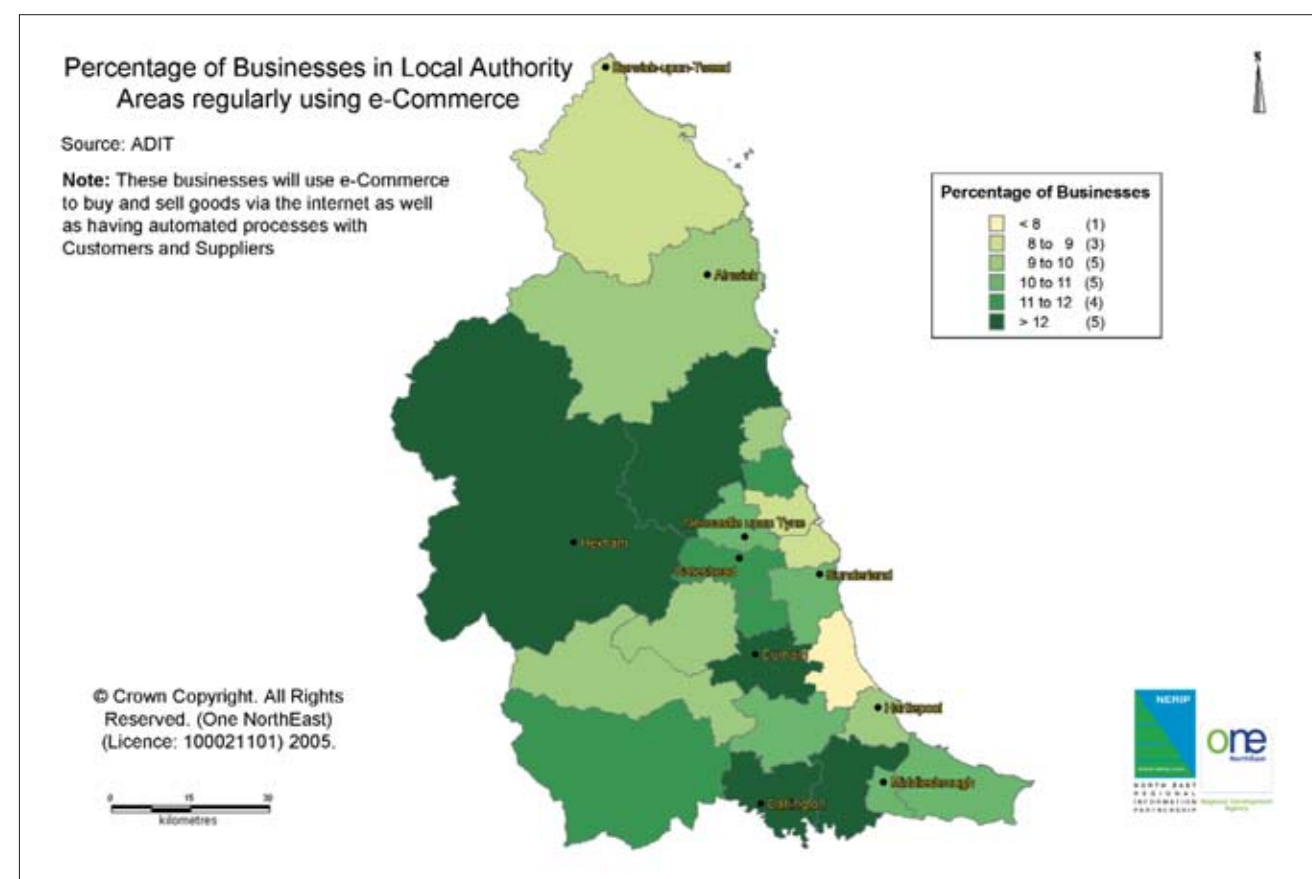
Due to our relative geographic peripherality, ICT provides an opportunity to change the way we do business. ICT has the potential to increase trade, improve efficiency and effectiveness, and transform business processes. In response to this, the Government has set itself the target of becoming 'the best environment in the world to do e-commerce'.⁹⁵

Statistics indicate that our current performance in relation to ICT is mixed. The map below illustrates the percentage of businesses within local authority areas regularly using e-commerce.

Analysis of surveys over time indicates that there are improvements in the numbers of businesses with access to the Internet, and also in terms of usage for seeking and communicating information. However, there is persistently poor performance in the use of ICT as a business tool, and for online trading.⁹⁶

⁹⁴ This will be guided by the UK Government Framework for Sustainable Consumption and Production.

⁹⁵ *Our Competitive Future: Building the Knowledge Driven Economy*, DTI White Paper (1998).
⁹⁶ *Annual International Benchmarking Study*, DTI (2000, 2001, 2002); FSB/MORI (2002).



CASE STUDY

The Davy Roll Company



The Davy Roll Company manufactures cast rolls for hot and cold strip mills, medium and heavy section mills and plate mills, in a variety of iron and steel qualities. National Industrial Symbiosis Programme North East (NISP-NE) was approached by The Davy Roll Company, as they produce vast quantities of waste sand from their casting process.

Although the current contractor was taking the sand to re-use as an aggregate material, due to

the quantities involved the costs were very high. NISP-NE explored a number of possible uses for this waste sand, but the most feasible option still appeared to be as an aggregate.

The outcome is that The Davy Roll Company has reduced its waste bill by £37,200 per annum and saved an extra £6,000 per annum by rationalising the way it moves skips around the site, improving levels of productivity.

More information: s.goss@tees.ac.uk

eLEADERSHIP COUNCIL (ELC)

Digital technologies and services are transforming how people live and work, creating benefits for both individuals and organisations. The ELC, incorporating both public and private sector experience and expertise, was formed in mid 2006. The ELC will focus upon advising on key areas including:

- Technologies
- Content and services
- Awareness, understanding and accessibility.

Connectivity to broadband is now excellent within the region. From June 2005, all exchanges were enabled to deliver ADSL⁹⁷ and potential SDSL⁹⁸ as and when the service becomes available. Recognising that the e-infrastructure in the North East is now competitive, the focus within this strategy is on ICT demand and skills issues. ICT support must, however, be considered as a tool integrated into other forms of business support.⁹⁹ The emphasis must be on appropriate use of ICT which adds value to the business. Priorities will include:

- The need to ensure that business support providers are skilled to diagnose and support ICT issues
- The provision of support to enable businesses to exploit e-procurement opportunities within the public sector, and to facilitate global trading
- Promoting the benefits of implementing ICT solutions to enable business development
- Working through the Regional Skills Partnership to support businesses in their use of ICT by addressing gaps in skills, and ensuring ICT is embedded within workforce development
- Encouraging the take up of Broadband by promoting business development opportunities and linking to ADIT North East¹⁰⁰
- Specifically in relation to tourism, improving the provision and quality of visitor information provided through ICT, while increasing the capacity of tourism businesses to make full use of ICT and broadband opportunities.

7. Access to Finance in the North East

The challenge to increase the number of businesses in the region is exacerbated by the difficulties experienced by North East firms in accessing finance. Public sector support for access to finance in the region will need to take into account the potential impact of changes in the European funding regime from 2006 onwards, and the review of the Assisted Areas Map in 2007. We recognise that we must move away from firms depending on public sector grants, ensuring that finance such as public and private sector

loans and equity investment are more readily available. As part of this, we must develop more sustainable access to the finance environment including more private sector finance and participation, such as venture capital provision. However, it is recognised that in certain cases grant support is necessary, for example in terms of R&D.

It is important that all forms of financial support and instruments to support businesses are more closely aligned and interlinked to add value to the businesses receiving investment. This is part of a strategic approach to developing a continuum of finance within the region, which provides finance to businesses at various stages of development, taking them from initial concept through to the point at which they can access significant private sector investment.

FINANCE IN THE NORTH EAST

The region has access to public sector finance for capital investment through Selective Finance for Investment (SFI). This plays a key role in both attracting inward investors and supporting existing businesses to grow. Research and Development grants are also available through the Department of Trade and Industry. These grants can support new product and process development activity for local SMEs and university spin-outs.

In recent years, a number of new loan and equity funds have been developed to fill gaps in the provision of finance for the region's businesses. These include: Capital North East, North East Investment Fund 3, Proof of Concept Fund, North East Co Investment Fund, and the Regional Micro Loan Fund. NStar has been established by the One NorthEast to provide specific venture capital support to the Strategy for Success (see section C3 below for more details) and technology businesses within the region.

The provision of finance in the North East and nationally is constantly changing, and we need to regularly review existing provision in relation to its scope, size and accessibility. Any direct interventions in provision of funding will only be implemented where there is a demonstrable need supported, where necessary, by independent market research. Crucially, we must ensure that the use of public sector monies in supporting small and medium sized enterprises (SMEs) is sustainable in the light of this changing environment.

⁹⁷ ADSL: Asynchronous Digital Subscriber Line.

⁹⁸ SDSL: Synchronous Digital Subscriber Line.

⁹⁹ A recent South West Regional Development Agency study demonstrated that companies using the Internet Improved turnover at a rate nearly twice as fast as those who did not (6% compared to 3.5%). SWRDA (May 2004).

¹⁰⁰ The Regional Aggregation Body.

Although there is a continuing need for direct financial support, a strategic approach is required to identify and prioritise activities which enable access to finance in the region. This means ensuring the appropriate infrastructure and environment to support the funds and funding streams in place. In order to embed sustainability of support for SMEs, the following priorities form the foundations for the overall strategy for access to finance in the region led by One NorthEast:

- To develop a **continuum of finance approach** for North East businesses
- To create an **environment** where entrepreneurs and businesses are able to identify and access the most appropriate forms of finance
- To work with regional, national and international organisations to continually monitor, address and improve access to finance provision (**networking**).

These priorities will deliver the aims of:

- Addressing justifiable gaps in the provision of finance
- Raising awareness among businesses of different sources of finance
- The establishment of support mechanisms to help businesses identify and access the most appropriate form of finance
- Building sustainability into the allocation of public funds supporting businesses
- The use of appropriate financial solutions to help reduce business failure rates.

Continuum of finance approach

The region must ensure that there are no gaps in access to finance provision for entrepreneurs and businesses at all levels of activity. This incorporates activity from investment in micro finance to large scale investments, such as, technology.

The equity gap is another key issue for the North East. This has increased since initial funds were set up and established. As private investors rarely consider making investments of less than £2m, financial support in the region has to develop ways of bridging this gap - for investment up to £2m - known as the "equity gap".

Particular sensitivity must be given to the needs of certain sectors in the field of micro finance, for example, social enterprises, 'Commercial Creative' (see section A3) and disadvantaged groups currently supported by CDFI activity. These types of sectors may need to access funds above the upper threshold that has traditionally been available to micro businesses.

Environment

Communication, raising awareness, investment readiness and mentoring are key to the region, providing an environment where entrepreneurs are able to identify and access the most appropriate forms of finance. The Business Brokerage Model is a key component in bringing together financial support and business support mechanisms in order to provide a seamless service for businesses seeking finance. One NorthEast is also planning to develop a Regional Financial Services Project (RFSP) to help build the infrastructure and expertise to deliver the required actions to meet these aims. This will include more appropriate communication and signposting to existing funds.

Networking

Within the North East, we recognise the importance of networking activities such as identifying and integrating sources of finance, attracting increasing levels of private sector funding, and the use of existing experience to assist SMEs to prepare for investor/investment readiness. The RFSP will further develop this. The role of the public sector in facilitating this is critical, as is its role in attracting private sector investment. These funds will be linked to business support, and capacity to continually improve access to finance provision through work with organisations regionally, nationally and globally will be enhanced.

It is also important to note in this section that Community Development Finance Initiatives provide major opportunities for economic participation in deprived communities.

REGIONAL FUNDS 2006 - 2014

One NorthEast is leading on developing the funds below:

- North East Investment Fund 3b - £12 million (loan fund) launched in Oct/Nov 2006 will build on the North East Investment Fund 3, taking the total amount of funding available to £30 million up to December 2008.
- Northern Enterprise Limited (NEL) Growth Fund - £5 million equity fund aimed at early stage investment opportunities. Expected to launch in Oct/Nov 2006.
- Legacy Funds - this will look at ways of delivering a 'fund of funds' from 2008 onwards. A key issue for the region is to address the use of any potential returns to a number of existing regional funds currently in operation - commonly known as legacy funds. There is currently around £50 million of public monies committed to funds due to be closed between 2011 and 2014, with any returns to be used for the benefit of SMEs in the region. One NorthEast is examining the mechanisms for recycling these monies as well as delivering any new initiatives.

8. Global Opportunities – increasing exports and attracting and embedding companies within the region's economy

The level of global competition, not simply on cost grounds, but increasingly also on quality and innovation is constantly increasing. This presents a number of challenges, in addition to a number of new opportunities (see box on EU Enlargement in section A3 for examples).

Being successful in this world marketplace will mean becoming a truly world class region, able to act in a proactive and responsive way. Such an approach includes a strategic approach to increasing levels of trade opportunities, attracting business investment, and embedding companies within the North East.

AN EXAMPLE OF THE REGION'S INTERNATIONAL LINKS – CHINA

The One NorthEast China office has been key to developing Memoranda of Understanding (MoUs) between the North East and the Shanghai Ministry of Science & Technology, the Shanghai Ministry of Foreign Technology Exchange Companies, and the Jiangsu Province.

These MoUs will strengthen our relationship with China, and allow for cultural and technological exchange. This will benefit our existing businesses through, for example, generating potential supply chain and investment opportunities.

Encouraging exporting of goods and services within the UK and overseas

Over two thirds of the North East's total export value to international markets comes from three sectors (automotive, chemicals, and biotechnology and pharmaceuticals). Although we must work to increase exports in these sectors, it is vital that other – currently less successful exporting sectors – improve their export value. More informed specialist sector support, along with specialist trade support, will be key to achieving this.

We must continue to look beyond traditional markets to increase trade and export potential. Exports to European Union markets currently account for two thirds of all exports,¹⁰¹ although overall there has been a decreasing dependence on EU markets since 1998. UK Trade and Investment (UKTI) will lead efforts to stimulate interest among North East companies with the ability to open up new markets.

One NorthEast and UKTI will proactively seek to identify new and emerging markets for trade and investment by conducting detailed research. This will enable the identification of specific markets and sectors for more targeted trade and investment opportunities. This research will be used to target those regions with strengths linked to our key regional sectors, thus maximising opportunities for both trade and investment in the North East.

The importance of languages

Language and cultural skills support companies in gaining a competitive edge in global markets. Over 70% of UK trade is with non English speaking countries. However, a fifth of companies in the North East are aware of losing business in international markets due to lack of language and cultural skills.¹⁰² The North East Regional Language Network will continue to play a key role in promoting and supporting the development of language skills within the North East.

Attracting investment into the region

In an increasingly competitive global economy, the North East cannot continue to secure inward investment based on low cost. To secure investment in the future, we need to focus on more knowledge based, higher value added industries. In order to gain and maintain a competitive advantage in this new area, we must support the creation of an innovative, enabling environment with an emphasis on collaboration, competition and development.

¹⁰¹ In Quarter 1 of 2004, the value of North East exports to EU markets (not including accession states) was £1.26m, (down 1% for same period last year). The six key markets accounting for 82% of North East exports with the EU are: Germany, Netherlands, France, Italy, Spain and Ireland. The value of North East exports to non-EU markets for the same period was £661m (up 18%). The five key non-EU markets accounting for 52% of exports are: USA, Australia, Russia, China and Turkey. *UK Regional Trade in Goods Statistics*, HM Customs and Excise (Quarter 1, 2004).

¹⁰² *North East Language Skills Capacity Audit*, Regional Language Network (2000).

CASE STUDY

Econnect



Hexham based renewable energy company Econnect has successfully carved out a niche market in the energy industry. The Econnect brand is now synonymous with innovative, cost saving, reliable and long term solutions for the grid connection of all types of renewable energy.

Guy Nicholson and Jonathan Hill, both engineers, set up the company. The company has grown steadily and now employs 50 staff in two subsidiaries and international offices in Australia and Ireland. The launch of the latest subsidiary – Econnect Construction Limited on 1 March 2005 marked the company's response to market demands for turnkey electrical infrastructure services for renewable energy projects.

Econnect's reputation in the UK is second to none, as demonstrated by its involvement in 66% of UK wind projects constructed in 2004. The company's contribution equates to 158MW of capacity, supplying enough CO2 free electricity to power 103,000 homes. In addition, Econnect has

commissioned over 70MW of wind in Ireland and has undertaken grid connection feasibility studies for over 1GW of wind projects in Australia.

Econnect has been very successful in the North East and works in partnership with other renewable energy programmes, such as the New and Renewable Energy Centre (NaREC) at Blyth. For example, Econnect and NaREC are currently collaborating on a research project funded by the Department of Trade and Industry to investigate the recent Ofgem "Registered Power Zone" initiative, which aims to encourage innovation in connecting renewable energy to the distribution network. The project is being supported by the North East Distribution Network Operator, CE Electric UK. On an international level, Econnect has worked on diverse projects in 20 countries, ranging from community projects in Uganda and St Helena, to large wind farms in Greece and Japan.

More information: www.econnect.com



Our universities are fundamental to developing such an environment, through utilising their global links as well as research and technology expertise, as are the 'Three Pillars', Nstar¹⁰³ and key regional sectors. It is also necessary to have the strategic sites and premises to support such investment (see section E2).

One NorthEast, UKTI and partners have established links with a number of growing and established international economies through a network of global offices.¹⁰⁴ These offices represent a powerful mechanism in developing relationships with international regions and securing strategic investment into the North East. The offices will work to establish formal, strategic relationships with international regions, and will reflect and respond to the emerging strategic priorities of North East England. Inward investment activity will be proactively targeted at key industrial sector and research strengths, while remaining responsive to all investment enquiries and changes within the world market for mobile investment.

Closely linked to section A1, the region will utilise UKTI's Global Entrepreneurs Programme¹⁰⁵ in order to attract entrepreneurial talent based overseas to invest, develop new technologies and do business in North East England. This will target key knowledge based sectors.¹⁰⁶

In response to the Government's Gershon and Lyons reviews, opportunities exist for the relocation of Government departments and agencies. One NorthEast will work with regional partners in securing more public sector investment into the North East.

Embedding companies within the region's economy

A further priority is to safeguard investment through embedding existing international companies within the North East.¹⁰⁷ Although we have historically benefited from inward investment activity, a large number of the region's branch operations are vulnerable to external decisions concerning re-investment or continued operation. Many of these companies originally located here on a cost competitive basis, and often still view the North East in this context.

Embedding companies here requires close engagement with the branch management and the firm's international headquarters. One NorthEast will therefore work with local and sub regional partners to develop a strategic account management programme in order to improve engagement with, and add value to, the existing investor base. This programme will work as part of the highest level of segmentation of the North East business support model as described earlier.

CONTACT CENTRES

Contact centres are a major contributor to the regional economy. Currently, 47,500 people are employed in contact centres in the North East across a range of traditionally defined sectors. Continuing employment growth of more than 5% per year is forecast for the UK contact centre industry to 2007, driven in particular by growth within existing contact centres.¹⁰⁸

¹⁰³ See section C3 for more details on Centres of Excellence and Nstar.

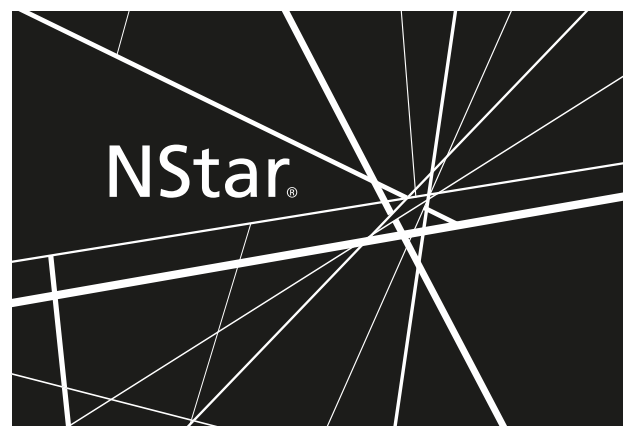
¹⁰⁴ Global offices across Northern America and Asia, and through UKTI in Europe.

¹⁰⁵ The Global Entrepreneurs Programme has been supported by a marketing campaign highlighting the UK's business friendly environment, economic stability and strong science and technology base. <http://www.invest.uktradeinvest.gov.uk/entrepreneur/index.cfm>

¹⁰⁶ Life sciences and ICT.

¹⁰⁷ In 2003-04, 60% of Foreign Direct Investment projects related to existing investors - expansions or mergers and acquisitions. UK Trade and Investment, UKTI (2005).

¹⁰⁸ *The UK Contact Centre Industry: A Study*, DTI (May 2004).



TTE, Technical Training Group, Middlesbrough

CASE STUDY

Nuclear decommissioning and the Safety and Ecology Corporation



The decommissioning of nuclear sites in the UK is a project which will cost over £50 billion over the next 25 years and is overseen by the new Nuclear Decommissioning Authority (NDA). The NDA is working specifically to attract non-nuclear companies so that they can bring new technologies and expertise into the field. This is creating real opportunities for the North East to attract companies from overseas to locate in the region to form a strong base, which will attract skilled personnel, create jobs and strengthen the local economy.

For several months One NorthEast's Investment and Aftercare team and Sector team worked closely with the Safety and Ecology Corporation (SEC) based in the USA, leading to SEC's decision to locate its first regional office outside the United States at Royal Quays in North Shields. The correct

skills mix and the value for money site at North Shields were major factors in SEC's choice of the North East.

SEC's UK operation employs over 30 people who are available to take part in projects all over the world. One recent SEC success is a contract worth £6m to clean up the Pacific Island Kiritimati (Christmas Island). It is a land remediation project and most of the staff based in North Shields have had the opportunity to support and visit this project. Nearer home, the company has won contracts and worked at a number of nuclear facilities including Berkeley, Dounreay, Dungeness, Hinckley and Hunterston and has worked closely with One NorthEast to engage with various suppliers and initiate alliances with other companies within the region to embark on ambitious new projects.

More information: www.sec-uk.com

C3 Preparing for structural change

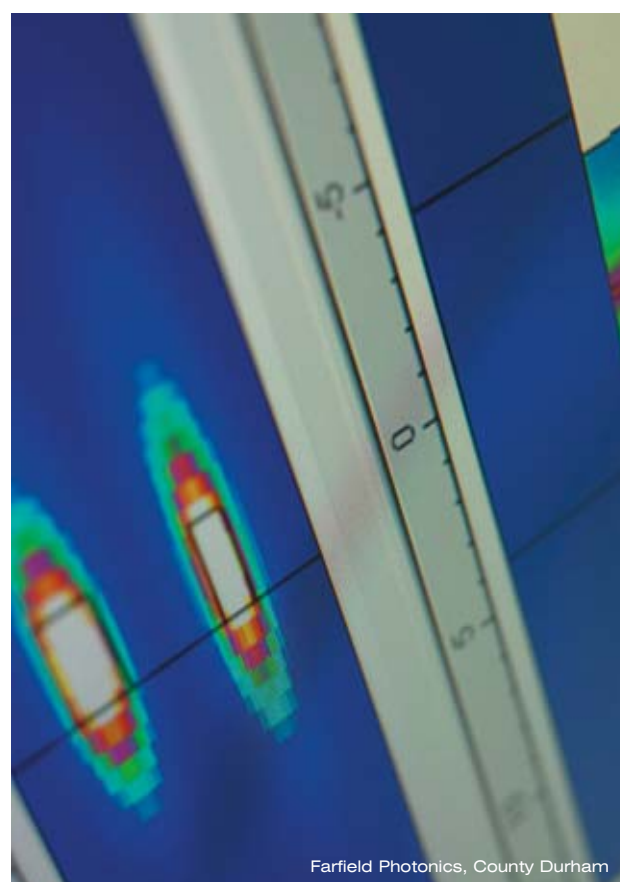
THE VALUE OF INNOVATION

'Innovation will enable clusters of globally competitive manufacturers and service businesses to succeed in new markets, with investment in research and development, a focus on design and marketing, the development of intellectual property, and regional companies continually seeking higher value added niche product opportunities.' (DTI Innovation Report)

During the last five to ten years, the region has been re-establishing innovation and creativity as a significant contributor to its prosperity and identity. This has been achieved through major scientific breakthroughs, new competitive businesses, world class cultural assets, and a new image for the region, one through which North East England is increasingly recognised as a centre of creativity.¹⁰⁹

As is set out in the introduction to this section, we are utilising innovation and creativity to enhance levels of competitiveness. Both the European Union¹¹⁰ and the DTI¹¹¹ have identified the close link between research and development (R&D) investment and economic growth. Design also has a key role to play in maximising the impact of innovation. This is through, for example, improving the efficiency, functionality, ease of use and attractiveness of new products and services, and substantially increasing their prospects of commercial success.¹¹²

The region has made real achievements in the field of innovation and has shown that focused investment within this field enables us to make a difference quickly. Despite historically poor performance in levels of R&D, innovation and business creation, we are now seeing some positive changes. We must not be complacent, however, as there remains a significant challenge in some areas of this agenda, e.g. Government investment in R&D in the region.



RESEARCH AND DEVELOPMENT IN THE NORTH EAST REGION¹¹³

- After a long decline, expenditure on Research and Development by businesses more than doubled between 2002 and 2003.
- In 2002, Government spend on R&D in the region stood at about £6m, out of a total spend of nearly £2 billion. There are currently no Government research facilities in the North East.
- In 2002, expenditure on R&D by Higher Education Institutions in the region was in line with the UK average.

The extent of the challenge facing the region highlights the need to create a step change in the structure of the North East economy. An assessment of the potential of the North East's research base to contribute towards the economic development of the region was conducted in 2001.¹¹⁴ This evidence directly informed the development of the Strategy for Success. This strategy led to the formation of the Science and Industry Council, five Centres of Excellence, and the early stage finance company NStar,¹¹⁵ as well as direct support for projects in universities and other research organisations. The section below sets out the evolution of the strategy, and the additional elements needed to enhance the region's potential for success.

The way forward

We have already demonstrated that things can be achieved very quickly through a greater focus of efforts and resources. We must ensure that we maintain this momentum and build on the good work undertaken so far.

EXAMPLES OF INNOVATION AND CREATIVITY SUCCESSES WITHIN THE NORTH EAST

- The creation of the Biosystems Informatics Institute by a consortium of world class companies and university departments. The Secretary of State for Trade and Industry announced that it will become the National Centre for Bioinformatics.
- Northumbria University's Design School is recognised as one of the top design schools in the world.¹¹⁶
- Newcastle was awarded 'Science City' status - one of only six in England.¹¹⁷
- World leading new and renewable energy developments, including the world's largest wind turbine blade test facility in Blyth.
- The front cover of the influential 'Newsweek' magazine featured the region twice over the last three years - firstly in relation to culture and creativity, and secondly to stem cells development.
- Regional companies have started to attract substantial interest from international funding providers.
- The construction of the world's largest manufacturing plant for 'Building Integrated Photovoltaics', at Romag in County Durham.
- The award of the University Innovation Centre for Nanotechnology to a consortium of the five North East universities.
- The National Industrial Biotechnology facility at Wilton.

¹¹⁶ Northumbria University was one of the top 20 design schools in the World in the IBM sponsored World Automotive Design Competition 2004, and a Northumbria graduate won 'Best Use of Technology' award in the 2003 Interior Motives Student Design Awards.

¹¹⁷ The others being: Bristol, York, Manchester, Nottingham and Birmingham.

Our approach to preparing for structural change within the region is summarised through the following key strategic priorities:

1. Areas of industrial opportunity: structural change delivered through the 'Three Pillars'

- Energy and the Environment
- Healthcare and Health Sciences
- Process Industries

The Pillars are supported by:
Emerging Technologies

Digital Media and Technology

2. Enabling the transition to a more innovative economy through developing business capacity and excellent design

3. Hubs for innovation: Newcastle Science City and innovation connectors

The guidance of the Science and Industry Council has been invaluable in the development of these priorities, and continues to be instrumental in taking them forward. The strategic priorities set out above also contribute significantly to delivery of the Government's ten year Investment Framework for Science and Technology, and will be integrated with this framework to utilise many of the opportunities emerging from it. Some parts will be taken forward within the Northern Way, and it is important that we build global links with the best companies in all of these areas.

FRAMEWORK PROGRAMME

The European Commission has set a target of 3% GDP for expenditure on Research and Development across Europe. The principal means of direct support from the EU for technological R&D is the Framework Programme. The budget for this programme is likely to increase to £30 billion to support the development of modern, knowledge based economies.



¹⁰⁹ A high proportion of creative industries companies in Newcastle report experiencing a 'brain gain' in recent years. *Northern Soul*, Demos and Royal Institution of Chartered Surveyors (December 2003).

¹¹⁰ The EU's Lisbon Agenda has recently been strengthened by the Kok report which highlighted realising the knowledge society as one of five priorities for action. *Facing the Challenge: The Lisbon Strategy for Growth and Employment*, W. Kok (November 2004) http://europa.eu.int/growthand jobs/pdf/kok_report_en.pdf

¹¹¹ Innovation Report, DTI. Also, the importance of developing links between industry and the knowledge base was highlighted within the *Lambert Review of Business-University Collaboration*, Lambert (December 2003).

¹¹² For example, 68% of rapidly growing companies in the UK say design and innovation have contributed to increasing their turnover to a fair/great extent. *National Survey of Firms*, Design Council (2003).

¹¹³ Figures from *State of the Region Report*, ONS (2004), unless otherwise stated.

¹¹⁴ *Realising the Potential of the North East's Research Base*, Arthur D Little (2001).

¹¹⁵ NStar has secured £33m for high technology investments.

1. Areas of industrial opportunity: structural change delivered through the 'Three Pillars'

North East England is a relatively small region with limited opportunities to build industrial critical mass. As a consequence, we must target intervention in those areas likely to have the greatest return on investment for the region as a whole. The results of a full assessment of sector strengths across the region are described in section C2 - 'Business solutions'.

This section introduces considerable specialisation to the RES. In the area of science and technology based sectors, it concentrates on the 'Three Pillars' of: Energy and the Environment, Healthcare and Health Sciences, and Process Industries.¹¹⁸ These are high value and growing sectors, within which the North East has a particularly strong chance of achieving world leading competitive advantage, well into the 21st century, and one which will provide a platform for future economic growth. We will work to integrate the universities and Centres of Excellence with industry and other organisations, to move towards a more productive economic structure.

The North East's universities have been key to the development of these areas and achievements to date, and will be vital to realising their successful delivery. They are also important in attracting talent to the region. In the North East - more than any other region - we rely on the five universities for much of our R&D expertise, particularly in emerging areas of research. This means that enhancing business-university links and technology transfer will continue to be a top priority, and should be understood to be cross cutting throughout this section.

¹¹⁸ The North East's Science and Industry Council has been instrumental in developing these priorities.

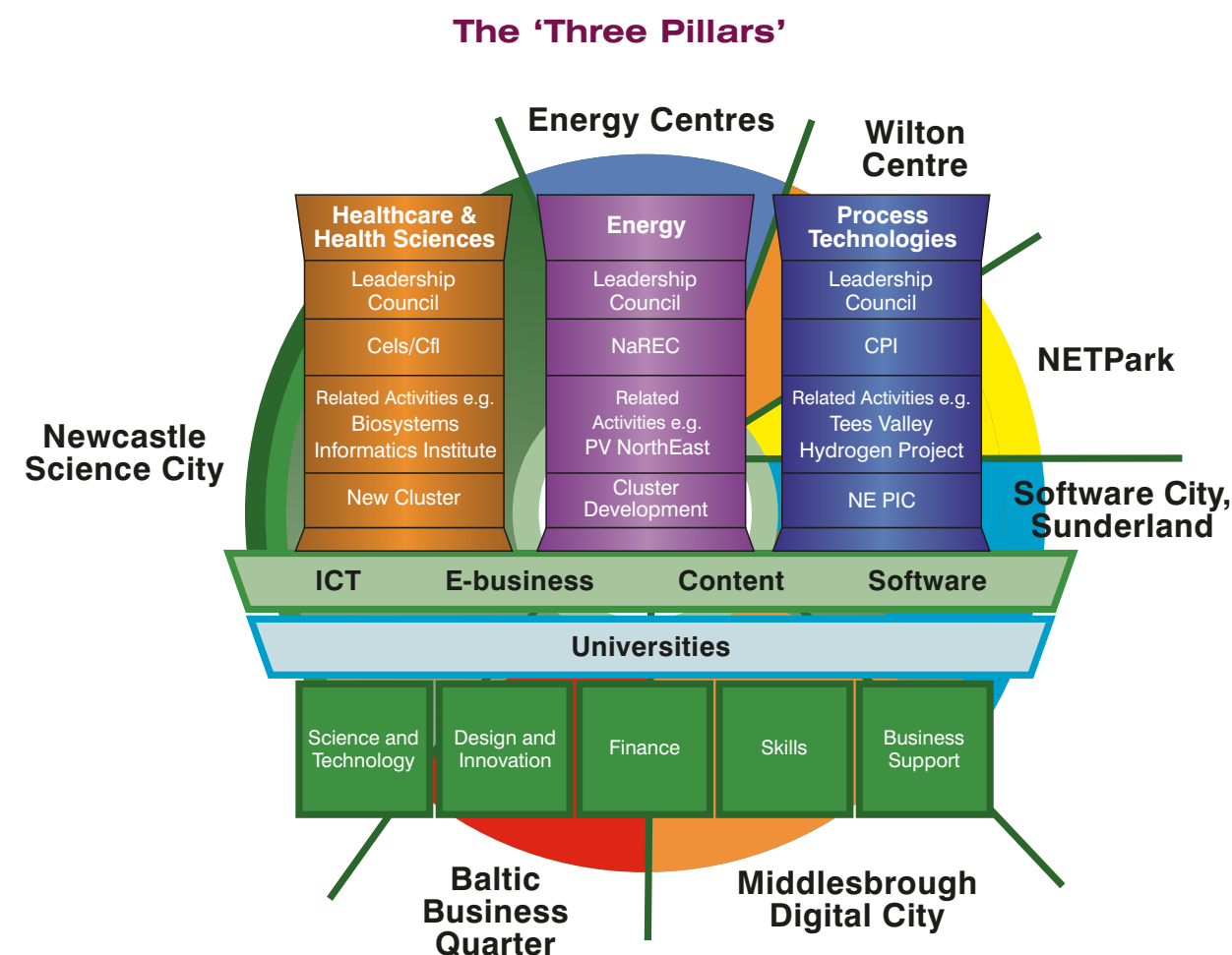
ACTIVITIES WITHIN THE THREE PILLARS

- Bringing together a Leadership Council for each of the Three Pillars (these already exist in some instances) to steer their development.
- Building close relationships between businesses and universities within and outside the region, particularly with the Northern Way's N8 group of research intensive universities.
- Attracting funding for industrially relevant translational research, and ensuring wide dissemination of industrially relevant research results.
- Building business and research networks and facilitating collaboration.
- Targeting inward investment to fill supply chain gaps and attract talent and embedding new companies through integration with the research base and wider industry.
- Accessing NStar funding and building Venture Capital networks to improve access to finance, and utilising DTI funding to assist in efforts to grow the target industries (links with Access to Finance section in section C2).
- Influencing and accessing the EU Framework Programmes to ensure that the region is fully integrated into advanced Europe wide R&D.¹¹⁹
- Utilising existing techniques to identify future market developments, and enhancing our capacity to respond to them. We will research and harness international best practice.

¹¹⁹ There are likely to be significant links between the future direction of Strategy for Success and Framework 7 Programme priority areas. Indicated in *Science and technology, the key to Europe's future - guidelines for future European Union policy to support research*, COM (2004) 353.

In addition to the Three Pillars set out below, it is important to understand the role of Emerging Technologies, Digital Technology and Media, and Design. These underpin the Three Pillars in enabling structural change through enhanced innovation.

In recognising that knowledge transfer happens most effectively at a local level there will also be an explicit spatial focus, particularly for physical investment. Included within this is Newcastle Science City, which will be a key hub within a network of physical developments providing infrastructure for every stage of business growth.



CASE STUDY

Durham Scientific Crystals



Durham Scientific Crystals (DSC) - a 2003 spin-out from Durham University's Physics department - is a high tech firm specialising in the compound semiconductors cadmium telluride and cadmium zinc telluride in single crystal form. The technology is the product of three decades of research at Durham University, and has applications in medical imaging, security screening, space exploration, non-destructive testing and other markets. The company is already working with several large blue-chip corporations and organisations including the European Space Agency and won the technology award at the 2005 North East Chronicle and Journal Business awards.

A recent \$1.8m investment from a New York and London based investment company, Amphion Innovations, brings with it great management expertise. This is Amphion's first venture in the UK and will allow DSC to expand its patent portfolio, develop technology and gain access to the US market. DSC is an exciting example of how intellectual property generated in the North East can be commercialised, with excellent prospects for high growth and wealth creation.

More information: www.dscrystals.co.uk

Healthcare and Health Sciences

Activity in this area will include research and the development of new therapies, medical devices and new clinical approaches. Opportunities have already been generated as a consequence of international market growth, as well as research and clinical excellence within the region. This has not yet, however, been fully utilised for the purposes of wealth generation.

The North East has existing or is developing world class research and clinical excellence in a number of key areas, including: stem cells, ageing, bioinformatics, systems biology, diagnostics and medical devices, and sensors. This research will be developed into applications via supporting translational research and the development of additional companies in the region. Much of this research activity will be centred on Newcastle Science City and South East Northumberland, building on existing relevant research and industrial strengths.

¹²⁰ North East Quarterly Trade Statistics, UKTI (Q1, 2004).

THE REGION'S STRENGTHS IN HEALTHCARE AND HEALTH SCIENCES

- Strong potential within the NHS as both a major employer and contributor to the knowledge base in the region. This means that there are good prospects for the application of research and complementary clinical expertise in the healthcare field.
- The award of Life Knowledge Park status to a consortium of Newcastle and Durham Universities, the NHS, One NorthEast, CELS and the Centre for Life.
- The success of research groups in Newcastle, such as the granting of the first UK licence to conduct pioneering research into creating embryonic stem cells for therapeutic applications.
- Leading research and recent spin-outs from the region's universities.
- As stated in 'Business solutions', Biotechnology and Pharmaceuticals is one of the three sectors exporting from the North East within which the region is classified as having regional strengths.¹²⁰

INTERNATIONAL BEST PRACTICE MEDICON VALLEY

Medicon Valley is one of Europe's predominant life science clusters. It spans the Greater Copenhagen area of Denmark and the Skåne region of southern Sweden and comprises a dense cluster of universities, hospitals and companies within life sciences, biotechnology, medical technology and pharmaceuticals, many of which are R&D based.

This diversity, supported by a strong business environment, makes Medicon Valley a highly competitive and attractive location for life science businesses. An active network facilitates interaction between institutions, industry and investors, resulting in a dynamic environment of innovation and knowledge sharing. Medicon Valley Academy (MVA) works to improve these conditions, and to visualise the potential of activities in both Sweden and Denmark, as well as internationally. This has increased the international profile of the region.

Business support provision is comprehensive. Both domestic and international clinical research organisations are represented in Medicon Valley. They offer a variety of services and are capable of conducting complete clinical projects. A number of

contract manufacturing organisations (CMOs) are present, offering efficient manufacturing. Science parks - situated in close proximity to universities and other high tech environments - offer office and laboratory facilities together with IT support, legal advice, financial services, conference and networking facilities and other services.

Medicon Valley benefits from a strong local venture capital market, supplemented by a growing number of international investors, and a large life sciences workforce.

The universities ensure a pool of qualified labour with extensive foreign language skills. A functional link is therefore created between the universities and valley institutions. This high quality environment has promoted world class research, and today Medicon Valley attracts more foreign direct investment in the life sciences than any other region in Europe. The favourable tax regime for expatriates and researchers also makes Medicon Valley attractive to foreigners.

Through strategic communication and coordination, Medicon Valley is continually improving the regional conditions for innovation and growth and showing how economic growth can be fostered through cross border co-operation.



NaREC, Blyth

Energy and the Environment

Opportunities within this area are largely the consequence of international market growth,¹²¹ considerable success achieved in major technology based facilities, and the availability of suitable skills, largely in the offshore and civil engineering industries.¹²² The high quality of the industries in the North East means that there is a major opportunity to make a difference in the short to medium term, as well as establishing the long term viability of the industries by businesses becoming world leaders in their respective areas.

Key to this growth will be the New and Renewable Energy Centre (NaREC), based at Blyth in Northumberland. The region's universities will continue to create innovative technologies, and NaREC will give the North East additional competitive advantage in attracting research investment, supporting the development of a cluster of companies – including major inward investment and international trade opportunities – and facilitating the adoption of renewable energy. We have real capability in the area of wind power. Wave and tidal power offer perhaps the greatest long term scope for the UK,¹²³ and there are also opportunities to develop micro-renewable generation technologies. Given our strengths, we must ensure we are in a position to capitalise on these opportunities.

THE REGION'S STRENGTHS IN ENERGY AND THE ENVIRONMENT

- NaREC has filled market gaps by developing major research facilities, including the world's largest wind turbine testing facility.
- The national Photovoltaic (PV) Research Centre has been attracted to locate at NaREC.¹²⁴
- The potential of biofuels is being realised with the location of Europe's largest biodiesel plant on Teesside.
- Greenpeace predicts that over half of the jobs created by the growth of the wind energy market could be located in the North East of England, due to its ports, existing manufacturing and supply chain capacity, and the presence of important players in the market.¹²⁵

The benefits of focusing on the Energy and the Environment pillar will be more than purely economic. They affect all industries, particularly those with high energy consumption. Other strategic drivers of this pillar include regional delivery of national energy targets set out in the Energy White Paper 2003¹²⁶ and the DTI Technology Programme, along with delivery of the region's Rural Action Plan. The Energy and Environment focus will also provide wider environmental sector opportunities including an innovative construction industry, the potential to address fuel poverty issues, and development of the low carbon economy.

¹²¹ The projected global market growth rate of the energy management and renewable energy sectors is over 10% per year to 2010. *Global Environmental Markets and the UK Environmental Industry*, Joint DTI/DEFRA Environmental Markets Unit (JEMU) report (2002).

¹²² Traditional strengths in oil and gas industry, and marine and electrical engineering, are reflected in export statistics.

¹²³ Results of OXERA study at <http://www.strategy.gov.uk/files/pdf/renewanalytpap1nov.pdf>

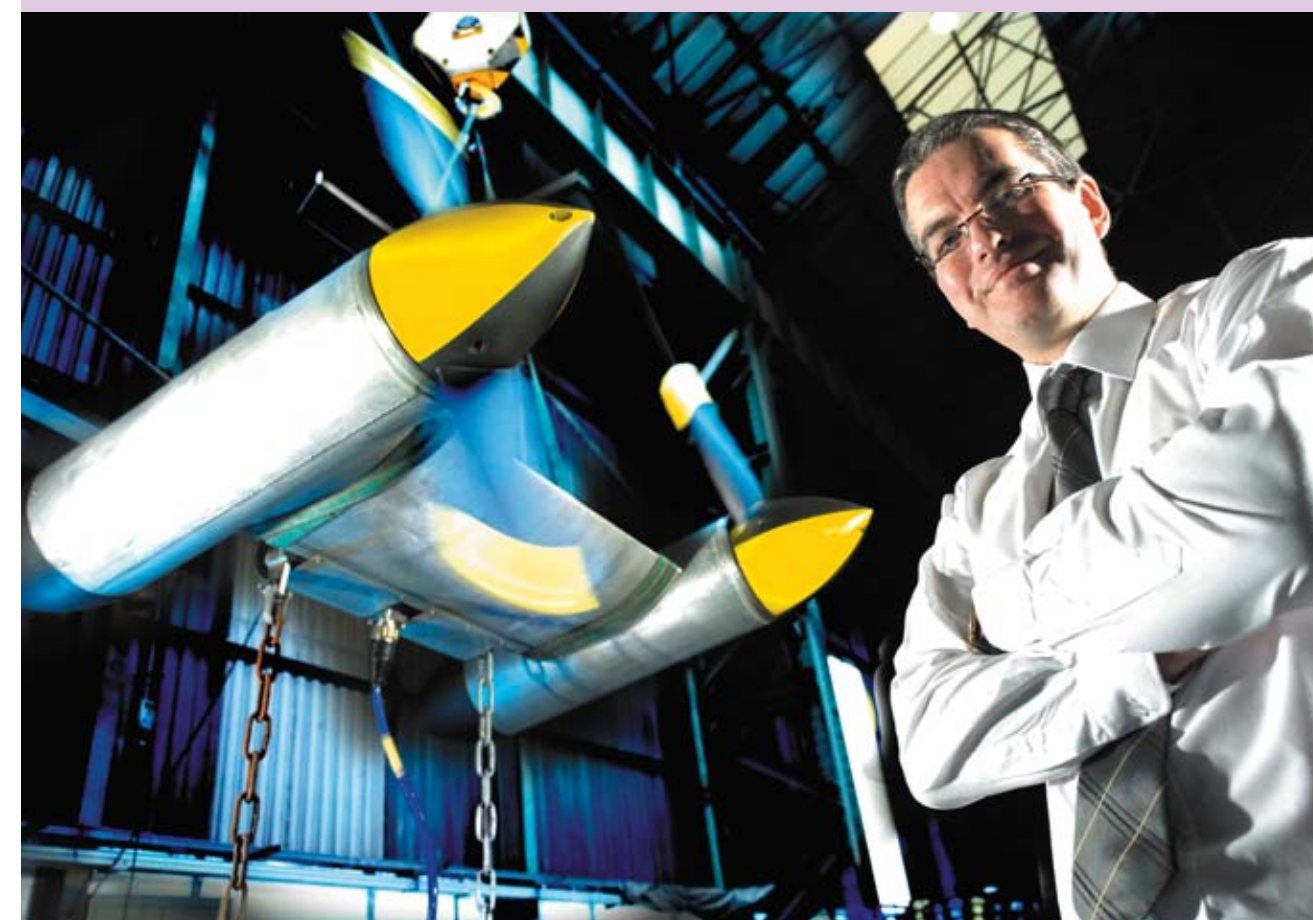
¹²⁴ The other direct components of this pillar include PV North East, a Regional Biomass Service, the Fuel Cell Application Facility in the Tees Valley (considered in the Process Industries pillar), and Clusters in Nuclear, Renewable Energy and Environment, and Oil and Gas.

¹²⁵ *Offshore Wind, Onshore Jobs*, Greenpeace UK/Energy for Sustainable Development Ltd (October 2004).

¹²⁶ *Our Energy Future - Creating a Low Carbon Economy*, DTI White Paper (February 2003).

CASE STUDY

SMD Hydrovision



The TidEl system, which was developed and built at Walker based company SMD Hydrovision, generates power from the flow of tides concentrated around landmasses – a resource the UK has in abundance. A 1:10 scale system successfully completed a seven week trial under a variety of environmental conditions at the region's New and Renewable Energy Centre (NaREC) in Blyth. SMD Hydrovision has a 30 year track record in the design and manufacture of innovative subsea machines. The company has produced a design which is easy to install, operate and decommission, requires no support structure and generates electricity at prices comparable with wind power. The system, tested at NaREC, has provided a platform for a project to build a full size 1MW system, which will be installed in an offshore

environment at the European Marine Energy Centre in the Orkney Islands. Grant funding of £2.68m from the DTI has been approved for the next stage of the project.

The TidEl tidal generator system was chosen to represent UK innovation as part of a pavilion for World Expo 2005 in Aichi, Japan. The company won a Global 100 Eco-Tech Award: a ¥1,000,000 prize awarded for the best "technologies to prevent global warming and secure sustainable energy". SMD Hydrovision was also awarded the prestigious Carbon Trust Innovation Award for 2005 in the "Large Companies and Public Sector Organisations" category.

More information: www.smdhydrovision.com

Process Industries

Considerable opportunities have emerged in the field of Process Industries,¹²⁷ due to current and previous levels of investment in businesses and infrastructure. These sectors are currently the most important within the region's economy in terms of wealth creation (as stated earlier in 'Business solutions'), and are fundamental to the economy of the Tees Valley city region. Significant potential exists to develop technologies which can boost the competitiveness of these and new businesses further.

A number of areas of research will be targeted, including nanoparticles and advanced functional materials, fuel cells and the hydrogen economy (an area in which Tees Valley already has a key competitive advantage in its existing infrastructure), super-critical fluids, and bio-processing. These technologies are in areas within which the region has or is developing world class research excellence, and where there is a clearly articulated need from business.¹²⁸ In addition, many activities in the Process Industries pillar and novel electronics are mutually complementary. For example, these processes are required to produce the materials - such as polymers - used to create electronics.

THE REGION'S STRENGTHS IN PROCESS INDUSTRIES

- Statistics on the existing process industries show that they are extremely important for the region. Chemicals and pharmaceuticals has been identified as a key sector for the North East (see Section A3).
- The attraction of the hub of the national nanoparticle network.
- The strengths of the hydrogen economy within the region is widely recognised.
- Developments at the Middlehaven site in Middlesbrough and recent investments.
- The region was recently awarded the national bio-processing facility.

As with the Healthcare and Health Sciences pillar, the research into process innovation and novel electronics will be developed into applications through supporting translational research and its transfer to existing and new companies in the region. The Centre for Process Innovation (CPI) based at Wilton will be key to much of this activity, with a number of complementary activities being taken forward in research and sector development, largely under the auspices of the Regional Chemistry Leadership Council. The Northern Way will be particularly important in realising the full potential of process innovation,

¹²⁷ Including chemicals, pharmaceuticals and electronics.

¹²⁸ The research priorities were selected in close partnership with the UK Chemistry Leadership Council.

recognising the size and importance of this sector across the three Northern regions.

The 'Three Pillars' represent the industries within which we believe the North East has the greatest potential to be recognised as a world class region. We will focus on building critical mass and recognition in these areas into the long term. However, there are a number of underpinning activities required to enable their potential to be fully realised.

Emerging Technologies

A large number of the scientific opportunities the region has are in small scale (micro and nano) technologies. In recent years, supporting the development of such technologies has been the responsibility of Cenamps (Centre of Excellence for Nanotechnology, Micro and Photonic Systems). Recognising the convergence of these technologies, key activities of Cenamps will be integrated with CPI, working closely with universities. Such activities will also be a key element of specific 'Innovation Connectors' described later.

For example, there has been considerable recent research in the area of novel electronics, particularly plastic electronics. Activity in relation to novel electronics will be taken forward across the region, specifically at NETPark and North Tyneside, and key areas of this activity will include the development of the national Plastic Electronics Technology Centre.

Digital Technology, Media, ICT and Software

The role of digital technology, media, ICT and software is also critical in achieving structural change. New digital technologies are key to the success of many businesses both within the 'Three Pillars' and wider. The development of such technologies is an important area of activity as the success of many regional companies, such as Sage demonstrates. Broadcasting, in its many forms, and interactive media content will be increasingly critical to facilitating every industry's adaptation to the changing nature of advanced markets. Specialist support is required (for example in the areas of access to markets and content creation) to enable businesses to exploit new digital technologies and approaches.

This agenda will be taken forward by a number of partners, including Codeworks (Centre of Excellence in Digital Technology and Media), Northern Film and Media, and the universities. Physical hubs for much of this activity will be Digital City in Middlesbrough, and Software City in Sunderland. An eLeadership Council has been established to facilitate the alignment of activities. (See section B2).

Digital media and technology has already been considered as part of the Commercial Creative sector in sections A3 and C2, as well as the importance of e-business to industry in general.

CASE STUDY

Investing at Wilton - Huntsman Polyethylene



Multinational company Huntsman's £200m investment in the world's largest polyethylene facility to be built on 35 acres of brownfield land represents a significant vote of confidence in Tees Valley. Construction began in October 2005 at Wilton, near Redcar, with the support of £16.5m of Government grants, spread over two years with completion scheduled for late 2007. The facility will produce around 400,000 tonnes of polyethylene a year, for a wide variety of packaging and other uses.

The new factory is a major boost to the chemicals industry, underpinning the operation of the Olefins Cracker facility - also at Wilton - which will supply the ethylene required to manufacture the low density polyethylene (LDPE). Peter Huntsman, President and CEO of the Huntsman Corporation commented, "Teesside is one of the most important

of our global locations and we are delighted to enhance our presence here with this large, world class polyethylene facility."

Some 700 jobs will be created through the construction phase of the project, and once operational the plant will employ around 120 permanent staff. This will in turn help to sustain 750 existing Huntsman and contractor jobs at the North Tees and Wilton complexes. Huntsman estimates that for every permanent job created at the new factory, five to ten jobs will be created nationally - a total of as many as 1500 - 1600 new jobs nationwide.

Huntsman's investment will help to ensure that advanced manufacturing continues to thrive in the area. The future is optimistic for the North East's world class process industries.

More information: www.huntsman.com



Chemical Manufacture

2. Enabling the transition to a more innovative economy through developing business capacity and excellent design

The development of capacity within businesses to introduce new products, processes and services will be a specific focus, addressing a major current constraint in many businesses in the region. Activities to raise capacity will include the provision of finance and financial advice through such bodies as NStar and NEL, and through R&D grants, the provision of information on future technological opportunities, IP management, standards and markets, and intensive coaching and mentoring aimed at new enterprises. Specific programmes will be introduced to enable the exchange of best practice, building on the successful NEPA (North East Productivity Alliance) model, and the provision of targeted technical assistance by the Centres of Excellence and others, including One NorthEast's sector teams.

Work undertaken by the Design Council and others has demonstrated the significance of undertaking formal design for the competitive success of businesses. The region has a number of recognised strengths¹²⁹ in relation to the development and utilisation of design, and a number of programmes have been instigated here, on regional, national, and international scales. These have

¹²⁹ For example Northumbria University Design School's alumni include Jonathan Ive, designer of the iMac and iPod, Simon Butterworth, Design Director for Ford Australia, and fashion designer Scott Henshall.

¹³⁰ Chaired by the Chief Executive of One NorthEast, membership includes universities, the Design Council, One NorthEast board members and directors.

¹³¹ Nationally, the service sector provided around three times as many jobs as the production sector, but managed to deliver less than twice as much approximate GVA. Consequently, service sector labour productivity is about two thirds of that of the production sector. *Labour Productivity Measures from the Annual Business Inquiry*, ONS (2002).

focused on raising the North East's capacity to increase the productivity of businesses through the design and development of products, services and processes.

The last three years have seen considerable progress in the development of industrially relevant research. Now, in order to enable the most effective application of that research and other innovation in industry, the North East must position itself as a major leader in design in the UK. A Design Steering Group has been formed, with membership drawn from a range of stakeholders,¹³⁰ to guide the continuing development of these design related programmes. A major public engagement programme will be taken forward across the region to raise the profile of design.

The 'Three Pillars' approach must be underpinned by strong capabilities in design as it relates to advances in science and technology. Regional partners will work alongside the Design Council to embed the latest techniques for tailoring emerging technologies to the needs of users, maximising potential for impact. A particular focus for this work will be Design Centre North, based at the Knowledge Campus development at Gateshead Quays. Other activities will also be located at Knowledge Campus. Major international companies will be encouraged to invest there to benefit from the available design research, teaching and exhibition facilities. Smaller companies will be supported and grown in incubator units.

New methods of product development, digital and media design, and design thinking in its widest sense are also becoming increasingly important to the success of innovating companies. Regional partners will work together to make leading edge design techniques available to North East companies. We will also work to exploit opportunities for innovations in building and spatial design. This will be coupled with raising awareness of the importance of design in order to increase its use across industry.

In addition to product and digital design improvements, we will work with the service sector (including public sector services) to improve design capabilities. Relatively low levels of productivity within the service sector and the public sector¹³¹ are partly due to the fact that services have rarely been designed with the rigour applied to activities such as engineering. Building on successful pilots in the region, and recognising a gap in the international provision of service design expertise, a full programme will be taken forward in this area. This is likely to include supporting professional development programmes which create and develop high level service design competencies in a wide range of people in the North East.

Furthermore, education programmes looking at design in a wide sense will be taken forward. This is key to achieving increased productivity, competitiveness and quality of life through innovation in the public and private sectors.

CASE STUDY

Martel Instruments - compact thermal printer



Just six months after initiating its conceptual design, Martel Instruments Ltd has commenced production of a compact thermal printer. Martel spotted an opportunity created by Hewlett Packard's withdrawal from the market and worked with Northumbria University's Centre for Design Research and Microelectronics Innovation Centre to redesign the printer. The specification was enhanced through incorporating prototype electronics produced on site at Martel's base in Stanley, near Durham.

The project posed a real challenge because it could not exceed a certain size, but had to incorporate

a number of components of fixed size and shape, including two alternative print heads and a standard paper roll. It also had to combine the required functionality with attractiveness to the end user.

A range of digitally accurate prototype cases, accompanied by the novel components, was demonstrated to the US Medical Device Expo. The outcome of this is the largest order in Martel's 20 year history, and a highly successful example of rapid prototyping to fill a niche in the market.

More information: www.martelinstruments.com

3. Hubs for innovation: Newcastle Science City and 'innovation connectors'

Newcastle Science City¹³² aims to create a city centre environment which facilitates a step change in the commercialisation of scientific and technological research. It is being taken forward by a core partnership of Newcastle University, Newcastle City Council and One NorthEast, drawing in expertise from around the region. The programme will integrate the NHS in appropriate areas of science, and full involvement of Durham University in Newcastle Science City will be critical to its success.

Newcastle Science City will be the growth hub for the region's structural change agenda. The aim is to become recognised as one of the top ten places worldwide to do science based business in the target areas of science, attracting inward investment, venture capital funding and prominent individuals, and developing strong international links throughout the advanced research community.

The target areas of science are particular niches within:

- Ageing and health
- Energy and environment
- Molecular engineering
- Stem cells and regenerative medicine

Newcastle Science City will take forward these areas through the development of co-ordinated and mutually reinforcing activities. These include the integration of industrial and public research, specialist translational research facilities, teaching, business incubation, specialist commercialisation and business support services, and related social interaction. A large scale public engagement and education programme across the city region to raise the aspirations of, and nurture talent within the people of the North East will be particularly important.

Science City will also develop physical facilities to support these activities, in a form which maximise work and channel information flows. These facilities will be focused on the western area of Newcastle, in a triangle between the Newcastle University campus, the General Hospital and the Centre for Life. It will also incorporate the developing Discovery Quarter, and the development of the brewery site.¹³³ Newcastle Science City will link closely with industry, other physical developments, research centres and business parks to drive the growth of businesses and the knowledge based economy across the region. This will support and complement other activity, including the 'Three Pillars' agenda.

The purpose of innovation connectors is to provide a particular geographical focus for science and innovation related activities which enable overall regional growth, and at the same time the regeneration of a particular locality. They will encompass the development of new world class facilities, new approaches to integrating business and universities, and engagement with the community, particularly through education programmes, although they vary considerably in scope, scale and ambition.

Other connectors in development are:

- Baltic Business Quarter, Gateshead (based on Design Centre for the North)
- New and Renewable Energy (Blyth, Eastgate, Easington)
- NETPark, Sedgefield
- Digital City, Middlesbrough
- Wilton, Tees Valley
- Software City, Sunderland

Further innovation connectors are likely to be identified in due course.

Delivering the business agenda

A significant amount of activity is set out in sections C1 to C3. The detailed delivery of this will be set out in an Action Plan, to be published after the RES and following considerable negotiation between partners. In the meantime, it is helpful to note some examples of the types of activities to be taken forward as part of the business agenda, in order to promote increases in productivity and participation. These are:

- Developing an Enterprise Strategic Action Plan, **led by One NorthEast**, to set out how we will achieve an increased enterprising culture and an accessible business support network. The results of implementation of this plan will be a growth in business start up rates, particularly among currently under-represented groups, such as young people and women. They will reflect an increasingly entrepreneurial and creative culture. Partners in the delivery of this plan will include the **private, public and voluntary and community sectors. Education bodies and businesses** in particular will have a significant role to play in encouraging an entrepreneurial culture among our young people.
- **Business support organisations** in the region, **led by One NorthEast**, will improve information, advice and guidance provided to companies through a fit for purpose and credible business brokerage model. The results of this will be more companies seeking advice and growing effectively as a consequence. Business support organisations will utilise business techniques such as segmentation and appraisal to meet the needs of clients.

- **One NorthEast** will restructure current cluster support activity around those sectors identified as existing and future strengths within the region, resulting in proactive targeting of specialist sector needs. Inward investment activity will be targeted at these sectors.
- **One NorthEast** will continue to lead on developing an overall strategy for access to finance in the region incorporating a continuum of finance approach, creating the right environment and networking.
- **UKTI and One NorthEast** will lead on increasing export opportunities among North East companies, with the aim of increasing our already high export base.
- The **Science and Industry Council, Leadership Councils and One NorthEast** will continue to drive forward the 'Three Pillars' agenda to achieve world class excellence in the areas of Energy and the Environment, Healthcare and Health Sciences and Process Industries.

- The **Design Steering Group** will work to build the North East's reputation as a design centre of excellence, with a particular focus on activity in 2007. As a consequence of this activity, the region's businesses and organisations will understand and value the importance of process, service and product innovation.
- Partners including **Newcastle City Council, the Universities and One NorthEast** will focus resources on developing Newcastle Science City. This hub of scientific, innovative, technological and physical regeneration activity will benefit the city region and wider region.



¹³² Announced by the Chancellor of the Exchequer in the 2004 pre-budget statement.

¹³³ The aims of this spatial focus are linked to Richard Florida's view of the importance of place and the attractiveness of the urban core to innovative/creative people, and with the crucial contribution of Higher Education Institutions and public sector research locations to localised economic development.

SECTION D

People

This section of the strategy is closely linked to the previous section. It outlines the actions required to move towards 90% of national average GVA/head by increasing the proportion of highly skilled individuals to drive and support high value added businesses and by bringing more people back into the labour market. It makes the case for demand to meet supply, and for stimulating demand among employers, for instance, in terms of employer investment in skills.

The previous business section sets out key challenges for the region in terms of developing a more entrepreneurial culture, a larger and more dynamic business stock, increasing productivity levels of existing and future growth sectors for the North East, and restructuring the region's economy to enable us to be a key player in a globally competitive knowledge economy.

As stated in section A4, while approximately 60% of the output difference between the North East and other regions is due to productivity differences, the remaining 40% is due to lower levels of economic activity. It is clear, then, that the people of the North East are a key driver of the region's economic success.

People challenges

The twin drivers of participation and productivity are inextricably linked, particularly in a region with a small population, such as the North East. The regional labour market needs to be seen as a dynamic whole, where improving productivity by progressing people currently in the labour market into increasingly higher skilled jobs creates opportunities for people to access entry level employment. A key priority is to move people up a skills 'value chain',¹³⁴ but these movements cannot be sustained independently without creating imbalances. This interdependence emphasises the importance of ensuring that regional skills meet regional business needs.

In the longer term, as the proportion of high value added business in the region grows, skills levels within the population will increase. Key to achieving and maintaining such a situation will be both targeting existing people who are currently economically inactive, and ensuring that an increasing number of our young people leaving mainstream education are already equipped to make a full contribution to a globally competitive economy.

The **first key challenge** relates to the region's continuing transition from a largely industrial economy to a more knowledge based economy. The region needs the skills to succeed in a globally competitive world.

More specifically, the key issues for North East England are as follows:

- Raising private and public investment in higher level skills - including management and leadership - which will drive the emergence and success of knowledge based businesses and organisations.
- Providing a strong focus to ensure that we invest in the skills needed in key growth and strategic sectors which will drive structural change in the economy.
- Ensuring the region's young people understand the valuable contribution they have to make as the region develops, and are appropriately skilled to maximise their contribution to the economy.

The **second key challenge** relates to utilising the talents of those people within the region who are economically inactive. More specifically, the issues for partners in the region relate to:

- Tackling worklessness through a variety of co-ordinated techniques to bring many of the people in the North East on incapacity benefit back into the labour market.¹³⁵ More specifically, in order to move towards 90% of national average GVA per head, we must increase our employment rates to around 73%, with around 61,000 and 73,000 additional people in employment by 2016.

¹³⁴ See section A4 for an explanation of the need for businesses to move up the value chain.

¹³⁵ Currently around 152,400 people. DWP/ONS NOMIS (May 2005).

- Linking areas of economic opportunity to deprived communities to address the concentrations of deprivation around the region.
- Promoting equality and diversity to maximise the opportunities available to under-represented groups from diverse ethnic and social backgrounds.
- Using the cultural assets of the region to support learning and participation, and to engage people in volunteering which provides a pathway to the labour market.

Finally, it is important to note that many of the challenges facing the region's people reflect the specific economic circumstances of the North East, and yet many of the organisations charged with funding and delivering the skills and economic participation agendas are responding to policy set nationally. The role of the Regional Economic Strategy is to set out what our region needs to do differently, and to ensure that nationally driven organisations have the capacity to meet identified regional need.

The importance of business and place

As with the previous chapter, it is helpful to consider the links with the other key themes within this document.

Businesses require skilled workers to develop and exploit new technologies and production techniques. If there is a shortage of skills in the regional economy, businesses may respond by adjusting to, or remaining in competition with low value added markets. Any focus on increasing the number of people attaining higher level skills needs to support long term plans to promote innovation, and encourage higher value added activity among the region's businesses and organisations. The management skills in companies are key to the decision making which will increase the number of companies on a high skills 'trajectory' (see section D1 – Skills). In some sectors of the economy, improving the supply of skills may fail to make any difference where owners/managers have decided against 'up-skilling' the workforce. If such joining up fails to take place, regions risk the outward migration of mobile, highly skilled workers in search of employment appropriate to their skills levels.



SKILLS TRAJECTORY

Efforts must be made to understand the respective motivations of employers and employees. There is a rational and reinforcing cycle where business strategies of companies are low value added in response to a low skilled labour force. In turn, the skills levels of the workforce are low because this is what is required by business strategies. This is commonly described as a low skills equilibrium, and to address it requires a complex set of both demand and supply interventions.

However, it may be more useful to consider the skills system in the North East in terms of a “trajectory” rather than “equilibrium”. A high skills trajectory is generally associated with high quality, high value added approaches of a sector or firm and low skills trajectory is generally linked to low quality, low value added approaches.

The concept of a 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. It is also useful as it emphasises the central role of decision making processes, and therefore the management skills of firms. In some sectors of the economy, for example, improving the supply of skills may fail to make any difference where owners have decided against “up-skilling” the workforce. This in turn emphasises the need to integrate consideration of skills within approaches to examine all aspects of business performance and, specifically, consideration of what stands in the way of organisations moving to develop higher quality, high value added products or services. This is the approach we are taking in the North East through the Business Support Network and programmes such as the North East Productivity Alliance.



Lorraine Harrison, Aesica Pharmaceuticals

A similar risk can be seen if regions focus only on reducing economic inactivity. Any gains will not be sustained if regional economies are not sufficiently robust in employment terms to absorb and retain an increased supply of labour. Thus, any work undertaken to increase levels of participation must look at both demand and supply issues in terms of employment, and there is a clear need to engage employers.

In terms of place, as stated in the previous section, a high quality environment is fundamental to attracting and retaining highly skilled and entrepreneurial individuals. The prosperity and success of regions in the global economy depends on their supply of skilled workers.¹³⁶ Evidence from the United States between 1981 and 2001 indicates that there is a significant correlation between growth rates (in terms of population, house prices and wages) in cities, and the higher level skills of their population. To help attract and retain highly skilled people it is important that competitive regions develop high quality, attractive and culturally vibrant places for people to live and work.

Place is also fundamental to enabling access to opportunity for economically excluded individuals. Investing in place can facilitate accessible transport routes and the use of new technologies, although it is recognised that many other issues cause an individual to be economically excluded (see section D2 - Economic Inclusion). It is vital that people experiencing economic exclusion and worklessness have the opportunity to contribute to and benefit from regional growth and prosperity.

¹³⁶ “Skilled residents helped the successful cities find new industries and reinvent themselves.” Glaeser (2003).

Meeting the challenge

The people challenge is fundamental to levels of productivity and participation in the region. This challenge, as has been made clear earlier, is complex and requires a multi-pronged approach. The approach of maximising return on investment and addressing market failures runs throughout this section, as it does the whole strategy.

The section is split into Skills and Economic Inclusion, although it is apparent that there are very close links between the two. Moving our people and businesses through the value chain requires both pulling and pushing, greater demand and supply of higher level skills to pull people through the value chain, and also creating and enabling people to take up economic opportunities, often at the lower end of the value chain, to move them out of economic inactivity.

Skills

It is clear from section C that the skills of the region’s workforce are a significant influencing factor in terms of the types of jobs and industries which the regional economy can support.¹³⁷

The Regional Skills Partnership (RSP), Skills North East, is the key vehicle through which the region will meet the skills challenge. The RSP was established in 2004 and is responsible for setting priorities and driving action

on skills to contribute to economic success. The RSP has identified seven objectives and three priority areas to provide direction over the next three years and address both the productivity and participation themes of the Regional Economic Strategy. These are set out in section D1.

While the Regional Skills Partnership has set out the initial direction for skills in the North East and the short term actions required, this strategy has a longer term horizon. More targeted action is needed over a sustained period to deliver a business focused skills base which will ensure the region can grow, sustain and attract more businesses able to compete in a globally competitive environment.

The Skills section focuses on determining the future direction of the Regional Skills Partnership in addressing the challenges set out above. Priorities include the provision of higher level skills to meet the needs of businesses, and stimulating demand among companies for higher level skills. The RSP will also work to ensure that skills provision meets the needs of the sectors identified within the research set out in section C – Business, and raising the aspirations and attainment levels of young people. In addition, this section addresses areas where we believe national policy should be focused in order to reduce regional disparities.

¹³⁷ Skills are one of the five productivity drivers identified by DTI (see section A).



81 Farmers' Market, Barnard Castle



82 Northumbria University students

Economic Inclusion

A key message throughout this strategy is that increasing the region's competitiveness depends on achieving both high levels of productivity and high rates of economic participation. Economic inclusion describes the process of overcoming the barriers, or market failures, which prevent people from participating fully in the economy.¹³⁸ Promoting economic inclusion is a priority which cuts across the whole of this strategy, but which also requires specific actions that are described in this section.

In addition to the wide range of measures set out elsewhere in this strategy which will help to increase economic opportunities, achieving economic inclusion requires interventions to effectively reduce market failures which prevent participation in those economic opportunities. This will enable the labour market to operate more effectively in matching people with employment opportunities, and as a consequence, reduce levels of worklessness.

Experience within the North East over the past 20 years has shown that communities cannot be regenerated solely by measures targeted at areas of need. Economic opportunities are being created within parts of our city regions which may not fall within deprived communities, but are within reasonable travel to work distances for all areas within the city region. We therefore need to ensure that people within deprived communities are aware of these opportunities, and are able and willing to travel to take them up. Similarly, in those rural areas where there is no critical mass to justify large scale provision of training, innovative methods of facilitating access to these opportunities – such as Tynedale Virtual College – will be explored.

Under-represented groups in the region, as well as deprived communities, must have the opportunity to realise their potential in relation to economic participation. It is recognised that many people fall into more than one under-represented group and many may live within deprived areas, so face multiple barriers which must be taken into account. In order to remove barriers to participation among these communities of interest, and to address the challenges and opportunities arising from increased diversity and demographic ageing, we must promote the economic benefits of equality and diversity to employers and service providers, and encourage them to take practical steps to embrace equality and diversity.

(See section D2 for further details)

¹³⁸ The European Council of Lisbon in 2000 recognised the extent of poverty and exclusion in the EU is unacceptable. <http://ue.eu.int/uedocs/cms-data/docs/pressdata/en/ec/00100.r1.en0.htm>

¹³⁹ *Working Futures: National Report*, IER Forecast (2003-04).

¹⁴⁰ *Work Skills In Britain*, DFES (2002).

¹⁴¹ "Employability can be enhanced by the opportunity to improve and update skills. Increasingly, individuals without this opportunity will be at risk of long-term worklessness and social exclusion." *Long Term Global Economic Challenges*, HMT (2004).

¹⁴² *OECD Education at a Glance*, Eurostat Main Regional Indicators (2004).

¹⁴³ (<http://www.statistics.gov.uk/cci/nugget.asp?id=160>) (2004).

D1 Skills

SKILLS IN THE FUTURE

- By 2010, 80% of new jobs will be in higher level occupations, i.e. those most likely to be filled by people with higher level qualifications.¹³⁹
- The basic skills required for most jobs in manufacturing and services are likely to rise. It is estimated that by 2010 around 95% of all new jobs will be at Level 2 or above.¹⁴⁰

In a global economy, countries and regions tend to specialise in areas where they have a competitive advantage. The world's emerging and fast growing economies, such as China and India, have a competitive advantage in labour intensive industries due to their relatively low labour costs. Simultaneously, many established and emerging economies are also rapidly increasing the proportion of their workforces with higher level qualifications. Relatively higher unit labour costs in some regions – such as the North East – mean that within a global economy, these regions will not be able to compete in low value-added product markets in the longer term.

Therefore, the driving force for improving regions' productivity levels is for the workforce to have the skills to support and drive high value added services and manufacturing. Furthermore, the availability of high value added skills in a region will support growth in productivity through increasing innovation and helping to attract investment.

Global changes are likely to lead to a faster pace of structural change in national and regional economies. As some sectors decline, others will expand, with expansion more likely in relatively highly skilled industries. This implies that individuals within competitive economies will need to be increasingly flexible in terms of learning new skills and, in employment terms, be able to adapt to different types of work required by new industry sectors. This can be viewed as replacing the old concept of a 'job for life' with 'employability for life'.¹⁴¹

The extent of the challenge we continue to face is clearly visible in the bar chart opposite,¹⁴² which compares the balance between basic, intermediate and higher level skills in the North East's adult population with that of the UK average, Germany and the United States. While one graph cannot fully capture all elements of the skills needed for global competition, it does illustrate that far more people within the North East have low level skills compared with the UK average, Germany and the United States. Given the relative economic performance of the countries featured within this graph,¹⁴³ it becomes clear that significant rebalancing of the skills profile by level is required for the region's businesses to be able to compete in a global economy.

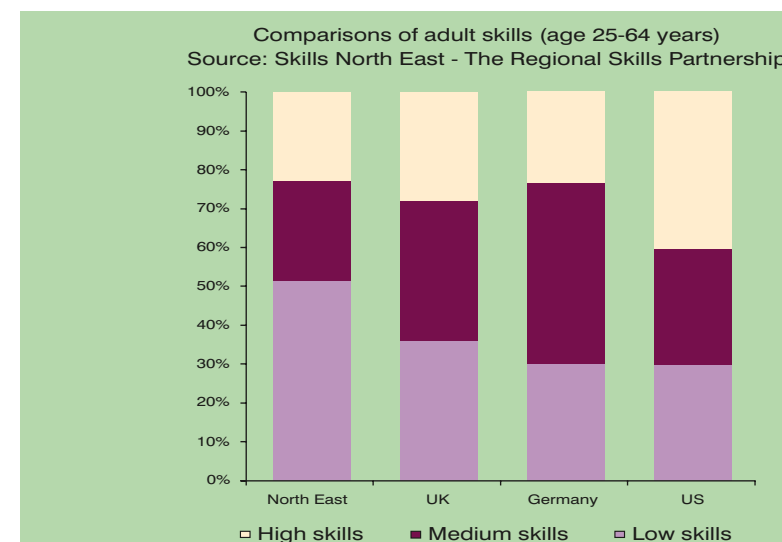
The ability to change our skills profile, so that it more closely reflects the skills profile of a globally competitive region is dependent upon a number of factors:

- The extent to which people in the region have the incentive, information and access to clear progression routes to improve their skills levels, so that a greater proportion of the population has high and medium level skills
- The extent of investment by employers and individuals in developing workforce skills

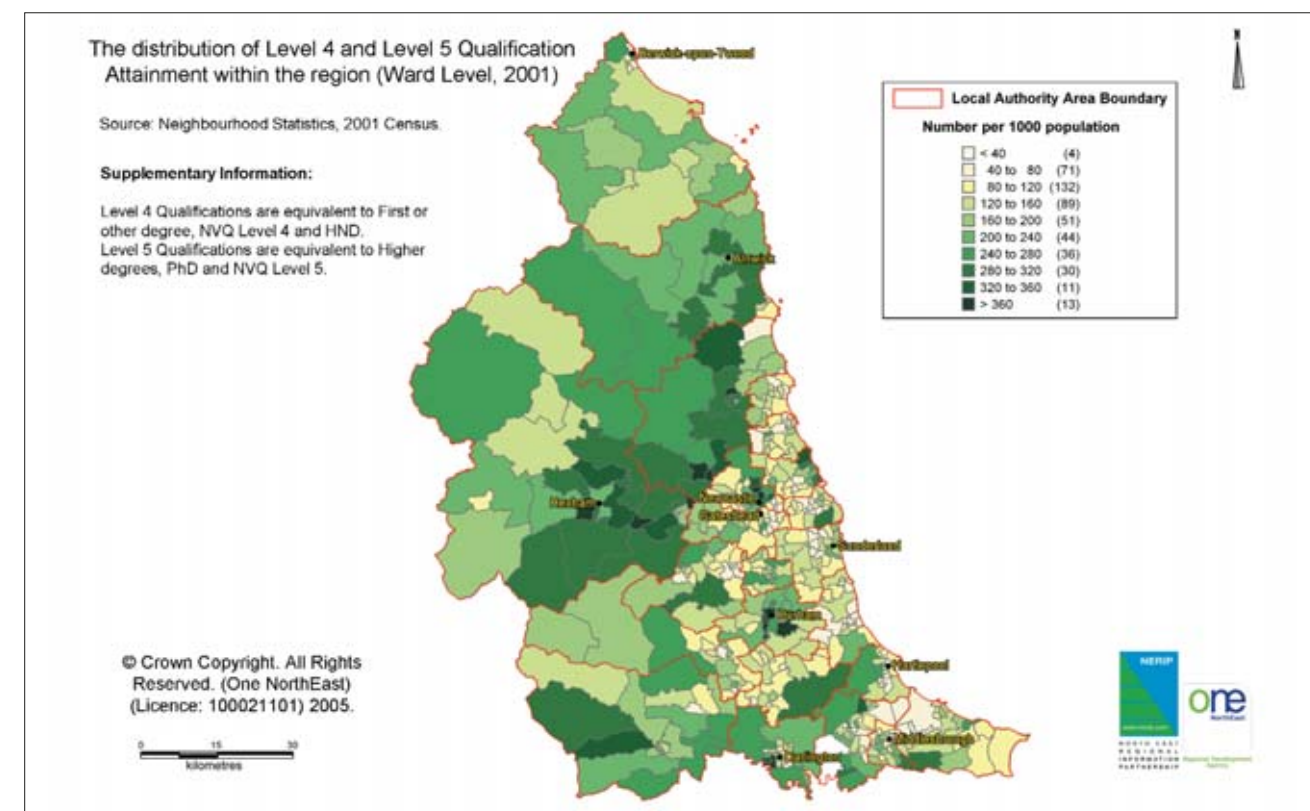
- The skills levels which young people have attained by the time they enter the labour market
- The skills levels which people of working age migrating to the North East bring with them, and people migrating out take away with them.

As the region moves towards increasingly knowledge based products, processes and services, the skills of the workforce in the region need to reflect the demand for higher level skills in the knowledge economy. Skills and qualifications which were relevant to the region's industrial heritage are increasingly less relevant. We must ensure that our workforce can adapt to the changing requirements of businesses in the knowledge economy and equip people with the skills required for the knowledge economy, moving toward the skills profile of a globally competitive region.

Higher level skills enhance people's adaptability, as they provide them with the ability to perform a wider range of tasks and make them better able to acquire organisation specific skills.¹⁴⁴ Those with more skills are therefore better placed to move into new sectors. Adaptability can be enhanced by the acquisition of higher level generic employability skills which apply across occupations and sectors. People with higher level skills are highly mobile. They do not simply work within the location in which they happen to reside. Although there appears to be some indication that people with these qualifications choose to live in areas some distance from major centres of employment, we recognise that more work needs to be done to understand the dynamics between the places where people live and work.



¹⁴⁴ The map on this page illustrates the distribution of Level 4 and 5 qualification attainment in the region. The new National Qualifications framework, implemented in September 2004, cannot be represented on this map, due to no available data being published prior to publication of this strategy. Further information on the National Qualifications Framework can be found at www.qca.org.uk.



FACTORS INCREASING DEMAND FOR HIGHER LEVEL SKILLS

- **Rapid technological change** - In an era of rapid technological change, skilled workers are better able to adapt to new business or production techniques.
- **Global competition** - Increasingly, employers are operating in a global market and are no longer insulated from the pressure of international competition.
- **Product and service specification** - Customers increasingly demand products and services tailored to their individual needs.

We recognise that the region contains many areas where large numbers of people lack basic skills (see section D2 - Economic Inclusion). At the spatial level, we can begin to identify areas facing particular challenges in terms of their basic skills needs. Using this level of analysis, we see a correlation between inner-urban and coalfield areas and basic skills needs. This would support the view that the people in those areas which had close links to the region's historic industrial heritage must address particular challenges to gain the skills required for a globally competitive knowledge economy.

However, even in those areas which appear to show good levels of skills attainment, the data currently available does not distinguish between those skills that were important

to the region's industrial heritage, and those that will equip the region for competitiveness in the global knowledge economy.

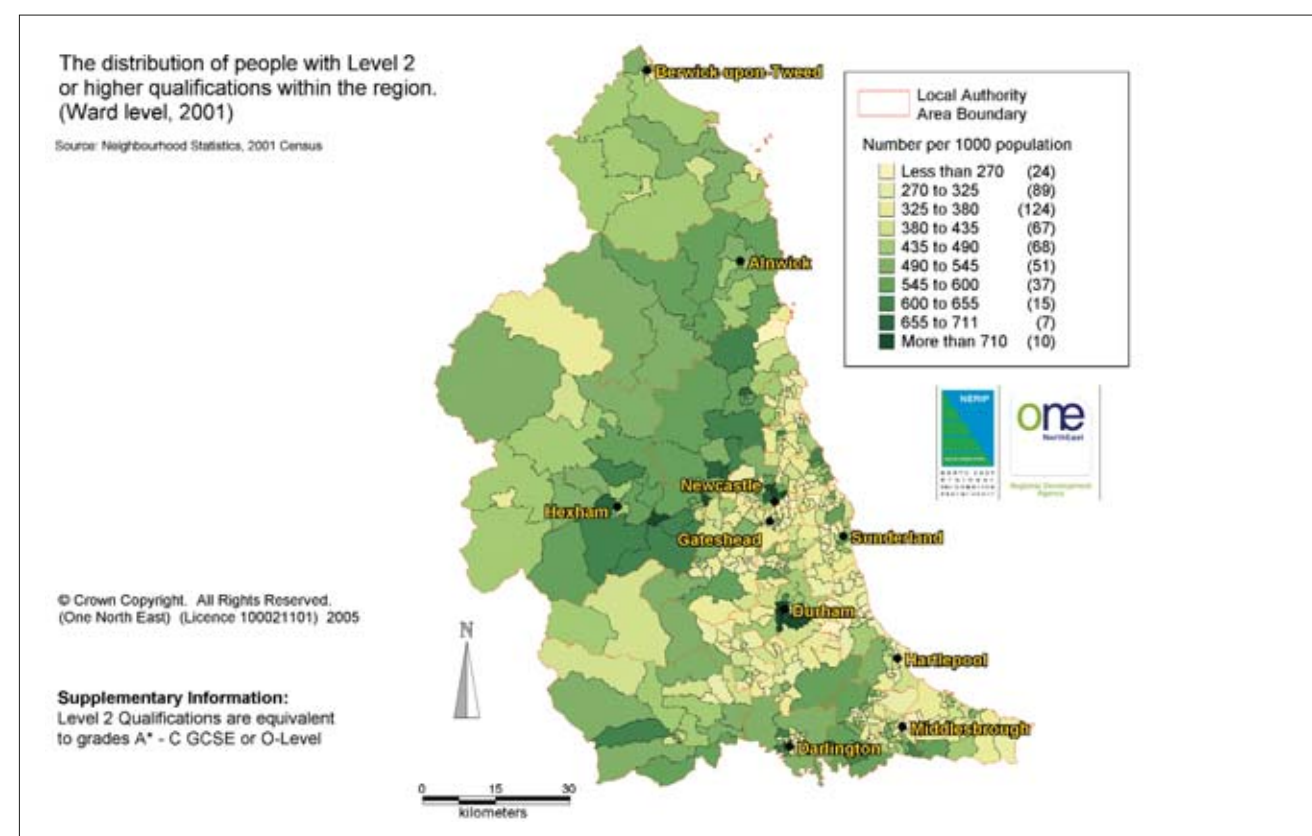
The Social Exclusion Unit Report, *Jobs and Enterprise in Deprived Areas*, shows that nearly 60% of areas that have high concentrations of worklessness are also areas with the highest 10% of rates of people with no qualifications.¹⁴⁵ Those areas that experience high levels of multiple deprivation are set out in section D2 and predominantly appear in former heavy industrial and coalfield areas. In addition, areas such as Easington, Hartlepool and Middlesbrough have been identified as having amongst the highest proportions of concentrations of worklessness in the UK.¹⁴⁶

This RES recognises that spatial elements of skills are very difficult to represent geographically because of the complexity of the issues that face this region. However, the spatial context of skills is important in understanding some of the specific challenges that affect the region.

The 2002 Regional Economic Strategy, *Realising Our Potential*, set out challenges to improve demand for skills, to increase the participation and achievement of our young people, and to increase long term employability. Gains have been made in all of these areas (as has been set out in section A3). However, despite these gains, there remain substantial challenges in both the supply of, and demand for, skills (see box opposite).

¹⁴⁵ *Jobs and Enterprise in Deprived Areas*, Social Exclusion Unit (SEU)/ODPM (Sep 2004) p28.

¹⁴⁶ SEU/ODPM (Sep 2004) p20.



Skills challenges

DEMAND SIDE

- **Low demand for higher level skills**
Without measures to stimulate the demand for high level skills among employers in the North East, improving the supply of learning may increase out-migration of highly skilled workers to other regions, rather than raising the skills profile of the resident workforce. It will also limit the ability to attract highly skilled individuals to the region. Recent trends suggest that the North East has increased its proportion of workers with high level skills, while those with lower skill levels have decreased. However, forecasts over the longer term suggest that although the demand for high skill employment will grow much faster than overall employment demand in the North East, the national growth rate will be even higher.
- **Low representation of managerial and professionals**
The North East workforce is under-represented in high skill occupations and over-represented in low skill occupations. Forecasts suggest that this pattern is set to continue into the future, which could leave businesses at the lower end of the value chain. This may inhibit economic growth potential and any attempts to improve business productivity.
- **Below average earnings for most occupations and sectors**
Wage levels in the North East are below the national average, which reflects the number of businesses operating at the lower end of the value chain. This is contributing to the out-migration of workers from the region, particularly among high skilled occupation groups where the wage gap is greatest. These differences are also important because wages are the main incentives for workers to upgrade their skills, and low regional earnings may undermine incentive mechanisms. However, recent evidence suggests that growth in average earnings in the North East has exceeded national growth rates, and that as a consequence, the earnings gap may be starting to narrow.
- **Low rates of new business formation**
This limits the ability of the regional economy to rejuvenate through the exploitation of the skills and knowledge of its indigenous workforce.

SUPPLY SIDE

- **Below average academic performance**
Poor educational attainment by young people will perpetuate the gap between the North East and the rest of the country in relation to workforce skills. Despite recent improvements (see section A3) only 48.7% of North East students achieve 5 A*-C GCSEs against a national average of 52%.
- **Increased supply of graduates**
Although the number of people in higher education institutions and the number of graduates entering the regional workforce has increased, there is still a significant gap between the North East and the UK average. Countries such as Finland, Australia and the United States are increasing their proportion of highly skilled workers faster than the UK, and the North East lags behind the national target of 50%, with a higher education participation rate of only 24%.
- **Poor skills for life**
a significant proportion of the region's adults still have low levels of basic literacy and numeracy which limits their ability to participate fully in either learning or employment.
- **Lower than average economic activity rates**
Economic activity rates in the North East limit the available workforce for economic growth, and contribute to socio-economic deprivation in the region.
- **An ageing and declining population**
While the ageing population is a national phenomenon, outward migration of young people is exacerbating the problem in the North East and reducing the potential supply of skilled labour. As stated in section A, the North East is the only English region forecast to lose population over the next two decades, if no action is taken to address this.
- **Accessibility**
For many, particularly those in some rural areas, issues of access to training opportunities are a barrier.

Regional Skills Partnership (RSP)

REGIONAL SKILLS PARTNERSHIP – MEASURING PROGRESS

In terms of skills, a move towards a knowledge driven economy would be evidenced by:

- An increase in the knowledge intensity of North East businesses and sectors
- A reduction in the gap between the skills available in the North East and those needed in a knowledge based economy
- An improvement in attainment and participation of young people at ages 11 to 18.

The RSP is monitoring a broad set of indicators which provide useful evidence of the extent to which qualification and participation levels within the region are improving. These include:

- Residents of working age commencing HE courses
- Residents of working age with qualifications at levels 2, 3 and 4
- Residents of working age without any qualifications
- Adults (aged 16-69) participating in any learning
- Pupils achieving five grades A* - C in GCSEs or equivalent.

The July 2003 Skills White Paper established One NorthEast as the strategic lead for the RSP. The RSP is the key mechanism for driving the skills agenda in the region, as it brings together employers on the demand side¹⁴⁷ with supply side¹⁴⁸ funders and skills providers. Key partners within the RSP - such as One NorthEast, the Learning and Skills Council and JobCentre Plus - are working together to align budgets to maximise impact in the delivery of RSP and RES objectives.

The RSP objectives are to:

- Increase employer demand for, and investment in, skills
- Raise individual aspirations and demand for learning and provide individuals with opportunities throughout life to achieve their aspirations and embrace change
- Enable those excluded from the labour market to access learning and sustainable employment
- Ensure all individuals have the foundations for employability - the attainment of skills for life and a first level 2 qualification
- Increase the achievement of intermediate and higher level skills to support growth, innovation and productivity
- Enable colleges and learning providers to be more responsive to employers' and learners' needs
- Influence national policy and funding to ensure regional skills and employment needs are addressed.

The RSP priority areas over the next three years are: developing Management and Leadership skills and capability, increasing the proportion of the workforce qualified to Level 3, building upon the commitment to supporting the achievement of skills for life and Level 2 qualifications, and supporting individuals not currently participating in the labour market to access learning and sustainable employment.

The Regional Skills Partnership has developed an implementation plan for the delivery of the 2005-06 Skills Action Plan. RSP partners have, therefore, already discussed and agreed their delivery contributions for 2005-06. The Skills Action Plan is reviewed on an annual basis which provides the opportunity to ensure the issues identified in this RES can be addressed.

¹⁴⁷ Through organisations such as Sector Skills Councils, the Confederation of British Industry, the North East Chamber of Commerce, the Small Business Service.

¹⁴⁸ Through the organisations such as the Learning and Skills Council, Jobcentre Plus, universities, colleges, the Association of North East Councils and the Association of Learning Providers.

The way forward

The RES sets the longer term direction for the Regional Skills Partnership to increase the focus on higher level skills to meet business needs and target support where skills issues are key to the success of the region's strategically important sectors. In addition, the RSP must focus on raising the aspirations, participation and attainment of young people to ensure more of them leave mainstream education equipped for employment in globally competitive organisations. It must ensure that the public and private sectors have the ability to deliver these regional needs.

The challenges set out above are sizeable. In meeting them, we must work together to prioritise and effectively deliver skills provision, in addition to stimulating demand among employers for higher level skills. The strategic priorities to take this agenda forward are as follows:

1. Higher level skills to meet business need

2. Skills needs of strategically important sectors

3. Raising the aspirations and attainment levels of young people

4. Delivering regional need



University of Sunderland Library

1. Higher level skills to meet business need

The Regional Skills Partnership has identified the need to increase the achievement of intermediate and higher level skills to support increases in growth, innovation and productivity. Significant effort is required to promote the achievement of higher level skills to meet business need. The priority areas are:

- Increasing the level of individual, business and public sector investment in higher level skills at technician, skilled craft/trade, associate professional, graduate and postgraduate levels.¹⁴⁹
- Ensuring that employers are able to access a full range of solutions to their skills needs through an independent brokerage system.
- Further developing regional capacity to engage employers in the design and delivery of higher level skills provision, such as foundation degrees, so that this provision is specifically designed to meet their needs.
- A stronger focus on higher level generic employability skills within schools, further and higher education, and other skills providers. This will provide a longer term platform to enable the region's workforce to respond flexibly and effectively to sectoral and structural changes in the regional economy throughout their working lives. Higher level generic employability skills include, for example, management, ICT, communication, team working, problem solving, language skills and customer service. An appropriate balance will need to be struck with existing employer needs identified through demand driven business support arrangements, and in current priority sectors.
- Focusing on further developing strong management and leadership skills in the region's businesses and organisations to effectively utilise product, process and service innovation to ultimately deliver higher value added products and services.

¹⁴⁹ Studies by the National Institute for Economic and Social Research have shown that higher average levels of labour productivity in firms in Europe is closely related to the greater skills and knowledge of their workforces. <http://www.niesr.ac.uk/index.htm>

Construction work at Woodhorn Colliery Museum, Ashington



Skills activity in the region must include clear progression arrangements to support the fundamental objective of moving people and businesses on and up the value chain. Building on a range of existing work, this will mean that there are clear routes for individuals to continue to develop their skills right through to Level 4, where appropriate. The Regional Skills Partnership will support this objective by establishing interrelated targets for Levels 2, 3 and 4, so that the region has targets based around maximising progression to the highest possible level for every individual. Establishing targets around level 3 will underpin the RSP level 3 priority area, as well as providing emphasis on an area where there are no Government Public Service Agreement (PSA) targets.

2. Skills needs of strategically important sectors

As businesses and sectors become increasingly specialised, there is a need for both generic business support and skills providers to be able to provide appropriate solutions for specialist areas. This includes those manufacturing and service industries identified in section A3 as key sectors for current and future economic growth.

Both public and private investment in skills must align to the needs of business, and to the Business Brokerage Model. Within the region, a coherent 'employer skills offer' is available generically to businesses via Business Link. This incorporates a range of training, funded and provided by a range of different organisations. However, if the availability of appropriate skills is identified as key to the success of a priority sector within the region, the Regional Skills Partnership - in collaboration with the private sector - will work to address these skills needs. Understanding the skills needs of those sectors identified within section A3 is a priority for the Regional Skills



Regional Museums Hub, Shildon

Partnership. In addition, there are skills needs within the construction sector which may require a regional response to ensure we have the capacity within the region to deliver many of the priorities set out in section E1 of this strategy.

In order to meet the region's specialist sector needs in the most effective way, over the short term, One NorthEast will engage in further work to explore market failures and return on investment in the key manufacturing and service sectors identified in section A3. This will require a holistic approach to bring the private and public sectors together to explore skills needs (using Sector Skills Councils and industry bodies), business support and infrastructure requirements.

Principles established by the RSP support the use of public funding - along with individual and employer contributions - to provide higher level skills, particularly where these meet sectoral and regional needs.

INTERNATIONAL BEST PRACTICE SKILLS MATTER - IRELAND

Ireland's economic transformation over the past two decades owes much to investment in skills and education. Education policy has been a top priority, with the minimum school leaving age raised to 16 in 2000, the introduction of the Leaving Certificate Vocational Programme (LCVP), and in 1995 the vocationally-oriented Leaving Certificate Applied Programme designed to raise the proportion remaining in education. Now, some 37% of 25-34 year olds have attained tertiary education compared to an EU average of 27%, with an unusually high proportion qualified in science, technology and engineering.

And the effect? Between 1994 and 2003 the employment rate increased from 45.4 % to 56.9 % -

a growth rate of 4.2 %, almost three times that of the adult population. Irish Central Bank economist Rob Hamilton estimates that up to two thirds of the rise in employment reflects the increase in educational attainment (although other influences on the Irish economy, including the increased demand for skilled labour stemming partly from Ireland's success in attracting investment, are also likely to have been important). On the output side, GNP grew at an average of 6.6 % per year, taking Ireland past the UK to become one of the most prosperous developed economies. Hamilton estimates that improved educational attainment accounted for an extra percentage point of output growth per year through improved workforce skills, and a total of 2.1 percentage points if its effect on employment is taken into account - a vital contribution to the country's economic advance.

CASE STUDY

Fit for Employment programme



The Fit for Employment Programme was developed by Esh Group in partnership with Deerness Valley School in Durham. It aims to provide vocational education to 14-19 year olds in the construction sector. Students are offered work based learning opportunities and training exercises to improve awareness of opportunities within the construction industry. This provides a solid progression route into an apprenticeship. Esh Group has guaranteed 20 places per year for the three years of the Fit for Employment Programme.

The programme was led and supported by Esh Group, and assisted financially by One NorthEast through County Durham Strategic Partnership, the County Durham Learning and Skills Council, the County Durham Development Company and the European Social Fund.

During the first year of the programme, 120 year 10 students participated, and 19 moved on to the apprenticeship scheme in September 2004. A further 20 apprenticeships were taken up in

September 2005. The County Durham Strategic Partnership is now looking at how to expand the programme to meet the needs of other sectors within the county. The programme has already been transferred to Tees Valley where Stockton Borough Council is running it. The first apprentice took up employment there in September 2005.

For two years, the Fit for Employment Programme was identified as one of three Department for Education and Skills 14-19 Pathfinder Schemes in the North East. This has helped to establish national best practices for teaching 14-19 year olds. As a further accolade, the programme was awarded the Best Practice Award by Tony Blair at the ASPIRE launch in January 2005. In 2005, the programme also received awards from Constructing Excellence in the North East for outstanding Achievement. Nationally, Business in the community gave Fit for Employment the award for Innovation in July 2005.

More information: www.esh.uk.com



Regional Museums' Hub, Engaging with Fathers

3. Raising the aspirations and attainment levels of young people

The skills and qualifications of young people leaving school are a key determinant of the long term skills profile of an economy. We must take action now to reduce the numbers of young people in the North East who leave full time education with no or low qualifications, and as a consequence do not progress to post 16 education and training, or into employment.

In improving the aspirations and attainment of young people, it will be vital to establish links with employers and the world of work at an early age in order to highlight the opportunities available to them.

The Government's approach to supporting young people is being delivered through the "Every Child Matters" programme, which aims to help young people achieve economic well being, as well as being healthy and safe. Further national policy initiatives include the 2005 Youth Green paper which sets out a range of proposals, including delivering better information, advice and guidance to teenagers; and the 14-19 White Paper sets out reforms for that age group. The region needs to add value to this substantial range of nationally driven educational reforms by working with a range of stakeholders, including schools and businesses, to ensure school level attainment is the best it can be.

Complementary activity at regional level includes:

- Ensuring developments in information, advice and guidance (IAG) at all ages reflects the economic opportunities which will be available to young people through the region's employers and key sectors.
- Supporting the development of a range of vocational and academic progression routes to provide young people with more choice as to how to develop their skills.
- Making maximum use of the ASPIRE campaign to raise awareness among young people that the 'North East Really Delivers' in terms of training and employment opportunities, and building on ASPIRE by bringing schools and businesses closer together to demonstrate the opportunities of the world of work.
- Enriching learning at school through a range of activities beyond the curriculum, and more opportunities inside and outside school.
- Developing leadership abilities within children and young people to contribute to raising aspirations and raising confidence levels, and encouraging entrepreneurial attitudes and behaviour.

The causes of lower school level participation and attainment are complex and varied. They relate strongly to the peer, neighbourhood and intergenerational effects described in the next section on Economic Inclusion, and to the need to raise aspirations being highlighted throughout this strategy. In the longer term, successful developments enabling increased economic prosperity within identified sectors, and programmes such as Newcastle Science City, are likely to have an impact on aspirations. The region is working through the local authorities to develop a co-ordinated response to this issue.

CASE STUDY

Middlesbrough Enterprise Academy



The Middlesbrough Enterprise Academy was established in 2002 and has educated and inspired over 10,000 11-19 year olds in the North East, using an alternative learning environment to help young people find out about business and enterprise.

By using Middlesbrough Football Club as the model business, the project helps students learn about the world of business and self employment. It uses real examples drawn from this, multi million pound company. Qualified tutors lead students through a range of interactive tasks from within the unique surroundings of the Riverside Stadium. The emphasis is firmly on a fun, hands on approach to teaching and learning. The academy has educated and inspired students, some of whom have struggled in mainstream education.

The academy is a leading agency in helping schools in the North East deliver curriculum objectives, and offers a full range of educational programmes. The youngest people enrolling on

academy courses can expect to be involved in workshop style challenges, while those participating in the Core Programme earn full accreditation through exam board OCR's Headway Award. More extensive guidance and business start up support are on offer for students over the age of 16.

In a recent visit to the project, Brian McCafferty, Head of Curriculum Advice and Inspection for OFSTED, praised the innovative teaching practices of the scheme: "Pupils enjoy the business Enterprise Academy programme for a number of reasons as it is interesting, relevant and easier to learn through the strong links with Middlesbrough Football Club".

The academy is supported by funding from One NorthEast and was developed in partnership between Middlesbrough Football Club, Middlesbrough Council and Stockton-on-Tees Borough Council.

More information: www.mfc-ea.co.uk

4. Delivering regional need

National skills policy is underpinned by three major themes. These include: putting employers' needs for skills at the heart of skills provision; raising demand for - and increasing investment in - skills by employers and individuals; and ensuring greater choice and flexibility in provision to best meet demand and need.

We support these underlying principles and are working to maximise the impact of national policy and funding where it meets the region's needs. However, there are a number of areas where the Government could do more to support the regionally specific economic aims set out in this strategy.

Firstly, the North East faces a number of distinct challenges which are not always best addressed through nationally driven policy and funding. We will continue to work with Government to outline the different challenges facing the North East, and look to Government to ensure that existing and emerging skills policy and resources are flexible enough to respond to the distinct needs of the region. The North East has a track record in delivering to meet regional need. For example, the recent regionwide Learning and Skills Council Employer Training Pilot engaged 1,600 employers and 16,000 learners. This pilot targeted the training needs of small to medium sized businesses and reported 95% employer and learner satisfaction among participants.

Secondly, the reduction of regional economic disparities should be a central policy driver for all key government departments. For example, where national funding streams are allocated to regions, one of the factors determining these allocations should be a recognition of the substantial improvements needed in some regions, such as the North East, in terms of both productivity and participation. National funding decisions often have significant consequences for the capacity of the region to address productivity and participation challenges.

Thirdly, from a participation perspective, the Government's commitment to providing an entitlement for all adults to a free first level 2 qualification is important. However, from a productivity perspective the focus on funding 'first' qualifications does not recognise the significant and ongoing restructuring of the North East economy. Many people already have qualifications but these either need updating or are no longer relevant to a more knowledge based economy. Therefore, the nationally driven focus on funding 'first' qualifications limits the extent to which the region can update workforce skills. The Northern Way is already looking at economic relevance as a driver for skills funding.

The final issue relates to the fact that national policy suggests that public sector funding should take account of the 'market failures' which block investment in skills.

Such failures seem more prevalent at lower skills levels, where the rate of return to businesses or individuals of investing in training is lower. It is not presently clear within the North East that this argument is limited to low skills. Further work is needed to understand the extent of market failure in the North East and the implications for the public/private balance of funding for skills.

HOW MARKET FAILURE AFFECTS INVESTMENT IN SKILLS

Changing the long term profile of skills within the North East requires us to address those points where we believe there are market failures which have caused lower investment in education and skills, both in terms of demand and supply:

- An increase in the knowledge intensity of North East businesses and sectors
- Businesses cannot capture the full benefits of their investment in training the workforce due to external factors, for example, in industries with high staff turnover
- Both employers and employees are unable to accurately judge the benefits of - and future need for - training, due to imperfect information, or are unsure how to access skills support
- Skills provision is often viewed as a public good, i.e. that organisations can 'free ride' on an investment in skills made by other companies
- Credit and time constraints, particularly for smaller organisations which may have limited investment capability and may also have shorter time horizons.

The Regional Skills Partnership will continue to work to identify to central Government barriers and obstacles to regional economic development.

Furthermore, the providers and funders of the Regional Skills Partnership are committed to ensuring they are fully responsive to meeting the regional needs of employers.

Skills are integrally linked with the goals of Economic Inclusion. Increases in levels of skills are a key mechanism in increasing levels of participation among people who are currently economically inactive. Higher level skills can help to drive an economy, particularly if such skills are valued by employers. However, it is also vital to increase levels of basic skills among people with no qualifications both to open up opportunities within the labour market, and to increase levels of confidence within the individual in terms of taking up such opportunities.

The next section details this activity, along with mechanisms for overcoming other barriers to economic participation.

D2 Economic Inclusion

Meeting the challenge to increase levels of economic participation within the North East depends upon creating a strong economy which generates economic opportunities. It also requires a strong and inclusive society which promotes the health, education, engagement and cultural distinctiveness of the people of the region. The priority to promote economic inclusion in the North East is to ensure that we are able to make the links between these two, in order to enable people to access the opportunities the region is creating, and to provide a ready supply of skilled labour to meet the needs of the economy. These issues are addressed in this section.

Successful regions are those which can maximise the contribution of their population to the economy, can welcome and embed new people and businesses, and can respond quickly to increasing global competitive pressures. Success in a rapidly changing world depends upon developing new employment patterns, while creating and maintaining high levels of employment and economic activity. Compared to other parts of the world and to many European countries, the UK has a high level of economic participation.¹⁵⁰ The UK is also one of the world's most ethnically diverse and open countries. This has consistently been a key part of its economic vitality. Thus, economic inclusion has been and remains a key source of competitive advantage for the UK economy. The North East, however, has lower participation rates¹⁵¹

and lower levels of ethnic diversity than other UK regions. It also has the most rapidly ageing population, which will mean that if current trends continue, by 2013, 40% of the population will be aged over 50. Therefore, the region has more to gain than any other English region by promoting economic inclusion.

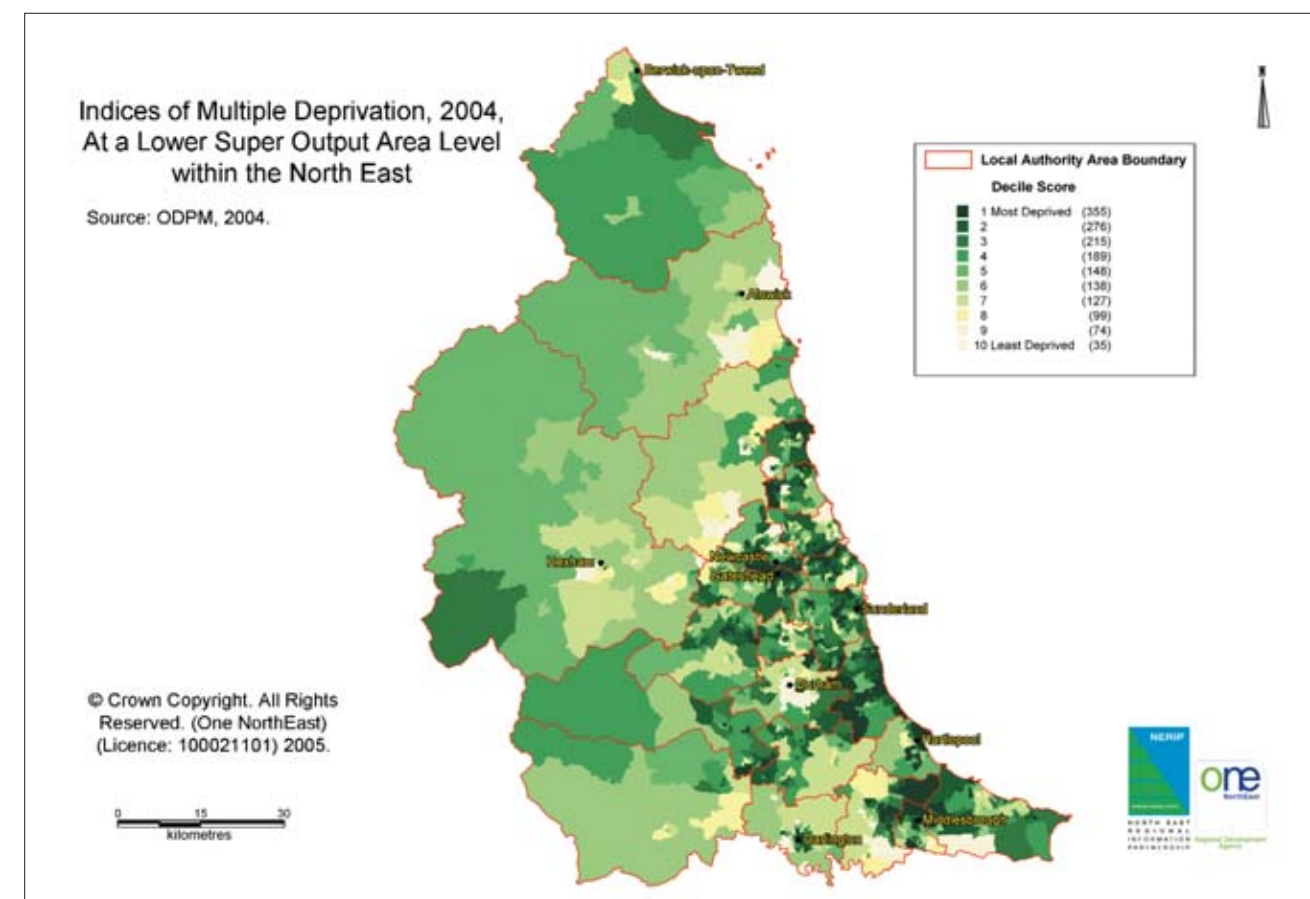
Levels of participation in employment in the region are of significant concern in terms of achieving sustainable, inclusive, economic growth. If employment levels were at the average level for the UK, the North East would have another 80,000 people in work - 5% of the North East's workforce.¹⁵² However, recent employment levels have risen significantly (see section A). This highlights the impact of economic success and of measures to help people move into employment, such as the New Deal. Despite this progress, at the same time, the number of people who are not in work and are claiming benefits related to ill health or disability has remained significantly above the national average,¹⁵³ resulting in high levels of 'worklessness'.

¹⁵⁰ 63% economic activity rate compared to an EU average of 56.5%, including 52% in Belgium, 57% in Germany. Eurostat (2003).

¹⁵¹ 57% economic activity rate. LFS (2004).

¹⁵² Around 1,113,000 people were in employment in the North East in November 2004. If employment levels were at the average level for the UK, the North East would have 1,193,000 people in employment.

¹⁵³ The number of people in the region claiming Incapacity Benefit has risen from 158,000 to 163,000 between 2000 and 2003. When other benefits are included, the number of people of working age who are out of work and claiming benefits related to their health rises to almost 200,000 in the North East.

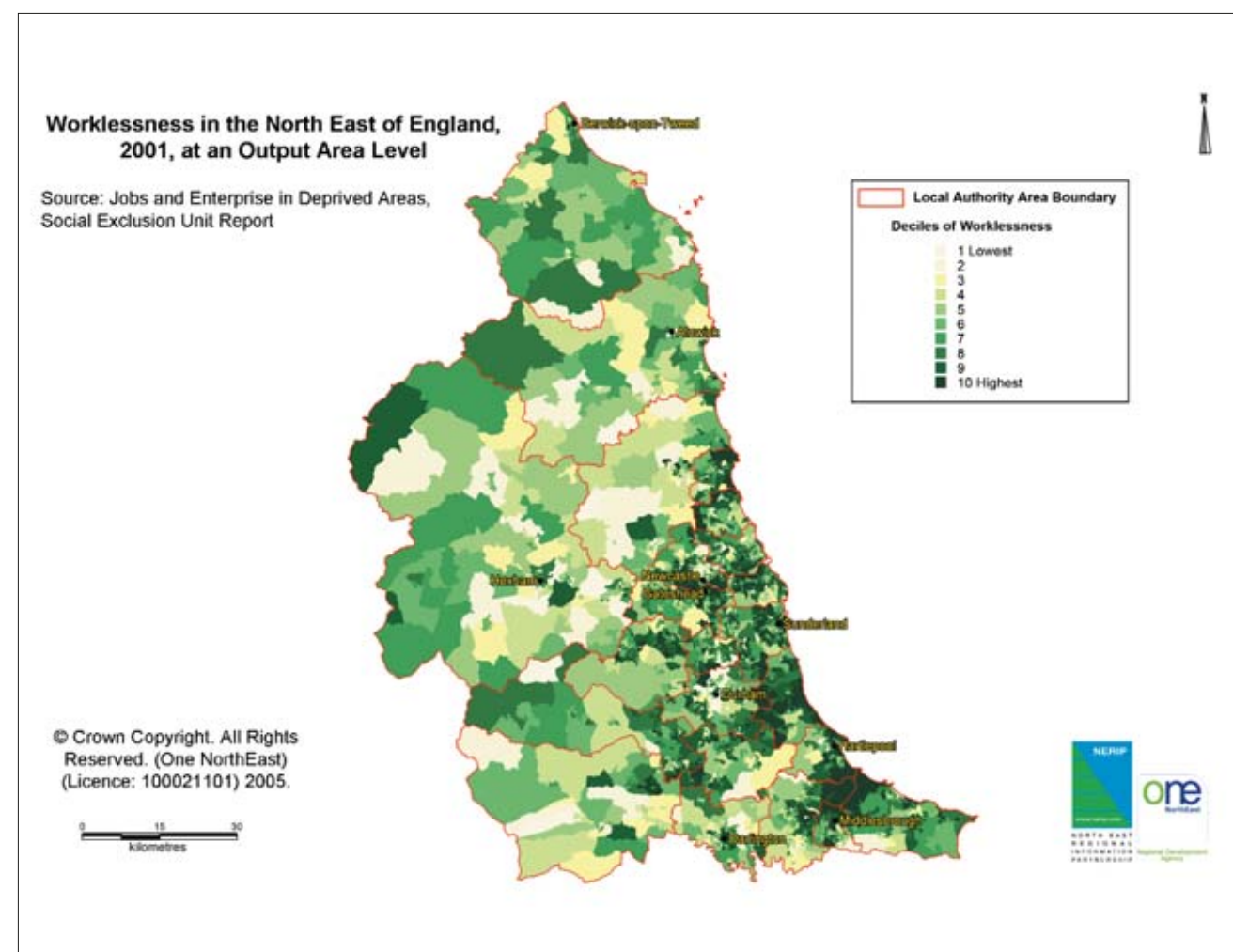


Participation rates tend to vary considerably at local level, with important economic effects. Increasing global competition and accelerating economic change has created local 'hot spots' - particularly within successful city regions - where the benefits of economic success are concentrated. At the same time, residential patterns and other factors have created 'cold spots' where people who are not benefiting from economic growth are concentrated. Such geographical concentrations of deprivation generate social, cultural and economic effects which can disengage these communities from the wider economy, creating conditions that lock in low levels of participation in those communities. Enabling these communities to benefit more from - and contribute more to - sustainable economic growth, is an essential element of economic inclusion. This is not only for reasons of social equity and justice, but to ensure that all parts of a region contribute to its overall productivity.

The map on the previous page illustrates the extent of deprivation within the North East region. As stated later on in this section, the region has the highest proportion

of the 10% most deprived areas in England. A further significant challenge, as highlighted in the previous section (Skills), is that these areas tend to be closely linked with areas of low qualifications, providing multiple barriers to inclusion. The map below illustrates those areas of worklessness. It shows geographical pattern incorporating rural areas and ex coalfield areas that is unique to the Northern regions. Worklessness is by no means only an inner city phenomenon in this region.

The causes of this low level of economic activity are complex. Barriers to economic participation cause market failures, in that they limit the ability of the labour market to effectively supply able people to meet demand for labour. Examples of market failures are set out in the box opposite, along with examples of the types of activity required to address them. It is important to stress that the RES seeks to remove barriers which stop people from working, and encourage and enable them to work, not to force those who are not able to work to do so.



MARKET FAILURES IN ECONOMIC PARTICIPATION: BARRIERS TO EMPLOYMENT

Employability

Too many people lack the basic skills, key skills and life skills which are an essential prerequisite for employment. This is a fundamental barrier for many people who are not in work, and measures to address this are dealt with in section D1 (Skills).

Health

If we are to succeed in our aim to reduce the number of people who are unable to work because of long term sickness within the region, economic development agencies must work with the health services, local voluntary and community organisations and the cultural sector to address the physical and mental health issues (including depression and low expectations) which can prevent people from working.

Travel to work

The changing nature of economic activity means that employment opportunities are not always easily accessible in all parts of the region. This is particularly important for the North East, where our industrial legacy means that we have relatively large settlements in rural areas which have high levels of unemployment and inactivity, but are remote from the areas where job growth is occurring. It is particularly important to enable people from these areas - such as deprived former coalfield areas - to travel to where the job opportunities are. We must ensure that people are able to - and where necessary, encouraged to - travel sustainably to take up these employment opportunities (see section E3 for more details). In addition, new ways of creating remote employment, i.e. taking the job to the worker, should be explored, particularly where this encourages employment in distant and deprived rural areas.

Childcare and other caring responsibilities

We must ensure that people are not excluded from economic activity as a result of their responsibilities to care for children or other dependants, by encouraging the supply of local childcare and other services to meet demand for affordable provision. There are still gaps in the market where affordable childcare is not available, and as the population ages the issue of caring for elderly relatives will become an increasingly important one for the North East.

Attitudes to enterprise

Self employment or small scale enterprise/social enterprise activity can be a route into economic activity, but there is evidence that many people experience practical, financial and attitudinal barriers to following this route. We must ensure that those who may have the potential to move into economic activity through self employment are encouraged and supported to do so (see section C1 for further details).

Institutional

While great improvements have been made in recent years in the tax and benefits system, we must continue to work to tackle institutional issues which may make it difficult for people to move from unemployment or economic inactivity into employment, or which may provide 'perverse incentives' encouraging benefit dependency. This also applies to people in the region who are engaged in unofficial economic activity in the 'informal economy', who could be encouraged to move into formal employment or enterprise activity.

Low wages

Linked to the paragraph above and the previous chapter on Skills, levels of low pay can cause economic exclusion and act as a disincentive to take up employment - the so called 'poverty trap'. For example, weekly incomes in some parts of Northumberland are among the lowest in the UK.¹⁵⁴ Many households in the county are dependent on multiple jobs and income streams.

Offending

Large numbers of people can face additional barriers to employment due to a history of offending behaviour. Difficulties in securing stable employment can be a major cause of re-offending for such people, further undermining their prospects.

Underemployment

Underemployment of highly skilled individuals (e.g. graduates employed in low skilled jobs) is common in the North East due to a lack of higher level opportunities. This increases competition for lower level employment and limits the numbers of accessible opportunities for individuals with lower skills within the region.

Cultural

The impact of the decline of mass employment in heavy industry has in some cases generated cultural barriers to employment, such as a reluctance to develop new skills, retrain or change career, or a negative attitude to some types of employment. These cultural barriers vary between men and women, young and older people and within ethnic groups, and can take very different forms in different parts of the region. The voluntary and community sector has a vital role to play in addressing these cultural barriers in a flexible, person-centred way, and helping to re-engage excluded individuals in both learning and employment. Addressing this is about raising aspirations and widening opportunities at the same time as challenging people's expectations.

Inequality of opportunity

There is evidence that many employers prefer to recruit from those already in work, so all people who are not in work face a form of discrimination. Many also face additional discrimination based on their age, gender, health or disability, ethnicity or faith, sexuality or where they live. While much of this discrimination is now passive or unconscious rather than deliberate, it remains an important barrier to address.

¹⁵⁴ Earnings in the district of Berwick upon Tweed are just 65% of the UK average. *Annual Survey of House and Earnings* (ASHE), ONS (2004).



Northumbria University

The economy of North East England has changed rapidly over the last 20 to 30 years, moving from a traditional industrial economy towards one based on higher value knowledge sectors. This shift has to an extent been imposed on the North East due to the loss of global competitive advantage in traditional industries to other emerging national economies. However, as stated in section B1, we must accept some responsibility for where we are now and indeed where we will be in the future.

The decline of traditional heavy industries has provided the region with significant challenges. These challenges have left a legacy of communities with very high rates of worklessness, physical dereliction and wider social and cultural problems in many areas. As a result of these changes, the North East has by far the highest proportion of its population living in deprived communities of any English region.¹⁵⁵ It also faces the problem that many of its communities now lie some distance away from the centres of employment growth in the heart of our city regions. A further factor, as highlighted in IPPR's report *Towards Full Employment*, is that wide areas have low levels of demand for labour as evidenced by the employment rate. For example, in 2002/3 the Hartlepool travel to work area had an employment rate of 63.7%, adjacent to similar areas of Sunderland and Durham (66.1%), Bishop Auckland (63.7%) and Middlesbrough and Stockton (66.7%). These factors make the issue of providing access to employment very different in the North East from other parts of the UK.

Deprived areas are under-served by almost all forms of economic activity. This is exacerbated by the multiple nature of these problems which mean that measures to encourage economic activity, through enterprise promotion and support for skills development, for example, do not fully impact on these deprived areas. Improving economic participation rates in the region is an essential element of improving overall economic performance.



John Purvis, Aim High Routeback Project

THE IMPACT OF DEPRIVATION AND WORKLESSNESS

The Social Exclusion Unit report *Jobs and Enterprise in Deprived Areas* shows that concentrations of deprivation and worklessness in very local areas generate social, cultural and economic effects which undermine people's life chances. Low levels of economic participation and polarisation of communities within these areas generate peer, neighbourhood and intergenerational effects which can tend to 'lock in' economic exclusion. Such concentrations are predominantly found in the North of England, which contains 60% of the highest concentrations of worklessness, especially in the North East where almost 30% of streets are concentrations of worklessness compared to just one in 40 streets in the South East.

If we are to prosper as a region, we need to make the most of the talents of everyone who lives here, and ensure that the North East is an attractive place for anyone to come to and develop a career. Therefore, in addition to recognising geographical concentrations of deprivation, we must be aware of the particular barriers facing under-represented groups.

ECONOMIC PARTICIPATION AMONG SOME UNDER-REPRESENTED GROUPS IN THE NORTH EAST¹⁵⁶

Women make up 49% of the working age population and are paid 21% less on average than men in the North East. They also have lower economic activity rates than men.¹⁵⁷

People from Black and Minority Ethnic (BME) communities constitute 2.4% of the region's population and have far lower employment rates.¹⁵⁸ They are, however, more likely to be self employed, accounting for 5% of all self employment in the North East.

Disabled people have an unemployment rate of 8.6%, compared to 4.9% for people without a disability or illness.

Older people are far less likely to be economically active: 28% of the 50-65 year age group is not employed or actively looking for work.¹⁵⁹ Young people aged 17 are less likely to be in full time education than those in England as a whole but are more likely to be on Government supported training, and are more likely to be unemployed, and less likely to be in post-compulsory education, than elsewhere in the country.¹⁶⁰

While some of the information above reflects individuals' choices or personal circumstances, many of these people would like to work, move into self employment or progress within the labour market, but are prevented from doing so by a range of barriers. Addressing those barriers would enable these people to make a fuller contribution to the economic vitality of the region.

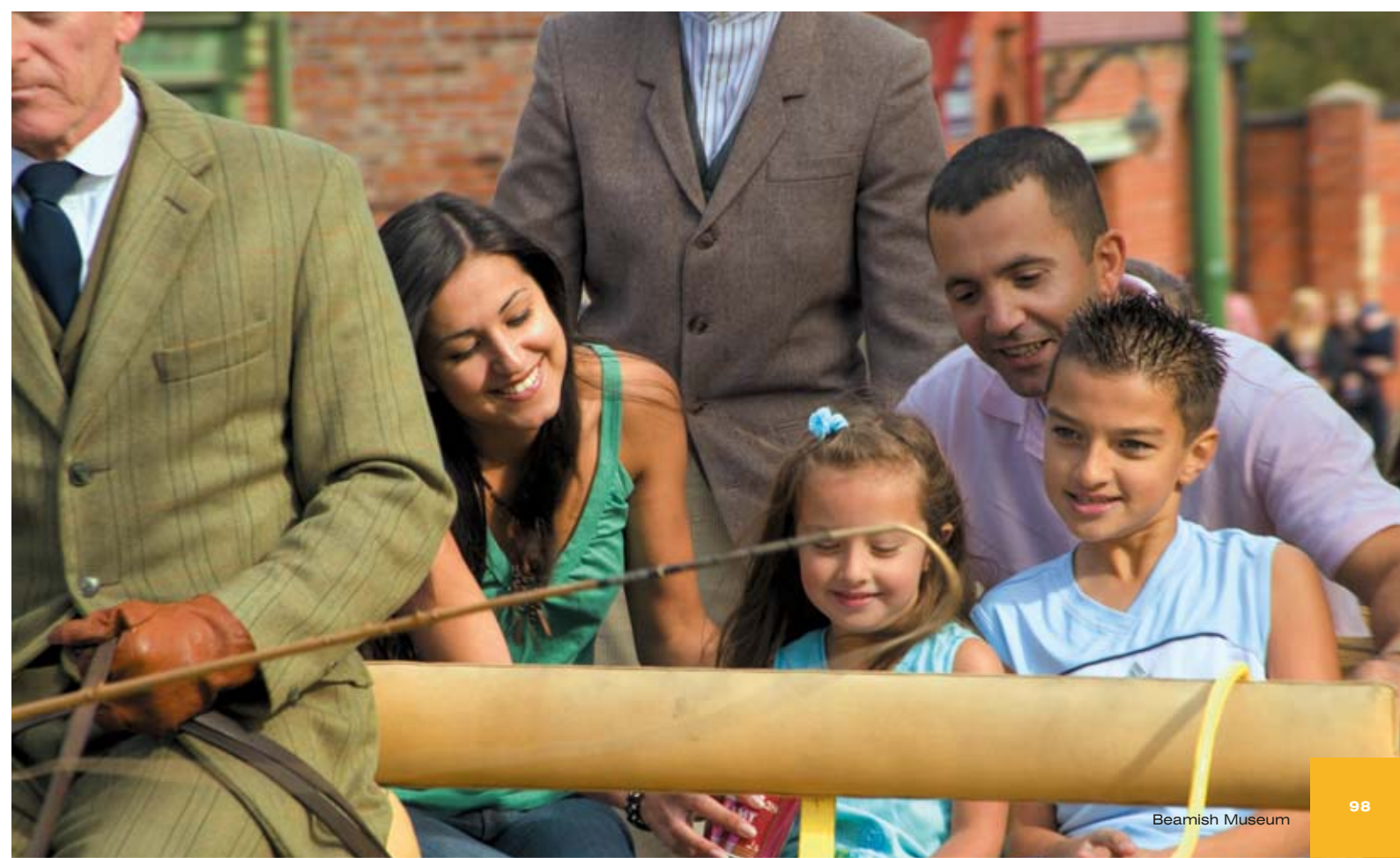
¹⁵⁶ This box provides summary data on economic activity relating to four of the six groups covered by equality legislation. At present, no regional data is available on economic activity relating to the other two groups - faith and sexuality. *Region in Figures*, ONS (2004/05) (unless otherwise stated).

¹⁵⁷ 70% for women, 77% for men.

¹⁵⁸ 52.5% employment rate for BME people of working age in the North East, compared to 69% for the white population, and 58.1% for all BME people in the UK.

¹⁵⁹ *Midlife Income and Employment*, Health Development Agency (2004).

¹⁶⁰ *Region in Figures*, ONS (Winter 2004/05).



¹⁵⁵ The Index of Deprivation 2004 shows that 22% of the North East's population live in the most deprived 10% of areas of the country, while only 8% live in the least deprived 20%.



Northumbria University fashion design

The way forward

Economic inclusion as an issue was not given as high a profile in the previous Regional Economic Strategy, Realising Our Potential. Since then, however, the SHINE process and other research and evaluations have identified the need to address economic exclusion and inactivity as fundamental to the future economic prosperity of the North East.

Our approach to achieving economic inclusion in the region is summarised through the following key strategic priorities:

- 1. Improving access to employment**
- 2. Raising economic participation in deprived communities**
- 3. Promoting equality and diversity**

Together, these actions should provide a bridge between measures to meet the social needs of individuals, deprived areas and disadvantaged groups, and measures to grow the economy.

1. Improving access to employment

We will develop a radical new regional approach to improving access to employment through active labour market policies appropriate for the North East. This will provide a coherent, joined up approach which adds value to national policies, brings together key partners from the private, public and voluntary and community sectors at regional level, and gives scope for locally responsive, flexible measures. Our approach will maximise the impact

of the work of these partners by aligning and coordinating investment by the public sector (Jobcentre Plus programmes, Neighbourhood Renewal Fund, Single Programme and other resources), and ensuring that actions are being joined up at regional and local level.

The approach is being led by a strategic group under the auspices of the Regional Skills Partnership. It will also raise awareness of the barriers to employment and the consequences of worklessness, identify and address gaps in provision, and promote good practice in improving access to employment. Our approach reflects the particular conditions of labour markets in the North East, including:

- The overall low level of demand for labour in the region, especially at higher levels, which creates an undynamic labour market and increases competition for entry level positions
- The widespread nature of worklessness, with most areas of the North East having an employment rate well below the national average, with particular concentrations in the former heavy industrial and coalfield areas of the Tyne and Wear and Tees Valley city regions
- The dispersed population, which means that many people seeking employment face long, difficult and costly journeys to reach the areas where employment growth is occurring
- The very high levels of reliance on incapacity benefits, reflecting the poor health of many people in the region.

CASE STUDY

NHS Recruitment



Disadvantaged groups often miss out on the job opportunities in the growing healthcare sector. By working in partnership, two North East agencies have shown how unemployed and unwaged people can get access to those opportunities and share in the benefits they bring. Gateshead Council's Economic Development Service and Northumberland and Tyne and Wear Strategic Health Authority joined forces, developing a programme to reach disadvantaged individuals and encourage them to fill a variety of positions at a new NHS Surgery Centre at the Queen Elizabeth Hospital, Gateshead.

Marketing of the vacancies took place with a highly successful information day at the Newcastle

Gateshead Hilton Hotel, where attendance far exceeded expectations and jobseekers were given information on prospects and career paths within the NHS. The partnership worked closely with Gateshead College and JobCentre Plus to develop a training programme which catered for the needs of the NHS and offered accredited courses and qualifications to potential employees. As a result, 33 individuals were placed into work.

This innovative way to tackle worklessness and address hard to reach sectors of the community, while at the same time meeting important NHS needs, is now being rolled out across the region.

More information: www.ntwha.nhs.uk

Our approach to improving access to employment is underpinned by five key principles:

- Ensuring that the benefit and tax regimes meet the needs of the North East in encouraging and rewarding people taking up employment
- Engaging employers from the private, public and voluntary sectors to ensure that supply side measures enable people to take up employment fit with the demand side needs of the economy
- Maximising the involvement of the voluntary and community sector¹⁶¹ and health promotion and care services to provide a person centred approach to meeting people's needs
- Ensuring that people are supported in developing relevant skills related to specific employment opportunities, particularly in the sectors set out in section A3, through training within supported employment/Intermediate Labour Market approaches where appropriate
- Maintaining appropriate support for people once in employment (and their employers) to encourage retention and progression in employment.

HEALTH AND ECONOMIC INCLUSION

If we are to successfully promote economic inclusion, health promotion and provision have a vital role to play in:

- Helping people to manage their physical and mental health conditions in order to return to or remain in work.
- Promoting health at work and providing occupational health support, to prevent people from developing conditions which prevent them from working. (This also plays an important role in supporting productivity within organisations. The region has performed strongly in this area, with below average days lost to sickness, which we can build on.)
- Providing a large number of employment opportunities at all levels, which can be made available to people currently out of work and to new migrants in the region.

Equally importantly, promoting economic inclusion is one of the best ways to improve people's health. As the region has generally poor health compared to the national average, we can make a significant impact on public health and reducing health inequalities by enabling people to more easily access employment and other economic opportunities.

This approach will be delivered consistently across the North East through an agreed regional employability framework, overseen by the Regional Skills Partnership, which will reflect changing national policies and priorities. Delivery will be sub regionally at two levels. Firstly, demand led, sector based measures at Travel To Work Area level (city regions) to enable employers to lead on actions to attract and develop potential employees. And secondly, locally based, flexible, responsive programmes to engage individuals at neighbourhood level, bringing together key partners within the Local Strategic Partnerships. Both sets of measures will need to embed emerging best practice and developing policy priorities in this rapidly changing area. Where necessary, pilot projects will be developed to test new approaches.

NORTHERN WAY INCAPACITY BENEFIT PILOTS

An example of pilot working is the enhancements to the Pathways to Work Programme to enable people to move from incapacity benefits into work. These are being implemented within the Northern Way. Incapacity benefit currently costs the North East approximately £8.5m per day in lost revenue, benefit costs, support and administration. If only a small proportion of this could be saved and re-invested in communities across the North East, through innovative programmes to engage and support those able to work to do so, we could make a major contribution to the growth of the region's economy. Pilot approaches are being delivered in Easington to test health based interventions, in Middlesbrough to test voluntary and community sector led interventions, and in Sunderland to test a demand led model.

¹⁶¹ The voluntary and community sector has a particular role in tackling worklessness. These organisations - often widely trusted within the community - can directly work with people to enable them to move off incapacity and unemployment benefits into economic activity. This unique role represents a major opportunity for voluntary and community organisations.

2. Raising economic participation in deprived communities

Other sections within this strategy set out priorities to increase enterprise and skills levels within the region which will in part help to raise economic activity within deprived areas. The strategic priority above outlines activities to improve access to employment across the North East. These will inevitably have a concentrated impact on deprived areas which have high levels of people who are not in work. The activities described below set out additional measures which we plan to add to existing activity, to ensure a comprehensive and holistic approach to raising economic participation in deprived communities.

It is important to note that holistic regeneration of deprived areas requires local programmes and activities to address wider social and environmental problems, including crime and community safety, health, housing and environmental amenities.¹⁶² While these are not direct economic interventions, and so are not discussed in detail within this strategy, they make a vital contribution to addressing the social, cultural and environmental factors which affect deprived communities at local level. DCLG (via Government Office North East and local authorities) leads on the social and environmental agenda. As described earlier, such social measures are essential in enabling people to take the first steps towards economic participation. The priority for the Regional Economic Strategy, as set out in this chapter, is to enable people in deprived areas to move on from this to take the second steps into full economic participation. Regeneration of deprived areas also improves quality of life and perception of the region and so contributes to sustainable, inclusive economic growth, and this is discussed further in section E (Place).

The map at the beginning of this section shows that areas of deprivation are found throughout the North East, but are particularly concentrated in the inner city, riverside and coastal areas of the Tyne and Wear and Tees Valley city regions, in the former coalmining areas on the edge of those city regions, and in more remote rural areas. Raising economic participation in deprived communities includes: skills for economic participation; business engagement and investment; financial inclusion; promoting access to employment; and steps to economic participation.

Skills for economic participation

The region contains many areas in which large numbers of people lack basic skills. The Social Exclusion Unit report¹⁶³ demonstrates that this can lead to intergenerational effects (which impact on children from as young as four years old), and community impacts which combine to create long standing concentrations of low skills. The Regional Skills Partnership is co-ordinating increased efforts to

¹⁶² As highlighted within the SHINE process.

¹⁶³ *Jobs and Enterprise in Deprived Areas*, SEU/ODPM (September 2004).

promote basic and key skills which will naturally target these concentrations. These skills – and enhanced progression routes to higher skill levels – are essential to increase the engagement of deprived areas. (See section D1 - Skills - for further information.)

Business engagement and investment

Many of our deprived communities are under-served by a number of services, and provide potential for strong returns from business investment. Therefore, we need to support businesses to locate in - and engage with - deprived communities in ways that meet their business strategy objectives. This may include the use of innovative investment funds to address market failure. Business Link organisations and Local Strategic Partnerships will play a leading role in this activity.

CHILDCARE

Childcare is an example of an area in which there may be a need for intervention to overcome the market failure in provision of services in deprived areas.

The provision of affordable, high quality childcare makes an important contribution to the economic potential of the region by enabling fuller economic participation by parents, especially mothers, and in particular single mothers. It is also an important sector of employment in its own right. The Working Family Tax Credit now makes childcare affordable for many parents, and the SureStart subsidy has stimulated the creation of supply across most of the region. However, a lack of affordable childcare remains a barrier to economic participation in deprived areas due to a combination of financial factors – even with Working Family Tax Credit, professional childcare costs are high for those on low incomes – and cultural factors such as a preference for using family and friends to provide childcare. As a result, there is a lack of effective demand for, and hence supply of, professional childcare in many deprived areas.

Measures to address this will be led by local authorities, working with partners, through: commissioning and co-ordinating the delivery of childcare services, promoting the benefits of childcare, supporting the development, extension and improvement of services; and encouraging provision to meet identified gaps.



Fit 4 Employment

Financial inclusion

Many people living in our deprived communities and in remote rural areas have difficulty in accessing mainstream financial services, which when combined with high levels of debt can undermine their ability to move into employment or business activity. We will work with banks, building societies, community development finance institutions and credit unions to find better ways to support measures to help people in deprived communities to achieve financial inclusion as an essential element of economic inclusion. This can help to retain money within the local economies of deprived communities, contributing to the sustainable, inclusive economic growth of the wider region.

Promoting access to employment

Economic growth and public sector interventions¹⁶⁴ will generate additional employment opportunities during the course of this strategy. Many of these opportunities will be within or close to deprived areas, particularly within the Tyne and Wear and Tees Valley city regions. Where possible, we will encourage people in deprived communities to take up such opportunities. This will be through locally based employment support, through construction and maintenance training and employment initiatives linked to regeneration activity, and by making better use of agreements with developers to provide employment and training opportunities for local people.

Where people live some distance away from these opportunities, additional measures may be needed to work with companies in the region to promote and support innovative remote working, and to support sustainable travel to work. These measures are discussed further in section E - Place.

¹⁶⁴ Such as the Lyons review relocations, NHS expansion and school rebuilding programmes.

CASE STUDY

Acumen Community Enterprise Development Trust Ltd



Acumen (set up in May 2003) supports social and economic regeneration in East Durham through engagement in learning, employment and enterprise. It acts as a bridge between the community and mainstream agencies. Acumen facilitates the Aim High network, with over 40 member agencies and 55 community venues working together to provide access to learning, employment and enterprise in every community in East Durham. Aim High is now a Testbed Learning Community for the Department for Education and Skills, and is already showing how joined up working can produce remarkable results.

Acumen supports people in practical ways - through self development, learning progression, job search and business support advice - to develop their own goals and dreams, and to achieve their ambitions. Involving people in activities in their community builds their confidence and self esteem, enabling them to take the next step to full economic

inclusion. Outreach projects run by Acumen include One 2 One Learning for Skills for Life and Bizfizz for enterprise coaching. As a result of their valuable activity, over 6000 people in the community have been engaged.

Since 2004, three social enterprises have been formed, namely Bloomin' Marvellous Landscapes, The Greenleaf Café and Wheels 4 Work. Acumen has also taken responsibility for Kidsbiz, Dalton Park Children's Centre, on a retail park. Acumen intervened to save the struggling children's centre in response to community demand - this represents a good example of private and voluntary sectors working together to benefit a community. Meanwhile, Acumen's Business Support Service provides marketing, administration and book-keeping support to small business start ups.

More information: kate.welch@acumentrust.org.uk

LOCAL ENTERPRISE INITIATIVES

Given the deep seated problems faced by many deprived areas, enterprise is a difficult choice for many people, and deprived areas tend to have very low business start up rates. Nonetheless, enterprise can be a viable route to economic participation for many people in deprived areas, if long term approaches with intensive support are provided to address cultural and practical barriers. Such action to promote enterprise and self employment within deprived communities will be led by Business Link organisations working with Local Strategic Partnerships. This activity will need to dovetail with current and forthcoming initiatives to promote enterprise in deprived areas, such as Local Enterprise Growth Initiatives, and measures to promote social enterprise which can often be a preferred form of enterprise for people from deprived areas.

Steps to economic participation

The long standing nature of economic exclusion suffered by people in many deprived communities means that many individuals do not engage with approaches to promote economic participation. This strategy recognises the importance of the support that is provided for such people to enable them to take the first steps towards participation, through community development activity, basic skills provision, aspiration raising activities such as ASPIRE, and other networking activities to build "social capital".¹⁶⁵ Much of this activity is provided by voluntary and community sector organisations, and is co-ordinated by Local Strategic Partnerships.

The priority for this strategy is to work harder to ensure that people from deprived communities are then encouraged to take the second step into economic activity which improves their life chances, reduces poverty and contributes to sustainable, inclusive economic growth. This requires us to put in place measures which integrate with local 'first step' activity to enable progression through a variety of routes into economic activity, including cultural and sporting activity and volunteering. It also requires us to ensure that programmes to promote economic participation do so in ways that support community activity, raise aspirations, build social capital and in other ways support those important 'first step' activities. (See section C - Business - and section D1 - Skills - for more details on aspiration raising among young people.)

¹⁶⁵ Social capital is defined as: "the personal contacts and social networks which generate shared understandings, trust and reciprocity within and between social groups, and which underpin co-operation and collective action, the basis of economic prosperity and economic inclusion". *Social Capital and Economic Inclusion in North East England*, One NorthEast/ICRRDS/MSC/WYG, (2005), p.v.

3. Promoting Equality and Diversity

The success of the region depends on the North East being a place where tolerance, diversity and equality are at the heart of the region's economic and social fabric. We will seek to embed these principles across the Regional Economic Strategy, to ensure representative influence, equality of opportunity and targeted impact across under-represented groups.

WHY WE MUST EMBRACE EQUALITY AND DIVERSITY

- Demographic changes and sustained economic growth in the region are beginning to combine to mean that employers need to attract staff from 'non traditional' groups including people over the age of 50, refugees, BME groups and disabled people.
- Businesses in the North East are realising that having a diverse workforce which reflects the diversity of their customer base helps to improve customer relations and customer focus.
- Long-standing BME communities and new migrants to the North East are both important groups of entrepreneurs, playing a vital and growing role in the business life of the North East.
- Employers are discovering that artificial barriers which can prevent certain employees from progressing (the 'glass ceiling') lead to lost contribution from those employees.
- Legislation (which now outlaws discrimination on the grounds of age, gender, ethnicity, disability, faith or sexuality), good practice guidance and corporate social responsibility are all pushing employers and service delivery agents to follow strong equality policies.
- A growing body of evidence shows that cities and regions which embrace diversity are more attractive, dynamic places to live as a result of the intangible 'buzz' that diversity can create.¹⁶⁶
- Linked to the above point, tolerant and open attitudes are major factors in retaining and attracting skilled workers within a global economy.

¹⁶⁶ Richard Florida was key to the development of this view. Recent research recognises the potential benefits of cultural diversity for the Tyne & Wear City Region. *The Intercultural City: Making the Most of Diversity*, Comedia (2005).

Action to promote Equality and Diversity will address the following areas:

- Support for representative groups of the six statutory strands of equality (age, gender, ethnicity, disability, sexuality and faith) - 'diversity groups'. This will develop their capacity to work together to identify and address their needs and strengthen their influence, in order to contribute to achieving sustainable, inclusive economic growth.
- Strong joint working between employers and diversity groups to highlight the economic benefits of promoting equality and diversity to employers and to support employers in realising these benefits.
- Strong joint working between diversity groups and public sector organisations to ensure that public services, programmes and projects, e.g. leadership development projects, are designed and delivered in ways which promote equality and diversity.
- Targeted actions to promote the North East to potential migrants, and to maximise the economic contribution of new migrants to the region through support for them to take up employment and to start new businesses.
- Research (led by diversity groups), to identify the economic costs of exclusion and the economic benefits of promoting equality and diversity, and to identify and share good practice in promoting equality and diversity within and beyond the region.

We will also maintain and develop strategic engagement between diversity groups, the public, private and voluntary sectors to ensure that the North East succeeds in promoting equality and diversity. These actions will be above and beyond the statutory measures which apply across the UK. These will be promoted and enforced within the region by the Commission for Equality and Human Rights.

CULTURE AND ECONOMIC INCLUSION

Cultural activity has an important role to play within the region. It underpins many aspects of economic inclusion through promoting participation among those not in work, especially through volunteering in sports and arts based activities and helping to raise aspirations and expectations. It can be an important way for marginalised communities and diversity groups to highlight their contribution to the North East.

Evidence and case studies indicate that the integration of cultural or leisure based activity within measures to promote access to employment and learning can increase their effectiveness, reach and impact. Making better use of our cultural and sporting assets can have a significant effect on young people and adults. Engagement in cultural, sporting or leisure activities can support a cultural shift in behaviour towards lifelong learning and participation in an imaginative, engaging and rewarding manner. It is therefore important that we make better use of the region's natural, cultural, heritage and sporting assets in promoting economic inclusion (see section E4 for further details).

Delivering the people agenda

As is stated at the end of section C, the RES Action Plan will provide further details of which organisations will be delivering actions set out in this strategy. In the meantime, it is helpful to note some examples of the types of activities to be taken forward as part of the people agenda, in order to promote increases in productivity and participation. These are:

- The **Regional Skills Partnership, Skills North East**, will lead on the delivery of the Skills Action Plan for the region. The RES will shape the longer term direction for the Regional Skills Partnership, focusing on higher level skills to support increases in growth, innovation and productivity, meeting the skills needs of the region's strategic sectors (identified in section A3), raising aspirations and attainment of young people, and continuing to work with Government to ensure skills policy and funding meets the economic needs of the North East. The ultimate aim is to move people and businesses up the value chain resulting in improved productivity levels, while also promoting the image of the North East as a place where highly skilled people can find appropriate employment and prosper.

- **The Learning and Skills Council** is responsible for planning and funding high quality vocational education and training for young people and adults. This involves improving the way learning is delivered to meet the needs of employers and individuals. The LSC will make an important contribution to addressing the challenge of raising skill levels to support and drive economic growth in the region.
- **Relevant sector skills councils and the Regional Skills Partnership** will contribute to and use the research commissioned by One NorthEast into sector strengths to meet strategic sector needs where appropriate. This will enable the North East's key sectors to grow and flourish, increasing levels of both productivity and participation.
- The **Regional Skills Partnership** will lead on developing a coherent approach to addressing worklessness. Three pilot initiatives will help to inform future regional and national policy in this area. The aim of this activity is to increase economic participation rates, enabling more people to contribute to - and benefit from - regional economic growth.
- The RES action planning process will seek to bring key partners from across the region together, including **local authorities**, the **LSC**, **One NorthEast**, **educationalists** and **schools**, to develop an approach to improve young people's participation and attainment in education.
- **Partners at local and community level, including Local Strategic Partnerships, local authorities and the voluntary and community sector** will work to address economic exclusion within deprived communities. This will complement additional activity already underway within deprived communities. Much of this work will link with and impact on the worklessness agenda highlighted above, with the aim of greater levels of economic participation and ultimately quality of life for those living in what are currently deprived communities.
- The **Equality and Diversity Forum** is the lead body in the region on equality issues. Members of this forum will take collective responsibility for increasing awareness of issues and ultimately increasing levels of diversity, tolerance and openness in the North East.

SECTION E

Place

The Business and People strategic priorities will be supported by activity set out in this section - Place. High quality place making will support the goals set out in sections C and D (Business and People) through: providing the physical infrastructure necessary to attract and support businesses, attracting and retaining highly skilled, creative individuals, connecting labour markets with areas of opportunity, and building on the region's competitive advantage in terms of quality of place.

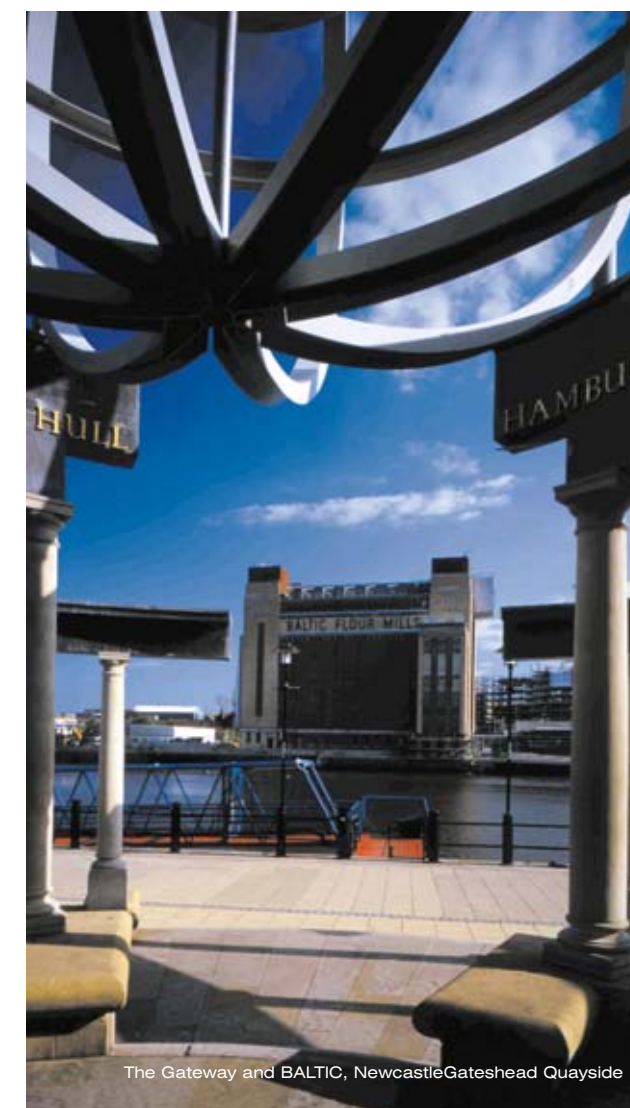
The Business and People sections set out how interventions to address low market demand can drive up productivity and participation levels. Increasing the stock of businesses by between 18,500 and 22,000 and increasing productivity levels of businesses in the region to 91-92% of the UK average - through, for example, enterprise activity, targeted sector development and skills improvements - will contribute to moving towards 90% of the national average GVA per head by 2016 (see section A4).

In addition, as has been made clear in the previous section, the region has a significant and distinctive worklessness problem. Focused action is required to move people who are currently economically inactive back into employment or education/training. The aim is to increase employment rates to around 73%, with between 61,000 and 73,000 additional people in employment to enable us to move towards the 90% target.

Place challenges

Throughout this strategy, the need for strong leadership has been highlighted. Tough decisions about the relative priority of investments must be made, as there is limited available public and private sector investment to deliver the strategy in the short to medium term. Focusing the majority of this investment on a few key initiatives is the only way the region can develop the critical mass to make the step change in economic performance required to narrow the gap with the UK average.

As highlighted in section A3, North East England has a great deal to offer in terms of its quality of place. We must ensure we offer the right mix of natural, recreational, cultural, lifestyle and other assets to encourage business



The Gateway and BALTIC, Newcastle Gateshead Quayside



location and growth, and retain and attract skilled and motivated people. This region has much to celebrate in terms of our natural, cultural and heritage assets, but there is far more to do to enhance our economy.

To create the required step change in economic performance (see section A4) we must make further improvements. In particular, we must strengthen our two urban cores. Currently, both the Tyne and Wear and Tees Valley city regions are underperforming in comparison with the national average. In order to achieve sustainable, inclusive economic growth across the North East, it is vital that these city regions realise their significant potential for growth.

Section A3 sets out how our rural areas represent some of our greatest assets. Where possible, there is a need to maximise the economic and environmental contribution of these assets, in particular to create stronger market towns with good infrastructure links to maintain the vitality of the countryside.

Parts of the North East's landscape have changed dramatically, both physically and socially, particularly over the last ten years (for example, the NewcastleGateshead Quayside and in physical terms, Seaham developments and Turning the Tide in Durham). However, there is still work to do to ensure that all parts of the region share in - and are able to contribute to - the opportunities for increasing prosperity through regeneration. Some areas have benefited from significant investment in physical regeneration, for example the former coalfield areas, but efforts must continue to be made to link areas of opportunity with areas of disadvantage and to work with communities suffering worklessness and deprivation to overcome the barriers they face in participating in economic activity.

The importance of business and people

As stated above, the Place section should be viewed as a means of supporting the activity within the Business and People sections to improve levels of productivity and participation.

Good quality business locations are characterised by: fit for purpose and efficient sites and premises, strategic and local linkages to markets for goods and products, especially in relation to a region's manufacturing industry, and attractiveness to (and therefore access to) appropriately skilled staff. The potential of projecting a positive regional image to reflect these attributes can also be significant. Company location, appropriate transport and other infrastructure, as well as other accessibility factors influence the flexibility of the labour market, and availability of opportunities for economically excluded people.

In addition, it has been demonstrated that well planned investment in environmental improvement in urban and rural communities¹⁶⁷ can boost commercial attractiveness and generate significant private sector investment. Sustainable, healthy, safe communities with access to a range of high quality housing and environmental and cultural assets are essential to retaining and attracting talented individuals, and increasing levels of economic participation.¹⁶⁸

Meeting the place challenge

In order to meet the challenges set out above, there is a clear need for infrastructure investment to be used to deliver economic development. As with all interventions in this strategy, the principles set out in section A4, i.e. maximising return on investment, intervening in areas of market failure, leveraging in private sector resources and sustainability considerations will inform Place investment decisions.

¹⁶⁷ *Managing Urban Spaces in Town Centres - Good Practice Guide*, Department of the Environment/The Association of Town Centre Management (1997).

¹⁶⁸ *The Northern Way: Growth Strategy* highlights the need to align regional strategies to support and promote economic growth, to underpin the creation of sustainable communities.



Walking in the Cheviot Hills

Overarching objectives

In investing in Place to maximise levels of productivity and participation and ultimately achieve sustainable, inclusive economic growth, we must:

- Ensure provision of appropriate and high quality sites, business premises, ICT connectivity and transport infrastructure to enable access to labour markets and markets and to support manufacturing and service sectors key to the region's economy. Such sectors include, for example, the Chemicals and Pharmaceuticals industry in Tees Valley and Northumberland, and Automotive sector which has a particularly strong presence in Tyne and Wear. In addition, effective ICT connectivity provision and utilisation, along with transport connectivity is vital for a thriving tourism industry across the region. A full list of priority sectors is set out in section A3.
- Support restructuring of the region's economy by providing the physical infrastructure key to strengthening the development of the knowledge based economy.
- Target investment in quality of place, creating healthy, safe, sustainable communities to help attract and retain businesses and skilled people within the region.
- Help to tackle economic deprivation and increase levels of participation by: addressing the physical barriers that prevent people from accessing opportunity, overcoming some of the physical aspects linked to deprivation, such as poor housing, and connecting areas of opportunity with labour markets.
- Project a clear and positive image of North East England to attract people and businesses from outside the region to live, work and invest here, and use this image as a tool for enhancing aspirations, skills and economic participation levels among people within the region.
- Promote, enhance and protect our natural, heritage and cultural assets to maximise their potential to underpin rising levels of productivity and participation.

Spatial objectives

Despite the increasing possibilities for remote communication, Place matters as much as ever in regional economic development. The overarching objectives can only be delivered through strong spatial prioritisation. Given the fact that the region has limited resources, and in applying the principle of maximum return on investment set out above, we have identified priority areas for development. This strategy places a particular emphasis on the strength and potential of the urban cores. The city regions concept, as set out in section A3, has strongly influenced the detail of the interventions within this document.

The list of spatial objectives was derived through discussions between partners, specifically those involved

in the creation of Sub Regional Investment Plans, the City Regional Development Programmes, and rural partners. Partners agree that limited resources means hard choices must be made. The locations identified are those we believe represent the greatest potential in terms of improving the economy through return on investment, as well as those places within which we have a clear, shared vision as to what can be achieved. Such a coherent vision will help to attract private sector investment.

In the North East, the Tyne and Wear and Tees Valley city regions have been the focus of most of the North East's economic growth, particularly Tyne and Wear. A significant factor within the existing and future city regional offer is the quality of infrastructure to support economic development. A clear rural programme, primarily focused on market towns and rural service centres, must be developed to complement such investment.

In both urban and rural environments, physical investment can act as a driver of economic growth. It is important, however, that such investment is considered as part of an integrated package of measures. The key to focusing investment in particular locations is to ensure that surrounding areas have easily accessible routes to these potential growth areas. For example, it is vital that areas with particularly high levels of worklessness are linked up with job opportunities. This section - Place - sets out how this will be achieved.

The following locations have been identified as being key to the region's economic development over the next ten years:

TYNE AND WEAR CITY REGION:

- **NEWCASTLE GATESHEAD:** Priorities include Science City, Central Gateshead, the Discovery Quarter in Newcastle, the Design Centre for the North to be built in Gateshead and the major housing renewal schemes of Bridging NewcastleGateshead. The transport nodes of Newcastle International Airport and Central Station are key gateways to the region, along with the Port of Tyne. The river provides a significant economic opportunity in linking other parts of the Tyneside conurbation.

- **DURHAM CITY:** *All our Tomorrows - Planning for the Future in Durham City* is the first phase of a strategic planning process which will guide further investment in Durham City. Durham City is only partly fulfilling its economic potential and has significant strengths to build on, including the World Heritage Site of Durham Cathedral and Castle and the strengths of the university.

- **SUNDERLAND:** Schemes including the Sunderland ARC sites (such as the Vaux Site and Sunnyside Quarter), the university, and sites around the Stadium of Light, Holmeside and Farringdon Row, offer key opportunities. Major housing renewal is being undertaken throughout Sunderland.

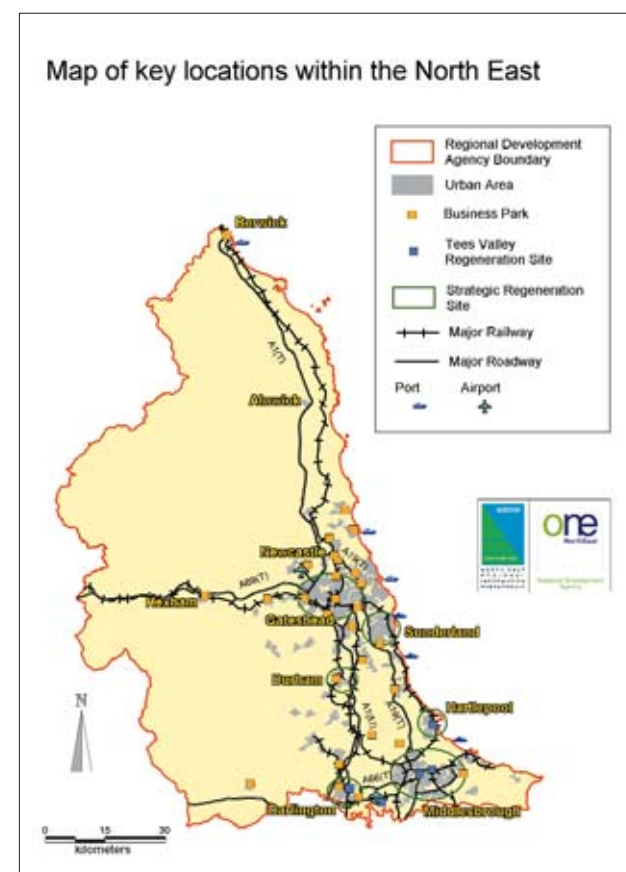
TEES VALLEY CITY REGION

- **STOCKTON MIDDLESBROUGH:** Major Tees Valley investment programmes will further develop and deliver a long term and strategic approach to the regeneration of the urban core, in particular the development of the Tees Valley Regeneration (TVR) sites of Middlehaven and North Shore.
- **DARLINGTON GATEWAY:** Taking forward regeneration in Darlington, including the development of the TVR sites at Central Park and Durham Tees Valley Airport.
- **COASTAL ARC:** Further developing the potential of the coast, such as the development of the TVR site at Victoria Harbour within Hartlepool Quays and maximising the potential of Teesport.

The map below sets out these key urban locations. This will be complemented by a targeted approach to rural market towns.

RURAL MARKET TOWNS

Significantly enhancing the current Market Towns Programme to foster the renaissance of key rural settlements as a driver of regional growth. Discussions with partners will enable further prioritisation to take place. For example, it is anticipated that prioritised market towns will include Berwick, which has the lowest levels of pay and lowest employment rates in the region, and is particularly distant from the city regions. In addition, Barnard Castle is likely to emerge as a priority, where an ICT based vision for the knowledge economy provides major opportunities for the future.



The overarching objectives will provide a framework to inform investment decisions around these key locations, within the context of addressing market failure and leveraging in private sector investment. On the basis of this framework, the Place section is structured around the following priority areas:

Strategic transformational regeneration

This priority aims to develop the capacity for strategic transformational regeneration programmes within the city regions and rural market towns, securing public and private investment in order to significantly enhance North East England's quality of place 'offer' to skilled workers, entrepreneurs and visitors.

Business accommodation

In delivering a portfolio of high quality business accommodation, we are aiming to ensure that the region's current and future businesses have access to high quality and well located business premises.

Transport and ICT connectivity

Improving connectivity within the region will enable labour market accessibility, joining up areas of opportunity with areas of deprivation. It will also improve businesses' access to markets and enhance communication channels.

Promoting, enhancing and protecting our natural, heritage and cultural assets

This priority aims to provide high quality natural, heritage and cultural environments which have the capacity to retain, attract and develop skilled workers, entrepreneurs, graduates and visitors. Core to this priority is the objective of developing and projecting the image of North East England both within the region, and to those outside.

Sections E1 to E4 provide further details on these four priorities. In some areas, further prioritisation is required, in line with the recognition of limited resources, for example in identifying strategic market towns. The RES Action Plan will enable further clarification of the activities for which partners are responsible.

E1 Strategic Transformational Regeneration

The North East has already successfully delivered some transformational physical regeneration programmes, for example, Grainger Town in Newcastle, the Newcastle Gateshead Quayside, Royal Quays, Victoria Harbour within Hartlepool Quays, and the regeneration of Seaham in East Durham. In some other areas, strategic approaches to regeneration are beginning to make a difference. This includes Durham Vision and the development of major mixed use regeneration sites. However, in many other areas, additional activity - including the development of strategic capacity to enable further prioritisation - is required if the North East is to gain a global competitive advantage through place factors.

Throughout this section we aim to be realistic given limited resources and the need to address market failure, and maximise opportunities to lever in private sector investment. Investments in infrastructure to achieve strategic transformational regeneration must also ensure the highest standards of design and environmental suitability, and fit with the spatial objectives set out above (i.e. an emphasis on the city regional approach, complemented and supported by strong market towns). For example, land should only be used for commercial or residential use if it is in an appropriate location to contribute to the strategic development of the city region and/or rural service centres.

The way forward

The key priorities in realising strategic transformational regeneration are as follows:

- 1. Developing and implementing prioritised and evidence based city regional development programmes**
- 2. Developing and implementing a strategic approach to market towns and rural service centres**
- 3. A better quality choice of homes to support economic development**
- 4. Regeneration delivery and quality**
 - 1. Developing and implementing prioritised and evidenced based city regional development programmes**

City Regional Development Programmes (CRDPs) for Tyne and Wear and Tees Valley have been developed as part of the Northern Way Business Plan and the RES. These programmes are summarised in the boxes on page 113. They represent a good starting point, but there remains significant work to do to ensure that they are sufficiently prioritised and focused to maximise regional impact. It is crucial to the region's future prosperity that the North East further develops and delivers coherent and evidenced based investment plans for these areas which include clear priorities for physical regeneration. These should build on past successes and set out a strategic approach to regeneration in the urban cores, to ensure we develop the right 'quality offer' for the future economy.



TYNE AND WEAR CITY REGIONAL DEVELOPMENT PROGRAMME - SUMMARY

The key **business development priorities** are:

- **Science City:** Building on the strength of the science base.
- **NaREC:** Maximising the potential of the New and Renewable Energy Centre of Excellence in Blyth and exploiting the opportunity Cramlington offers as a bioscience location.
- **Design corridor and the Design Centre for the North:** A pan regional programme linked to the Northern Way knowledge base and clusters workstreams.
- **Local enterprise:** Developing a more targeted approach to enterprise support which fosters economic inclusion.
- **Baltic Business Quarter:** Anticipated to provide around 7,000 highly skilled jobs.

Business development opportunities will be complemented by an investment in quality of place, with regeneration priorities targeted to maximise competitiveness and sustainability. Growth is proposed in core urban areas and around public transport nodes. The three main spatial priority areas are Newcastle Gateshead, Sunderland and Durham City. In addition,

the River Tyne provides opportunities to link up the urban conurbation of Tyneside. Key priorities are:

- Enhancement of e-connectivity and broadband take-up
- Provision of high quality and diverse housing choice
- Emphasis on mixing flagship employment sites with smaller scale development encompassing live-work schemes and community based employment initiatives, particularly in areas of multiple deprivation.
- Sustainable development in the semi rural and former coalfield areas of Durham and South East Northumberland to provide key centres of housing and local employment.

Employment sites of importance include: Newburn Riverside, Doxford Park, Newcastle Great Park, Team Valley, Aykley Heads, NETPark, Cobalt, and the A19 corridor. Further employment sites on the periphery of the conurbations will only be supported where strong and integrated public transport plans can be delivered, and where clear demand is demonstrated. In the future, car based employment sites will be resisted.

The priorities for **housing renewal** are: the Bridging Newcastle Gateshead Area, a strategic approach to the Durham settlements, and South East Northumberland.

The map below illustrates the Tyne and Wear city region and highlights some of these key initiatives.

CASE STUDY

NewcastleGateshead

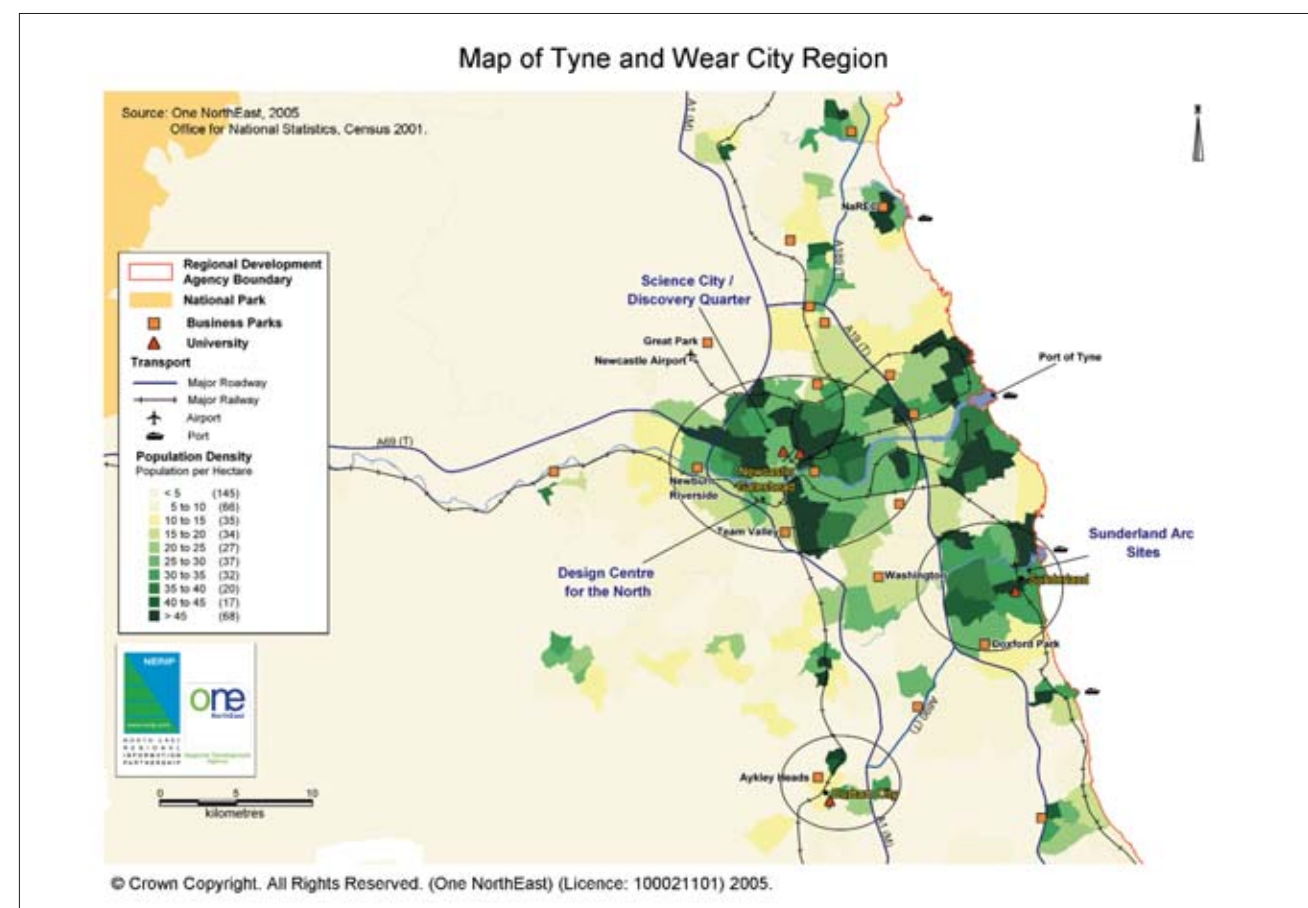


NewcastleGateshead proved that the identity of an entire city region can be revived by a substantial programme of cultural regeneration, improving both its status as a tourist destination and enhancing the quality of life for its inhabitants, together with improving the economic competitiveness of an area.

The combination of iconic and landmark cultural projects - such as The Sage Gateshead, BALTIC Centre for Contemporary Art, the Millennium

Bridge, Seven Stories Centre for Children's Books, the Angel of the North and major events including the Tall Ships - and the regeneration of the disused industrial landscape of Newcastle Quayside, has led to the area being considered as one of the top city break destinations in a national and international context.

More information: www.visitnewcastlegateshead.com



TEES VALLEY CITY REGIONAL DEVELOPMENT PROGRAMME - SUMMARY

In the south of the region, the key business development priorities are:

- **Chemicals sector:** Building on the strength of the chemicals sector, including investment in the Centre for Process Industries (CPI) and the National Bioprocessing Centre at Wilton.
- **New energy economy:** Building on the opportunity offered by the development of new energy economy via a package of investments including the Fuel Cells Applications Facility.
- **Teesport:** Maximising the significant opportunities provided by the development of Teesport as the only east coast port capable of taking 150,000 tonne vessels, which can provide direct access to sea in 30 minutes. Its successful development as a deep sea container port is of national significance.
- **Durham Tees Valley Airport:** Maximising the opportunities from the development in and around Durham Tees Valley Airport.
- **Universities:** Building on strengths in the universities, in particular Digital City, Queens Campus and Wolfston Research Institute.
- **NETPark:** Maximising the opportunity offered by the development of NETPark as a key location for the expansion of higher value added, knowledge based businesses.

These business development opportunities will be complemented by the creation of sustainable communities

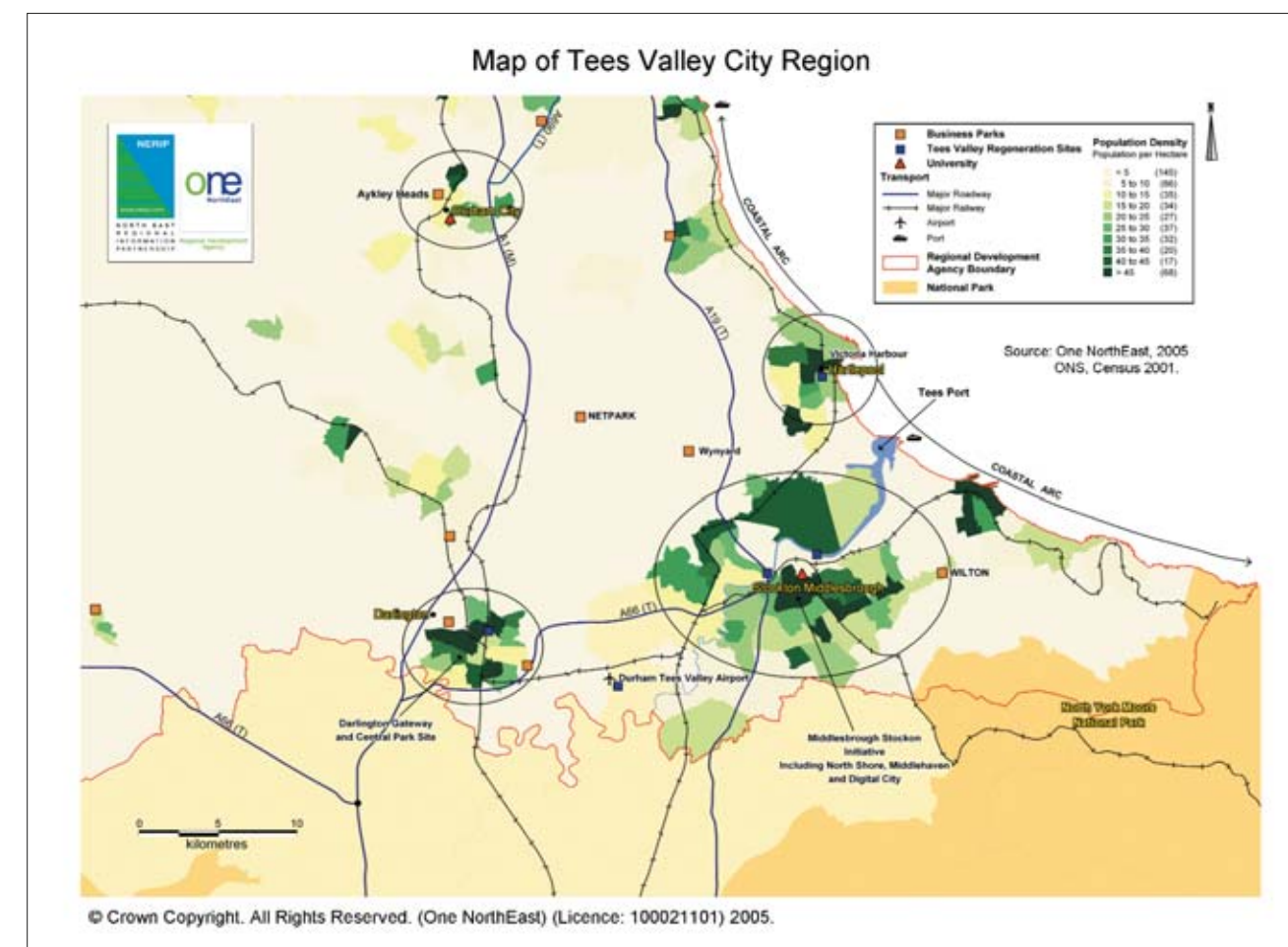
and a spatial focus on improving the quality of place in order to retain and attract skilled people. Key priorities are:

- The creation of an environment to develop the financial and business services sector in Tees Valley (including the engineering design sector), knowledge based industry, the growth of tourism and diversification of the economy
- Providing jobs close to areas of deprivation, and developing programmes to enable people from those communities to access those jobs
- Improving the quality of the built environment through the creation of attractive places which offer a wide range of leisure, cultural, retail and learning opportunities
- Providing greater housing choice to the people within Tees Valley in the centre of the communities.

In addition to the three spatial priority areas of Stockton Middlesbrough Initiative, Darlington Gateway and Coastal Arc, there are also opportunities to build on the strength of Newton Aycliffe Industrial Estate as a business location. The industrial park is currently home to over 250 businesses employing more than 8000 people.

The city region will also prioritise **housing renewal** activity across the city region, incorporating: the core of the conurbation; areas of the southern part of County Durham, and improving social housing stock in conjunction with the private sector. In addition, the Regional Spatial Strategy encourages the vast majority of new development on brownfield sites within the main urban centres, once greenfield sites with consent have been completed. Tees Valley Regeneration will contribute 6500 homes over the next 20 years on its four flagship sites.

The map opposite highlights some of these key initiatives.



Hartlepool, Tees Valley

DEPRIVED SETTLEMENTS ON THE EDGE OF CITY REGIONS

One of the distinctive features of the North East is the high number of relatively large settlements within rural areas on the edges of our city regions, often developed around the coal industry. Some of these former coalfield communities have transformed themselves, and are now finding new economic roles. However, many face problems similar to deprived urban areas, but these are exacerbated by perceived or actual remoteness from new economic opportunities. The legacy of large scale employment - which previously served as the social and economic heart of the community - has resulted in these areas being characterised by low levels of entrepreneurship, skills and economic participation. Aspirations and confidence levels continue to be low, in part due to the high levels of unemployment which have persisted across generations.

Significant investment has been made to address the economic challenges set out above, for example, the location of some Enterprise Zones, inward investment projects and Single Regeneration Budget funding. This investment is working in some areas, e.g. the regeneration of Seaham, but we must build on this to generate sustainable economic roles for these communities. Key to realising success within these areas is joining up activity, ensuring that such areas of deprivation can access areas of opportunity, and that people are both enabled and have the confidence to take up economic opportunities. Priorities within this strategy will help to achieve this through: supporting the growth of new businesses in deprived communities, reducing barriers to employment, and improving the transport connections between coalfield areas and centres of economic growth.

CASE STUDY

Biofuels Corporation Ltd



Tees Valley has recently become home to the world's largest biodiesel production complex - with an estimated value of £25m. The plant at Seal Sands, which opened in September 2005, will produce a total of 21,000 tonnes of biodiesel and glycerine. Biofuels has already secured 64% of its start up production, with further potential leads for 25,000 tonnes and interest shown from a mixture of UK and European refining companies and distribution businesses.

The aim of Biofuels Corporation is to produce greener fuels from crops such as oil seed rape. The manufactured diesel is made up of 5% conventional diesel, with the remainder coming from palm seed oil and rape oil. The fuel can be used in conventional diesel pumps at petrol stations, without the need for conversion, where it will help reduce carbon dioxide and sulphur emissions.

The company has the backing of Tees Valley Regeneration, the North East Process Industry Cluster (NEPIC) and One NorthEast.

Renew Tees Valley was established to promote renewable energy and recycling. Chief executive, Dermot Roddy comments, "I am delighted to see this plant coming to the Tees Valley. It will help breathe life into the work we are undertaking to create a cluster of economic activity around biomass technologies".

There are many growth opportunities available to the Group. This includes supplying the biodiesel market which already exists, as well as opening new markets in transport and other sectors. Biofuels Corporation Ltd is currently one of the largest biofuels producers in Europe, and is excited about prospects in the years ahead.

More information: www.biofuelscorp.com

2. Developing and implementing a strategic approach to market towns and rural service centres

Our rural areas provide significant opportunities for regional economic growth. Partners will work together to develop a rural vision for the region. A strategic intervention programme for rural areas will be developed to complement the city regional approach, maximising the economic potential of our rural areas. This will include a physical regeneration focus on market towns as rural service centres and includes the key market towns within Berwick, Alnwick, Teesdale, Wear Valley and Tynedale districts. A rolling programme of market towns regeneration will be established, likely to begin with addressing issues within Berwick and Barnard Castle. Further prioritisation will take place to identify the types of interventions required within key market towns. In parallel with this, regional partners will continue to explore the important role which landed estates have to play in the economic regeneration of rural areas. A map highlighting rural areas in the North East is set out below.

Locating and operating in a rural location provides challenges. In particular, access to services is sometimes more difficult, for example: accessing postal/delivery services, financial services, business support, and skills and training opportunities. A priority will therefore be to work with partners to develop innovative approaches to the design and implementation of rural services, in particular the provision of affordable housing and integration of rural transport. This integration of services is in line with the principles of Modernising Rural Delivery.

We are fully committed to supporting the development of a diverse and growing rural economy as a key contributor to the region's overall economic performance, and assisting in the delivery of the rural productivity PSA target. The Business and People priorities, and the programmes which flow from them, will be tailored to delivery in rural areas in order to maximise the positive contribution that rural areas can make to regional development. In addition, assistance will be provided to land based industries in maximising the opportunity which Common Agricultural Policy (CAP) reform and decoupling offers in developing more market orientated enterprises.

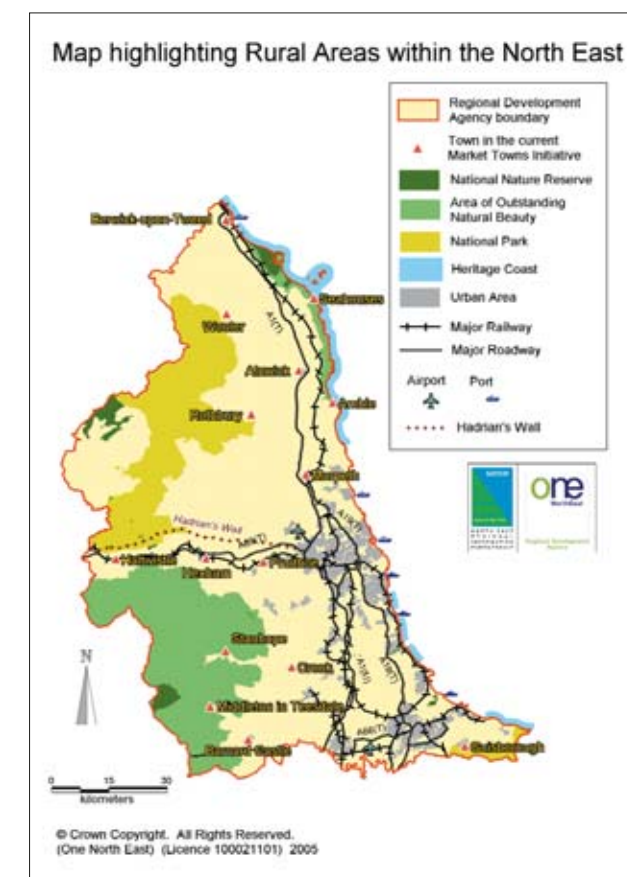
There are some specific opportunities for rural areas to contribute more to the region's economic prosperity. In particular, priorities will be:

Market towns

Most employment sites within rural areas are based within or around market towns. We will work to foster the renaissance of market towns as a key driver of regional growth, employment and service delivery to their rural hinterlands by enhancing the current Market Towns Programme through targeted regional and sub regional support and assistance. One NorthEast will work with partners to develop a clear prioritised rolling programme of market town regeneration. The RES is adopting a sequential approach to investment, however the relationship between these centres (market towns) and the surrounding areas needs to be further explored and understood - much in the same way as the relationship between rural areas and city regions.

Rural knowledge economy and broadband deployment

An increasing number of knowledge based businesses find a rural location to be a competitive advantage. Maximising the impact of knowledge based businesses growing and locating in rural areas is a regional priority. This will be achieved by building on current business support, skills, ICT, property and marketing investments. Exploitation and utilisation of current ADSL, satellite and wireless technologies will be key, in parallel with planning and investing in deploying the 'next generation' technologies. We will work to improve access to and usage of ICT and broadband technologies among rural communities and businesses.



Land based industries and fisheries

Regional partners will work with the land based industries and fisheries sectors, assisting them to embrace opportunities through adapting, restructuring and diversifying their businesses where appropriate.

Rural environmental and cultural assets

We must maximise the economic potential of environmental, heritage and cultural assets of the region's rural areas. These assets are the defining factors in our tourism offer, image and quality of life. We will build on the strengths and opportunities provided by such assets as our heritage coastline, our rivers and valleys, Hadrian's Wall, the Northern uplands (including the North Pennines Area of Outstanding Natural Beauty and the Northumberland National Park), our medieval castles and stately homes, and our rural 'tranquillity'. Key assets such as Beamish and the former cement works site at Eastgate also provide significant opportunities.

Rural transport

We will work to address economic exclusion within rural areas by improving the integration of rural transport and the availability of information about it (this will be complemented by other activity to address economic exclusion).

The LEADER approach

As part of the development of the new European funding programme (2007 - 2013) for rural areas, an evaluation of existing LEADER activities is underway to help identify ways in which these can be adapted to support the implementation of the new delivery arrangements. As part of this, we will also consider how these new LEADER based arrangements can support the delivery of the RES.

3. A better quality choice of homes to support economic development

Our success in promoting economic growth depends not only on restructuring our economy, but also on offering people attractive places to live, more sustainable lifestyles and a good quality of life, creating healthy, safe and sustainable communities well connected to areas of economic activity. Key to this is providing a mix of housing which meets the needs of people within the region and to attract people currently outside the region to live here.

However, migration from our urban cores has left a legacy of poor quality homes and environments, resulting in pockets of low demand for housing. The Government's housing market renewal programme has enabled the region to make a start in responding to low demand for homes. Bridging NewcastleGateshead and Tees Valley Living have developed strategies and programmes of intervention to provide better quality and a wide choice of homes. In addition, Durham Strategic Housing Group is tackling the housing issues arising from their changing economic circumstances. The region's urban communities need to attract upper and middle income group families to underpin their renaissance. This will impact upon the type and quality of homes delivered.

Despite these positive developments, both the *Northern Way: Growth Strategy* and this strategy have identified a need to do more. This includes providing better quality and an expanded choice of homes close to centres of economic growth, and affordable homes for local people in rural areas.

The North East Housing Board (NEHB), in the delivery of the Regional Housing Strategy (RHS), will ensure its strategic priorities and underpinning action plan deliver restructuring of the region's housing provision to provide quality and choice in support of economic growth. Priority will be afforded to our city regions, the economic potential of which is set out in the *Northern Way: Growth Strategy* and reiterated in subsequent work to develop positive economic scenarios to underpin the Regional Spatial Strategy.¹⁶⁹ CEBR Work (See section A). Simultaneous investment in more affordable homes in rural areas is also vital.

¹⁶⁹ CEBR work (see Section A).

CASE STUDY

Dipsticks Research Ltd



Dipsticks Research Ltd is a market research firm providing clients with "rapid research at reasonable rates". The company was formed in 1997 and its headquarters are in Allendale. Dipsticks is based in the rural North Pennines, employing state of the art communication tools such as broadband via satellite.

To complement this technology base, Dipsticks places the highest priority on increasing the skills of its 35 locally employed full time staff. As an SME, Dipsticks has access to One NorthEast flexible skills funding, and uses this to offer its staff a clear progression route for training and personal development. Many staff are also funded through the LSC European Social Fund to take the European Computer Driving Licence programme.

The company received the Investors in People Standard in May 2005. Lesley-Ann Thorburn, operations director at Dipsticks Research comments, "There is such a wide range of courses and funding available, we have been able to offer developmental training to all our staff." Through upskilling its workforce and offering training opportunities, Dipsticks is able to remain competitive and adaptable within its market. This investment in structured skills development for a rural community has created a very competent workforce with high morale and aspirations. The resulting high levels of productivity have resulted in Dipsticks winning numerous industry accolades, as well as securing major regional, national and international research contracts.

More information: www.dipsticksresearch.com.



4. Regeneration delivery and quality

Strengthening our capacity to deliver strategic transformational regeneration is an important part of this strategy. The scale and depth of physical regeneration programmes across the region is now huge. This is a fundamental issue which cuts across all of the above activity and encompasses quality standards, management and technical abilities, as well as financial capacity. Measures to tackle this will be provided through the national Academy for Sustainable Communities (ASC),¹⁷⁰ and complemented by the Regional Centre of Excellence in Regeneration (IGNITE), launched in March 2006.

The region's financial capacity will be developed to attract more private investment. This will be achieved through a range of measures including Property Investment Funds (PIFs) to attract more private investment.¹⁷¹ Increased partnership working and involving the private sector within projects earlier will allow for a growth in investment capacity and a greater level of targeting.

The quality of place we can provide is crucial to supporting the interventions and goals within the Business and People sections. The region's environmental, heritage and cultural assets are vital factors in contributing to its competitive advantage in terms of quality of place and, in recognition of this, we will seek to ensure that all investment in place will require all schemes and projects to be sustainable and of the highest quality.¹⁷²

Incorporating sustainable development principles requires good planning, management and design techniques, and will result in more sustainable lifestyles and business operations. Reducing carbon emissions and maximising resource efficiency are particularly important, alongside the development of effective renewable energy systems and environmentally conscious waste reduction.

There is a growing commitment throughout the region to follow the practices set out in Building in Sustainability: A Guide to Sustainable Construction and Development in the North East, published by Durham County Council on behalf of Sustainability North East (SustainE).

One NorthEast and the Sub Regional Partnerships (SRPs) have incorporated sustainable development into their project development and appraisal procedures through the introduction of a guidance manual.¹⁷³

We will investigate how to maintain and work to expand the capacity of the property and construction sector to deliver the region's ambitious regeneration schemes. The scale and variety of physical regeneration programmes across the region is vast. Housing stock transfers, housing market renewal programmes and urban and rural regeneration initiatives are all resulting in skills and delivery capacity issues (in the public, private and voluntary sector). This is a fundamental issue which encompasses management, technical and trades abilities, creative input, financial capacity and opportunities to raise economic participation.

E2 Delivering a portfolio of high quality business accommodation

A key element of business productivity is the availability of sites and premises which are fit for purpose, efficient and in the right location at the right time. Business requirements are adjusting as global drivers transform the focus to higher value added, knowledge based, globally competitive economies. Business location is an important factor in facilitating access to markets and appropriately skilled employees and enhancing workforce participation.

The *Northern Way: Growth Strategy* indicates that the majority of the region's economic growth potential will be in the city regions, and this must underpin decisions relating to the provision of commercial and business premises. However, our rural areas also offer a unique location for some types of business, and provide opportunities to attract additional economic and business activity to the region.

Research into the region's commercial property¹⁷⁴ has highlighted a number of issues including the following:

- The region has historically weak yields and low rental values in the property market, particularly in relation to industrial space provision
- In many areas there is a 'gap' between the cost of building business accommodation and its rental value
- The public sector has been involved in funding much of the property provision over the last 20 years
- There is evidence of an accommodation and business location 'mismatch' in property provision¹⁷⁵
- Upper level commercial space in market towns is generally in poor repair.¹⁷⁶

The way forward

The provision of business accommodation to maximise levels of productivity and participation will be delivered through the following priorities:

1. Overcoming market failure

2. Monitoring and review of business accommodation

¹⁷⁴ *Brakes and Drivers on the Regional Economy*, CURDS (2004).

¹⁷⁵ A regional study into employment sites and premises conducted in 2003 concluded that there is an overall requirement for fewer sites and premises, and a need to focus on improving the quality of supply which is better suited to current user requirements. *Development Sites and Premises Study*, King Sturge (2003).

¹⁷⁶ *An examination of the diversity and distinctiveness of the retail environment in the North East of England*, One NorthEast/Joined up North (2005).

¹⁷⁷ Typically, this investment is used to address a cost value gap or direct development through site remediation and servicing or, in some cases, the direct provision of premises.

¹⁷⁸ Research into Employment Land was recently undertaken to feed into the Regional Spatial Strategy and was based on the CEBR economic scenarios referred to in section A. As a consequence of this study, the draft Regional Spatial Strategy allocates 2,700 hectares of employment land for general employment use, major mixed use developments and prestige employment sites. CEBR work (see section A).

1. Overcoming market failure

In regional hot spots such as Team Valley and Tyne and Wear, the supply of sites and premises has been undertaken entirely by the private sector, but only after significant public sector intervention over many years. Elsewhere, public sector intervention has been - and still is - required to stimulate private sector investment.¹⁷⁷ This is particularly the case where land or buildings have been previously used, for example if the land is contaminated, or where the cost of conversion may be high. In many cases, business property developments are part of wider mixed use regeneration sites.

In addition, there remains an oversupply of general employment land in the North East, particularly in Northumberland, County Durham and Tees Valley. However, there is a potential shortage of employment land in Tyne and Wear through to 2021, which could be met in part through supply in Northumberland and County Durham, through their respective roles within the wider city region.¹⁷⁸

Effective use of public funds involves making the greatest use of scarce resources, recognising that resources must be used to achieve quality, in addition to quantity, when developing sites and premises. A core objective of the Regional Economic Strategy is to encourage the private sector to become the main enabler of business property by 2016. This can be achieved by maximising private sector opportunities and ensuring the market is not undermined. It must be noted that public sector intervention is also regulated by EU state aid regulations. An approach closely linked to the City Regional Development Programmes and the region's sectoral strengths and their ongoing development is therefore required if a sustainable commercial and industrial property sector is to emerge across the region.

For the North East to be competitive, we require a range of sites and premises relevant to the needs and aspirations of our businesses and communities. Interventions will be directly informed by the principles, overarching objectives and spatial priorities set out in the introduction to this section. Businesses require the following:

- Incubation and move on space, combined with appropriate business support
- Sites, premises and supporting research facilities to enable the economic benefits of sectoral activity to be realised
- Diversity of tenure and the option to buy freehold if necessary
- More flexible business accommodation
- Specialist facilities
- A portfolio of business accommodation, including a balance of new and refurbished property.

¹⁷⁰ Based in Leeds.

¹⁷¹ This will require initial work with ODPM and HMT.

¹⁷² This will include applying Constructing Excellence principles to project delivery. (www.constructingexcellence.org.uk). There will also be a requirement to apply BREEAM (Building Research Establishment Environmental Assessment Method) and CEEQUAL (Civil Engineering Environmental Quality Assessment and Award Scheme), as well as adopting the voluntary code for Sustainable Buildings, which is being developed collaboratively by ODPM, DTI and industry.

¹⁷³ *Sustainable Development in Project Design and Appraisal*, developed for One NorthEast by ERM (2004).



Design of the Times 2007 (dott 07)

While there is a need to retain some flexibility in supporting the physical needs of the region's businesses, there will be an increased emphasis on meeting and anticipating the needs of those sectors critical to improving the rate of growth and productivity of the North East's economy. These sectors are set out in section A3. Many of these sectors are spatially concentrated and so the location of business sites and premises can be effectively targeted.

The sector research undertaken to inform this strategy will be built upon to inform us further of the specific needs of strategic sectors. In terms of Place, this may include: the need for infrastructure developments to enable access to markets via airports or ports, access to specific ICT technologies, particular incubation facilities, and/or access to labour markets. It is also important to plan business accommodation around the needs of sectors identified as crucial for our future global competitiveness, in particular the 'Three Pillars' set out in section C3.

The North East has a number of mechanisms for the provision of its portfolio of sites, including the two Urban Regeneration Companies (Sunderland ARC and Tees Valley Regeneration), English Partnerships, and other public sector investors such as the health sector and the South East Northumberland and North Tyneside Regeneration Initiative (SENNTRI). In many cases, business property developments are part of wider mixed use regeneration sites.

The public sector, including local authorities, will continue to work closely with the private sector to enable the market to meet the region's commercial and industrial property needs and review how public sector agencies can best assist improvements in the performance of the commercial and industrial market.

This will include:

- The development of a set of principles to guide public intervention, in particular One NorthEast's Single Programme funds, in line with the RES priorities
- With private sector partners, examining the best use of existing mechanisms and developing new approaches – the Northern Way: Growth Strategy highlights the potential of investment funds – to ensure the involvement and development of the North East's commercial property sector.

An important contribution has been made to the supply of commercial property, through the Public Private Partnership, Buildings for Business, established by One NorthEast to regenerate and dispose of its £150m portfolio of industrial property. This is securing major regeneration gains through the alignment of public and private sector interests, and has been recognised as an exemplar project by Government and local partners.

2. Monitoring and review of business accommodation

As a region, we must develop a clear understanding of the quantity, quality and types of site and premises needed to maximise our economic competitiveness. Business accommodation within the region must enable businesses to grow and expand, so that business start ups can progress from incubator units to larger premises. An assessment of the region's sites and premises is also required to enhance our understanding of business demand and expectations. This will ensure that the region has a portfolio of sites and premises which positively supports sustainable economic development.

Research into the extent, quality and location of the stock of sites and premises in the region is therefore required. This will enable:

- The needs of existing businesses and industry to be met within the region, e.g. to address the expansion of technological developments
- The management of decline and conversion sustainably and efficiently
- The promotion of potential employment growth sectors key to the provision of a portfolio of sites and premises in a range of suitable locations.

Work undertaken to date in connection with the Regional Spatial Strategy Examination in Public has gone some way towards improving understanding of the scope, quality, location and availability of commercial sites and premises in the region. However, further information is required to inform economic development and planning policy at regional and local levels. Also, for this to be effective, a regionally consistent approach to employment land data collection and analysis is required. One NorthEast and the North East Assembly will be progressing this work with partners as a matter of priority.

E3 Enhancing the region's transport and ICT connectivity

The North East needs to make better use of its existing infrastructure if it is to support the growth of the economy. Connectivity is not just a transportation issue; it also concerns connection via Information and Communications Technologies (ICT), and the attitudes of individuals and businesses towards intra regional and inter regional exchanges. Use of this technology requires ICT infrastructure, such as the next generation of broadband coverage, to be in place at an affordable price.

As stated in the introduction to section E, we need to consider areas for investment in terms of how it supports the Business and People sections, ultimately delivering higher levels of productivity and participation to achieve sustainable, inclusive economic growth. This requires considering what we want to achieve through effective connectivity (an outcome focused approach) and as a consequence, what the key transport and ICT priorities are.

E3a Transport

We must ensure that transport investment is designed to support increased economic activity, business competitiveness and sustainable communities. Investment needs to be prioritised on this basis.

Key challenges specifically in relation to transport connectivity include:

- Developing strong internal connectivity between urban cores and surrounding labour markets and market towns
- Increasing levels of economic participation through linking up areas of worklessness and deprivation with areas of opportunity
- Enabling effective transport connections between the Tyne and Wear and Tees Valley city regions to enable them to function as a single economy
- Improving connectivity between our urban cores and international and national destinations to ensure North East England attracts and retains businesses through ease of access to markets
- Establishing improved links to European and global economic centres, primarily through air services
- Adapting to the possible changes in transport mode resulting from higher oil prices and the need to mitigate and adapt to climate change where possible
- Improving our links with the rest of the North and wider UK through, for example, making best use of our rail and road connections
- Increasing trade levels through maximising the potential of our ports and associated freight networks, and ensuring this is linked to the urban cores.

INTERNATIONAL BEST PRACTICE RESEARCH TRIANGLE PARK - NORTH CAROLINA

Research Triangle Park is the largest research park in the United States, both in terms of employees and acreage. Within the 6900 acres there are 137 organisations, the majority of which are research based companies.

Research Triangle Park combines a high quality built environment and a setting that is described as vibrant and beautiful – securing awards as a world class place both to work and to live. The attractive environment and quality of the smart, fit for purpose buildings enhance the image of the park, attracting high profile companies to the area and so expanding the cluster of firms in the locality. The park is also

conveniently located near three major research universities, the presence of which results in a high quality workforce being readily available to employers. Close proximity to these and other institutions enables valuable cross fertilisation and learning.

The park is successful in delivering a sense of community and synergy involving the participants in the research led cluster and supporting organisations. It has created jobs for local citizens and led to amenities and services being provided in the region which would not otherwise have been available in the community, for example a variety of cultural, recreational and entertainment facilities along with an excellent infrastructure. These factors have encouraged continual investment, with companies eager to be part of the park's innovative environment.

Such challenges help us to understand the types of transport connectivity required to increase levels of productivity and participation. However, not every aspect of service provision and investment decisions are within the region's control, and resources are limited. Setting up a new Regional Transport Board (RTB) will provide the platform for strong leadership and the joining up of transport strategy with other regional priorities.¹⁷⁹ It is anticipated that the RTB will have the opportunity to shape long term regional budgets through Regional Funding Allocations. Better regional decision making, reflecting the way of working set out in section B, means that our priorities for investment will require a strong evidence base and sound appraisal methodology to ensure that decisions on transport investment are more effectively aligned with our economic development objectives.

Transport projects are currently appraised using a sustainable development framework which captures social welfare benefits. We must also push for transport priorities to demonstrate the contribution to wider economic benefits including productivity and GVA.

The way forward - transport connectivity

Key priorities to promote increased productivity and participation through effective transport connectivity are as follows:

1. Meeting economic challenges through effective use of transport investment

2. Increasing intra-regional connectivity for economic growth

3. Utilising our national and international links to drive up productivity

Priorities for ICT connectivity follow this transport section.

1. Meeting economic challenges through effective use of transport investment

The RTB will develop a clear business case for regional and local transport priorities, reflecting our economic challenges. We will also seek to maximise opportunities in making the economic and social business case for transport investment through the *Northern Way: Growth Strategy*. There will be increased emphasis on pan regional collaboration around transport investment through the Northern Transport Compact. At a national level, we will work to influence transport decision making to ensure the region can fully participate in the wider UK economy.

Regional partners will also work to ensure that existing infrastructure is utilised in a more effective and efficient way, including an emphasis on maintenance of existing networks, public transport connectivity/integration and demand management.¹⁸⁰ An example of good practice in this area is research commissioned by Tyne and Wear local authorities to examine traffic demand management measures in respect of the Western Bypass. Transport demand management and other energy demand management is key to ensuring sustainable economic growth, where possible reducing pollution and improving air quality.

2. Increasing intra-regional connectivity for economic growth

Internal transport priorities will be developed in the context of the principles in section A4, and the overarching objectives and spatial priorities set out in the introduction to this section. This will ensure a coherent, joined up approach to infrastructure and physical regeneration developments.

Our **urban cores** must be well connected in order to maximise economic participation levels across the region, in particular enabling access to opportunity for those economically excluded. Accessibility between the Tyne and Wear and Tees Valley city regions is currently heavily road dependent. Rail services between Darlington and Newcastle Central station are good, but lie too far to the west of the Tees Valley to serve much of the population. There is a clear need to ensure fast and effective public transport services between the two urban cores. In addition, the urban cores must be linked to labour markets and rural market towns via public transport, to ensure all in the region have the opportunity to contribute to and benefit from sustainable, inclusive economic growth.

Specifically in relation to **rural connectivity**, the Government's Rural Strategy (2004) places new responsibilities on Regional Development Agencies to provide social and economic regeneration in rural areas.¹⁸¹ Key to economic prosperity within these areas is linking up areas of opportunity (in particular market towns as hubs of economic activity) with labour markets in other rural areas.

CASE STUDY

Teesport and the Logistics and Distribution Sector



Teesport, the largest deep water port on the east coast, handles around 6000 vessels and 54 million tonnes of cargo per annum. The port is the second largest by volume in the UK and a key component of the North East's transport and business infrastructure. It provides almost 2000 core and directly related jobs, accounting for around 2.6% of Tees Valley employment, and contributes around £250m annually to the region's economy. It is critical to the success of the major industry sectors in Tees Valley, including the 12000 jobs in the chemical processing industries. Teesport has the capability to handle rapidly increasing opportunities in European and Scandinavian trade, and to enhance prospects for future investment within the region.

An excellent example of the port's contribution to inclusive, economic growth is the proposed new deep sea container terminal, involving £300 million private sector investment. This would increase levels of economic participation through the creation of around 500 new direct jobs, and potentially 4000 indirect jobs within the ports, logistics and shipping sectors.

A further 3000 jobs could be created from additional import and distribution centres. The first of these is already being built by Gazeley, where the £20 million phase 1 investment will create 300 jobs. Full completion is expected to create up to 450 jobs and lay the platform for further investment in warehousing activities, provided that full intermodal capability with an emphasis on rail is available. It is also important to note that logistics and distribution is a key enabling sector, as well as a sector in its own right requiring appropriate return on investment tested interventions in infrastructure and training.¹⁸²

The economic significance of this investment for the region, along with the potential to relieve 'southern discomfort', will be argued by partners directly to Government and via the Northern Way process. This approach is fully supported within the Regional Economic Strategy.

More information: www.pdports.co.uk

¹⁸² In the North East, distribution sector employment was estimated at 61,000 in 2005 and forecast to grow to 64,200 by 2015. Cambridge Econometrics (July 2005).

¹⁷⁹ This is consistent with the Government's commitment to greater regional decision-making, and is reflected within the *Regional Emphasis Document*, One NorthEast/GONE/North East Assembly (2003).

¹⁸⁰ Department for Transport statistics show that the North East is the least congested (2.7 seconds lost per vehicle km in NE compared to England average of 4.2). A *Measure of Regional Transport Congestion in England - Method and 2000 baseline figures*, Department for Transport. Also, levels of car ownership in the region are low (0.8 cars per household - same as London - compared with England average of 1.1). *Regional Transport Statistics*, Department for Transport (2004).

¹⁸¹ This portfolio of responsibilities includes the existing Rural Transport Partnership of arrangements.

One NorthEast will work with Sub Regional Partnerships and Rural Transport Partnerships to consider how best to address accessibility issues and how this should be managed in the future.

In terms of **roads**, priorities again will be where investments increase levels of productivity and participation. The A1 Gateshead Western Bypass, A19 (including the planned second Tyne Tunnel), and A66 improvements are important to ensure freely moving strategic regional corridors for both passenger and freight transport, enabling access to markets and labour. This is aligned with priorities within the *Northern Way: Growth Strategy*.

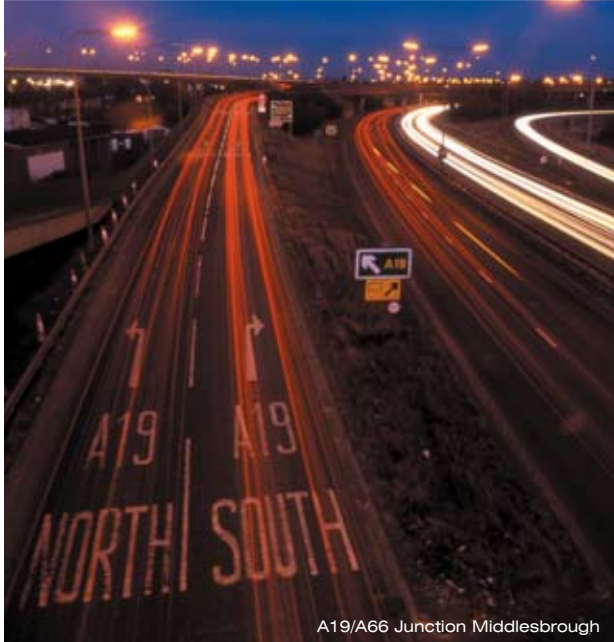
Also in relation to the region's roads and physical regeneration projects, there is an urgent need to review the implications of the Highways Agency's use of powers under the General Development Procedure Order. These powers enable the Highways Agency to restrict development where it is felt there is insufficient capacity on the surrounding roads. The region will work with Government to identify whether there is a special case for the North East to ensure that economic development is not restrained.

3. Utilising our national and international links to drive up productivity

In pursuing regional economic growth, we must maximise sustainability. The retention and development of rail services remains vital if we are to minimise our reliance on the road network for our inter-urban travel. Research indicates that high speed **inter-regional rail links** would have a positive impact on reducing the North East's peripherality from the rest of the UK economy. We would welcome the opportunity to input into any future Government review of high speed opportunities.

The East Coast Mainline (ECML) is a major strength of the region. Connections must be improved between those urban cores within the region not currently covered by ECML (for example, much of Tees Valley and Sunderland), and the existing stations on the mainline. The importance of ensuring that all of our urban cores have inter-regional links provides a strong argument for establishing new direct rail services between Sunderland and London via Tees Valley.

The introduction of such a service would provide additional connectivity between the two city regions, as well as increased accessibility for those communities currently distant from the East Coast Main Line.¹⁸³ Such a service must not, however, limit the efficiency and effectiveness of the ECML as it currently stands.



A19/A66 Junction Middlesbrough

The region's **ports** are a significant asset both in terms of increasing trade levels for businesses in the region and their direct contribution to the economy. The ports continue to diversify their activities to reflect a changing economy. However, trade potential is currently constrained, among other things by capacity problems on the rail network. Extending rail freight capacity - including gauge enhancement - to maximise the economic potential of the ports remains a priority. Such issues must be addressed if the ports are not to be restrained in growing a greater share of UK port business in the future, and in making a bigger contribution to the region's economy.

Air services are crucial in attracting and retaining businesses within the region. Effective air links can raise levels of firms' productivity through reducing time taken to travel. Developing a transatlantic route from the region is a priority for raising business productivity.

The region has a relatively poor network of direct daily air services, reflected in the fact that some 29% passengers travel out of the region to make onward connections. Business travellers in particular are heavily dependent upon South East hub connections, yet these services have decreased by 11% since 1999. It is vital that we retain our existing London hub services from both Newcastle International and Durham Tees Valley airports, while expanding the existing services to other European centres.

Like the ports, the **airports** themselves make a significant direct contribution to the economy. Planned developments, set out in their respective master plans, set out how the region will gain maximum benefit from the airport businesses and their private sector development partners.

¹⁸³ *Northern Way Growth Strategy Connectivity Technical Report*, CURDS on behalf of the Northern Way Steering Group (2204) p. 17.

E3b Information and Communications Technologies (ICT)

The quality of infrastructure is a critical source of global competitiveness in an age within which businesses exert a higher degree of choice over where to locate. Connectivity should not be viewed solely as a transportation or utility supply issue, it is also about connection via ICT.

THE NEED TO BROADEN ACCESS TO ICT

"We must be in the forefront of new technologies to remain globally competitive. And most important of all, we must make sure the whole of society can experience the benefits of the internet. Too many people still don't enjoy the advantages that ICT offers."¹⁸⁴

Together with improvements in human skills and organisational structures, technological innovation is recognised as one of the fundamental drivers of productivity growth, and thus directly contributes to sustainable, inclusive economic growth. Effective utilisation of ICT has the potential to increase trade, improve efficiency and effectiveness, and to transform business processes.

In addition, the availability of utilities, including water, electricity, gas and telecommunications, has a significant impact on the quality of life and business competitiveness within an area. It is important that private sector utility



Broadband in rural areas

provision and regeneration investment is effectively joined up. This not only includes ICT infrastructure, but also water and energy supplies, and will require effective co-ordination and long term planning.

Statistics indicate that the region's current performance in relation to ICT is mixed. This can be attributed to the fact that there is no consistent correlation between access to ICT and usage. Indeed, the most common error made when analysing ICT is to focus on how we are enabled, and not on how we choose to act.¹⁸⁵ Take up and utilisation of ICT is discussed in more detail in section C2.

The way forward – ICT connectivity

In addition to the investments in transport connectivity set out above, we will prioritise the following in promoting ICT connectivity:

4. Accessibility and utilisation of broadband

5. Horizon scanning for new technologies

4. Accessibility and utilisation of broadband

In order to increase levels of productivity and participation, it is essential that the region has high quality ICT infrastructure. In terms of broadband coverage, the North East has the highest proportion of enabled households outside of London.

Ubiquitous broadband access is vital in creating an inclusive knowledge economy of the future, enabling higher levels of economic participation. Private telecommunications companies have invested in broadband infrastructure in many of the region's urban areas. However, in some areas, the cost of broadband services is beyond the reach of many small businesses and communities. In particular, the telecommunications companies have not invested in the infrastructure to serve most rural communities. Each of the four Sub Regional Partnerships have drawn up detailed plans on how to meet the specific needs of their areas.

5. Horizon scanning for new technologies

The region must not become complacent as ICT technologies develop. Rather, we must 'horizon scan' and consider additional public sector investment if markets fail to deliver future technologies in some parts of the North East.

¹⁸⁴ *Connecting the UK: the Digital Strategy*, PMSU & DTI (2005) p. 3.

¹⁸⁵ *Modernising with Purpose: A Manifesto for a Digital Britain*, IPPR (2005).

E4 - Promoting, enhancing and protecting our natural, heritage and cultural assets

In an era of global trade where cities and regions compete for scarce resources, unique competitive advantage can be gained from building on indigenous strengths which offer distinctive appeal to the individuals, businesses and investors who drive modern economies. In former industrial regions like North East England, these strengths and this advantage is often to be found in the depth and wealth of natural and cultural assets which collectively contribute to regional image and identity, coupled with a character of people and place which presents real opportunities for economic development.

As highlighted previously, creativity and innovation have come to be seen as the driving force of those modern knowledge economies which operate successfully in a global marketplace. The capacity for cities and regions to compete and prosper in the global economy is, therefore, a function of their ability to attract, retain, and nurture the highly skilled, creative individuals and entrepreneurs who are driving high value, high productivity, high growth economies.

Quality of place, quality of life and the well being of communities have become central to regional competitiveness and relocation decisions. Raising quality of life for all in the North East is addressed throughout this document, in line with the *Northern Way: Growth Strategy* and the UK Sustainable Development Strategy.¹⁸⁶ The long term thinking underpinning the RES and the Sustainability Appraisal undertaken to inform this document, have emphasised the importance of not compromising quality of life for future generations. This is stated in our overall aim of achieving sustainable, inclusive economic growth.

NORTH EAST ENGLAND'S NATURAL, HERITAGE AND CULTURAL ASSETS

North East England has many strengths to build on in terms of its distinctive cultural, natural and heritage assets. The region is acknowledged as a place of exceptional natural beauty, and includes some of the highest quality environmental assets of any English region. Around 30% of the region is designated as an Area of Outstanding Natural Beauty (including the North Pennines, Britain's first designated European Geopark) or National Park, and contains many of the UK's most important habitats and associated species. The region is characterised by Heritage Coasts, National Trails and Sites of Specific Scientific Interest (SSSIs), providing international recognition and representing one of the key strands underpinning the tourism and health and physical activity sectors. The region's high quality environment positively impacts on the economy, with business turnover around £110 million,¹⁸⁷ and up to 50,000 jobs dependent on it.¹⁸⁸ In order to maximise this economic potential, we must work to protect and enhance the region's natural environment and biodiversity.

The North East has also benefited from substantial investments in water and wastewater treatment infrastructure over many decades. These investments have generated environmental, economic and social benefits by enabling activities such as: quayside and waterfront developments; tourism and recreational use of waterways; and availability of high quality water resources for the manufacturing industry. Consequently, the North East has ample supplies of clean water and its rivers are some of the cleanest in the UK. It is vital that in taking this strategy forward we maintain and continue to improve our natural assets, including the quality of our water and air through effective demand management and integrated pollution control measures.

The region's green spaces are a vital asset,¹⁸⁹ particularly in the context of increasing development pressures. As well as being crucial in maintaining our biodiversity and ecosystems, green spaces have been termed the 'green lungs' of our towns and cities; contributing to improving people's physical and mental health by providing places for informal recreation and 'breathing spaces' to take time out from the stresses of modern life.¹⁹⁰ Our green infrastructure is increasingly recognised as being a key component of sustainable communities. It is critical that the benefits of these public assets are maximised through sound planning and management.

Our natural environment¹⁹¹ is complemented by a rich and diverse historic environment which boasts two World Heritage Sites (Hadrian's Wall and Durham Castle and Cathedral), and a wealth of medieval castles and historic houses. Our museums, for example Beamish, are rightly recognised as having world class status. The region can also claim to be the cradle of British Christianity with key sites at Lindisfarne, Jarrow and Monkwearmouth. Our library and archive provision plays a central role in creating and supporting a strong sense of place and regional identity, alongside its role in enhancing the education and skills of a wide range of user groups, ultimately contributing to levels of economic participation.

These natural and heritage assets have important economic benefits:

- Northumberland National Park attracts 1.4 million visitors a year, generating £30 million annually.
- Of 50,000 jobs related to the environment, an estimated 27,000 are directly dependent on natural and cultural assets.
- The Hadrian's Wall Corridor currently attracts overnight visitors representing 6.27 million nights. Two million trips per year are made, worth £105 million to the local economy and the site attracts 1.5 million day trippers (to a value of £29 million) and supports 3,700 directly related jobs.
- Cycle tourism is currently worth about £9.5 million and supports over 400 jobs.

Our distinctiveness is also captured through the region's sporting profile, recognised nationally and internationally through football, athletics, the Great North Run, cricket, golf and rugby, and, increasingly as a result of the region's natural, sporting and leisure related assets. Participation in sport is not only beneficial for its own sake, but also contributes to educational attainment, economic participation, community cohesion and health and well-being, as well as directly benefiting the economy.¹⁹² The North East is now engaged in plans to maximise the opportunities that the London 2012 Olympic Games and Paralympic Games present, including procurement opportunities for North East firms, promoting the image of North East England, encouraging tourism, delivering events, encouraging participation and inspiring local communities.

In the last five years, North East England has achieved a new status as one of the world's most creative places, with significant progress being made in the development

of new cultural assets, a growing profile of world class public art, both permanent and temporary, distinctive architecture and physical regeneration of its industrial and commercial heart. Our physical cultural assets are underpinned by creative businesses which are developing Intellectual Property and a dynamic and creative workforce. Film and media businesses raise the profile and awareness of the region, placing it strongly in global markets. Festivals and events, including those developed and promoted as part of the Culture¹⁰ programme also utilise the strengths of the region's cultural base to promote positive messages to visitors and equally importantly, provide the local population with opportunities for economic and social growth.

One of the key strategic sectors identified through recent research is 'Commercial creative' (see section A3 for further details). This sector makes a major contribution to supporting the image of the North East via the development of a creative knowledge economy.

Finally, our retail sector is important for the region's quality of place offer. Vibrant and distinctive retail centres make places attractive and contribute to our quality of life.



The Alnwick Garden

¹⁸⁶ *Securing the Future*, HM Government (2005).

¹⁸⁷ *The Economic Value of Protected Landscapes in the North East of England*, SQW (2004).

¹⁸⁸ *Valuing the Environment of the North East of England*, ERM (2001).

¹⁸⁹ Green spaces possess both productive and intrinsic values.

¹⁹⁰ Greenspace Scotland (2004) www.greenspacescotland.org.uk

¹⁹¹ The natural environment is broadly defined as natural environment, landscape and recreational infrastructure.

¹⁹² *The Regional Plan for Sport and Physical Activity*, Sport England (2004), sets out how the region will increase levels and maximize the benefits of sporting activity.



Passionate People, Passionate Places campaign

'Culture' within this section refers to social interactions, values and diversity, in addition to creative/cultural assets. These are some of the components that make us regionally distinctive and understanding them is intrinsic to supporting the delivery of the RES priorities.

Cultural, natural and heritage assets form a vital part of our region's quality of life offer and provide significant economic potential. They form the foundation for a positive regional image. This can be capitalised upon through attracting tourism visitors, businesses and investors. Indeed, the region is continuing to establish itself as an international tourist and business destination underpinned by the image of friendly people and a warm community spirit. The people of the North East are key to its image, not just in terms of skills levels and other 'measurables', but attitudinal factors such as perceived aspirational, openness and tolerance levels.

The Way Forward

Our approach to improving and utilising our image, cultural, natural and heritage assets is summarised through the following strategic priorities:

1. Maximising the potential of our natural, heritage and cultural assets

2. Using our image to meet the economic needs of the North East

3. Driving our competitive offer in the interests of North East plc.

4. Promoting regional assets to engender pride and aspiration among people in North East England

1. Maximising the potential of our natural, heritage and cultural assets

The North East's culture, environment and heritage are fundamental elements of our unique character and image, now reflecting a 21st century dynamism and vibrancy.

Our culture has unrivalled potential to enrich lives and reach out to excluded communities. Cultural initiatives can enable communities to express themselves, combat poor health (e.g. through sporting activity) and provide alternative pathways into the labour market. The distinctive culture of the North East is at the heart of the renaissance of our rural and urban communities. The Cultural Strategy for the North East of England 2001-2010 provides a framework of principles for all the cultural investments which will contribute to the economic regeneration of the region.

These natural, heritage and cultural assets make a significant contribution to the quality of life enjoyed by the people of the North East, and they must be both protected and enhanced to ensure they can be enjoyed by future generations. In addition, by taking greater advantage of these assets - including creative businesses - further significant improvements to productivity, employment and the company base can be achieved, while supporting DCMS strategic priorities and PSA targets.

We will specifically use and develop the region's natural, heritage, cultural and creative assets to:

- Create, attract and retain greater numbers of entrepreneurs, skilled workers and inward investment
- Significantly increase visitor numbers to the region, and therefore visitor spend
- Improve educational attainment, skills levels, economic inclusion and aspiration within the region.

These goals are further reflected and explored in the priorities below.

2. Using our image to meet the economic needs of the North East

Image is a new RES priority and this demonstrates the region's passion, confidence and desire to communicate what it means to live in, work in and visit North East England. It is important that the projection of our regional image relies upon its accuracy and intelligence, since it must survive in a competitive market.

There are many exciting events taking place and planned throughout the region, such as the North East running the first Design Biennial in 2007 - Design of the Times. This will focus the eyes of the world on the region, as we engage national and international partners on innovation and design issues. The Regional Image Campaign has been successful in identifying and communicating what our regional strengths are under the banner '*Passionate People. Passionate Places.*' We now need to look at how the priorities within this strategy, including the principles,

overarching objectives and spatial priorities set out in the introduction to this section, can inform future activity and relevant strategies so that our image continues to be driven by the needs of the region.

It is important to note that a variety of components contribute to the region's image. The natural, cultural and heritage assets set out in the 'North East England's natural, heritage and cultural assets' box earlier are fundamental and the local distinctiveness of our rural areas is also important. In addition, our image depends on: mix of businesses and employment opportunities; cutting edge innovation, skills, infrastructure, and leadership direction. These have all been addressed earlier in this strategy, but are crucial to the overall regional image as perceived both within and outside of the region. This package is vital in increasing trade opportunities, as well as retaining and attracting businesses and highly skilled, entrepreneurial and creative individuals.

Unfortunately, despite its strengths, the region does not have a strong positive image. Recent research¹⁹³ has revealed diverse views of the North East. Few of these were negative; rather, the general picture was one of a lack of awareness about the region, particularly on an international level. Of those who did have views of the region, key strengths were confirmed as our history and

heritage, countryside, culture and people. Evidence indicates that there is significant potential to continue to improve the region's image, enabling it to act as a catalyst to attract entrepreneurs and visitors.

Future economic success depends upon North East England being seen as a place where tolerance, diversity and equality are fundamental to the region's economic and social fabric. Image has a key role to play in this cultural transformation by integrating closely with the other priorities within this document. The RES priorities provide the evidence base to inform future image activity.

It is essential that the RES informs regional strategies which impact on the image of North East England to ensure alignment and to provide the evidence base for sustained activity which addresses the economic needs of the region. Image must be closely linked with product development and marketing to maximise business and tourism opportunities. As demonstrated successfully in the '*Passionate People. Passionate Places.*' campaign, we need a co-ordinated approach owned by all regional stakeholders, which effectively communicates our successes and strengths.

¹⁹³ *Perceptions of North East England*, MORI (2005).



Regional Image Campaign advertisement, Sage plc

CASE STUDY

The Middlesbrough Institute of Modern Art



As demonstrated in Bilbao, art galleries are able to drive economic and commercial change for the better, as well as enhancing the flavour of a town or city.

In applying such best practice, The Middlesbrough Institute of Modern Art (mima), represents one of the region's most ambitious investments in cultural infrastructure in recent years. Located in the centre of Middlesbrough, mima is rooted in the town's long standing involvement with the visual arts but looks to the future too, as a major contributor to fulfilling the regeneration strategies of the locality and wider city region.

Middlesbrough Council views the arrival of the new gallery and its associated public square as a major driver of the town's ambitious plans to enhance commercial as well as cultural activity, attracting more visitors and contributing to economic growth.

The council has been able to commit an outstanding town centre site for the project, and mima provides an ideal, high quality cultural asset in terms both of its architectural merit and its planned programme of modern and contemporary visual art.

More information: www.teesvalleypartnership.co.uk

3. Driving our competitive offer in the interests of North East plc

Image will be key to establishing and communicating our competitive advantage on an international platform, and to attract in and retain talent and investment. Image should clearly articulate a vibrant, distinctive and cohesive regional offer, identifying key regional assets and selling points. The sense of place which characterises North East England through its cultural, natural and heritage assets can be reinforced and enhanced through a positive image. Also crucial to our image is the reputation and skills of our workforce, along with the ability to prioritise and support particular sectors, and our ambitious activity around restructuring the region's economy, as set out in section C3. This will help to place the North East on the global map for innovation and creativity – key factors in drawing talent into the region.

Partners must take a shared responsibility to promote North East England nationally and internationally. It is imperative that all are 'on message' and that these messages are being conveyed to opinion formers and those considering visiting the region. This will ensure that we are able to attract more visitors through improved promotion of our unique natural and cultural assets, as well as the distinctiveness and quality of life offered by the region. Our regional image must reflect the tone and essence of the RES.

Key mechanisms for facilitating this activity include:

- **Identifying ambassadors**

This links directly with section B. We need to identify key individuals in the region; those who are leaders in their own field or have access to specific international networks, and equip them with the necessary tools to promote regional interests, outside of the North East. These champions for the region will be given a specific remit to develop valuable, purposeful relationships with key individuals and important sectors with a view to encouraging inward migration and settlement of talent, into the North East.

- **Utilising the large alumni network**

We are fortunate to have an established alumni network of international students who have studied at the region's universities, in addition to graduates from the region who have moved away. Building and sustaining relationships with these individuals helps to maintain their affiliation with the region and ensures their engagement in knowledge networks. They must be kept informed of regional developments, achievements and opportunities and be encouraged to circulate these details among their professional and personal networks.

- **Regional Image Campaign**

Building on the valuable campaign to date by ensuring that future activity is also informed by the RES and opportunities for raising the profile of the North East internationally continue to be pursued.

INTERNATIONAL BEST PRACTICE BARCELONA - A CULTURAL FLAGSHIP

Barcelona, Spain's second city, shares with others the need to replace jobs in declining traditional sectors with those in growth sectors of the future. The city has a strong cultural heritage and a distinctive Catalan regional identity. It has built on these assets and on large scale international events to raise its profile and reputation, overcoming old stereotypes to enhance its image as a contemporary, cosmopolitan, vibrant place to live and work. The Barcelona Institute of Culture, formed in 1996, aims to position culture as one of the principal elements of the development and profile of the city. It has promoted and facilitated the emergence of numerous private sector cultural platforms and projects in the city and recognises that Barcelona's cultural sector extends to the universities, R&D departments and to the new emerging economic sectors linked to knowledge and technologies. The industry embraces film, television, radio, publishing and sound recording, the work of associations and NGOs, scenic arts, design, multimedia and architecture, as well as cultural activities of public institutions.

The city has strategically re-invented itself from the top down as a "knowledge city", focusing on up skilling, entrepreneurship and innovation as drivers of economic growth. There is a strong emphasis on networks, both physical and virtual, to foster innovation. Barcelona has taken specific measures to support knowledge transfer, ranging from infrastructure to funding. Academic spin-offs are encouraged, with high levels of regional recognition for successful entrepreneurial researchers. Individuals who wish to spin-off companies are supported through a "technology trampoline" system, with experts working alongside academics to progress project concepts into robust business plans. ICT is being used to develop the "knowledge city", linking organisations and individuals together.

In addition, regional partners will explore the economic case for a casino and regional convention centre as a means of increasing the profile of the region and associated tourism and visitor opportunities.

4. Promoting regional assets to engender pride and aspiration among people in North East England

This priority links with and builds upon previous sections by fully utilising our diverse regional assets to motivate and inspire all individuals within the region. To address the twin drivers of productivity and participation, it is essential that people recognise that their aspirations can be met within the region. Effectively utilising our image, natural, cultural and heritage assets can help spread these messages. Positive messages will be key to changing attitudes and perceptions among individuals of all ages and all communities in the region (this links closely with activity set out to raise aspirations and move towards a more enterprising culture in section C1). However, such activity will only work if aspirations can

realistically be met – this depends upon the delivery of this strategy.

As identified in the other sections, some of our main problems are embedded in our industrial legacy, to which our low levels of entrepreneurship and high levels of economic inactivity are often attributed. We need to effect a change in culture to achieve the goals within this strategy. A positive image, and effectively understanding our regional assets – including our people – presents a significant opportunity to formally recognise the diverse successes and achievements within North East England. We must build upon and celebrate our regional strengths to engender confidence, higher aspirations and pride among the people of the North East, and work to ensure that this is recognised and respected outside of the region.



North East England TV advertisement 2006

CASE STUDY

The Sage Gateshead



The Sage Gateshead opened its doors to the public on 17 December 2004 and has received great acclaim. It has won the Robert Stephenson Award for conceptual design and has the world's first ten-sided performing arts space. In 2005 it is expected to attract 750,000 visitors from across the globe and have a turnover of £12 million.

There are performances from an eclectic range of genres which have something to offer everyone. An annual programme of festivals for 2005 included the Gateshead International Jazz Festival and the BBC Radio 3 Awards for world music.

The success of the Sage Gateshead is not only attributable to its physical design and professional

performances. It combines a modern, vibrant atmosphere with multi-cultural music and learning to create an astounding international venue. The music centre houses a world class suite of programmes directed at musicians from all backgrounds and abilities. Workshops are offered across the spectrum, from very young children through to an honours degree in music, developed in collaboration with Newcastle University. There is something for everyone, with programmes designed to involve, stimulate and excite people about music regardless of age and ability.

More information: www.thesagegateshead.org



Staithe South Bank, Gateshead

Delivering the place agenda

As has been set out in sections C and D, further details on the delivery of this strategy will be set out in the RES Action Plan. Examples of the types of activity being delivered within this section include:

- The **Tyne and Wear and Tees Valley city regional partners** will work to further prioritise investment in the respective city regions.
- **Rural agencies and One NorthEast** will identify priority market towns for future investment, ensuring that surrounding areas have easy access to developments in these areas.
- **The Regional Housing Board** will set direction on restructuring the housing market, with delivery led by the **Housing Market Renewal Pathfinders** in the urban cores, **social housing providers and private sector developers** within the region. Development will be focused on brownfield sites, in line with Regional Spatial Strategy stipulations.
- **IGNITE** will lead on ensuring the region implements best practice and sustainable development principles in regeneration/construction projects. Partners will include **Sub Regional Partnerships, local authorities, English Partnerships** and **One NorthEast**.
- The **Regional Skills Partnership** and **construction industry**, including the **sector skills council for construction**, will develop a way forward to ensure there is sufficient capacity in the industry to deliver the region's ambitious regeneration schemes.

- In order to address market failures in commercial property provision, **Buildings for Business**, a successful public private partnership has been established to deal with One NorthEast's property investment portfolio. In consultation with key partners, **One NorthEast** is developing a policy and investment framework to guide investment in commercial property. This will include developing new ways of engaging private sector investors and developers at an earlier stage in the regeneration process.
- Regional stakeholders will continue to work together offering advice to the **Regional Transport Board** to prioritise transport investments in a co-ordinated way to support the region's housing and economic development objectives. This approach will involve the **North East Regional Assembly, Association of North East Councils, One NorthEast** and the **business community. City regional partners** will play an important role in influencing the case for transport investment at a pan Northern level to ensure that the North East is integrated within the Northern economy. There will be a need to work with the **Northern Way Transport Compact, local transport authorities** and **transport providers**.
- **One NorthEast** will work with partners in the **public, private and voluntary sectors** to ensure that the region's cultural, natural and heritage assets are protected, enhanced and promoted to complement strategic regeneration and Regional Image Campaign objectives. This will include supporting business growth through the visitor economy, encouraging market development in the cultural and creative industries, and tackling economic exclusion through aspiration and participation.

SECTION F

What we are aiming for

This strategy aims to achieve sustainable, inclusive economic growth. Section A4 outlined the step change we need to make to move the region towards achieving the ambitious growth target of 90% of the national average Gross Value Added (GVA) per head by 2016.

The region supports this target which, while aspirational, is, we believe, achievable. Indicative figures set out in section A4 suggest that to achieve this target we must: increase productivity levels of existing and new businesses from 87% to 91% or 92% of the national average, increase the employment rate from 68.5% to around 73%, create between 61,000 and 73,000 net new jobs, and create 18,500 and 22,000 new businesses. These figures are indicative and are based on a number of assumptions about growth levels, but help to illustrate the scale of the challenge we face.

The Business, People and Place sections – incorporating the themes identified within the SHiNE process – highlight areas of strength and opportunity, as well as areas of weakness and barriers to growth. Undoubtedly,

the greatest potential for economic growth lies within our urban cores. However, the rural areas, including more remote parts, are an essential component of the city regional offer and we need to build on the relative strength of parts of the North East's rural economy.¹⁹⁴ Interventions within rural areas will be focused on market towns as hubs of economic activity and growth.

The preceding sections identify the key strategic priorities to deliver the regional vision:

The North East will be a region where present and future generations have a high quality of life. It will be a vibrant, self-reliant, ambitious and outward-looking region featuring a dynamic economy, a healthy environment and a distinctive culture. Everyone will have the opportunity to realise their full potential.

¹⁹⁴ For example, research on connections between rural areas and city regions. Centre for Rural Economy, Newcastle University (2005).



This is underpinned by the principles set out in section A4 regarding the need to:

- Maximise return on investment
- Address market failures
- Lever in private sector investment.

The consultation process confirmed partners' support for achieving the regional vision. It is helpful to break the vision down so that we can gain a shared understanding of what we are aiming for.

We envisage that by 2016, the economic powerhouse of the region will be located in the urban cores of Tyne and Wear and Tees Valley. We will work both to ensure that these areas are meeting their potential in driving up regional economic performance, with private investment following public investment, and to ensure that this is complemented by a vibrant and thriving rural economy, with public and private investment focused in the market towns. Our transport and ICT infrastructure will be developed to enable effective flows of goods, services, information and people across city regional and rural boundaries, enabling all to contribute to and benefit from economic growth. Concentrations of deprivation and worklessness will be addressed by partners working together to connect these areas up with areas of opportunity, such as jobs created by sectors with a particular emphasis on economic participation, (e.g. health and social care), and through the increasingly inclusive nature of the growing knowledge economy.

Business

Partners will work to move the North East from an employee to an employer culture, with a greater emphasis on entrepreneurial activity. Activity to increase competitiveness and differentiate products, services and processes through an emphasis on design in the region, along with segmentation of markets, will contribute to the development of a vibrant business base and help to drive up productivity levels. The aim is that more and more people will actively consider setting up their own businesses and that more businesses will act on external expertise to access new markets, develop skills and capacity, lever in investment finance and capitalise on ICT opportunities. Significant emphasis is being placed on raising young people's aspirations, with the aim of increasing the proportion of our young people seriously considering entrepreneurship as a career option.

Targeted support will be provided to raise productivity levels of businesses in the region. Increased levels of productivity will contribute to increasing GVA per head and closing the gap between the North East and the UK average. Through a greater emphasis on our position in the global economy, the North East will aim to become an established operator across the world, increasing trade levels and successfully attracting and retaining entrepreneurs and businesses.

In recognising the changing nature of the globally competitive environment within which we operate, a key strand within this strategy relates to the future of the region's economy. In restructuring our economy to become increasingly competitive, North East England can move towards being recognised as a major international player in technology transfer and design based business investment. Part of this involves undertaking world leading research in collaboration with the other Northern regions and within the universities, placing them at the heart of our restructured economy. Science, technology, design and innovative activities will be driven within the city regions.

People

The Regional Skills Partnership will work to ensure that the workforce has the necessary high level and generic skills to enable the region to compete globally on a high value added basis, maximising the potential of the knowledge economy. This involves ensuring that young people leaving education have achieved at least Level 3 qualifications, and the majority progress to Level 4 and above. In terms of stimulating demand, it will be important to change perceptions among employers and individuals in valuing the importance of vocational, as well as academic qualifications, and the importance of employers investing in the skills and health of their workforces.

A key priority is to dramatically reduce rates of worklessness and economic participation to be more in line with the national average. Levels of economic participation can be increased through an emphasis on developing a healthier, creative and more highly skilled workforce. Partners will work to reduce the relative proportion of England's most deprived communities within the region, and to increase equality of opportunity for all communities of interest. This activity should result in an increasingly diverse region with higher levels of tolerance and openness, engendering a vibrant, confident buzz, leading to higher levels of enterprise, innovation and activity. The resident population's reputation as tolerant and productive people should, in turn, attract and retain more highly skilled and creative people.

Place

Through large scale, focused public and private investment in place making schemes, we will see an improvement in the quality of our built environment, particularly within the urban cores – a key global competitive advantage. The scale of private investment in areas of North East England is more likely to increase due to effective communication of a more coherent public sector vision. The provision of attractive housing and good quality living environments will act as a key enabler of the success of other initiatives elsewhere in the RES, in that highly skilled and entrepreneurial people will be both retained and attracted here. This will go a long way towards overcoming the issue of a declining population of the region.

A strong city regional focus will be complemented by a clear rural agenda. Partners will take collective responsibility to prioritise this agenda in order to ensure our rural areas are powered by strong, vibrant market towns, offering a wide range of viable services with easy access from the outlying settlements. As a consequence, the rural economy will be diverse and entrepreneurial, with rural areas embracing the knowledge economy, and there will be more opportunities to live and work in these areas without the need to commute huge distances.

The aim of our approach in the provision of business accommodation is for commercial property provision to be largely private sector led, with assistance provided by the public sector in site reclamation and only in areas of demonstrable market failure. It is vital that the implementation of the Regional Spatial Strategy ensures commercial property and employment land is provided to meet the needs of business and is focused around the city regions, with some sites outside these areas meeting the needs of niche specialisms.

We will work together to ensure that transport and ICT connectivity investment meets economic development needs and directly contributes to increased productivity and participation. Transport priorities include, for example, ensuring that people from all communities are able to

access employment opportunities in the city regions. This will ultimately increase levels of economic participation. In addition, effective inter and intra regional connectivity should enable faster access to external markets. In particular, the aim to introduce a daily transatlantic flight, along with the increased strategic importance of Teesport, will open up increased opportunities for inward investment and international trade.

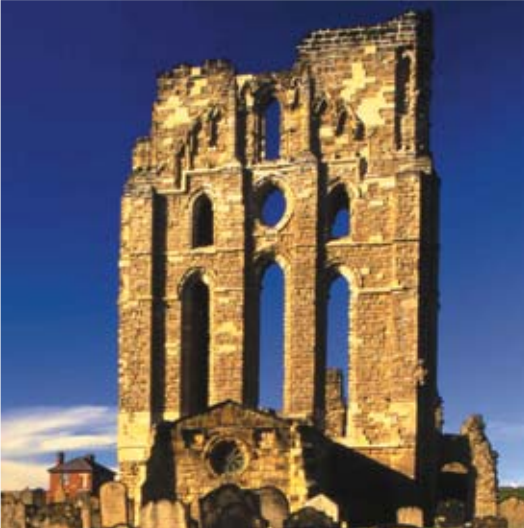
Finally, if we succeed in the aims and activities we have set out above, North East England will have an international reputation for its high quality of life, striking environmental and cultural assets, vibrant innovative people and dynamic businesses. This image will retain talented individuals within the North East and will attract an influx of highly skilled, entrepreneurial and creative people – ensuring that success breeds more success. Further development and promotion of the natural, heritage and cultural base of the region will enable North East England to become a major global tourism destination, known for its **Passionate People. Passionate Places.**



GLOSSARY

Glossary

ABI	Annual Business Inquiry	IAG	Information, Advice and Guidance	RDA	Regional Development Agency
ADIT	The Regional Aggregation Body for ICT Infrastructure	ICT	Information and Communication Technologies	RES	Regional Economic Strategy
ADSL	Asynchronous Digital Subscriber Line	IDBR	Inter Departmental Business Register	RFSP	Regional Financial Services Project
ARC	Area Regeneration Company (The Urban Regeneration Company for Sunderland)	IP	Intellectual Property	RHS	Regional Housing Strategy
ASHE	Annual Survey of Hours and Earnings	IPPR	Institute for Public Policy Research	RICS	Royal Institution of Chartered Surveyors
ASPIRE	A regional programme for raising aspirations among young people	LSC	Learning and Skills Council	RIS	Regional Image Strategy
BME	Black and Minority Ethnic	MAS	Manufacturing Advisory Service	RLN	Regional Language Network
CAP	Common Agricultural Policy	MoU	Memorandum of Understanding	RSP	Regional Skills Partnership
CEBR	Centre for Economic Business Research	NAREC	New and Renewable Energy Centre	RSS	Regional Spatial Strategy
CELS	Centre of Excellence for Life Sciences	NDA	Nuclear Decommissioning Authority	RTB	Regional Transport Board
CENAMPS	National Centre for Emerging Technologies	NEHB	North East Housing Board	RTS	Regional Tourism Strategy
CFL	Centre for Life	NEPA	North East Productivity Alliance	SBS	Small Business Service
CMO	Contract Manufacturing Organisation	NEPIC	North East Process Industry Cluster	SDSL	Synchronous Digital Subscriber Line
CPI	Centre of Process Innovation	NERIP	North East Regional Information Partnership	SEC	Safety and Ecology Corporation
CRDP	City Region Development Plan	NETS	North East Tourism Strategy	SENNTRI	South East Northumberland North Tyneside Regeneration Initiative
CURDS	Centre for Urban and Regional Development Studies	NGO	Non Governmental Organisations	SEU	Social Exclusion Unit
DCLG	Department for Communities and Local Government	NHS	National Health Service	SFI	Selective Finance Assistance
DCMS	Department for Culture, Media and Sport	NLP	Nathaniel Lichfield and Partners	SHiNE	Shaping Horizons in the North East
DEFRA	Department for Environment Food and Rural Affairs	Nstar	Early Stage Finance Company in Science and Technology	SME	Small and Medium Enterprise
DfES	Department for Education and Skills	NUTS	Nomenclature of Units for Territorial Statistics	SRP	Sub Regional Partnership
DoE	Department of the Environment	NVQ	National Vocational Qualification	SWRDA	South West Regional Development Agency
DTI	Department for Trade and Industry	OCR	Oxford, Cambridge and RSA Examinations Board	UKTI	United Kingdom Trade and Industry
ECML	East Coast Mainline	ODPM	Office of the Deputy Prime Minister	VAT	Value Added Tax
EU	European Union	OECD	Organisation for Economic Co-operation and Development	VONNE	Voluntary Organisations' Network North East
FE	Further Education	OFGEM	Office of Gas and Electricity Markets		
GDP	Gross Domestic Product	OFSTED	Office for Standards in Education (England)		
GONE	Government Office for the North East	ONE	One NorthEast		
GVA	Gross Value Added	ONS	Office for National Statistics		
GW	Gigawatt	PIFs	Property Investment Funds		
HE	Higher Education	PSA	Public Service Agreement		
HMT	Her Majesty's Treasury	PV	Photovoltaic		
		PwC	PricewaterhouseCoopers		
		R&D	Research and Development		



Passionate people. Passionate places.

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