

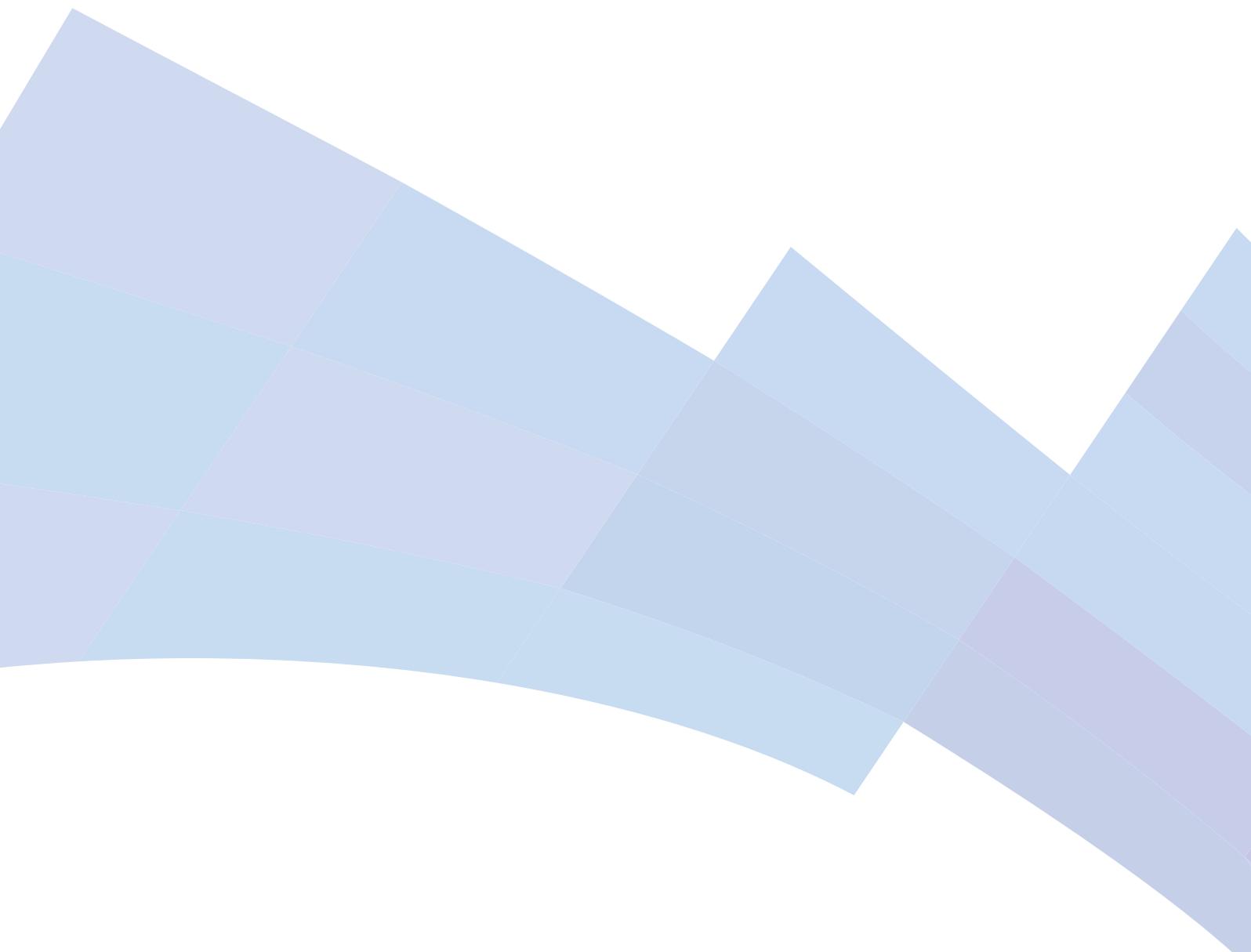
# Local Economic Assessment

2012/13 Refresh



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# Introduction

In 2011, Gateshead Council prepared its first Local Economic Assessment (LEA), the aim being to encourage economic growth in the borough and contribute towards improving the economic performance of the North East Local Enterprise Partnership area (NELEP).

The assessment helped to develop a better understanding of ways in which we can promote economic growth locally and develop a much better understanding of the issues.

This is the second annual update and highlights the changes that have taken place in the last 12 months.

**The overall aim of Gateshead Council and its partners remains to:**

*Create a sustainable, more buoyant economy producing good quality well-paid jobs for skilled people.*

The UK economy went back into recession in the first quarter of 2012, shrinking for three consecutive quarters. Classed as a 'double dip', following the recession in 2009, this demonstrated that the economy is struggling to recover following the longest recession since the Second World War. A gloomy outlook prevails, with forecasters alluding to the possibility of a 'triple dip' recession with limited growth throughout the next few years<sup>1</sup>.

The economy is directly influenced by international markets. The eurozone - our major trading partner has, by far, the largest sphere of influence and forecasters predict that economic recovery in the region will continue to be fragile and uncertain.

Austerity across most of Europe is hampering the recovery in demand, making it very difficult for companies to judge the appropriate level of output. In addition, companies are aware that more austerity is on the horizon; causing them to delay investment decisions, which is in turn affecting growth.

Locally, the Council and its partners continue to prepare for the upturn by seeking to exploit the maximum economic benefit for the borough from new opportunities and emerging economic policy.

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<sup>1</sup> BBC News – Triple Dip Recession 'Expected', October 2012

# Economic Priorities

Gateshead's economic priorities are highlighted below; they are set within the context of Vision 2030 – Sustainable Community Strategy for Gateshead, the NewcastleGateshead 1PLAN – An Economic and Spatial Strategy for NewcastleGateshead, and partner priorities such as those of the NELEP.

The economic priorities are also essential in contributing to the Council's Strategic Needs Assessment and to the delivery of the 2012-2017 Council Plan, which has as its overall ambition, the ability to promote stable economic growth and wellbeing. A key element of this work is to create the right conditions for economic growth.

Whilst the priorities below reflect the findings from the original 2010/11 LEA, the remainder of the document focuses on the economic factors which have seen change since that time and should therefore be viewed in conjunction with the full assessment which remains a valid and active document.

## Economic Growth

- The successful regeneration of local centres, including Gateshead Trinity Square, which is now well underway, and Gateshead Quays, is fundamental to the economic, social and environmental wellbeing of the borough and its residents.
- Whilst manufacturing has contracted further, it continues to provide significant levels of employment. Therefore, continuing diversification and the growth of advanced manufacturing remain essential to our economic success.
- There is a need to maximise the growth potential of our rural communities and offer opportunities through, for example, enhanced broadband to develop businesses including high growth businesses in the rural area.
- Major employment centres, for example, the Team Valley Trading Estate, will continue to provide important employment locations for growth sectors such as advanced engineering and low carbon technologies that are needed to meet changing business requirements.
- Business specialisation is vital to improving economic performance, this includes further work with universities to promote innovation and help businesses bring new products to market.
- Creative industries, business services and distributive trades are the sectors seen to have the greatest growth potential. Over the next 20 years, the Council needs to continue to invest in Baltic Business Quarter and Gateshead Quays to enhance the office, commercial, tourism and leisure potential of the area.
- Businesses need support to become more sustainable through enhanced energy efficiency.

- A robust approach to business winning is essential to ensure that businesses, within key sectors such as business and professional services, creative and cultural, construction and high quality retail, locate to and are retained in Gateshead.
- Continued diversification of the skills base is essential to meet the needs not only of Gateshead businesses, but also of businesses across the NELEP area where residents work, accessing knowledge based jobs.
- There is a need to continue to develop jobs at all skills levels to meet the current skills base of the population. This will help reduce poverty, including child poverty and improve the sustainability of local communities.
- Thriving rural communities are essential to the economic vitality of the borough and the wider NELEP area. The growth of rural businesses is essential in helping to create sustainable rural communities and establish jobs in these areas.

## **Economic Inclusion**

- There is a need to tackle worklessness, improve skills levels and attract talented people to satisfy the predicted long-term employment growth.
- There is a need to provide innovative approaches to help unemployed young people aged 18-24 to find suitable work and training opportunities.
- Promoting financial inclusion will improve economic wellbeing and will enhance life chances. Reducing illegal money lending, improving financial education and addressing issues such as child poverty will help create sustainable communities.
- Welfare reform will impact on people in work and out of work, affecting over half of Gateshead's households. This will reduce spend in the economy and impact widely on businesses.

## **Economic infrastructure**

- The regeneration of Gateshead town centre and local centres is essential to creating sustainable economic growth.
- The low carbon economy offers significant growth potential for manufacturing and construction. Opportunities to develop a town centre district heating scheme and a major low carbon housing retrofit scheme known as 'Green Deal' are being pursued by the Council.
- Next Generation (broadband) Access (NGA), with speeds of up to 24mbps is essential if local businesses are to compete globally over the longer term.
- The reduction in public funding for infrastructure projects requires a new approach to promoting physical regeneration. There is a need to develop new financial instruments, such as Accelerated Development Zones, Community Infrastructure Levy and Tax Incremental Finance Initiatives (TIFs) and work with the NELEP to develop revolving infrastructure funds.

- Development of The North East Cultural and Conference Centre would support economic growth in the region and promote business tourism.
- Improving the accessibility of NewcastleGateshead's urban core and improving the capacity of the A1 is needed to improve national and international links and support regeneration.
- Regenerating our local centres is an essential part of developing services within communities and maintaining neighbourhood sustainability.

## The global economy

An analysis of the local economy needs to take into account more broadly global trading conditions. In the aftermath of the global financial crisis of 2007, countries like Germany, China and Brazil kept the global economy expanding, however recent evidence suggests that even they are struggling to maintain high levels of growth.

The International Monetary Fund (IMF) has stated that the global economic recovery remains uncertain, with considerable risk of further deterioration in the economic outlook. However in its World Economic Outlook (WEO) the IMF has also projected global growth to strengthen to 3.5% in 2013, from 3.2% in 2012, this is a downward revision of 0.1% from their October 2012 WEO. The World Bank also expects a slow recovery, with predicted global growth of 2.5% in 2013. But within that there appears to be a clear divide between developing economies, which are forecast to grow by 5.3%, and advanced economies by just 1.4%.

The US economy is predicted to grow by 2% in 2013, the best of the advanced economies. However its unemployment rate has remained high, demonstrating persistent weakness within the labour market. Further plans for austerity measures in early 2013, including a combination of tax increases and spending cuts, may push the US economy into an austerity-driven recession not unlike that seen in the eurozone<sup>2</sup>.

Japan, no longer the world's number two economy, is still recovering from a devastating tsunami and nuclear crisis in 2011. It has increased imports and reduced exports; however, growth projections of 2.2% in 2012 and 1.2% in 2013<sup>3</sup> have demonstrated a more optimistic view even though there remains a high degree of uncertainty about the global economy as a whole.

Many of the international market indices such as the Financial Times 100 (FTSE 100) have seen short term highs in recent months with market sentiment beginning to drive international progress, despite the ongoing issues in Europe. Improving business sentiment is often the precursor of improving economic conditions.

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<sup>2</sup> BBC News - Global Economy: Who can drive the recovery? August 2012

<sup>3</sup> International Monetary Fund - World Economic Outlook, October 2012

## Eurozone

The eurozone's recession continued in the third quarter of 2012, and leading indicators point to a contraction in the fourth quarter as well.

Growth prospects for 2013 remain grim, exacerbated by the fact that a number of governments expect to miss their fiscal targets for 2012 and must therefore budget for more austerity next year than originally anticipated.

Economic performance within the eurozone is split between the relatively wealthier northern countries (Germany, Netherlands, Finland and France) and the struggling southern countries (Greece, Italy, Portugal and Spain) with high levels of debt and ongoing financial issues such as failing banks and falling property values.

The difficulties of the euro area will not be resolved quickly and the assumption is that they are likely to constrain UK growth for several years to come. The eurozone is the UK's biggest trading partner, therefore a decline in the economies of Europe will mean less demand for UK goods and services, resulting in job cuts in manufacturing.

The IMF downgraded its near-term forecast for the eurozone, with the region now expected to contract slightly in 2013. The report observed that even though policy actions have reduced risks and improved financial conditions for governments and banks in the periphery economies, those had not yet translated into improved borrowing conditions for the private sector. Continuing uncertainty about the ultimate resolution of the global financial crisis, despite continued progress in policy reforms, could also dampen the region's prospects<sup>4</sup>.

## The UK economy

In the summer of 2007 the UK entered a financial and economic crisis from which it has yet to recover. The years since have seen the biggest fall in output since the Second World War, a short-lived and modest recovery, and a relapse. The double-dip recession Britain has been enduring since Autumn 2011 is only the second since records began, with the economy retracting by 4.5% since the recession started. Interest rates, which have been at the historical low of 0.5% for three years, are not expected to increase until 2017<sup>5</sup>.

The debt crisis in the eurozone, coupled with a weak global economy, have made exporting difficult, while businesses have suspended investment projects until growth starts to recover. All four of the elements that make up growth – consumer spending, government spending, investing and exports – are struggling.

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<sup>4</sup> International Monetary Fund - Survey Magazine, January 2013

<sup>5</sup> Citibank - Growth Forecast, 2013

Despite its austerity programme, the Government continues to seek to reduce the size of the public sector and promote private sector growth to enhance flexibility in the labour market and encourage the growth of small businesses and jobs.

Government debt as a share of national output is predicted to hit 100% over the coming years, in spite of austerity measures, as budget deficits increase in response to weak growth. In February 2013, Moody's Investors Service downgraded the credit rating of the UK from AAA to AA1, for the first time since 1978. The downgrading resulted from the continuing weakness in the UK's medium-term growth outlook, and a period of sluggish growth which Moody's now expects will extend into the second half of the decade further contributing to the UK's high and rising debt burden.<sup>6</sup>

## **Gross Domestic Product (GDP)**

The output of the UK economy fell by 0.4% between April and June 2012, following a 0.2% drop in the first three months of the year. The contraction in quarter two was largely due to the sharp slowdown in the construction sector, as industry output decreased. The economy then emerged from a double-dip recession, with third quarter growth at 0.9%, the strongest rate since 2007.

However, growth in the third quarter of 2012 was in part due to two one-off factors. Firstly, there was an additional bank holiday in June to mark the Queen's Diamond Jubilee, which reduced growth in June and increased it in July. It is estimated that this caused the economy to reduce by around 0.5% in the second quarter and boosted it by a similar amount in the third. Secondly, the London Olympics improved growth in the third quarter through ticket sales, positive effects on service industries and increased household spending.<sup>7</sup>

First estimates indicate that the UK economy shrank by 0.3% in the final quarter of 2012, with the fall in output being largely due to a decline in mining and quarrying. The economy is now 3.3% smaller than its peak in 2008, recovering only about half the output lost during the financial crisis - a worse performance than other major economies.

## **Growth Forecast**

The economy has performed less strongly in 2012 than expected, primarily reflecting the weakness of net exports.

Official forecasts from The Office for Budgetary Responsibility predict growth of 1.2% in 2013 and 2% in 2014; although this will depend critically on developments in the global environment, with strains in the eurozone posing the greatest risk to a sustained recovery. Investment is likely to be restrained by poor credit conditions and uncertainty about demand. The strength of the recovery will also depend on the

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<sup>6</sup> Moody's Investors Services, February 2013

<sup>7</sup> Office for Budget Responsibility - Economic and Fiscal Outlook, December 2012

vigour of any revival in productivity growth. Growth is not forecast to return to above trend rates until 2015 as credit conditions begin to normalise and financial markets return to a more stable position. Interest rates remain at 0.5%, with no current plans to implement a new round of quantitative easing.<sup>8</sup>

Since 2007, increases in VAT, import prices and energy prices have together pushed up the price level by as much as 15%, squeezing real wages. As a result, the UK experienced the longest period over which real wages have failed to rise since the 1920s.<sup>9</sup> Inflation is likely to be higher in the short term, reducing the growth of real household disposable income and consumption. In order to maintain price stability, the Government has set the Bank of England's Monetary Policy Committee a target for the annual inflation rate of the CPI of 2%.

## Employment

In the UK, 29.7 million people were in employment in the three months to November 2012. While the number of people in jobs is at a record high, the overall rate of employment is 71.4%, which is well below the peak of nearly 73% before the start of the global recession in 2008.

The increase in employment could be attributed to the surge in self employment and higher numbers of people working part-time that are unable to find full time employment. There has been an increase in the number of women and 16-24 year-olds out of work.

## Unemployment

UK unemployment rose sharply as a result of the global recession and peaked at almost 2.7 million at the end of 2011, its highest level for 17 years. The beginning of 2012 saw the first fall in unemployment in almost a year.

The effects of an improving jobs market throughout 2012 has resulted in UK unemployment falling to 2.49 million (7.7%) in the three months to November; its lowest levels in 18 months.<sup>10</sup>

The number of unemployed women has risen, which is mostly reflected by the greater number of women in the workforce, but there are concerns about the impact of public sector cuts where women make up a higher proportion of the workforce.

Youth Unemployment (those aged 16-24 and claiming JSA) nationally, has seen a rise in recent years, primarily because of the recession. National figures show that in December 2007, over 228,000 (4.1%) young people were in receipt of JSA compared with nearly 388,000 (6.7%) in December 2012. Gateshead has mirrored

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<sup>8</sup> The Bank of England - Inflation Report, November 2012

<sup>9</sup> Sir Mervyn King - Governor of the Bank of England, 2012

<sup>10</sup> Office for National Statistics - Labour Market Statistics, September – November 2012

the national trend and has seen a significant increase from 6.0% (1,000 people) in December 2007 to 10.6% (1,805) in December 2012. This is compared with a working age population (16-64) claimant rate of 5.1%, 6,568 people<sup>11</sup>.

Reflecting a weaker growth outlook, the unemployment rate is expected to increase slightly in 2013, before recovering gradually from 2014.<sup>12</sup>

## The North East

Whilst LEPs have replaced a wider regional identity, information such as that from the 2011 census highlighted some key factors affecting local people.

The North East economy has changed significantly in the last 30 years. From a few large employers within traditional industries, a more flexible business base has developed, with a desire to encourage private sector growth to improve economic performance.

The recent 2011 Census results have shown some stark statistics for the North East region as a whole. The population has increased by 2% since 2001 (57,000 people) with a median age of 41, two years above the England and Wales average and the region continues to have the lowest proportion of migrants (5%) in the country.

The North East has 22% of people whose day to day activities are limited by a long term health problem or disability, compared with 18% for England and Wales as a whole, and has the lowest proportion of people rating their health as 'very good' or 'good' (77%). This not only has an impact on residents' ability to work but also on the productivity/GDP of the area.

The region also has the highest proportion of people aged 16 and above with an apprenticeship as their highest level of qualification (5%).

The region has however, shown the biggest decrease in the number of households with no car, reducing from 36% in 2001 to 32% in 2011. Amongst local authorities, Gateshead's decrease from 43% to 37% was the largest. As far as home ownership is concerned, the North East has the second lowest proportion of homes owned outright after London, 29% and 21% respectively, despite having the largest increase in homes owned outright, by 3%. The proportion of households owning a home with a mortgage or loan had decreased in England and Wales as a whole, although the North East region decreased the least, by 5%. The region also has the highest proportion of socially rented accommodation at 15%.

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<sup>11</sup> Office for National Statistics - JSA Claimant Count, December 2012

<sup>12</sup> Office for Budget Responsibility - Economic and Fiscal Outlook, December 2012

## North East LEP Area

LEPs have been established to stimulate private sector growth. The NELEP, which covers Tyne and Wear, Northumberland and Durham, encompasses the entire Tyne and Wear City Region (T&WCR) and drives the economic performance of the LEP area.

Recent Government announcements have earmarked additional funding for LEPs (£10m for capacity building) and the Regional Growth Fund (RGF) (a further £350m; total available is now £2.75bn). The government will also make available a new concessionary public works loan rate to an infrastructure project nominated by each LEP (with the total borrowing capped at £1.5 billion). The role of LEPs is expected to increase, although local authorities or other bodies, and not LEPs, will deliver programmes and projects.

More needs to be done to unlock the potential of northern cities, in order to help the British economy return to significant levels of growth. Over the last decade the three northern regions – the North West, Yorkshire and Humber and the North East – have been responsible for a fifth of the UK's prosperity. If the North of England was to emulate other successful northern European economies, with competitive companies trading in global markets, a fully employed and well-skilled workforce, it could lead the UK economy towards a more progressive and sustainable economic future.<sup>13</sup>

The Tyneside Enterprise Zone will support the growth of low carbon industries, especially in South East Northumberland and on the north bank of the Tyne, whilst a new technology park is proposed for a site next to Nissan. These will create opportunities for residents and businesses within Gateshead.

Gateshead has worked with partners including Durham and Northumberland Councils to successfully develop the North East Network, one of five areas nationally to benefit from DEFRA's Rural Growth Network (RGN) programme. The North East bid was prepared and submitted on behalf of the NELEP by the North East Farming and Rural Advisory Network (NEFRAN), and aims to deliver a programme of pilot initiatives between 2012 and 2015 supporting small business growth across rural communities.

Renewable energy remains one of the key economic growth sectors, which has the potential to attract significant investment into the region over the next two decades.

Natural resources such as water, wind power and coal reserves (that could encourage the development of clean coal technologies in the North East), can help to drive green growth and build a low carbon economy.

The North East economy will also benefit from investment in emerging technologies such as a nanotechnology knowledge transfer network based in Gateshead, which incorporates work with the North East's universities.

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<sup>13</sup> The Northern Economic Futures Commission, 2012

## NewcastleGateshead

The 1PLAN offers a unique approach to the regeneration of the LEP area's heartland. This will enhance opportunities for businesses and residents in emerging knowledge sectors such as advanced manufacturing, science, health, technology, digital and creative industries.

The regeneration of the Quayside, Gateshead Quays and Town Centre area offers significant potential for retail, leisure and cultural facilities and new housing options, which in part, aims to reduce congestion by developing new approaches to urban living for knowledge workers.

The Trinity Square development is the largest development of its kind outside London, consisting of a Tesco Extra store with a Primary Healthcare Centre, 40 retail units, a cinema and living accommodation for almost 1,000 University of Northumbria students. The Tesco store alone is expected to create approximately 200 to 250 new retail jobs and will open in May 2013.

## Rural Economy

Gateshead has an underperforming rural economy, with statistics<sup>14</sup> highlighting that 74% of the working age population travel into Newcastle, urban Gateshead and the wider region for work. This demonstrates a weak rural offer and the potential to promote economic growth to contribute to improving the overall economic performance of the wider LEP area.

Despite pockets of deprivation, the rural area has many distinct advantages, such as a high quality living environment. The opening of new business bank accounts are stable and improving.<sup>15</sup> Faster broadband, through the Broadband Delivery UK (BDUK) programme, will further enhance opportunities for the growth of new businesses.

The Rural Growth Network, which includes Northumberland, Durham and rural Gateshead, will support the growth of new businesses. Opportunities for high growth businesses in key sectors such as knowledge, creative and digital and advanced manufacturing will also be promoted.

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<sup>14</sup> Census - Travel to Work Patterns, 2001

<sup>15</sup> BankSearch Data – Simon Anderson Consulting

# Gateshead

## Population

Census 2011 showed that the population of Gateshead in early 2011 was 200,200; an increase of 4.7% since 2001. A subsequent estimate for mid year 2011 puts the population at 200,300. Therefore based on the continuation of current trends in births, deaths and migration, the projections suggest that the population in Gateshead could increase by 6,700 to 207,100 by 2021.<sup>16</sup>

In the next couple of years it is projected that natural change will account for all of the increase in population; as people live longer and there are more births than there are deaths. The population is rising faster than at any time since the 19th century and yet the support ratio – the number of people of working age compared with those in retirement – is lower than ever. The percentage of the Gateshead population aged 65 and over was the highest seen in any census at 18.0%. This has implications for productivity and economic growth.

The impact of an ageing population includes increased pressure on public resources such as the NHS, a smaller percentage of workers supporting a greater number of people in retirement and acquired skills and knowledge going to waste within societies.

However, over the next 10 years, whilst the number of births is expected to continue to outstrip deaths and be the main source of population growth, it is anticipated that migration will gradually contribute more to the population increase, as more people move into Gateshead than move out. In 2021 migration is projected to account for just under 30% of population growth for that year. There is a need to attract talented people to the area to enhance growth and also retain talented people to work and live in the borough.

The number of children aged 5-14 is the only age category to have decreased from 2001 to 2011; and has done so by 10%<sup>17</sup>.

## Business

GVA per head is measured against the UK average of 100. Since 1995, Tyneside has had the strongest GVA per head performance in the region. The figure of 87.7 compares favourably with the North East figure of 75.9. However, areas such as London (170.7) and the South East (107.2) outperform Tyneside, illustrating the underlying weakness of many Northern economies.<sup>18</sup>

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<sup>16</sup> Census - Travel to Work Patterns, 2001

<sup>17</sup> BankSearch Data – Simon Anderson Consulting

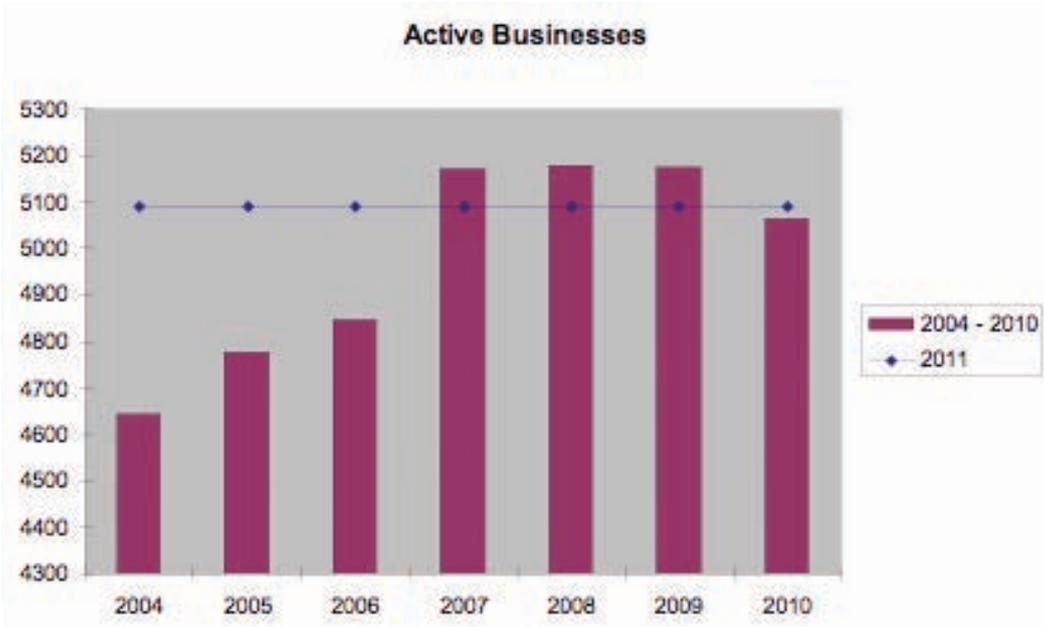
<sup>18</sup> Office for National Statistics - GVA at NUTS 3, 2011

The business base comprises mainly small businesses, with 95% of Gateshead employees working in businesses with less than 50 employees.<sup>19</sup>

The trend in the number of business births and business deaths has illustrated the impact of the recession. In 2007, new business births in Gateshead peaked at 755; however this number had declined by a third by 2011.

Whilst the most recent business data (2011) has highlighted an improved position on the previous year, with the number of business births increasing to 560 and business deaths reducing to 535, this is from a low base.

The number of active businesses (those which have had turnover or employment in the year) decreased to 5,090 from 5,175 a year earlier, retracting to below levels last seen in 2007.



There has been a fall in one year survival rates in 2010 to 84.5%, which is a significant drop on previous years. The majority of the last decade's survival rates in Gateshead have been above 90% with a high of 97.3% in 2006; UK survival rates have also followed the same trend.<sup>20</sup>

In the decade before the recession Gateshead saw positive growth with 5,300<sup>21</sup> people self employed in 2004, increasing to 7,000 when unemployment was at its lowest in the borough, in late 2007. It reached a high of 8,400 in March 2010, but since then has seen significant peaks and troughs. The latest figure for the year to June 2012, of 6,600 is the lowest since 2006. It is difficult to draw conclusion from such fluctuations, but they suggest an overall reduction in self employment at a time when government sees this and business formation as the drivers of economic growth.

<sup>19</sup> Office for National Statistics – Annual Business Inquiry Workplace Analysis, 2008

<sup>20</sup> Office for National Statistics – Business Demography, 2011

<sup>21</sup> Office for National Statistics - Annual Population Survey – Various to June 2012

There were 2.2% more business start-ups in Gateshead during the first eleven months of 2012 compared with the corresponding period of 2011.

As far as employee jobs are concerned, the borough has around 96,000. The ratio of jobs to the total working age population (job density) is 0.78, which is higher than the North East average, illustrating Gateshead's ability to attract and create jobs.

There were 1,054 notified vacancies in the borough in November 2012;<sup>24</sup> less than half the number of vacancies in November 2007. The recession and subsequent economic fragility and uncertainty have reduced the total number of vacancies available at any one time. The length of time that vacancies remained open has also reduced.

## Examples of Business Investment in Gateshead

Team Valley based manufacturing firm Rettig secured approval in Round 2 of the Regional Growth Fund to support its local investment plans. This investment has safeguarded 250 jobs and will lead to the creation of a further 35 jobs.<sup>23</sup>

Inward investment by Flexlife and Technip to Baltic Place on Gateshead Quays in 2012 will create 75 and 60 jobs respectively. Both employers operate in the marine and offshore sector and bring high value engineering and design jobs to Gateshead.

## Manufacturing

Industrial output is now at its lowest level in 20 years and manufacturing is down 20% on its peak.

A fall in the value of the pound and the opening up of new destinations for UK exports – such as Indonesia and Columbia – have failed to lift the sector.<sup>25</sup> Manufacturers will require more government help to boost exports to fast developing countries.<sup>26</sup> More positively, latest figures show the output component of the manufacturing Purchasing Managers Index (PMI) rose to 54.0 in December 2012, its highest level since April 2011 and up from 50.5 in November 2012. However, the sector still contracted for the fourth consecutive quarter overall<sup>27</sup>.

In Gateshead, the latest available figures show that of the 92,400 employee jobs, approximately 13,300 are in manufacturing, demonstrating the continued importance of this sector in the borough<sup>28</sup>.

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<sup>22</sup> BankSearch – Small Business Start Ups, November 2012

<sup>23</sup> Office for National Statistics - Jobs Density, 2010

<sup>24</sup> Jobcentre Plus vacancies - Summary Analysis, November 2012

<sup>25</sup> The Guardian – Phillip Inman Economics Correspondent, December 2012

<sup>26</sup> British Chamber of Commerce, 2012

<sup>27</sup> The Economic Times (Markit) January 2013

<sup>28</sup> Office for National Statistics - Annual Business Inquiry, 2008

## Economic Infrastructure

The Government has announced a package of measures aiming to “create the conditions that support local economic growth and remove barriers that stop local businesses creating jobs and getting Britain building again”<sup>29</sup>. The changes include measures aimed at relaxing the planning system, supporting business, developers and first-time buyers.

## Housing and economic growth – planning reform

In November 2007 the average house price in Gateshead was £120,788<sup>30</sup>, however by November 2012 this had dropped to £96,030,<sup>31</sup> with house prices reducing due to the recession and job uncertainty. Although this is a substantial drop in five years, statistics show that Gateshead is the only Tyne and Wear authority to see a rise in 2012 of 2.6%. Latest figures do however, show the North East region as a whole has had the greatest annual price fall in the UK with a drop of 2.9%.

Gateshead’s annual increase is against quite large annual decreases in neighbouring authorities such as Sunderland (-9.3%) and Newcastle (-2.8%). However, Gateshead has one of the lowest average house prices in Tyne and Wear, with only Sunderland having a lower value of £84,105 and North Tyneside having the highest at £119,007.

The Government’s economic growth package hopes to create up to 70,000 new homes, including affordable housing, 140,000 jobs and a boost to the construction sector. The package includes a £40bn guarantee for major infrastructure projects and £10bn guarantees for new homes. In Gateshead, there were only 130 additional net dwellings in 2010-2011, compared to a national average of 380<sup>32</sup>. Recent Government announcements have also promised £17m will be provided to return over 1,500 empty homes back to use across the North East and Yorkshire.

## Implications for Gateshead

- The Infrastructure (Financial Assistance) Bill could present opportunities for the way the Council works with housing associations and the private sector to achieve priorities for economic growth and housing. Consideration at a NewcastleGateshead level could identify opportunities to develop the urban core dependent on the availability of land and appetite for further borrowing in the current climate.
- Section 106 re-negotiations, alongside the increased role and potential influence of the Planning Inspectorate could divert from local priorities regarding land use and housing growth, as set out in local plans and the on-going development of the Local Development Framework (LDF), which are based upon robust local evidence.

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<sup>29</sup> Written Ministerial Statements - Eric Pickles, Housing & Growth, September 2012

<sup>30</sup> HM Land Registry - House Price Index, November 2007

<sup>31</sup> HM Land Registry - House Price Index, November 2012

<sup>32</sup> Open Data Community, 2012

- Similarly, the increased national influence of the Planning Inspectorate could detract from localist principles and priorities for community empowerment and engagement. Allowing developers to bypass the local planning arrangements could mean plans are approved nationally, which do not reflect the wishes of local residents.
- Relaxing rules for extensions to homes and businesses could bring about neighbourhood disputes, which also detracts from 'localism' and priorities for strong and cohesive communities.
- The commitment to affordable homes supports local priorities, but the context remains challenging. The public subsidy to fund affordable housing since 2010 (national affordable homes pot for 2011-14 is less than half that available for 2008-11); and the HMR pathfinder funding has been withdrawn.
- An increase in the private rented sector represents a move away from the provision of social housing in favour of affordable rent and intermediate housing – a clear departure from providing for mixed communities that could make it more difficult to procure genuinely affordable homes in higher value areas. Any additional private rented accommodation should be part of the overall housing mix, and not in lieu of affordable housing.
- An additional year before planning permission expires could pose a risk to short-term delivery.
- Accelerated release of public sector land and proposals for change of use from commercial to residential could impact upon the developing LDF. Further analysis will be needed to determine the level of impact, including at a NewcastleGateshead level. Whilst this could provide more housing in urban areas, it is unlikely to have a significant impact on overall housing targets.

## Transport Changes

The Government's Autumn Budget Statement announced plans for more money to be spent on the UK's transport and infrastructure network. In Gateshead, this will mean the construction of new link roads parallel to the A1 between Lobley Hill and the A184 in both directions. Traffic that currently joins and leaves the A1 at successive, closely spaced junctions will use these new roads and no longer conflict with A1 through traffic. This will remove significant volumes of traffic from what is one of the most congested sections of the national motorway and trunk road network reducing congestion, the potential for accidents and offering an improvement to journey time reliability. The scheme will cost £64m and will be built over the period 2014-2017.

In addition to this, plans to upgrade the remaining stretch between Leeming Bar and Barton in North Yorkshire will mean the A1 will be full motorway standard between London and Tyneside, with work expected to begin in 2013/2014.

Both schemes will be significant developments for Gateshead residents and businesses, increasing the borough's ability to attract investment and bringing significant economic benefit to the region.

## High Speed 2 (HS2)

At the time of writing, details of the high speed rail link from Birmingham to Manchester and Leeds had just been announced (January 2013). At this stage, it is not possible to estimate the economic potential from a development that may take 20 years to fulfil. However, local businesses should begin at an early stage, to consider the implications and the opportunities arising from HS2.

## Green Economy

Gateshead is named as a potential customer to “Warm Up North”, a regional project which will procure an approved Green Deal provider from the private sector, to deliver all Green Deal works in the region. A contractor will be appointed in summer/autumn 2013, and the procurement aims to seek local installers and subcontractors where possible.

## People and Communities

### Child Poverty

In Gateshead, 25% of children live in families who receive out of work benefits. The figures used to calculate this mid-2011 estimate, use tax credit data to give the percentage of children in families on low incomes. Based on how many families are out of work or on low working incomes, this is not a direct measure of exactly how many children are in poverty on the official definition, but is the closest measure available of local levels of child poverty.<sup>33</sup> Recent figures estimating the cost of raising a child in the UK have risen dramatically over the last ten years, by 58% on average. The North East, is the lowest cost area, but even here parents will spend £206,495 raising a child from birth to 21 years old<sup>34</sup>.

### Residents' views of the economy and impact of the economic recession

The results of an independent survey carried out by Ipsos MORI for Gateshead Council has found that few residents in Gateshead are optimistic about the state of the economy, whether locally, regionally or nationally. The survey was completed by over 4,000 residents during July and August 2012, representing 5% of the borough's households. The majority believe the local economy is not doing well or is really struggling (76%), although views are more pessimistic when considering the regional economy (80%) and the country as a whole (84%).

Three in five residents (60%) report that the current economic climate has affected them in one form or another. 35% of residents report not being able to afford to go on holiday, and further analysis shows that this affects significantly more people

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<sup>33</sup> The Campaign to End Child Poverty – Child Poverty Map of the UK, January 2012

<sup>34</sup> Liverpool Victoria Research – Cost of A Child from Cradle to College, 2013

in Deckham, Felling and High Fell compared to the borough as a whole. Twenty eight percent report job insecurity or increased risk of losing their job whilst 25% highlight difficulties paying fuel and energy bills. Seventeen percent experience difficulties affording to buy food, with significantly more in Felling than the borough as a whole. Almost one in ten report difficulties paying interest on loans or accessing credit.

The survey found that these financial constraints are more likely to affect younger residents, those in poor health, carers, those with children or those from a Black or Minority Ethnic (BME) group.

One in three residents (34%) state that they expect their personal financial circumstances to get worse over the next 12 months, with less than one in ten (9%) expecting these to improve. A similar proportion of residents (33%) feel that job prospects need improving in the local area. This is significantly higher than the figure of 19% reported in the 2008 Place Survey and underlines the impact currently being felt by residents as a result of the economic recession.

## **Impact of the Welfare Reform Act**

An analysis of the likely impact of the Welfare Reform Act has been carried out in Gateshead to ascertain how many individuals and families may be affected by the changes. The analysis was carried out by looking at those benefits scheduled to be subsumed into the new Universal Credit (UC) as well as the impact of the localisation of Council Tax Benefit (CTB) and changes to Disability Living Allowance (DLA). The Act will also restrict Housing Benefit entitlement for working age social housing tenants whose accommodation is larger than they need.

Initial figures suggest that over half of Gateshead's 84,261 households will be affected by the changes. Latest estimates indicate that the total amount claimed in Gateshead regarding UC benefits and Tax Credits equate to £265.2m which is an average of £3,200 per family per year. Changes to DLA could reduce claims by approximately one fifth, equating to £11m in Gateshead, after latest data shows that £52.8m is currently claimed of which £32.5m relates to those of working age.

In Gateshead 2,964 (14%) Council tenants of working age who claim housing benefit, under-occupy their homes under the definitions in the Act. Of these, 2,407 have one extra bedroom and 557 have at least two extra bedrooms. This will result in approximately £1.78m extra income for The Gateshead Housing Company to collect. In addition to this, approximately 450 Registered Social Landlord (RSL) tenants also under-occupy their homes and will be subject to the new welfare reforms. Those residents who are in work but on income-related benefit and affected by under-occupancy, will subsequently face a restriction in Housing Benefit which would see them having to work an additional ten hours to cover the reduction in benefit.

The impact of Universal Credit could hit the economy hard if those who are moved off benefits do not have the jobs, particularly entry level jobs, to go in to. It is likely that there will be an increase in demand for this type of job as well as an increased

need for employment related support. This comes at a time when there has been a national reduction in funding provision and employment opportunities. In part, this is due to funding reductions to help deficit reduction, although enhanced commissioning will increasingly affect public sector job opportunities.

The Institute for Fiscal Studies (IFS) has estimated an average household loss of £680 due to the Government's austerity measures and planned welfare reform<sup>35</sup>. This being the case, it can be assumed that there would be a knock on effect on disposable income and subsequently less money in the local economy. In Gateshead, an annual loss of £680 for the 84,261 households could result in a £57.3m impact to the local economy.

To put the £57.3m into context, it is equal to the loss of income from around 4,775 jobs paid at £12,000 per year (slightly over the minimum wage level). As a result, in addition to the existing overwhelming local need for sustainable job creation, Gateshead would need to create 4,775 additional jobs to compensate for the annual loss in the borough.

One of the main aims of the Welfare Reform Act is to 'make work pay' by moving more people off benefits and into employment, simplifying the benefits system and tackling administrative complexity. The Council provides a range of employment support measures to assist disadvantaged and economically inactive residents, including those affected by Welfare Reform, to return to work.

## Case Study – Welfare Reform

A 46 year old resident lives in a three bedroom furnished council property. His rent is £115.98 a week including £7.46 a week water rates, so only £108.52 of his rent is eligible for housing benefit. He is liable to pay £15.34 council tax after receiving a single person discount.

He receives income based Employment and Support Allowance (ESA) of £99.50 (he will get this indefinitely due to being unable to work because of illness/ disability) and gets £108.52 housing benefit and £15.34 Council Tax Benefit (CTB). His total income from benefits is £223.36. At present, he pays £7.46 a week out of his ESA towards his water rates leaving him with £92.04 per week.

From April 2013 he will be under-occupying his property by two bedrooms so the rent figure used to calculate his Housing Benefit will be reduced by 25%. He will also have to pay 8.5% towards his council tax.

He will receive £81.39 Housing Benefit and £14.04 Council Tax Benefit totalling £95.43 and will now need to pay £27.13 out of his ESA towards his rent and £1.30 out of his ESA towards his council tax, leaving him with £63.61 per week.

***This Gateshead resident will get £28.43 a week less help.***

<sup>35</sup> James Browne, Senior Economist, Institute for Fiscal Studies – Reuters, Feb 2011

# Economic Inclusion

## Health and wellbeing

The health of people in Gateshead is generally worse than the England average. Deprivation is higher than average and about 8,700 children live in poverty. Life expectancy for both men and women is lower than the England average. Even within the borough, life expectancy in the most deprived wards is shorter by 11.8 years (men) and 7.8 years (women) than in the least deprived wards<sup>36</sup>.

Around a quarter of people rated their life satisfaction as low or very low in most of the areas within the North East. And findings from the Census 2011 stated that whilst 77% of people in the region felt their health was either very good or good this was the lowest proportion in the country.<sup>37</sup>

However, the average ratings for the 'life satisfaction' and for the 'worthwhile' questions did not vary much between the areas of the North East (ranging between 7.4 and 7.5 out of ten for the 'life satisfaction' question and between 7.5 and 7.8 for the 'worthwhile' question).<sup>38</sup>

Being in work is seen as a positive factor in encouraging a healthy population, whereas being out of work impacts on health and wellbeing, increased poverty, stress and mental health.

## Economic Deprivation

The Economic Deprivation Index (EDI)<sup>39</sup> tracks neighbourhood-level deprivation each year from 1999 to 2009. They are produced using the same general methodology as the Income and Employment deprivation domains of the English Indices of Deprivation, as such, the economic deprivation indices complement the Indices of Deprivation 2010. As the EDI is an overall measure of economic deprivation experienced in an area and is calculated for every Lower Super Output Area (LSOA) in England, rankings are according to their level of economic deprivation in each year to allow analysis of *relative* changes over time. The analysis suggests that the borough as a whole has improved from the 21st worst area in England in 1999 to the 42nd worst in 2009.

Whilst this improvement is welcome, even the current ranking demonstrates ongoing social and economic difficulties in Gateshead and remains an area with high levels of deprivation.

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<sup>36</sup> Public Health Observatories - Gateshead Health Profile, 2012

<sup>37</sup> Office for National Statistics – Census, 2011

<sup>38</sup> Office for National Statistics – First Annual ONS Experimental Subjective Well-being results, 2012

<sup>39</sup> Tracking Economic and Child Income Deprivation at Neighbourhood Level in England, 1999 – 2009

Following the Autumn Statement in December 2012, the Treasury's distributional impact analysis indicates that the cumulative impact of further settlement measures will have the biggest percentage impact on the lowest income households. This will affect a large proportion of Gateshead households due to the above average levels of deprivation.

## Disability

Approximately 22% (44,352 people) of Gateshead's residents' day to day activities are limited because of their health or a disability. This has decreased since 2001 by 1.8% (1,365 people), similarly, 22% of North East residents' day to day activities are also limited; however, both are somewhat higher than the England average at 18%.

## Income

Personal finance can have a significant impact on people's sense of well-being.

In 2011, approximately 9% of households in Gateshead had an income of less than £5,000 per year, compared with 6% of households in Great Britain.<sup>40</sup> The median gross weekly pay for full time Gateshead residents is £451.20.<sup>41</sup> This is a small increase of 3.7% from 2011. Gross disposable household income of Tyneside residents, at £12,858 per head in 2010, was 22% below the UK average and one of the lowest within all of the UK regions.<sup>42</sup>

Faced with a weakening employment outlook, employees have been willing to accept lower pay rises or cuts in pay, resulting in slow earnings growth and subsequently reduced disposable income, having a negative effect on the local economy.

## Debt and Credit

Financial capability or having a full range of appropriate budgeting skills to lead a self sufficient life is vital in achieving sustainable local communities. High levels of poverty and poor skills lead to high rates of debt and credit.

Helping people to address these issues, including, for example, opening a bank account, is key to helping people access work and begin to take control of their finances.

The approach of the Council and its partners to address the impact of illegal lending is to develop new lending opportunities through credit unions, which is an important building block in creating sustainable communities.

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<sup>40</sup> Acxiom - Income Data, 2011

<sup>41</sup> Office for National Statistics - Annual Survey of Hours and Earnings, 2012

<sup>42</sup> Office for National Statistics - Regional Household Income, Spring 2012

## Case Study – Personal Banking and Financial Inclusion

Many people find high street banks intimidating and the range of financial products confusing, so even if individuals do open a bank account, some will stop using them or find themselves in financial difficulties as they are not using them appropriately.

Access to suitable bank accounts is central to enabling financial inclusion. The current 'free if in credit' banking model in the UK, does not meet the needs of consumers on low incomes or with poor financial management skills who struggle to avoid penalty fees and unauthorised overdraft charges.

One solution would be to increase membership of credit unions. Gateshead First and Cestria Credit Unions are amalgamating with County Durham Credit Union, and have received capital funding from the Council and will receive a start up grant from Durham Council to help them develop their services. It is hoped by 2013 this will include the potential to offer supported budgeting accounts, also known as 'jam jar' accounts to residents.

Supported budgeting accounts could bring banking to many more people. This includes improved access to affordable goods and services through direct debit and online shopping, financial products like low cost loans and insurance. The aim is to create better access to products that would support people to meet their regular bill commitments; credit unions and other financial services are looking at ways this could be developed.

# Labour Market

## Employment

The proportion of 16-64 year olds who are employed in Gateshead has increased by over 3.5% between 2007 and 2012 to 66.1%, which is higher than the North East average (65.9%), but lower than the Great Britain average (70.5%). Of those Gateshead residents who are employed, 76% work full time hours and 24% are classed as part time. Self employment in Great Britain is 9.6%, substantially higher than the Gateshead figure of 5.1% and since 2007, the self employment gap between Gateshead and Great Britain has increased slightly by 0.8%<sup>43</sup>.

The public and private sector split of employment in Gateshead between 2008 and 2011 has shown little change in the percentage employed. Those employed in the public sector has increased by 2% since 2008 and those in the private sector has dropped by 2%<sup>44</sup>. However, ongoing cuts to public sector spending could see a change in future figures, showing a higher percentage of people employed in the private sector.

## Unemployment

Since the 1980s, unemployment has reduced significantly. In August 1983, there were approximately 16,000 people in receipt of the equivalent of Job Seekers Allowance, which had reduced to 3,080 in November 2007. The economic downturn resulted in JSA claims peaking at 7,070 in March 2012 and showing a limited reduction to 6,734 in December 2012. Despite some reduction, unemployment is almost double the pre-recession low of November 2007.

## Underemployment

One in 10 of all workers in the UK are now officially underemployed, according to a study from the Office for National Statistics (ONS). It says 3,050,000 workers want to work more hours each week, out of a total workforce of 29.41 million. The number of workers in this position has shot up by 980,000 in the four years since the start of the economic downturn in 2008.

Underemployment is defined as when individuals are working shorter hours than they want, or people being over-qualified for the jobs they are doing. The number of under-employed workers increased by 47%, between 2008 and 2012. Around one in nine workers in the North East are underemployed – slightly above the national average.<sup>45</sup> In terms of occupation, the level of underemployment has risen

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<sup>43</sup> Office for National Statistics – Annual Population Survey, Sept 2012

<sup>44</sup> Office for National Statistics - Business register and employment survey, 2011

<sup>45</sup> Trade Union Congress – September 2012

most sharply in low skilled jobs. A similar picture emerges by qualification, with the highest rates of underemployment among those with relatively low qualification levels, especially those without degrees or other higher education qualifications.<sup>46</sup> Underemployment is another form of economic weakness, with the economy unable to meet the jobs needs of residents including young people.

## **In and out of work benefits**

Welfare reform has been a major policy priority for successive governments. At their heart, the reforms have sought to ensure that work incentives mean a life of employment is always more attractive and viable than seeking support from the state, whilst continuing to provide a safety net for people in need.

The Government has identified that there are two fundamental problems with the current welfare system: poor work incentives and complexity. As a result they suggest that the current system hinders rather than helps millions of individuals who are in poverty and facing welfare dependency.

The key themes in the welfare reform debate have been:

- reducing worklessness;
- combating poverty; and benefit recipients recognising their rights and responsibilities with certain groups such as single parents, the disabled and older people encouraged into work rather than remaining on benefits.

Welfare reform will also bring about change to those on low incomes who are in work as changes are made to working tax credit and those in receipt of housing benefit who under occupy their social housing. Further pressure has also been placed on those in receipt of working age benefits as a result of the recent announcement that increases will be capped at 1% for the next three years, in effect a benefit cut.

## **Out of Work Benefits**

Since the 2011 refresh of the LEA, out of work benefit claimants have seen little improvement, continuing to illustrate the ongoing lack of suitable employment opportunities. Wider issues such as ill health also highlight the structural difficulties within the workforce.

Currently just over 11,000 claim Incapacity Benefit (IB)/Employment Support Allowance (ESA) in Gateshead, which when added to those claiming JSA (and a small number of other benefits) means that over 21,000<sup>47</sup> people, 17% of the working age population, are claiming out of work benefits. This has implications for economic

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<sup>46</sup> Office for National Statistics – The Productivity Conundrum, October 2012

<sup>47</sup> Office for National Statistics – DWP Benefit Claimants, February 2012

performance, but also the economic resilience of local communities, with low levels of household income limiting economic growth and business formation and the sustainability of local communities.

A passive benefit regime has meant that once an entitlement to incapacity benefits was established there was little expected of claimants, with no interventions to help those who were interested in returning to work.<sup>48</sup> With a high percentage of current claimants having been in receipt of incapacity benefits for over five years, the introduction of the Welfare Reform Act and subsequent move to Universal Credit and increased assessments will bring about change for many of these claimants. However, due to the longevity of claims, those assessed as being fit for work may find themselves furthest removed from the labour market and increasingly struggling with benefit reductions.

## Youth Unemployment

One of the groups hit the hardest in the economic downturn has been young people. From a Gateshead population of 200,300, 8.5% or 17,100 are between 18 and 24 years old<sup>49</sup>, of those 10.6% (1,805) are in receipt of JSA, 22% (400) of whom have been in receipt for over 12 months<sup>50</sup>. Recent analysis has provided the following key findings:

- While youth unemployment is classed as those aged 16-24, only 20 young people aged between 16 and 17 claim JSA.
- The current recession has proved to be much deeper than that seen in the early 1990s where youth unemployment figures returned to pre-recession levels after 5.5 years – current figures have already surpassed that timescale.
- The number of 17-year-olds who drop out from school sixth form is one of a number of key local issues that needs to be addressed.
- Department for Work and Pensions figures show that 50% of the young people in receipt of JSA have been referred to the Work Programme demonstrating the increased level of longer term unemployment for this age group.
- Only 18% of JSA claimants aged 18-24 have a level 3 qualification or above.
- There is a high level of demand for apprenticeships amongst young people in Gateshead for whom there are not enough apprentice employment opportunities. Gateshead employers need to be supported to increase the number of apprenticeships in general and the number available for 16-18 year olds in particular.

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<sup>48</sup> Dame Carol Black - Working for a Healthier Tomorrow

<sup>49</sup> Office for National Statistics – Mid Year population Estimates, November 2011

<sup>50</sup> Office for National Statistics - Claimant Count, November 2012

## Travel to Work

The Department for Transport classifies a 40 minute travel to work threshold, Jobcentre Plus expects JSA claimants to travel 60 minutes to find employment in the first three months of their claim, rising to 90 minutes after this time.

For this study, bus journeys based upon 40, 60 and 90-minute travel to work time options were examined. Each timescale includes the entire journey, door to door and assumed that individuals are prepared and able to walk 400 metres to a bus stop, based on an average, able-bodied person. Allowances must be taken into consideration for disabled individuals, particularly wheelchair users, when using public transport.

LSOAs in Felling (high levels of JSA claimants), Low Fell (low JSA), Chopwell (high JSA) and Rowlands Gill (low JSA) were looked at as part of the study with mapping undertaken on how far residents could travel from the selected areas to the established employment centres across the region. The following findings were derived:

- Both Low Fell and Felling demonstrated that in 40 minutes, residents could travel to the majority of employment centres in Tyne and Wear, 60 and 90 minutes further increased this scope.
- Residents in the far west LSOA (Chopwell) had limited scope to travel to employment centres within 40 minutes, however this significantly increased when looking at 60 and 90 minutes travel.
- The majority of employment centres fall within one or two of Nexus' travel zones for pricing, with the exception of Chopwell.
- Funding for transport costs for job seekers is now more flexible given the introduction of Jobcentre Plus' Flexible Support Fund. Funding is available for interviews and to support a person into employment.

Based on the above, it is believed that:

- Accessing public transport for employment should not be a major barrier, even less so when travel time is extended to both 60 and 90 minutes.
- Cost of public transport should not be a major barrier given that support is now more flexible to better suit individual circumstance.
- Evidence does not suggest that where an individual lives limits their (transport) ability to access employment. The LSOAs studied in Low Fell and Felling demonstrated that although both areas can access the majority of main employment centres, levels of unemployment between the two are vastly different.
- The LSOAs studied in Chopwell and Rowlands Gill demonstrate that a more rural location and subsequently more limited transport options do not suggest inability to access employment.
- Perception of public transport and the ability to travel to employment outside of the immediate locale is potentially the foremost barrier to transport.

## Skills

The importance of higher level skills has been recognised as key in driving economic growth. It has been noted that higher level skills will play a key role in developing Gateshead's priority sectors, such as: energy; software; IT; digital media; transport and logistics; commercial creative; knowledge intensive business; services; construction; tourism and hospitality.

Overall skills levels, in terms of formal qualifications, in Gateshead remain similar to the North East average but continue to be below the performance of Great Britain. For those people aged 16 and over, Gateshead has a higher percentage of those without qualifications and a higher percentage of those whose highest qualification is either Level 1 or Level 2 equivalent<sup>51</sup>.

Qualification levels in Gateshead however, have seen significant improvement over recent years, with those specifically of working age without qualifications reducing from 17% in 2008 to 12.2% in 2012. This trend has been echoed regionally and nationally but not to the same extent as in Gateshead. Furthermore, whilst levels of those with no qualifications in Gateshead remain higher than the Great Britain level of 10.7%, analysis shows the gap between the two is narrowing.

In addition to the reduction in the no qualifications group, an increase has been seen in those, again of working age, achieving GCSEs between A and C grade and those qualified to degree level or higher. In Gateshead, GCSE achievement has increased from 24.2% in 2008 to 27.5% in 2012, well above the national average of 22.9%. However, whilst A-level results remain high and also above the national average, a similar increase has not been seen at this level of qualification with Gateshead remaining at 23.8%, this is despite an increase in the number of higher quality jobs in recent years.

## NEET

October 2012 data shows that the proportion of young people not in employment, education or training (NEET) stood at 3.5% for 16 year olds and at 6.2% for 17 year olds. These figures are significantly reduced from the same point last year, reflecting the recent drive to reduce youth unemployment through initiatives such as the Youth Contract. These figures also represent a rise in the number of young people remaining in full time post 16 education and a slight decline in the numbers going into apprenticeships and training.<sup>52</sup>

### School Absence Rates

School absence rates are a precursor to poor qualifications for some students and will also lead to lower level job opportunities. Gateshead has a higher than average overall primary and secondary school absence rate compared with national and

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<sup>51</sup> Office for National Statistics - Census, 2011 Qualifications – December 2012

<sup>52</sup> Gateshead Council Economic Scorecard – December 2012

regional figures. Analysis carried out on the autumn term 2011 and spring term 2012 data shows that Gateshead had a 5% rate of absence of half days missed, compared to 4.1% for England and 4.3% for the North East. Gateshead did however prove to be one of the better performing areas in Tyne and Wear, with only North Tyneside having a lower rate at 4.7%<sup>53</sup>.

## University Applications

The overall number of applicants to North East universities has increased dramatically since 2007 when there were 8,900 students accepted compared with 19,557 students in 2011. The number of students specifically accepted on to degree courses almost doubled in 2009 and has then remained relatively static with a small fall in the latest figures for 2011. Student fees will understandably have had an impact on student numbers, however during the same time period a substantial increase has been seen in the number of students on HND courses. In 2010, only 152 students were accepted for a university based HND, compared with 2,498 in 2011<sup>54</sup>.

## Apprenticeships

The Gateshead Apprenticeship Plan has demonstrated a 29% increase in the number of 16–18 year old residents taking up apprenticeships in the 2010/11 academic year. Those completing apprenticeships increased by 71% on the previous year, more than double the regional increase of 32% and participation rates increased by 19%.

## Skills Mismatch

There is currently a mismatch of skills on both a national and local level. National research<sup>55</sup> has shown that there are large mismatches between the skills young people are developing and actual job vacancies. For example, in the UK, more than 94,000 people completed hair and beauty courses despite there being just 18,000 new jobs in the sector – of these, more than 60 per cent were 16–18 years old. However, it also reveals large undersupplies in key sectors nationally. In the construction sector, around 123,000 people, including 44,000 16–18 year olds were trained for around 275,000 jobs.

The research found that, particularly in the North East, there are relatively low numbers of jobs per skills achievement across most occupations/sectors, adding to the difficulties; even those with skills have in finding employment.

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<sup>53</sup> Pupil absence in schools in England: Autumn term 2011 and spring term 2012 – education.gov.uk

<sup>54</sup> North East University Applicants 2007-2011 - UCAS

<sup>55</sup> Research by the Centre for Economic and Social Inclusion on the behalf the LGA

Sectors in the North East with the most under-supply include fashion and textiles (33.59 jobs per skills achievement), marketing and sales (95.16 jobs per skills achievement) and security industry (26.98 jobs per skills achievement). In Gateshead, this data is only available at a vacancy level and shows a similar picture of marketing and sales and the security industry as having the highest jobs per skills achieved ratio (8.19 and 5.40 respectively). Those industries showing the highest potential oversupply in the North East include creative and cultural (2.85), hair and beauty (1.74) and hospitality, leisure, travel and tourism (1.83). Similarly in Gateshead industries include health and safety (0), hospitality, leisure, travel and tourism (0.13) and hair and beauty (0.27)<sup>56</sup>.

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<sup>56</sup> Centre for Economic and Social Inclusion - Hidden Talents: Skills Mismatch Analysis, 2010/11

# Growth Projections

There are a number of key developments in Gateshead which will create an estimated 2,000 new jobs over the next few years. The Environment, Economic Development and Regeneration Service have been working with developers to ensure that employment and training opportunities are integrated into these new developments.

Development Clauses and Section 106 agreements have been utilised to maximise the employment opportunities for local residents. The largest number of employment opportunities will be in the food retail led redevelopments of Gateshead, Blaydon, Felling and Birtley Town Centres. There is also the Evolution Housing programme and the new Emergency Treatment Centre at the Queen Elizabeth Hospital. (See outline of developments below)

The Environment, Economic Development and Regeneration service is taking the lead on the development of recruitment programmes with the employers/developers and will be working with key stakeholders to ensure that local residents are provided with the necessary skills to gain employment in these developments.

- **Trinity Square**

This will see the construction of a new Tesco Extra store, Primary Care Trust building, 40+ retail and office units, multiplex cinema and accommodation for 1,000 students. The development is expected to create around 1,000 jobs and recruitment will be 2013 to 2014.

- **Blaydon Town Centre**

This will see the construction of a large Wm Morrison supermarket, demolition of part of the existing precinct and refurbishment of the rest. The building of a new youth club, medical centre and day centre will create around 500 new jobs.

- **Birtley Town Centre**

This will involve demolition of the currently vacant supermarket on Durham Road, Birtley and the Morrison's Facilities Services depot (back Station Lane) to allow a new build Wm Morrison supermarket which will create around 290 jobs.

- **Felling Town Centre**

This will involve demolition of the existing shopping parade and new build of a supermarket (operator still to be officially confirmed) and nine associated retail units which will create around 240 new jobs.

- **Evolution Housing Gateshead**

This development will involve the building of approximately 2,500 new homes over the next 15 years at sites across Gateshead, and will hopefully create around 200 jobs.

- **Queen Elizabeth Hospital Emergency Treatment Centre**

This will be a large scale build that will create a number of employment opportunities for local people. The Council has agreed that 20% of the workforce will be Gateshead residents.

### **Northern Design Centre**

£9.9m funding was secured from One North East to develop the Northern Design Centre, a regional flagship facility which forms part of Baltic Business Quarter. The Northern Design Centre opened in February 2012 and offers space for start-up, small and expanding companies along with designated creativity, exhibition and research areas.

### **Inward Investment**

Inward investment marketing in Gateshead has been strengthened by the commissioning of NewcastleGateshead Initiative (NGI) to support Business Winning activity across Newcastle and Gateshead through the articulation of the NewcastleGateshead offer for inward investors, and proactive targeting of mobile investment projects.

### **Accelerated Development Zone**

Newcastle's City Deal, developed with the Government, the NELEP and local partners, including Gateshead Council, was agreed in July 2012. The City Deal sets out a range of measures to boost the local economy and includes the creation of a NewcastleGateshead Accelerated Development Zone, totalling 40 hectares of land including Baltic Business Quarter and Gateshead Quays, funded through Tax Increment Financing. Approval of the new development deal is a major step towards delivering economic infrastructure that will stimulate growth.

### **Rural Economy**

Working with a range of partners, Gateshead Council has been successful in accessing £3m of funding to develop a Rural Growth Network covering the rural areas of the NELEP. These networks will pilot a range of new activities, including enterprise hubs, to help promote the growth of new and existing businesses in rural areas. Funding will be available for three years from April 2012 – April 2015.

### **HS2**

The Government have recently announced phase 2 of the planned high speed railway network. Phase 1 revealed an initial plan for a new railway line between London and the West Midlands, carrying 400m-long (1,300ft) trains, with up to 1,100 seats per train, operating at speeds of up to 250mph. Phase 2's preferred route, a Y-shaped extension taking services from Birmingham to Manchester and Leeds, aims to be a catalyst for economic growth and help rebalance the economy between the north and south. Whilst there are no plans for high speed rail in the North East, construction of HS2 will bring about increased opportunities for businesses in the region and once developed, links to it from the mainline will reduce travel time to the capital and subsequently increase economic opportunities.

## **A1**

The Government announced plans for more money to be spent on the UK's transport and infrastructure network. In Gateshead, this will mean the construction of new link roads parallel to the A1 between Lobley Hill and the A184 in both directions. This will remove significant volumes of traffic from what is one of the most congested sections of the national motorway and trunk road network. The scheme will cost £64m and will be built over the period 2014-2017.

In addition to this, plans to upgrade the remaining stretch between Leeming Bar and Barton in North Yorkshire will mean the A1 will be full motorway standard between London and Tyneside, with work expected to begin in 2013/2014.

# Policy Context

## Strategic Needs Assessment

To help plan for the future, Gateshead Council produced a Strategic Needs Assessment in July 2012, which identifies key priorities for the borough, utilising intelligence and analysis from a range of needs assessments, incorporating economic social and environmental issues. Some of the key findings from the Strategic Needs Assessment are shown below, many of which are highlighted throughout this document.

### People

- Financial exclusion
- Child poverty
- Low skills levels and low wage economy
- Inequality in educational achievement
- Health inequalities

### Place

- Need a broader business base
- Underperforming rural economy
- Housing need and lack of competitiveness
- Low levels of energy efficient homes
- Reducing carbon emissions and becoming more sustainable
- More affordable and sustainable transport and high speed broadband

### Equality Objectives

- Diversity and equality within the workforce
- Narrow the attainment gap of vulnerable young people
- Support more people into employment to improve economic, digital and financial inclusion
- Deliver targeted support to carers – BME carers, lesbian, gay, bisexual and transgender (LGBT) carers, young people who are carers and carers within the Jewish Community

## Local Government Financial Statement

In the Local Government Financial Settlement Statement in December 2012, the government provided further details of the proposed changes in the way that local government will be funded from April 2013. It expects 70% of council income will now be raised locally, compared with 56% under the centrally distributed formula grant system. From April, councils will be able to channel this greater local control into encouraging local jobs and local firms via a new business rate retention incentive that rewards them for growth. It estimates that it could potentially add £10 billion to the national economy by 2020.

The Government is also to extend the temporary doubling of the Small Business Rate Relief scheme for a further 12 months from 1 April 2013 and will also exempt all newly-built commercial property completed between 1 October 2013 and 30 September 2016 from empty property rates for the first 18 months.

## Autumn Statement – 5th December 2012

The Chancellor signalled that a greater proportion of growth-related spending would be devolved to local areas from April 2015, in response to Lord Heseltine's review of economic growth<sup>57</sup>. The Government will devolve this spending on the basis of the strategic plans developed by LEPs by creating a single funding pot for local areas. Lord Heseltine suggests a single pot of £49 billion of central government funds to be "pooled" and awarded to the best bids from the LEPs across the country, attracting more local business talent and bringing together private and public sectors to drive local growth. Further details will be available from Spring 2013. Lord Heseltine has also suggested devolved budgets for transport, skills and employment. In addition to this, the Government will take the opportunity to streamline its management of the EU Common Strategic Framework funds in England. The Chancellor also signalled a greater devolution of skills policy to local areas.

The Heseltine Review, commissioned by the chancellor in the March Budget, offers 89 recommendations to promote economic growth, including calls for budgets at Whitehall to be relocated into a central fund that would be used to back growth schemes, and the dispersal of the civil service throughout the country to regional offices.

## Welfare Reform

The Welfare Reform Act came into force in March 2012 with the main aims being to move more people off benefits and into employment, to simplify the benefits system and to tackle administrative complexity. The Act makes specific requirements of local authorities, but at the same time will also result in changes that will impact on local people and communities that the Council, and many partner organisations, will have a role in managing. Key elements of the Act include:

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<sup>57</sup> Lord Heseltine - No Stone Unturned in the Pursuit of Growth, October 2012

- Introducing Universal Credit - a single payment of benefit made directly to recipients;
- Replacing Disability Living Allowance with Personal Independent Payments;
- Capping total benefits to which an individual or couple is entitled to £26,000 per year (a maximum of £500 per week) for lone parents and couples with or without children and £18,000 per year (a maximum of £350 per week) for single people without children;
- Reducing Housing Benefit for working age social tenants deemed to be under-occupying their home e.g. a couple living in a two bedroom property;
- Annual increases to Local Housing Allowance based on the lower Consumer Price Index or the 30th percentile of rents in the area - impacting on all private rented claimants;
- Replacing the current Council Tax Benefit scheme with a localised scheme determined by individual local authorities. The new approach will include a 10% reduction in central government funding for council tax support, and protections for certain groups such as pensioners;
- Changes to the statutory child maintenance scheme;
- Phasing implementation of reforms between 2013 and 2017, with some reforms such as Council Tax Benefit localisation being in place by 1 April 2013 and others such as Universal Credit being phased in over the period up to 2017.

The timeline for implementation of the Act covers:

- **April 2013** - changes in Housing Benefit for those under-occupying their property and the localisation of Council Tax Benefit;
- **September 2013** – benefits cap proposing that no out of work family will receive more than £500 per week (£26,000 per annum) in total benefits; and for single adults, no more than £350 per week;
- **October 2013** – phased introduction of UC with full migration by 2017;
- **October 2013** – direct payments to new UC claimants, excluding those deemed to be vulnerable.

## Rural Growth Network

Working with a range of partners the Council has been successful in accessing funding of around £3m to develop a Rural Growth Network (RGN) covering the rural areas of the North East Local Enterprise Partnership.

These networks, which are similar to Enterprise Zones, will pilot a range of new activities, including enterprise hubs, to help promote the growth of new and existing businesses in rural areas.

Funding will be available for three years from April 2012 – April 2015. Capital funding of approximately £2m will be used to develop the 'enterprise hubs', in more isolated rural locations, to act as a catalyst for enterprise development in areas which have difficulty in accessing other provision.

This funding will also support business engagement programmes across the three local authority areas. Packages will include support to promote the growth of new and existing businesses and social enterprises. Targeted assistance will also be provided to support women into enterprise. European Regional Development Fund (ERDF) funding will be sought to supplement this provision, whilst the decision by government to support the application will bring preferential access to Rural Development Programme for England (RDPE) funding across the LEP area.

The success of the application will help the council deliver the business theme within the new Rural Economic Strategy, particularly the tourism, food and drink and land and property assets strands within the action plan.

## **The NELEP Economic Review**

The importance of strong and growing private and community sectors in the North East has never been greater. The NELEP therefore decided to produce a strategic and constructively critical view of the North East economy. Commission of the review, whilst instigated by the NELEP, has strong backing of central government, and will be submitted to the Deputy Prime Minister.

Targeting both productivity and employment growth in the period to 2030, an Independent Economic Review team aim to develop a set of strategic interventions to be implemented over the next five years, produced in a report by Spring 2013.

The Review Team will ask for six cross cutting themes, framed to meet the strategic objectives of NELEP, to be reviewed and assessed by a panel of international experts:

- The North East in UK, European and global markets
- Labour markets and skills
- Infrastructure and land markets
- Private and social enterprise
- Capital markets
- Public policy

The team is asked to provide actions for the North East LEP itself, recommend actions that would need to be taken forward with partners in the region and across the North of England and Scotland, and actions that require central Government intervention to resolve.







For more information contact Gateshead Council's Economic Development Service

0191 433 2030  
[economicdevelopment@gateshead.gov.uk](mailto:economicdevelopment@gateshead.gov.uk)  
[www.gateshead.gov.uk](http://www.gateshead.gov.uk)