Economic Assessment of Northumberland 2008

"Drivers of Change" Workshop, 30 October 2008
Feedback Report

Northumberland
Strategic Partnership

Introduction

This workshop of public sector practitioners was the third in a series to develop a view of the economic future for Northumberland that would subsequently allow policy interventions and actions to be developed.

Previous stages of the process have identified the key drivers of change within the context of a number of potential scenarios. This session focused on exploring how these drivers will change. The purpose was to generate a clear view of how important factors will influence the economy, the threats posed by these various scenarios, the opportunities they present and most importantly, the types of interventions which can be used to ensure that the most favourable path is chosen.

The Session

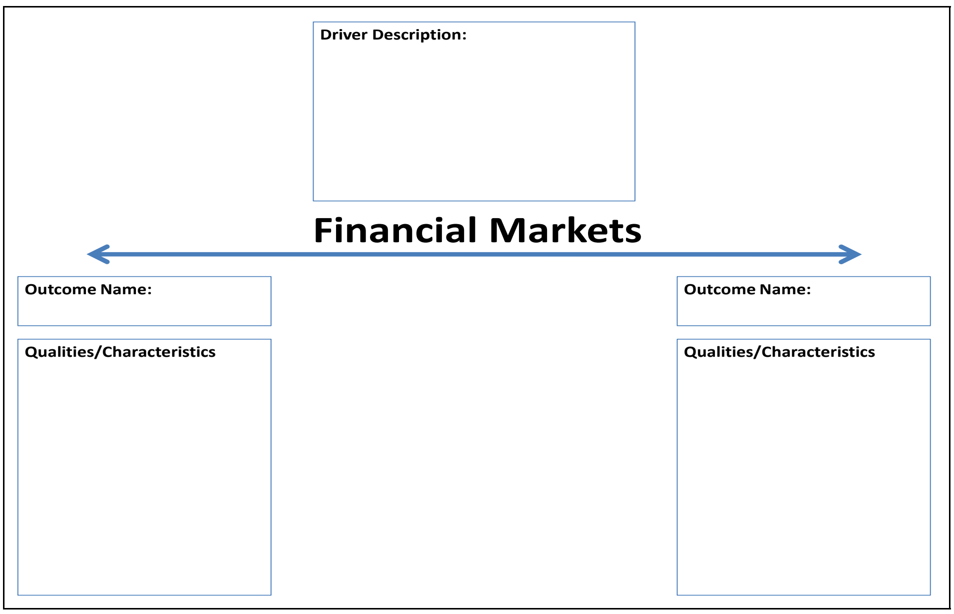
The session was attended by 24 key stakeholders with a direct interest in helping to shape the economic prosperity of the county – collectively (the list of attendees is reproduced at Appendix 1) they represented a reasonable cross-section of interests.

In setting the context, Phil Shakeshaft from Futurist outlined the journey taken so far in exploring what the future holds for Northumberland with reference to the previous two sessions and the NSP Standing Conference. His presentation is attached at Appendix 1.

Working in small groups, the delegates were asked to undertake two exercises from the point of view of a citizen living or working in Northumberland, this ensured that the responses were as relevant as possible. To assist with this process, delegates referred to a "drivers of change" report (attached at Appendix 2)

Exercise One – Developing the Drivers

Each group were given exercise sheets (shown below). Following a brief discussion of the drivers, the groups were asked to first list 3-5 sentences which described the most important aspects of the driver. Participants were then asked to specify 3-5 sentences that described each of the extreme outcomes which they had identified, they were also asked to come up with a suitable name for each extreme.



Exercise Two – Identifying Interventions

In the second exercise the groups were asked to list the types of interventions which could potentially be used to impact each driver they had looked at in the first session.

Participants were asked to split their suggestions into two groups:

- *Direct Interventions* – Measures that could be taken to directly influence the driver. For example, an increase in funding would be a direct way of impact the education and skills agenda; and
- *Indirect Interventions* – Actions which could be taken which may not directly affect a driver, but would ultimately influence its direction or its impact on Northumberland. For example, an investment in ICT skills for young people may not directly impact worldwide advances in digital media, but it may help Northumberland to create a population capable of living and thriving in an increasingly digital world.

Next Steps

The output from these exercises has been captured and is now helping to populate the final economic assessment report.

This report will have four component parts. The primary output will be a *Drivers of Change* report that pulls together the three strands of the assessment (state of Northumberland; economic forecasting projections; and future scenario development. For each of the identified drivers it will explain:

- the rationale for the significance of the driver to the county;
- Northumberland's global position in relation to that driver;
- driver uncertainty and potential outcomes;
- the key dependencies with other drivers; and
- the potential policy interventions (both direct and indirect).

This report will be underpinned by a technical paper for each of the work strands.

In terms of timescale, the intent is to report the final assessment to the NSP Executive in late January 2009 following some form of consultation on the emerging output. This will then form the basis for subsequent tailored workshops to the private sector and elected members which will initiate the translation of the assessment into an economic strategy for the county. Summary versions of the core document will be produced to help inform these discussions.

It is also hoped that over the next couple of months, an external peer review of the assessment will be facilitated through the Chief Economic Development Officers Society (CEDOS).

Appendix 1

Northumberland Economic Assessment
“Drivers of Change” Workshop, 30 October 2008

Attendance List

Sandra Brydon	NCC
Ian Campbell	NCC
Andy Clarke	BVBC
Julie Dowson	NCC
Matthew Ebbatson	TWCR
John Hamilton	NCC
Philip Hanmer	NCC
William Haywood	ONE
Nick Harrison	Futurist
Andrew Hunt	Durham University
Giles Ingram	Northumberland Tourism
Ian Jones	LSC
Dave McFarlane	Futurist
Chris Maxwell	ONE
Steve Revell	ADC
Margaret Robinson	NCC
Alan Robson	NCC
Janice Rose	NSP
Cameron Scott	TDC
Phil Shakeshaft	Futurist
Dee Stephenson	NSP
Rob Strettle	NSP
Peter Sturman	TWRI
Allan Worthy	ONS

Northumberland Economic Assessment
“Drivers of Change” Workshop, 30 October 2008

Futurist presentation can be found on the following link:

http://www.nsp.org.uk/Futurist-Presentation

Appendix 2

Northumberland Economic Assessment
"Drivers of Change" Workshop, 30 October 2008

The Future of Northumberland

Drivers of Change

Futurist
2020

This document contains information on a number of key drivers of change identified by Futurist, NSP and other key stakeholders. The future outcome of these trends will play a major part in the development of Northumberland; consider how each driver may change between now and 2020 and how they affect you, your organisation, and Northumberland as a whole.

Economy

The general state of the local, regional, national and international economies will have a significant impact on the future of Northumberland. The current UK economic downturn may or may not last, but it has highlighted the difficulties associated with generating growth in a stuttering economy.

The county performs poorly on several key measures and is faced with a tough task when it comes to turning these figures around and improve the global economic position of Northumberland.

There are also areas in which the area performs well, it is important to build on these strengths and identify how they might help us in the future. If Northumberland is to create a strong a vibrant economy it must ensure that it develops flexible stocks of businesses and workers so that the area is well positioned to respond to future change and thrive in even the most difficult of economic climates.

Key Performance Indicators

- Northumberland GVA per head is around two thirds of the UK average, £10,916 compared with £16,485. It also lags behind the North East level of £12,805.
- 37.8% of those in employment work in the Public Administration & Health Sector, nationally this figure is 26.8% and in the North East the rate is 31.8%
- 78.8% of the working age population in Northumberland are economically active; this is 0.4% higher than the national rate and 2.8% higher than the regional level.
- Average Earnings in Northumberland (Gross, for all employees) were £16,066 in 2005, this is £2,500 below the national rate, but slightly above the regional level.
- Earnings vary significantly in different parts of the county, in Berwick-upon-Tweed the level is just £10,979 pa, compared with an average of £18,053 in Castle Morpeth.

Digital Media

Digital Media and new communications technologies are driving the future of the global economy. By providing a mechanism through which we can all transfer information at high speeds, these technologies are breaking down traditional geographical barriers and creating new markets in the process. Digital technology has also changed the way we go about of day-to-day routines, changing the way we shop, consume media, socialise and even bank.

Northumberland is challenged with equipping its population to survive in this new digital age, those who are unable to adapt will find themselves economically and socially isolated as the rest of the world moves towards a more virtual existence.

Key Performance Indicators

- In 2005, UK shoppers spent just under £10bn shopping online. There are more than 600m consumers online worldwide.
- In the first 3 months following its launch over 42m programmes were accessed on BBC's iPlayer – An online programme database.
- In April, record company EMI, announced that legal music downloads had increased by 150% in the past year.
- 2006 is set to be the first year where the internet takes over from newspapers as the most popular form of advertising.

Globalisation

Northumberland is operating in a global environment, whilst this has always been the case; the increasing pace of globalisation is exposing the county to increased competition. Homogenisation of culture and business practices has created a shrinking global marketplace where companies are just as likely to be competing with a company on the other side of the world, as they are one across the street. But as well as providing an increasing number of threats, globalisation will also create new opportunities for dynamic and innovative companies.

As competition has increased, the ability of a local economy to carve out its own niche markets has been (and will continue to be) a major determinant of economic prosperity, Northumberland must strive to create its own niches based on its key strengths.

Key Performance Indicators

- Total global output rose by 5% in 2006, led by China (10.5%), India (8.5%), and Russia (6.6%)
- In 2004 Chinese exports grew by 35%, but the value of their imports grew by 36%.
- By 2015 global trade will have increased by 40%
- In the 2004/05 period, 1,200 foreign companies chose to invest in the UK, creating over 34,000 jobs.

Financial Markets

Financial markets have always played a big part in the development of the global economy and have always impacted the prosperity of local economies, in one way or another. With the fall of several major financial institutions, both at home and abroad, the markets look unstable and are undergoing a significant period of restructuring. This trend, combined with rising household debt and rising cost of goods such as fuel and food, is likely to restrict consumer spending and slow the local, regional and national economies.

Northumberland is seeking to generate economic growth in times of financial uncertainty; this will pose its own challenges and will place an increasing emphasis on managing risk and investing in the right areas.

Key Performance Indicators

- Britain's personal debt is increasing by £1 million every 4 minutes**.**
- £222bn of borrowing is in the form of consumer credit i.e. credit cards and overdrafts.
- It is estimated that financial institutions throughout the world have lost around $1 trillion as a result of the crisis in the financial markets.
- The DOW Jones industrial average has lost nearly 20% of its value in the last 12 months.
- The price of food rose by around 10% in the last year.
- In June 2008 inflation (Consumer Price Index) was around 4%, petrol prices are rising at a rate of 24% per year.

Lifestyles

The way people live their everyday lives is changing, modern technology is enabling new ways of communicating and individuals are adopting a new approach to the way they make major ‘life decisions.’ People are also more concerned with increasing the number of ‘experiences’ that they have and in improving their quality of life.

The way we define ourselves as individuals is changing, an increasing emphasis is being placed on our virtual presence and how individuals manage the presence of personal information on the internet. People are also leaving the major life decisions which they face until later in life. The average age of a first time mother is increasing, as is the age at which men and women get married for the first time.

What kind of problems will these trends present to employers and policy makers in the future?

Key Performance Indicators

- MySpace has nearly 300m users, Second Life has 10m
- In 1971, the average age at first marriage was 25 for men and 23 for women. By 2003, this had increased to 31 for men and 29 for women.

- The average age of married first-time mothers increased by almost six years between 1971 and 2003 from 24 to 29.9.
- In 2004, around 40% of 24-29 year old males and around 25% of females were still living with their parents
- Over 50% of adults use the internet to keep in touch with their families

Consumer Preferences

Consumers are becoming more empowered and increasingly demanding, they want high quality at low cost. The way people consume these products are also changing, highly knowledgeable consumers enter the marketplace armed with information on price and quality based on peer recommendations and price comparison websites. This has effectively brought an end to the practice of pricing products based on local competition.

Two areas of the consumer spending have developed over past decade, at one end there are large suppliers offering generic products at low prices, at the other end of the scale, consumers are demanding high quality niche products personalised to their tastes and they are willing to pay a premium to get them.

Modern consumers have also demonstrated an increased concern for the environment and are willing to pay a premium to ensure that the products they buy are locally sourced, ethically produced and have a low carbon footprint

Key Performance Indicators

- Tesco accounts for 30% of sales in the supermarket industry.
- Over 50,000 people in the UK draw a significant portion of their income from selling goods online. A study by the Centre for Economics and Business Research (CEBR) shows that the average household boosts its earnings by GBP 3,000 through online trading.
- There are more than 600 million consumers online worldwide.
- 63% of Lifestyle & Home Journalists in the UK expected Sustainability & the Environment to be the major issue for the industry in the next few years (2007)

Environment

The issue of climate change threatens to have a significant effect on our day-to-day lives in the future, but many people are already starting to become more aware of how their actions adversely affect the environment. This has led to a new emphasis on ethical and sustainable production and consumption, with consumers willing to pay a premium to ensure that their products meet the high standards they set.

In the future concern for the environment will generate a number of opportunities, new markets will emerge and new skills will be required to develop the technologies and approaches necessary to reduce our impact on the natural environment. This will include reducing our reliance on fossil fuels and developing new technologies which provide use with energy in a sustainable way.

Northumberland is uniquely positioned as an area with outstanding natural assets; the county must seek to use these resources to create a sustainable environment to support planned economic growth.

Key Performance Indicators

- Recent reports have suggested that China has become the largest polluters in the world, overtaking the US. China's CO^2 emissions rose by 9% in 2006.
- Forecasting trends in climate change is far from an exact science due to the number of variables. However, the Intergovernmental Panel on Climate Change estimates a global increase of between 1.5^0C and 5.8^0C .

- The North East industry, commerce and households produce around 12 million tonnes of waste each year.
- The North East has the lowest renewable energy capacity in England

Business Base

The nature of the business base will be a big driver for Northumberland, the decline of traditional industries will put pressure on the area's ability to expand into high growth sectors such as services and transport and communications.

Key to this shift in the nature of the company stock is business creation, which is still low relative to the national average. The county must strive to support new business formation, particularly in high growth, high value added sectors. It is also important that the existing business stock is supported as companies look to expand, promoting innovation and R&D.

Emerging economies such as China and India will continue to have an impact of the Northumberland business base, they will continue to affect traditional industry in the county and eventually countries such as China and India will look to expand into higher value added sectors. On the positive side, the emerging economies will create a larger consumer market, which the county can benefit from if it positions itself well. Northumberland businesses now operate in a global marketplace where the focus on competitiveness and the needs of the consumer.

Key Performance Indicators

- In 2007, the Northumberland business stock was 350 businesses per 10,000 adult population; this is well above the rate in the North East (237) but well below the UK rate (399).
- In 2006 there were 27 VAT registrations per 10,000 adult population, again this is well above the regional rate (22) but much less than the UK rate (37).
- The 3 year business survival rate is much higher in Northumberland (74%) than in the North East (70%) and the UK (71.3%).
- 37.8% of those in employment work in the Public Administration & Health Sector, nationally this figure is 26.8% and in the North East the rate is 31.8%
- 10.1% of Northumberland working population is employed in the Finance, Banking and Insurance sector, this is well below the regional and national rates (16.1% and 21.9% respectively).

Governance

Governance and policy are vital to the economic development process, properly developed and implemented strategies can generate growth while ensuring that the key stakeholders are working towards common goals. Northumberland must strive to create strong leadership with a clear coherent view of what is required and a collective vision of what a successful outcome looks like. This vision should reflect the desires of all levels of the community to ensure widespread ownership of the process.

The partnerships Northumberland forms with other areas and initiatives will also be important, full integration with schemes like the Northern Way and City-Regions will help to ensure that Northumberland is never isolated from any potential opportunities or funding streams.

The county has a strong community feel and it can use this to develop the skills, knowledge and aspirations of the population. Through effective community engagement and strong, focussed and decisive public policy which engages with private sector stakeholders, Northumberland can begin to close the gap between it and the national average.

Key Performance Indicators

- Only 18% of the UK population trust politicians to tell them the truth

- The Regional Economic Strategy aims to; create 18,500-22,000 new businesses (net), raise regional GVA from 80% to 90% of the national average and to increase employment by between 61,000 and 73,000, all by 2016
- Leadership has been identified as a key part of economic development.

Skills & Employment

Employees in the future will need an increasingly broad base of basic skills in order to operate in the modern workplace. In addition, new specialist industries will emerge and increase the competition for talented individuals.

An economy is increasingly defined by the quality of its workers and as such it is important to build the skills base at every opportunity. Northumberland will need to anticipate changes in its economic structure and identify target areas where they need to develop the skills base. This development will be achieved through a mix of academic and vocational training delivered at a variety of levels.

At the same time Northumberland must work to create and attract new high growth industries, whilst also helping the existing business base to thrive by meeting their various skills needs.

Key Performance Indicators

- In Northumberland 65.9% of the working age population are qualified to level NVQ 2 or above, this is higher than the English rate of 65.3% and the regional level (61.8%).
- However, the county has a much smaller percentage of the working age population qualified to NVQ level 3 or above, just 41.8%; this is 1.9% below the national rate but 2.4% higher than the regional figure.
- Northumberland employment is still concentrated in the public sector; the county is yet to build its presence in emerging high growth sectors.

Technology

Technological advancement is an inevitable part of future change. As an economy expands so does its reliance on new and innovative technologies, this means not only developing the technology but also adopting it early in its development and acquiring the skills required to make the most of it.

There are a number of examples of innovative organisations in Northumberland today, but more will be required if the county is to continue to expand its economy in future.

Technological advancements are also likely to alter people's lifestyles, for example, improving communications technologies will help to remove traditional geographical barriers and new internet applications will increase the popularity of peer-to-peer consumption and niche media content production.

Key Performance Indicators

- The North East has one the lowest level of R&D spending as a % of regional GDP in the UK (1.38%); the NE rate is well below the national rate of 2.04%.
- 3.1 million (11% of total people employed) people are regular home-based workers; of these 2.4 million are teleworkers - people who use computers and telecommunications to work from home.
- The North East is Britain's weakest knowledge economy and is falling further behind the UK average. The proportion of knowledge based businesses in the NE is 15.4% (2003). The UK average is 20.6%
- Knowledge Intensive (KI) employment in the NE is dominated by the public sector. Private sector KI employment in North East represents 8.9% of the total KI employment. The national average is 29%.

Resource & Infrastructure

The availability and access to resources will play a major role in the future of the global economy. As resources such as oil and gas become scarcer and scarcer, competition for them will increase and prices will rise. In order to counteract the effects of this trend, Northumberland must ensure that it has developed the sufficient substitute resources and an infrastructure capable of delivering them.

The county will also have to ensure that it continually modernises its physical infrastructure through investment in schools, healthcare, security, housing and broadband infrastructure, whilst also building new competencies based on the quality of the natural resources which are available in Northumberland.

Key Performance Indicators

- Northumberland is one of the largest counties in England and one of the highest levels of land per person.
- Petrol prices rose by 24% from June 2007 to June 2008.
- House prices fell by 8.1% from July 2007 to July 2008 in the UK.
- There is growing demand for single person households, but the Northumberland housing stock is mainly made up of detached, semi detached and terraced housing. Just 10.3% of the area's housing stock is flats, compared with 19.4% in the rest of England.

Population

The changing nature of regional demographics is likely to have a significant impact upon the Northumberland economy. A natural shortage of highly skilled people will leave the county reliant on inward migration from abroad and from elsewhere in the UK.

The area will also need to retain a much larger percentage of its young people if it hopes to achieve sustainable long term growth. The increased proportion of older people will create both problems and opportunities for the economy.

As the nature of the population changes, the infrastructure, products and services which are required to service their needs, will change. Northumberland must ensure that it evolves at the same pace as its citizens, this will require workers with flexible skills and a business stock equipped to capitalise on these emerging trends.

Key Performance Indicators

- 17.6% of Northumberland's population is aged 65+, 8.8% of the population are aged below 16 years old.
- The North East is an aging population, it is predicted that by 2020, 26.07% of the regional population will be aged 65 years +.
- It is predicted that by 2020 the percentage of the NE population made up by people aged 0-24 will have fallen nearly 3% from its current rate, to 28.24%.
- The retirement age in the UK is set to increase as people choose to, or need to, continue working beyond 65 years old. Some experts estimate that by 2050 people will be living until 120-150 years old.

NB. If you would like more information on any of the statistics or quotes used, please contact David McFarlane of Futurist Ltd at david.mcfarlane@futurist.uk.com

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