

Economic Assessment of Northumberland 2008

Scoping Paper, 1 April 2008



Northumberland
Strategic Partnership

1. Rationale

- 1.1 In 2006, the Chancellor of the Exchequer announced that as part of the next Comprehensive Spending Review, a review of sub-national economic development and regeneration in England would be undertaken. This SNR, as it has become known, had a clear aim – to help maximise prosperity in all parts of England by stimulating economic growth and improving housing supply.
- 1.2 In order to deliver this, the SNR, published in July 2007, set out a number of structural reforms that:
- strengthen the local authority role in economic development, including a new statutory economic assessment duty
 - support effective collaboration by local authorities across functioning economic area – for example, by establishing Multi Area Agreements or Economic Development Companies
 - streamline the regional tier and introduce single regional strategies (outside London), with the Regional Development Agencies (RDAs) designated as regional planning bodies
 - give regions a greater say in the distribution of funding in each region, through a second, extended regional funding allocations exercise
 - sharpen the focus of central government on sub-national devolution – with clearer objectives and responsibilities and improved accountability arrangements; and regional Ministers as regional champions.
- 1.3 Many of these reforms require primary legislation. However, the SNR stated that the Government would consult on how the regional strategy might be implemented and on the creation of a focused duty on local authorities to carry out assessments of their local economies. It is anticipated that this consultation will be published shortly (by the end of March 2008).
- 1.4 Notwithstanding this, the SNR makes it clear that all upper tier local authorities – either on their own or jointly with other authorities and in consultation with other key partners – will be charged with assessing the economic circumstances and challenges of the local economy. These assessments will then form part of the analytical underpinning of the relevant regional strategy and the local Sustainable Community Strategy (SCS) and subsequently Local Area Agreement (LAA), and potentially Multi Area Agreement (MAA), targets.
- 1.5 In response to this, the Northumberland Strategic Partnership (NSP), working with the Local Authority Regeneration Collaboration Group and Northumberland Information Network (InfoNet), has been requested to coordinate and facilitate, as quickly as practicably possible, the undertaking of a comprehensive economic assessment of the county.

2. Our understanding of the local economy

- 2.1 In Northumberland, we already have a reasonable picture as to the economic dynamics prevailing within and across the county. However, our knowledge and intelligence needs to be coherently pulled together and strengthened, particularly in better understanding, for example:
- the economic implications of demographic change – an ageing population and a growing migrant worker population
 - the changing patterns of employment and wage levels in the county
 - the implications of our policy decisions on GVA, particular in relation to infrastructure planning (e.g. land and property supply, transport and ICT connections, energy sources etc)
 - the impact of alternative infrastructure improvements on growing the economy within Northumberland
 - the extent of the Northumberland’s contribution to the Tyne & Wear city region economy and appeal as a place to live and work
 - the market dynamic between the local economy and housing supply and demand
 - the relative economic strength (nationally and globally) of the sectors operating in Northumberland and their supply chains
 - the economic role and function of our town centres

“Northumberland Futures” Workshop¹

- 2.2 In order to assist in the development of the economic assessment, a representative cross-section of those organisations and partnerships with a direct interest in shaping the future economic prosperity and well being of Northumberland were invited to participate in a “futures” workshop, facilitated by Future Matters.
- 2.3 The session was designed to capture individual perspectives of the future of Northumberland and focused on their responses to the following key questions:
- *What is the situation today?*
 - *Where would we like to be in 2020?*
 - *What needs to change in order to achieve this vision?*
 - *What distinctive features does Northumberland have that could help achieve this vision?*
- 2.4 Those attending the workshop were then presented with a series of economic trends, or “drivers”, that are likely to have an impact (either positive or negative) upon the Northumberland economy. Each participant then nominated those three which they felt was the most influential or important to the county’s future.
- 2.5 From this work, several key issues or themes for consideration within the Economic Assessment emerged. These are summarised in the panel opposite.

¹A comprehensive report of the Scoping Event detailing the outcomes from each of workshop exercises is available from the InfoNet.

Emerging Economic Assessment Priorities

Methodology

- The Assessment should be rooted in the future and be constructed in a way that allows sufficient flexibility for it to adapt to future change without becoming dated or irrelevant.
- The Assessment should be informed and shaped by the contributions of all relevant interests – public sector policy; regeneration delivery agents; chambers of trade and commerce; local businesses; educational establishments; voluntary and community sector interests; etc.
- The Assessment needs to appraise how the policy approach being taken in Northumberland fits within that of its wider economic context – particularly the relationship with the Tyne & Wear City Region.

Context

- The Assessment needs to paint a picture of the future having taken cognisance of the past and present. This means building a shared knowledge of the prevailing circumstances and gaps in our understanding whilst assessing the rationale and impact of previous policy interventions.
- The Assessment has to present a clear articulation of the unique selling points of Northumberland having appraised the challenges and opportunities the county faces within the context of the city regional, regional, national and international economic context.

Population

- The Assessment needs to define the demographic composition of the county now and anticipated in the future. This should include an analysis as to who typically is generating wealth and on what and where are they spending that income.
- The Assessment must explore the ongoing outward migration of young people from the county – why does it occur, what effect is it having, and if left unchecked, how will it impact upon our future prosperity.

Business Base

- The Assessment needs to establish the size and scale of the business base in a way that goes beyond the traditional VAT registrations.
- The Assessment should thoroughly explore the current and future “sectoral” composition of the business base with the support of a significant input from the private sector. This will assist in identifying potential growth sectors and others which need to adapt to remain competitive.

Workforce

- The Assessment must assemble detailed information on the current labour market, how it works and what it will look like in the future.
- The Assessment should provide the county with an improved ability to anticipate structural economic change and identify where new skills need to be developed in order to maximise the opportunities from those changes.

Emerging Drivers

The Assessment needs to give particular regard to the following emerging trends:

- **The Environment:** Given the global concern with climate change, this sector represents a growth area that Northumberland is potentially well-positioned to benefit from given its natural infrastructure and resources.
- **Lifestyles:** With happiness and quality of life increasingly important factors in determining where individuals choose to set up business and live, Northumberland’s strong quality of place provides a potential competitive advantage within this market.
- **Emerging economies:** Northumberland needs to carefully define its unique selling features in the face of increased competition and opportunities from new and emerging economies such as China, India and Brazil.
- **Growth sectors:** Northumberland needs to realistically define and target niche growth sectors and markets and accordingly build its capacity to maximise those economic opportunities.

3. Scoping Principles

- 3.1 As a result of this and further discussions with city regional and regional partners, a number of principles as to the scope and nature of the Economic Assessment have been derived. These are as follows:
- The Economic Assessment fundamentally needs to enhance our shared knowledge of the dynamics of labour supply and demand within Northumberland and the impact those dynamics have on the economic productivity of our businesses and workforce. This may mean commissioning additional research to plug gaps in or to test our current understanding.
 - The Economic Assessment needs to recognise that there is no such thing as a self-contained “Northumberland economy” rather there are a number of overlapping economies that the county contributes to and participates within. In other words, the Economic Assessment needs to be outward facing. Within this, it should also aim to tease out any significant variations in economic conditions playing out in different parts of the county.
 - The Economic Assessment needs to be forward thinking and place as much weight on what the future holds for Northumberland should certain scenarios prevail as on defining the current state of economic performance in the county.
 - The Economic Assessment needs to recognise that Northumberland’s quality of place represents a considerable part of its unique selling feature. The scope of the Economic Assessment therefore must extend to including an appraisal as to the impact wider quality of life determinants has on commercial decision-making and economic productivity.
 - The Economic Assessment must provide a coherent evidence and intelligence platform for the new Council, in conjunction with its partners, to translate its findings into a medium-term economic strategy for Northumberland that will drive future county-based policy interventions and funding decisions and also shape ongoing city regional and regional activity.
- 3.2 Given this background, the Economic Assessment is to consist of three inter-linked elements as follows:
- A traditional “State of Northumberland’s Economy” report that pulls together a comprehensive picture as to the prevailing economic circumstances and conditions within Northumberland (compared to regional/national equivalents). The draft scope of this work is reproduced at Appendix 1.
 - A technical synopsis as to the implications emerging from modelling and/or projecting the current demographic and socio-economic trends into the future using robust and accepted methodologies. The draft scope of this work is reproduced at Appendix 2.
 - A participative “Futures Scenario Planning” exercise which provides a flexible environment in which to challenge the perceptions of different regeneration players and test future policy approaches and decisions. An initial paper detailing the scenarios emerging from the work done to date is reproduced at Appendix 3.
- 3.3 All three elements will inform and be informed by the equivalent Tyne & Wear City Region Economic Assessment, and will contribute to the extensive evidence building exercise that will underpin the new Integrated Regional Strategy.

4. Approach

- 4.1 The compilation of the Assessment is to be coordinated by the InfoNet, under the guidance of the InfoNet Management Board Chair (NSP Acting Executive Director) and the Local Authority Regeneration Collaborative Group Chair (Northumberland County Council Economic Development Officer). Both these partnership bodies will advise and act as sounding boards at various stages throughout the Assessment's development. The InfoNet will be responsible for commissioning those agreed elements of the work that require specialist inputs from other parties.
- 4.2 In addition, participative workshops involving a wider representation of those with an interest in the future economic development and regeneration of Northumberland (similar to the *Northumberland Futures* workshop) will be held as appropriate to allow dialogue and discussion as to the findings emerging from the Assessment. Agreed outputs will be presented to the NSP Executive for endorsement as appropriate. The final Economic Assessment will be approved by the NSP Board.

5. Outline Timetable

By 28 March 2008	Draft Scoping Paper circulated to relevant parties with date for a subsequent discussion workshop.
By end of March 2008	Consultation guidance on the strategic duty to carry out an economic assessment published by the Government
22 April 2008	Progress report presented to the NSP Executive
2 May 2008	Scoping Workshop held at Fulbeck Grange
By end of May 2008	Outcomes Report from the Scoping Workshop produced and circulated Revised and final Scoping Paper produced and circulated Additional research on Economic Migrants and Skills scoped and briefs prepared
By end of June 2008	Additional research on Economic Migrants and Skills commissioned Initial outcomes from the forecasting strand of the Economic Assessment produced
By end of July 2008	Participative scenario event held to fully test and challenge the future of Northumberland's economy
By end of August 2008	Draft State of Northumberland's Economy report produced and circulated Scenarios Outcome Report produced and circulated
September 2008	Topic-based workshops held to explore emerging findings from work undertaken to date
21 October 2008	Progress report presented to the NSP Executive
By end of October 2008	Research report on Economic Migrants and Skills produced and circulated
January 2009	Final Economic Assessment reported to the NSP Executive
March 2009	Printed Economic Assessment endorsed by the NSP Board

Economic Assessment of Northumberland 2008

Part A: State of Northumberland's Economy

The purpose of this part of the Economic Assessment is to collect a factual evidence base of accurate information and analysis that presents a clear view as to the relative economic performance, prosperity and well being of the county.

1. Economic context

- A critique as to the global, national and regional socio-economic drivers that are likely to influence or have an impact on the potential economic prosperity of communities in Northumberland. These will be drawn from the work collated by Future Matters.
- A brief summary of the national policy context, particularly highlighting the reforms of the SNR and its implications for regional, city regional, sub-regional and neighbourhood working.

2. Economic Performance

An understanding of where the productivity of Northumberland (GVA/GDP) sits in relation to the rest of the region and country based on past trends and current position. This will include an explanation as to the vulnerability of applying these datasets at the county level.

3. Labour Supply

a) The Workforce

An assessment of the numbers and type of people that form the Northumberland workforce now and anticipated in the near future, particularly exploring the potential impact, within the context of the population's scale and distribution, of:

- an increasingly ageing population
- reducing the numbers of workless
- continued commuting to/from Tyneside
- continued in/out migration within national context
- an increased influx of economic migrants

Our understanding as to the number, distribution and characteristics (in terms of skills) of economic migrants working in Northumberland is limited and incomplete. Further research is to be commissioned as part of this Economic Assessment to gain an improved knowledge as to the rationale, scale, potential and implications of this influx to the local economy.

b) Skills

A critique as to the skills, attributes and qualifications of the current workforce and how these may need to improve or change in the near future to match emerging job opportunities. This will particularly explore the impact of:

- better understanding the pattern of job vacancies and skills gaps
- improving educational attainment and enterprise of young people
- mapping the destination of school leavers and graduates
- addressing basic literacy and numeracy among adults
- supporting workforce training and development

Whilst a sub-regional analysis will be derived from the recent National Skills Survey, it is likely to portray only part of the picture. A Northumberland-based employer survey is therefore to be undertaken as part of this Economic Assessment to gain a

better understanding as to the pattern of job vacancies and opportunities, and potential skill gaps across the county.

c) Quality of Employment

An evaluation as to the state and equity of current working conditions in Northumberland which quantifies the levels of:

- full time/part time/seasonal employment
- average hours worked in a week
- earnings and average salaries
- staff turnover and absence
- vulnerable people in employment
- incidence of discrimination

4. Labour Demand

a) The Business Stock

An analysis as to the number, growth rate and sustainability of the VAT registered businesses present in Northumberland that also provides a critique of:

- company size
- number, density and type of jobs available
- level of self-employment
- the sectoral breakdown (agriculture, manufacturing, tourism, public sector, services, etc)
- prevalence of knowledge-business industries

b) Support Infrastructure

An evaluation as to the availability and quality of the assistance offered to businesses in starting, developing or growing their operations; with reference to:

- business support and advice
- financial incentives (grants and loans)
- property portfolio (sites and premises, town centres, etc)

c) Quality of Place

An assessment as to the impact wider quality of life determinants have on commercial decision-making and economic productivity in Northumberland. These will include:

- the transport networks and ICT connectivity
- the supply and demand for housing
- the health profile of the workforce
- the prevalence of crime
- the environmental quality

5. Synthesis of Findings

A summary of Northumberland's current economic context and the challenges to be addressed in future strategy and policy if we are to maximise our relative performance.

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Part B: Forecasting Northumberland's Future Economy

The purpose of this part of the Economic Assessment is to apply a recognised and robust model for defining long term projections as to the potential future state of Northumberland's economy from a scenario that assumes the continuation of recent economic conditions and trends.

This part of the Economic Assessment will be carried out by using an econometric analysis of the Northumberland economy combined with data drawn from the North East Regional Accounts and Economic Model.

The Durham University North East Economic Model

The Model uses an input-output methodology. So the changes in the Northumberland economy as a whole are produced by examining the previous path of the area (i.e. inward looking) and by also nesting the local model within the projections for the United Kingdom produced by the National Institute for Economic and Social Research (NIESR) (i.e. outward looking). This anchors the projections and recognises that Northumberland does not operate in a vacuum (as would be the case if only past employment/GVA trends of the area were examined).

The Model reconstructs the regional economy using a large amount of detail, by quantifying who buys what from whom in each sector of the economy. This approach is feasible as it draws upon the leading data sources for regional modelling. These include data extracted from a re-analysis of several Office of National Statistics (ONS) surveys and products, including the:

- Labour force survey
- Annual business inquiry 1 and 2
- Expenditure and food survey
- General household survey
- Regional accounts
- Input-output balances
- Supply and use tables
- Annual survey of hours and earnings

The resulting model contains information on all key economic flows within the region including 110 sector level GVA, gross output, exports by country, intermediate purchases, compensation of employment, etc. Additional data is available relating to sector level worker headcounts, FTE employees, qualification and occupational structures, business sites, etc.

It should be noted that any long-term projections at a local level are subject to an extremely high degree of uncertainty. The longer the time horizon the higher the uncertainty involved. However, provided the user is aware of the assumptions involved in the creation of such projections, they form a useful tool for long-term planning. They show a likely baseline position for the area were things to continue under the assumption of "business as usual".

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Part C: Scenario Planning the Future of Northumberland's Economy

The purpose of this part of the Economic Assessment is to gain an understanding of where the county is currently, where it could be in the future, and what needs to happen to get from the current situation to the future scenario. The scenarios are not intended as possible future visions from which we can choose, merely a set of narrative stories intended to act as a boundary space or framework of possibilities which the county may have to face in the future.

Developing the scenario axes

The first stage in building the scenario framework for Northumberland involves developing the scenario axes as derived from the drivers which are most important/dominant and dependent/uncertain to the future of the county's economy.

Based on the discussion at the Northumberland Futures workshop¹, Future Matters have constructed two axes built around the key drivers of "Business Culture" and "Lifestyles". In doing so, the following criteria were applied:

- There is a degree of complexity about each axis – for example, they do not simply represent "wholly positive" versus "wholly negative" ends of the spectrum.
- There is a comparable degree of uncertainty about each axis – i.e. they do not represent "probable" versus "unlikely" ends of the spectrum.
- In order to create futures which are divergent in nature, the axes need to be sufficiently different in nature, so they do not fall in or converge on each other.

a) Business Culture Scenario Axis

This driver reflects Northumberland's need to define where it sees its future economic development. This will include a view of what the county's balance of trade looks like, what are they importing and what are they exporting? In an increasingly competitive world Northumberland will have to identify its key competencies, where do they perform well in relation to others and how do they use this to their advantage? As has previously been the case, Northumberland will be exposed to national and global economic 'boom & bust' cycles and the industrial structure of the economy will become increasingly important to the county.

At one extreme of this driver Northumberland is a 'GLOBAL PLAYER' providing a cutting edge service or product in an extremely niche area. The county has based this specialty around its distinctive competencies and the local economy is highly focussed on this one area of activity. Much of the local production is sold outside of the region and there is constant pressure on the Northumberland business base to keep improving their offering through innovation and R&D. The county is highly thought of and its workforce is amongst the most skilled in the UK. The heavy reliance on a single industry has left the county open to the peaks and troughs experienced in that sector, global drivers and forces are impacting on the economy but they are largely powerless to influence them. There is a risk taking culture within the county, promoting innovation and fast paced growth.

¹A workshop held in January 2008 and involving a representative cross-section of those organisations and partnerships with a direct interest in shaping the future economic prosperity of the county that discussed and defined the key drivers that are likely to have the most significant impact on Northumberland's economy.

At the other extreme of the driver 'LOCAL HERO,' the county's economy is much more self sustaining, local people produce and consume local products and there is very little trade into and out of the area. As a result of this self sustaining approach there is a need for a wide range of skills and expertise within the economy. Growth is steady rather than spectacular but the county is far less susceptible to national or global economic cycles.

The county's population is stable; risk taking is encouraged up to a point and growth is steady, but beyond that expansion is impossible due to the insular nature of the economy.

This dynamic is illustrated in the diagram below:



b) Lifestyle Scenario Axis

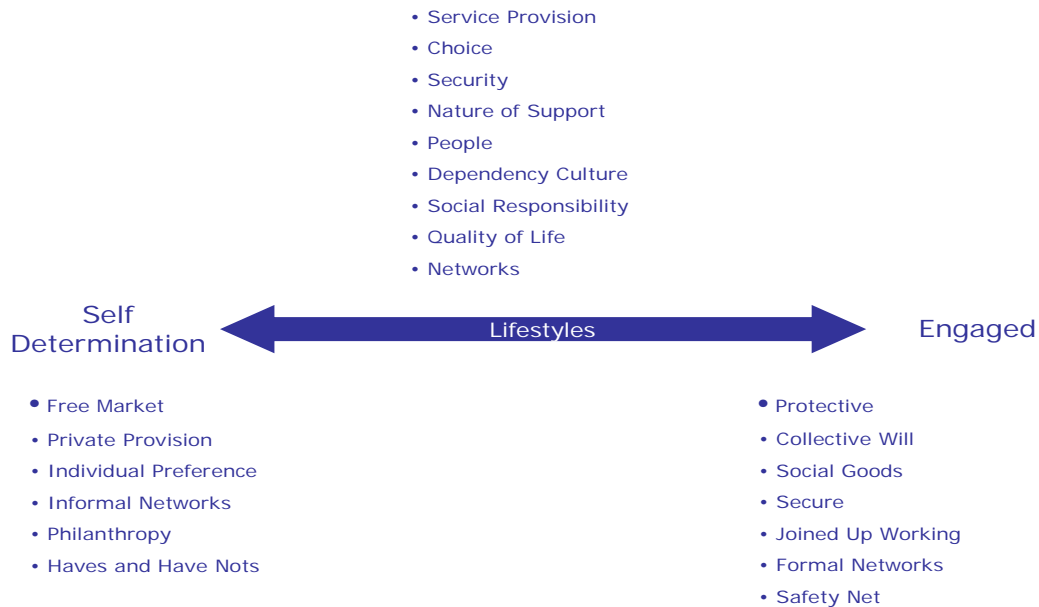
The second driver addresses the nature of Northumberland society in the future, in particular the way services such as health are provided, the amount of choice in the economy, the feeling of security and the nature of public sector support to businesses and individuals. Quality of life is also an important aspect of this driver, happiness, dependency and social responsibility at the forefront of people's thoughts.

At one extreme of this driver the attitude is very much 'LAISSEZ-FAIRE.' Individuals are largely left to their own devices, the free market dictates supply and demand in the economy and services such as health and education are procured by individuals on a private basis. The population makes a virtue out of informal networking and use it to build the social circles and improve their employment prospects. What few socially focussed organisation there are, are supported by individual and organisational philanthropy rather than through public funding.

At the other extreme of this driver people are extremely engaged with their social conscience. The will of the majority is generally upheld and social goods such as education and healthcare are provided by the state. Public policy plays an important part

in this world and there are numerous public initiatives in place, covering a wide variety of issues and involving a number of key stakeholders. People feel secure and safe in the knowledge that their elected representatives and other high powered individuals have their best interests in mind. Networking is still an important part of life, but it is done in a much more formal way through organised introductions and industry groups.

This dynamic is illustrated in the diagram below:



Emerging Scenarios

When these two drivers are combined, four distinct views of the future are created. Whilst none of these scenarios are designed to represent ‘designer futures,’ they are an extremely useful mechanism for testing policy and strategic decisions. They are:

a) Marketeer

This is a cut and thrust world which is dictated by the free market. Individuals and organisations are open to various external market forces and there is a large wealth gap between those who are able to function in this world and those who are not. Workers are required to be extremely flexible and are often employed on short term contracts, sometimes working for multiple employers at one time. The needs of society, which are not met by the free market, are often satisfied through the corporate social responsibility of large corporations, who donate time and resources to worth causes to improve their credibility and attractiveness to investors and consumers. The global economy operates in an extremely efficient way and local areas concentrate their production in industries where they hold a global advantage, this helps to ensure that the world’s resources are used in an effective way.

b) Company Person

In this scenario large organisations dominate and the job for life has returned. It is not uncommon for an individual to spend their entire career within one organisation, slowly working their way up the corporate ladder. The public sector and private sector are strongly linked and the larger employers in the county often have a direct input into education policy in order to ensure that their future skills requirements are met. The public

sector is also extremely keen to bring in large inward investments and encourage public-private partnerships in key sectors.

c) Pillars of the Community

In this quadrant the economy is extremely insular and the public sector is very strong. Key industries are subsidised and in some circumstances the output and sale of their production is influenced by local policy makers. The role of the state is to help plug the gaps in the local markets, this is done through subsidisation and public provision of goods or services which the majority of people deem to be of benefit to society. There is close to full employment and individuals are given publicly supplied vocational training depending on the demands of local industry. Wealth is distributed throughout the economy via progressive tax systems and means tested services.

d) Local Traders

In this world the economy is made up a hundreds of small traders each selling their local product in physical or virtual markets to local people. Often products are produced by large companies who are linked to the area and then sold on through smaller community based retailers. Experience of the market is key in this world, local traders are forced to rely on their wits to ensure local term prosperity. The preference of the individual is still prevalent in this quadrant and it is the consumer who drives the market for locally sourced products and locally delivered services. A high level of competition, in relatively small geographical markets, has resulted in these small markets being dominated by one or two key producers in each industry.

The defining characteristics for each scenario are shown diagrammatically below:

