Regional Funding Advice: North East England 2009

February 2009

north east england

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1 EXECUTIVE SUMMARY

1.1 This Advice has been produced during a period of significant economic and institutional change and in advance of a new Integrated Regional Strategy, however the North East welcomes the opportunity presented by RFA 2009 to restate and clarify our priorities in this new context.

1.2 The production of this advice has been led in collaboration between One North East, the Association of North East Councils and the North East Assembly. The advice has been developed in close partnership with key regional stakeholders including the Homes and Communities Agency, Government Office North East, the Learning and Skills Council and the regional business community. We have also consulted widely with a range of other regional stakeholders including HE and FE institutions, environmental bodies and the third sector through two regional workshop sessions and a number of consultation meetings.

Our Vision

1.3 The North East is a distinctive region and our unique quality of place is one of our key assets. Our vision is to build on this distinctiveness and on our unique assets to deliver **sustainable economic growth**; creating an internationally competitive region with **successful places and sustainable communities**. We will achieve this vision by supporting a strong, diverse and dynamic business base; by delivering the supply of high quality, sustainable housing required to meet the region's housing aspirations; by investing in modern, innovative transport infrastructure to improve connectivity; and by developing the skills we need for future competitiveness. Our vision and the strategic context for our advice are set out in **section 2**.

1.4 In the North East, partners are committed to achieving our vision by supporting successful, sustainable places. This will be achieved by aligning investment in 'place' between public and private partners and ensuring that activities to support economic development, housing and regeneration, transport and skills work together to deliver our aspirations. **Section 4** describes the importance of 'place' to the North East and includes an overview of our advice by sub region, demonstrating how our advice supports needs and priorities in Tees Valley, Durham, Tyne and Wear and Northumberland and showing how our advice builds on the economic drivers provided by the region's two city regions and responds to rural needs.

Challenges and Priorities

1.5 Over recent years the North East has made substantial progress in strengthening and diversifying our economy, increasing skills supply, bringing forward transformational regeneration initiatives and maximising our outstanding natural and built environment to improve perceptions and boost regional confidence.

1.6 In the short term the North East – as the rest of the UK – faces acute challenges related to the current recession. We go into this recession in a stronger position than in previous decades and considerable progress has been made in **economic development** over recent years. However, the North East's industrial base, which still includes a significant proportion of manufacturing industries, is particularly susceptible to changing export conditions and the downturn in global and domestic demand. Consequently, the North East is witnessing an increasing number of redundancies and severely rising unemployment as businesses struggle to operate in current market conditions, exacerbated by difficulties in accessing finance. This short term picture is contrasted with significant medium to long term opportunities for growth in key sectors such as renewable energies, healthcare technologies and digital and creative industries.

1.7 The North East's distinctive industrial heritage has led to a legacy of over-supply of spatially concentrated, low quality **housing** and an under-supply of high quality housing. While recent years have seen an improvement in the region's stock through estate renewal, urban renaissance and housing growth, there remains much to do to realise our ambition of achieving a high quality living environment for all. The current condition of the housing market, in particular, poses new short-term challenges for the region. We face new issues associated with credit-led falls in demand, lack of cross-subsidy for estate renewal and challenges in maintaining capacity in the construction sector. In seeking to address these challenges we are determined to maintain a focus on our long-term objectives for growth, renewal and quality, while actively tackling the issues of housing supply and skills retention arising from the current downturn.

1.8 The region's **transport** infrastructure, whilst being broadly competitive, requires a number of strategic interventions to increase internal and external connectivity over the long term. The relative peripherality of the region from the main UK and European economic hubs - and of some internal communities from the main regional employment centres - means that investment in connectivity is a distinctive and acute need for the region. Furthermore, investment in connectivity needs to be taken forward in a way which reduces carbon emissions and promotes long term sustainability.

1.9 The North East has made up ground over recent years in terms of **skills** supply. However, we remain a relatively low skilled region with particular challenges around higher level skills and employer investment in training – particularly during the recession. The region has found that lack of influence over key skills policies and funding and limited agility in the national skills system remain key barriers to meeting our skills needs.

1.10 Finally, all of these issues have clear spatial consequences. Whilst the region's main economic hubs – particularly the core of the Tyne and Wear and Tees Valley city regions – have done much to renew and diversify their economic bases and have good prospects for growth over the long term, spatial concentrations of weak industrial structure, poor housing stock, low skills and poor connectivity mean that there remain acute **place based regeneration** challenges in many areas of the region. Some of the most significant regeneration challenges exist in the former coalfield areas of Durham and Northumberland and in localised areas of high deprivation within the region's main conurbations.

1.11 The regional and sub regional evidence base is set out in more detail in **section 3 - Evidence and Economic Context** and in **section 4 - The Importance of Place**.

A Balance of Short and Long Term Measures

1.12 The North East has made excellent progress towards achieving our vision for sustainable economic growth and a clear set of priorities have been agreed through regional and sub regional strategies (including MAAs) to continue this progress. However, it is clear that in current economic conditions we must be focused on balancing short term measures to respond to the recession with the long term investment required to support our vision for sustainable economic growth.

1.13 Over the long term our priorities are to invest in support for business productivity, innovation and skills, as well as the business, transport and housing infrastructure necessary to support the long term sustainable growth of the North East. Our investment priorities are set out in **sections 5 – Economic Development, 6 – Housing and Regeneration** and **7 – Transport.**

1.14 In the shorter term we are bringing forward measures to support North East businesses and communities through the recession. By prioritising these activities in the short term we will be in the best possible position to withstand the economic slow down, at the same time as we invest in the physical and human assets we need to prepare for the upturn and sustain long term growth. **Case Study 1** (page 4) includes examples of the ways in which regional partners are collectively responding to current economic conditions in the short term.

Principles of Our Approach

1.15 Partners in the North East recognise that we will need to maximise our use of resources if we are to achieve our ambitions for growth. The North East has a strong track record of delivering **value for money** from available public resources and we are committed to continuing this strong record. We are confident that we could maximise any further short term opportunities to bring forward investment in the North East and wish to send a clear message to Government that **we are ready and able to support national measures to accelerate capital programmes, supporting employment and sustaining businesses** in the short term, and investing in the infrastructure we need for sustainable growth on the long term. However, we are also acutely aware of the risks posed to the North East by reductions in overall levels of public investment. Whilst we would proactively seek to mitigate the impact of any such reductions, we believe they would have a severe impact on our ability to withstand the recession and on our prospects for long term growth.

1.16 We welcome the opportunity for a flexible approach to funding set out in the RFA guidance, however we have not recommended **virement** across the funding pots in the period after the current CSR. The formative stage of the HCA, the RDA budget reductions, limited headroom in transport investment, and our focus on responding to the recession mean that it has not been practical or sensible to explore options for virement at this stage. We have also specifically sought to embed **flexibility** in the medium to long term advice within both the Economic Development and the Housing and Regeneration funding streams. A new Regional Strategy, an easing public funding position, an economic upturn, and the embedding of the Homes and Communities Agency will offer significant opportunities to further develop our regional priorities and to align funding between partners in the medium to long term. In the long term we are keen to work towards a 'single pot' approach across funding streams in order to maximise impact. These principles are embedded within our advice, and are explained in more detail in **section 2 – Strategic Context and Priorities**.

Summary of the Investment Priorities

1.17 Our advice identifies a number of key **investment priorities** in the core funding areas of economic development, housing and regeneration, and transport. These are summarised below.

1.18 In **economic development** (**section 6**) our priorities are to:

i) Business
- Build a new **enterprise** surge
- Support existing businesses through high quality **business support** services
- **Promote strategic growth areas** in the regional economy including through innovation connector activity in Newcastle Science City, NaREC, Wilton/CPI, Digital City, NETPark, Design Centre for the North, and Sunderland Software City

ii) People
- In partnership with key skills bodies, raise the aspirations of individuals and employers at all levels and ensure a foundation of **basic and higher level skills**
- With our partners, deliver an integrated programme of **employment, skills support and mentoring** for those seeking to return to the labour market

iii) Place
- Invest in **physical regeneration initiatives,** focusing on those which deliver economic benefits for the region as a whole and which support our key cities and towns
- Invest in the regional supply of **high quality business accommodation** where market failure exists, with a focus on developing facilities for new enterprise and innovation
- Support the development of **digital infrastructure**
- Maintain, strengthen and promote the North East's **natural, heritage and cultural assets**, ensuring we maximise their contribution to sustainable economic growth

1.19 In **housing and regeneration** (**section 7**) we will:

i) Short to Medium Term Priorities
- Support delivery of the Regional Housing Strategy objectives to **rejuvenate the housing stock** (51-60%), **provide choice and quality** (10-20%), **improve and maintain existing housing** (10-20%) and **meet specific community & social needs** (10-20%)
- **Housing Market Renewal Pathfinders:** Bridging NewcastleGateshead and Tees Valley Living
- Deliver regional **growth points** in North Tyneside, Newcastle and Gateshead, South East Northumberland, Tees Valley, South and East Durham
- **Maintain delivery capacity in the construction and housing industry**, including through proactive intervention to support key development sites

ii) Long Term Priorities
- Develop an **integrated, outcome focused, place based approach** to investment
- Support **regeneration-led growth**, combining housing growth with renewal
- **Rebalance the North East's housing stock**
- Address **housing need and affordability**
- Address **rural affordability**
- Improve the **quality and sustainability** of new homes and existing stock

1.20 In **transport** (**section 8**) we have identified the following specific priorities:

i) Key RFA Commitments
- A1056 Northern Gateway
- Orpheus Phase 1

- Sunderland Central Route
- Sunderland Strategic Transport Corridor
- A19 Seaton Burn
- A19 Testos
- A19 Coast Road
- Orpheus Phase 2
- Morpeth Northern Bypass
- Transit 15
- Tees Valley Bus Network
- A19 Moor Farm

ii) Provisional Priorities

- Tees Valley Metro (Contribution to Stage 1) £30 million
- Tees Valley Action Area Plan (Phase 1) £15 million
- East Billingham Transport Corridor £4 million
- East Durham Link Road (Phase 2) £11 million
- SE Northumberland Public Transport Corridor £35 million
- A1 Dualling (part) £40 million
- NE Smart Ticketing £15 million

iii) Promotion of **flexibility and virement at the local level within the Integrated Transport and Maintenance Block** to improve strategic value and maximise economic impact

Asks of Government

1.21 Finally, our advice sets out a number of key **asks of Government** where we believe we could deliver even greater benefits and value for money with increased flexibility in a number of areas: (These asks are set out in more detail in **sections 9, 6, 7 and 8**)

- in order to deliver **sustainable economic growth** in the region, Government should ensure that RFA evolves so that it continues to be valuable within a new set of strategic and institutional arrangements, specifically that
  - **future RFA rounds form part of the development of the Regional Strategy Delivery Plan**, making RFA the mechanism through which national Departments and Agencies set out their contribution to the North East's specific growth plans
  - **future RFA rounds are extended to include more of the national funding streams relevant to sustainable economic growth** in the North East: skills funding (including HE and FE revenue and capital programmes); DWP programmes; DCSF and DfH capital programmes; DfT investment for rail and road; additional EU funds
- in **housing and regeneration**, ensure that the HCA, through their targeting framework, have regional flexibility to apply national programmes in an investment programme that delivers regional outcomes
- in **transport**
  - **increase regional flexibility** to manage the regional spending programme
  - **increase regional influence over national transport programmes** in road and rail
  - **support Northern Way proposals for gauge enhancements** to the East Coast Main Line and Doncaster/Birmingham link within the 2009-14 Network Rail phasing period to improve competitiveness of the Northern Ports
  - **develop a UK strategic transport corridor between North East England and the south, and Scotland** as included in Delivering a Sustainable Transport System
- in **skills**:
  - **make the skills system more responsive to regional skills demands,** including through a more regionally adaptive approach to standard training products
  - ensure **better integration of employment and skills**, including through joint DWP/local authority commissioning and by ensuring more consistent regional and sub regional engagement by Sector Skills Councils

Case Study 1: Collective Regional Leadership and Collaborative Action - Response to the Economic Downturn

As well as working on the development of the medium to long term priorities set out in this advice, partners in the North East are working together with Government to coordinate our response to the recession, supporting businesses and communities in the short term, and investing in preparing for the upturn.

One North East and local authorities are ensuring **strategic leadership**, coordinating regional and national activities through the Government's Regional Economic Council and working in collaboration with other partners through the North East Public Sector Economy Forum and Skills and Employment Response Group. One North East is also leading cross-sector response groups to manage the impact of economic shocks, such as redundancies at Northern Rock and Nissan.

Additional support for business is being provided by additional One North East Single Programme investment in **access to finance** and **business support,** for example: £2.5m Grants For Business Investment; £8m Investment and Co-investment and Sector funds; £8m Transitional Loan Fund; £2.4m pilot for large company R+D; £2.4m Business Resilience programme; £0.5m Company Rescue Pathfinder programme; £1.6m high growth business mentoring; a £1m Energy Resource Efficiency scheme; and £2m Economic Shocks Fund.

One North East is also working to **mitigate redundancies** including through £8.2m of Single Programme money refocused on improving sub regional employability provision and a £2m programme to help SMEs access skills and to support individuals who are at risk of redundancy or who have already been made redundant.

Interventions in **regeneration and housing** are focussed on sustaining high-quality housing supply whilst supporting construction sector employment. Interventions aimed at **targeting delivery and supporting the construction sector** include: One North East/HCA investment in gap funding regeneration schemes at risk, including potentially significant sums Single Programme and HCA capital expenditure brought forward to support key regeneration initiatives and affordable housing schemes and HCA Land Purchase and Whole Site Development programmes.

Interventions aimed at **supporting the housing market** through the downturn include: delivery of a range of national housing finance schemes including the National Clearing House scheme; £39m HomeBuy Direct programme; mortgage rescue support for families; increased flexibility on grant rates for Registered Social Landlords (RSLs) providing new affordable housing; co-working between HCA, house builders and RSLs to begin to formulate a coordinated response to the downturn; and new regional Housing Board strategies.

2 STRATEGIC CONTEXT, OUTCOMES AND PRIORITIES

2.1 In developing the North East's Funding Advice we have taken account of the broader strategic context, ensuring we maximise alignment with EU, national, regional, pan-regional, and sub regional priorities. Together, these priorities form the basis for decision-making over investment across the RFA blocks and for the advice we have set out within the skills section of this submission.

National and International Strategic Context

2.2 The region recognises that there is an interdependence between the region's priorities and those established at national and international levels. In developing this advice we have taken account of relevant national and international policy priorities and Public Service Agreements (PSAs), which are already well embedded with the existing Regional Economic Strategy and Regional Spatial Strategy.

2.3 The overarching PSAs our advice supports are those to raise productivity and reduce disparities in regional economic performance, focusing on the five drivers of productivity and increasing participation levels. We also respond to a number of other key PSAs in this advice, including those covering the business environment, skills, transport, housing, and climate change and the environment.

2.4 In addition, we are committed to supporting the Government in the delivery of a number of specific national policy priorities, including:

- changes to deliver increased sustainable economic growth
    - Developing and implementing a new Regional Strategy
    - Combined working between the RDA, local authorities, HCA and others to develop an investment planning model and to explore opportunities for increased financial flexibility, for example through Multi Area Agreements
    - Support for increased capacity, for example through regional extended enterprise (e.g. Manufacturing Advisory Service/North East Productivity Alliance and Business Link) and through investment in sub regional and local delivery mechanisms (e.g. NewcastleGateshead City Development Company)
- a new national Proactive Industrial Strategy and related national business strategies including the Business Support Simplification Programme; Enterprise Strategy; Energy White Paper; Innovation White Paper; and Manufacturing Strategy
- international and national climate change and carbon emissions policy
- the Regeneration Framework
- establishment of the Homes and Communities Agency and delivery of key national housing targets
- Delivering a Sustainable Transport System, reducing congestion and carbon emissions

- the re-launched Community Lisbon Strategy, EU Guidelines for Growth and Employment and UK Lisbon National Reform Programme

Regional Strategy Context

2.5 The core regional strategy documents – the Regional Economic Strategy (RES), the Regional Spatial Strategy (RSS) and the Integrated Regional Framework (IRF) – have been central to the development of this advice. The IRF sets out an overarching framework for sustainable development and the existing RES and RSS Action Plans, in particular, set out a clear, agreed approach to achieving sustainable economic development in the North East. These strategic plans form the strategic rationale for the investment priorities we have set out within our advice. The overarching regional ambitions of our advice are therefore to:

- **Drive up regional GVA** to 90% of the national average, from 80% currently, by supporting increased productivity and participation
- **Address climate change and promote environmental sustainability** by embedding the principles of sustainability across all our activities and by investing in the clean and renewable technologies that will drive 'clean-restructuring' in the North East economy
- **Support successful, sustainable places** by investing in place based regeneration, by supporting deprived communities, and by maximising economic interrelationships between areas of need and those of higher performance
- **Improve the quality and overall supply of housing**, ensuring that housing needs and demands are met
- **Develop a 21st Century transport system** which promotes sustainable growth regionally, nationally and internationally

Sub Regional Strategy Context

2.6 A set of sub regional and local policy priorities are already well established in the North East and this advice takes account of these agreed priorities, including the North East's two City Region Multi Area Agreements (Tees Valley and Tyne and Wear). **Section 4 –The Importance of Place** sets out the economic context in each sub region and explains how the content of this advice builds on sub regional priorities.

Northern Way

2.7 The North East is a key partner in the Northern Way initiative, working in collaboration with the North West and Yorkshire and Humber to develop policy responses to those issues where we add value by working across regional boundaries. This advice signals support for ongoing collaboration through the Northern Way initiative. Specific transport schemes supported by the Northern Way initiative are set out in **section 8 - Transport**. Our assessment of the region's innovation assets has also been tested alongside those in other northern regions to help identify areas with genuine UK- and world-class significance[1]. We will work with the Northern Way to explore opportunities for further collaboration and investment across these and other relevant policy areas.

Value for Money and Virement

2.8 The North East has a strong track record in delivering value for money with available public resources. Proposals in this advice present a continued focus on value for money and impact through prioritisation, consideration of impact and increased alignment between funding streams. Considerations of value for money and impact have been made in each RFA funding area against national, regional, local and, where applicable, international priorities. Development and delivery of the priorities in this advice will take place in compliance with relevant appraisal and value for money frameworks, for example: in transport – with transport appraisal requirements and the principles of DaSTS; in economic development – with GRADE and EU performance frameworks; and in housing and regeneration – with the HCA tasking framework. We are also focused on maximising private sector leverage across all funding streams, although there are short term limitations on leverage.

2.9 The region is not proposing any virement between funding streams at this stage. Although we welcome the opportunity for a flexible approach to funding set out in the RFA guidance, we have

[1] "OECD Review of Regional Innovation, North of England" (OECD 2008) and "Major Innovation Assets in the North of England" (The Northern Way, 2008).

specifically not recommended **virement** between the funding pots. The formative stage of the HCA, the RDA budget reductions, limited headroom in transport investment, and our focus on responding to the recession mean that it has not been practical or sensible to explore options for virement at this stage. The production of a Regional Strategy and an upturn in the economic cycle will allow us to explore possibilities for a ‘single pot’ approach to regional investment funds in future RFA rounds.

Variations to the Funding Totals

2.10 An increase of 10% in the regional allocation would give the North East an additional £612m over the period 2008/09 to 2018/19. This investment would allow considerable additional support for the region’s priorities, specifically in responding to economic challenges in the short term and in supporting long term growth. We would seek to target regeneration funding and matching for ERDF (including to address the gap created by RDA budget reductions) and acceleration of schemes identified within the transport programme.

2.11 A 10% reduction in investment over the RFA period would substantially limit the ability of the region to deliver the priorities it has set out. Such a reduction would limit our ability to respond to economic conditions in the short term - such as packages of support to business and acceleration of infrastructure projects - and would limit our ability to invest in the factors supporting long term growth – such as investment in transport, housing and business infrastructure and in business innovation. Short term reductions in Single Programme capital investment are already resulting in review of agreed priorities and, in addition, and there is evidence of a substantial decrease in infrastructure investment in the region over the last 12 months. We would therefore strongly caution Government against any further such reductions.

2.12 Any increase or decrease in funding would be managed in a way which ensured/retained maximum return for investment and affected schemes would be considered on a case by case basis, reflecting impact and deliverability. This would be taken forward in collaboration between key partners.

Green Economy

2.13 The economic downturn provides the region with an opportunity to foster and develop its green economy, taking advantage of opportunities to adopt greener approaches to energy use, industrial production and travel. The climate change agenda is fundamentally altering the market conditions and underlying assumptions that have been used to establish our economic priorities.

2.14 Partners in the North East are committed to working together to identify opportunities for meaningful and cost effective interventions to decouple economic growth and carbon emissions. We will do this by building on the early successes shown in our work to support industrial innovation in clean energy technologies (for example through investment in NaREC - see **case study 3**, page 19) support lean manufacturing processes (through MAS/NEPA); establish research and development partnerships with our universities and businesses; and by embedding these approaches within the new Regional Strategy and across future economic development, housing and transport interventions.

3 EVIDENCE AND ECONOMIC CONTEXT

3.1 In contrast to the first RFA round, the current exercise takes place within a much tougher and more volatile set of economic conditions. In setting the regional economic context we recognise that in the North East – as nationally – there remains a high degree of uncertainty over the depth and length of the recession, or how quickly and strongly the economy will recover. Such turbulent times will indelibly leave their mark and will have implications for funding over the longer term.

3.2 Fluctuations in local and regional economic growth are dominated by the UK business cycle and prevailing global conditions. A small, open economy such as the North East is therefore far from immune from a marked deterioration in economic activity. In this sense, there will be more commonality than difference in the challenges faced at the regional and national levels, implying the features of conditions going into the funding allocation period will include: tighter **credit conditions;** deteriorating outlook for **domestic demand**; constraints in **export markets**; slowdown in the **housing market**; increasing number of **redundancies** and job losses; and a more challenging **fiscal position.**

3.3 In the 2006 **Regional Economic Strategy** (RES) *Leading the Way*, the North East recognised the importance of significantly reducing the output gap with the rest of the country. Gross Value Added (GVA) per head for the North East in 2007 was 78.6% of the national figure, the first year since 2002 (77.7%) where the estimated **GVA per head gap** with the UK has widened (from 79.0% in 2006). In the intervening years the gap narrowed by an annual average of 0.75 percentage points. Broadly though, this means the North East's position compared to other regions has been stable for some time, and the region has some way to go to achieve the stated aspiration to increase GVA per head to 90% of the national level by 2016.

3.4 This implies that funding should be directed in such a way as to ensure the region makes a good recovery, while remaining focused on persistent, underlying structural deficiencies that could prevent the region achieving a long-term growth rate in line with the national average. In this context, the 'twin drivers' of growth identified in the Regional Economic Strategy – to increase **productivity** and **participation** – remain key to 'levelling up' the long-term growth path.

3.5 The past five years has seen the regional **employment gap** halve from over 100,000 in 2003 to around 50,000 through 2007, but in 2008 the gap started to widen again. We still find around 21% of households in the region classed as workless (April-June 2008), compared with 16% for the UK. If the participation gap could be closed this could reduce the **output gap** by around 40 per cent (based on analysis in the Regional Economic Strategy). The region also has a high proportion of young people not in education, employment or training and relatively high levels of child poverty.

3.6 **Industrial structure** is a key factor in how fluctuations in economic performance differ across spatial areas. A broader industrial base than in the past has put the region in a much better position to weather the storm than in past recessions. The RES identified strengths in **key sectors**, where there are opportunities to build on areas of comparative advantage in the automotive sector, chemicals and pharmaceuticals and the energy sectors, with a focus on reducing carbon emissions through renewable energy and low carbon technologies. Although current levels of R+D investment across the business base as a whole are low.

3.7 The downturn has already spread across a broad range of key sectors in the region. There are concerns, for instance, over **worsening conditions** in the region's **financial sector**. **Construction** and **automotive sectors** are proving particularly vulnerable, with the region's major car manufacturing plant (Nissan Sunderland) announcing 1,200 redundancies in January 2009, with considerable supply chain impact likely. There is a clear expectation that **retail** and **service sectors** will also continue to suffer from reduced consumer spending over the coming months.

3.8 However, the region also has a good opportunity to continue to take further advantage of its natural, heritage and cultural assets. There is a significant opportunity for the North East to increase national and international **tourism** as a result of the downturn and changes in tourism patterns. The **tourism and cultural sectors** have encouraging growth potential in the short to long term.

3.9 In 2006 the **public sector** accounted for 23.9% of regional GVA, compared with 18.5% nationally. The level of reliance on public spending in the North East could also have significant implications for the growth of the regional economy. Investment in public capital projects may be an opportunity to support employment in key sectors (particularly in construction).

3.10 Although growth performance has been held back by relatively low levels of **business stock and start ups**, both at around 60% of national rates, each of the past six years has seen the region's VAT registered business stock grow at a faster rate than the national average. Positively, **business survival rates** are also broadly in line with the UK average.

3.11 A key strength of the North East has been exhibited through strong regional **export performance**. The total value of goods exports for the twelve months up to September 2008 was up 28% on the year ending September 2007, although there is evidence of this position weakening. It is important to maintain export levels as far as possible in the face of weakening demand, and ensure that the region performs well in an increasingly competitive global market.

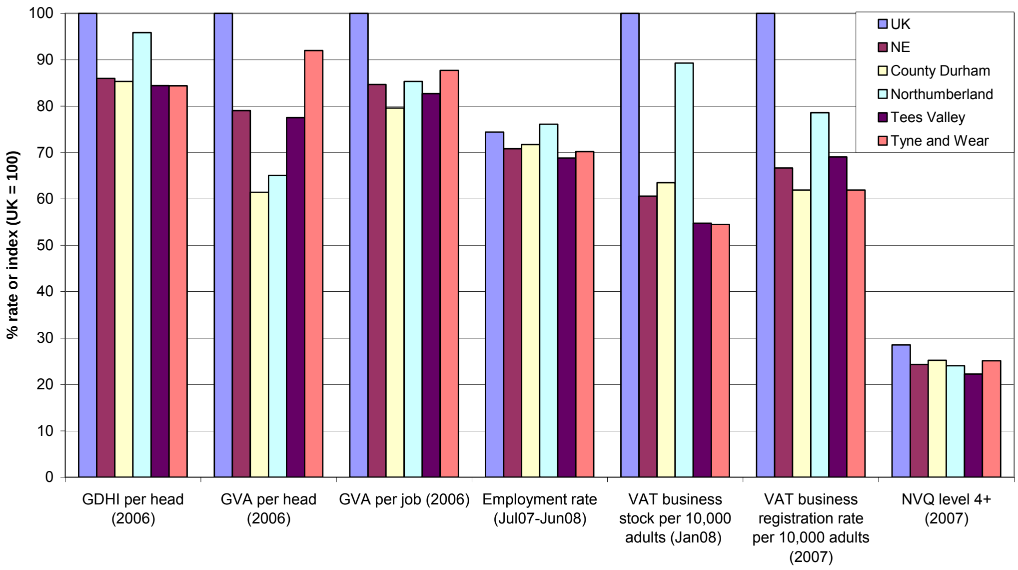
3.12 Underpinning the development of these regional strengths must be a strong **skills base**. In 2007, 13.8% of the region's working age population had no qualifications compared to 13.4% nationally – a significant improvement in performance over recent years. The gap in higher level qualifications is more substantial, with the proportions achieving NVQ level 4 at 24% for the North

East, which is around four percentage points lower than the national average. There is also a danger in the short term that businesses may cut back on investment in training and lay-off skilled workers. Conversely, regional colleges and universities are a key strength and continue to perform strongly.

3.13 A further challenge lies in tackling intra-regional disparities due to pockets of **deprivation and economic inactivity**. 17% of the population live in areas which are ranked as being among the 10% most deprived in England. The impact of the recession will need to be considered carefully, particularly in areas which are already economically fragile. In County Durham, for instance, the number of JSA claimants is up by 79% between December 2007 and December 2008.

3.14 The chart below illustrates **sub-regional differences in economic performance**. It demonstrates that all of the sub-regions suffer from a **gap in productivity** (indicated by GVA per job the measure) and **participation** (employment rate), linked to the stock of **businesses** (VAT stock and registration rate) and high level **skills**.

Relative economic performance, UK, North East and sub-regions



3.15 In terms of **demography**, the latest projections suggest that after decades of out migration and a falling population, the North East can expect to grow to about 2.64 million by 2028. However this is contrasted by a trend towards an ageing population which results in challenges related to the size of the labour force and reinforces the need to attract skilled people to the region.

3.16 The **housing** picture in the North East differs from the UK as a whole in terms of mix, quality and availability. In terms of tenure mix, the region has a larger social rented sector and a smaller proportion of owner-occupied than the national average. It is estimated that £3.5bn of public and private investment was made in housing in 2007/08, or around £3,077 for each household.

3.17 **Property prices** in the North East are facing a challenging period following a decade of unprecedented growth, with a drop in sales and values leading to a significant decline in **house building** activity. The decline in housing starts has been dominated by a falloff in activity in the private sector, although some of this reduction in activity was compensated for by an increase in activity in the social sector. For the North East, the implications of this decline in activity suggest a constriction in the supply of new housing in the near future. In 2007 the region saw 7,210 new housing starts whereas the first three quarters of 2008 saw only 3,570 housing starts, less than 50 per cent of the total for the previous year.

3.18 In terms of **transport**, the North East is remote from the rest of the UK and other centres and there is evidence that this peripheral nature has significance. For example, for rail networks the 'network travel time' for cities located in the North East is generally longer than those in Yorkshire and the North West. There is therefore a competitive disadvantage in accessing markets in other key centres across the UK.

3.19 Complex **travel patterns** also exist within and between the Tyne and Wear and Tees Valley City Regions and poor connectivity between various sub centres has an adverse impact on their competitiveness. There is an acute need to ensure equitable access to employment opportunities in the deprived parts within the city regions but also within former coalfield areas and deep rural communities, including through public transport solutions.

3.20 The North East's **ports** and **airports** represent an economic asset to the region and have significant growth potential. There is an environmental benefit from developing our ports, as over 40% of the traffic through the southern ports is heading for the North of England and beyond. The North East also has a significant export-led economy, exporting £4.9bn of goods from the automotive, chemicals and biotechnology and pharmaceuticals sectors in 2006.

Table 1: Summary of North East Strengths, Weaknesses, Opportunities and Threats

Strengths • Broad, more diverse sectoral base than in the past • Competitive creative and knowledge-intensive service sectors with growth potential • Manufacturing strengths (process industries, chemicals & pharmaceuticals, energy & automotive) • Strong export position in key markets • Urban strengths and critical mass in city region cores • Strong quality of life/cultural and natural environment • Strong regional image • Tyne and Wear Metro, Tees and Tyne ports and East Coast Main Line and Airports **Opportunities** • Strong 'place' factors support increased attraction of talent and investment and growth in visitor economy • Opportunity to further strengthen growth in exports and exploit new markets • Opportunity for growth in green economy including new and renewable energy technologies • Strong and growing education institutions can provide a catalyst for increasing the supply of skills, research and development	**Weaknesses** • GVA per head and GDHI are lower than most regions • Performance less strong in business stock, new registrations, and measures of entrepreneurialism • Investment in R+D is around half the national rate • Some persistently poor participation, absence and productivity levels • Poor skills base, and low numbers of higher level qualifications, including young people NEET • Peripherality from key markets and weak connectivity • Limitations in supply, quality and mix of available housing **Threats** • Some weak transport links and congestion have potential to hamper economic development • Some localities face acute challenges resulting from the downturn which may lead to spatial concentrations of negative industrial, economic and social impacts • Businesses cut back on investment in training during the downturn, hampering recovery prospects • Competition in the global marketplace, for example from manufacturing in India and China, may hamper exports • Highest regional per person CO_2 emissions challenges our aim for increased growth and lower emissions

4 THE IMPORTANCE OF PLACE

4.1 The North East is committed to supporting places to achieve their potential and to be economically, socially and environmentally sustainable. This focus on place is embedded within our existing RES and RSS and forms a central principle in this advice. Delivering sustainable places requires a co-ordinated approach between investment partners, across investment streams and a clear understanding of the way that national, regional and local priorities come together to deliver place outcomes. In particular, it is important to ensure integration of investment in economic development, transport, housing and regeneration and skills. This approach also demands a balanced approach between investment in areas of opportunity and areas of need. The Northern Way Private Investment Commission Interim Report (Northern Way, December 08) has highlighted the following place-factors as being key in attracting investment into successful places:

- A supportive local environment, welcoming to new investors
- A large catchment area for appropriately skilled labour and/or the availability of customised training programmes to assist in securing the right labour pool
- Good connections to international markets and wider supply chain activities
- Technological and research based expertise, including that available through universities
- A high quality living environment, attractive to the key decision-makers
- Property requirements available within the prescribed timescale and to the right specification

4.2 It is our intention that this advice sends a strong signal about the commitment of regional partners to work together in order to increasingly align priorities and funding around the challenges of our places. We will achieve this through a number of key strands of activity, including:

- development of a new Integrated Regional Strategy for the North East, bringing together international, national, regional and sub regional priorities

- establishment of the HCA and the joint agreement, through multi-agency 'Single Conversations', of Area Based Investment Plans which deliver sub regional and local ambitions
- continued development of sub regional partnerships, strategies and delivery plans in our four sub regions, including:
    - next steps in implementing the Tees Valley and Tyne and Wear Multi Area Agreements
    - new, more integrated economic strategies led by new unitary councils in Durham and Northumberland sub regions
- Ongoing development of dedicated local delivery capacity through the NewcastleGateshead City Development Company, Sunderland and Tees Valley regeneration vehicles, and other delivery vehicles such as Housing Companies
- Increased private sector engagement and maximisation of private sector leverage
- Commitment to spatial cohesion as part of the ERDF programme delivery

4.3 RFA presents an opportunity for the North East to set out how investment in economic development, housing and regeneration, transport and skills will be aligned to support our vision for successful places. Local government, in particular, has a critical role at the heart of the place shaping agenda. In preparing this advice regional partners have worked closely with the North East's city/sub regions to capture their specific characteristics and priorities and to ensure that investment in 'place' underpins the regional prioritisation set out in this advice. The remainder of this section broadly illustrates the characteristics of each sub region in the North East and describes the elements of our advice which directly respond to these characteristics. **Sections 5, 6, 7 and 8** set out the advice at a regional level.

Economic Geography

4.4 The North East regional economy is concentrated within the two **city regions** of Tyne and Wear and Tees Valley. Tyne and Wear City Region is centred around the large conurbation formed by Newcastle, Gateshead, Sunderland and North and South Tyneside, but extends out into the relatively highly populated area of South East Northumberland and further North and West, connecting key Northumberland market towns with the central conurbation. The city of Durham and a proportion of North and North East Durham also demonstrate close interrelationships with the Tyne and Wear City Region. This combined geography forms a significant economic functional area, reflecting patterns of labour market, housing market and transport activity. Tees Valley City Region is centred around the core conurbation of Middlesbrough, Darlington, Hartlepool, Stockton and Redcar and Cleveland but, in terms of travel to work activity, extends out into Durham and North Yorkshire. Together, the core of the two city regions includes 68% of the regional population and produces 75% of regional GVA. Investment to support growth and regeneration in our city regions is critical for the region's long term growth prospects.

4.5 A large geographic proportion of the region is **rural**, with rural towns and villages, former coalfield areas, commuter villages, agricultural land, remote uplands and coastal areas forming a considerable part of Northumberland and Durham sub regions. These rural locations are economically inter-connected to varying degrees with the two city regions through business activity, labour markets, and cultural and leisure activity. Investment in the region's rural places and the connectivity between those places and the city region cores are key factors in ensuring long term sustainability, quality of life and economic vitality for the region as a whole.

Case Study 2: Strategic Collaboration Delivering Improved Outcomes in the North East - Tees Valley City Region

Tees Valley local authorities have jointly supported a public/private partnership to drive forward strategic policy in the city region. This partnership is led by a City Region Leadership Board and supported by sub Boards leading on planning and economic strategy, transport, employment and skills, housing and tourism.

The Tees Valley City Region Multi Area Agreement brings together funding streams from One North East, the HCA and the Department for Transport into a strategic, coordinated programme to improve the economic performance of the Tees Valley City Region. The integrated programme aims to deliver these activities more efficiently and effectively by improving integration and by agreeing a simplified appraisal process with Government. Tees Valley will be entering a bid for pilot status to take forward a new model for joint investment planning with One North East and the HCA, including greater flexibility over capital funding.

The advice in **sections 5, 6, 7** and **8** of this document includes a number of specific investment priorities which

reflect Tees Valley priorities. Tees Valley City Region challenges and priorities are set out below.

A. Tees Valley

Economic Context

4.6 Tees Valley is similar to the regional average in terms of the headline measures: GVA per head, GDHI and GVA per job and employment. Although this suggests that the extent of the challenge in narrowing these gaps within Tees Valley is similar to the region as a whole, Tees Valley's specific industrial and housing mix sets it in stark contract to the rest of the region.

4.7 The Tees Valley economy is based on the largest integrated heavy industrial complex in the UK comprising: a petrochemicals cluster which employs 70,000 people and contributes £3.5bn per annum to the UK economy; an energy hub based on large scale gas and bio-fuels processing; a world class engineering design and plant maintenance cluster; and Teesport, which manages 10% of all UK industrial port traffic, and its related industries.

4.8 Despite this concentrated industrial strength, Tees Valley's stock of VAT registered businesses is just 54.7% of the UK level and roughly six percentage points lower than the regional level. However the registration rate of new businesses, at 69% of UK level, puts it 2nd amongst North East sub-regions.

4.9 In terms of skills, the proportion of the labour force unqualified in Tees Valley is 1.1 percentage points higher than the UK rate but, more strikingly, the proportion achieving NVQ level 4 is 6.3 percentage points lower, making it the weakest of the North East's sub regions on this measure.

Priorities and Regional Funding Advice

4.10 The Tees Valley Multi Area Agreement sets out a coordinated, comprehensive programme across place-making funding streams aimed at improving the economic performance in Tees Valley. The MAA covers a period of 10 years and will deliver the following outcomes:

a) An increase of gross valued added per head from 80% of the UK average in 2007/8 to 86% of UK average in 2018
b) A reduction in the number of working age people on out of work benefits from 5% above the national average to 2.6% above the national average in 2018
c) A reduction in the overall employment rate from 3.8% below the national average in 2008 to 1.8% below the national average in 2018
d) An increase in net additional homes constructed in the Tees Valley from 1550 per annum in 2008 to 3617 per annum in 2012 falling to 2184 per annum in 2018

4.11 The following key priorities are set out in **sections 5, 6, 7 and 8** of the advice and respond to specific priorities within Tees Valley.

Economic Development	Promoting **long term sustainable economic growth** by: • **Regenerating the core urban areas and developing under-utilised vacant and environmentally poor land** in central Hartlepool, and along both banks of the Tees from Stockton through Middlesbrough to South Bank • Providing **city scale facilities in Stockton and Middlesbrough** and improving the quality of life in the **main town centres of Darlington, Redcar and Hartlepool** • Continued **support innovation excellence and world class chemicals/energy industries through the Centre for Process Innovation** at Wilton • Growth of the knowledge economy, including through investment in and delivery of the **Digital City** project • Support for **increased enterprise** to increase the size of the business stock, creating critical mass and encouraging entrepreneurship • Provide enabling infrastructure to ensure projected £5bn private sector investment in the **low carbon economy** takes place
Housing and Regeneration	Improving **quality of place and liveability** by: • **Renewing an ageing housing stock** • **Reducing the social polarisation** between towns and the periphery by providing an improved residential offer in the centre of our towns which sustainably meets housing needs • A joint programme funded by One North East / HCA to implement a regeneration programme for the Tees Valley concentrating on three priorities, **the Coastal Arc,**

	Darlington Gateway and the **Stockton-Middlesbrough Initiative** • A **Housing Market Renewal Programme** (currently £50 million over 2008 – 2011) funded to 2018 to tackle the legacy of 8000 homes which need to be demolished or improved • Bringing forward **a Housing Growth Initiative Programme** to support increased housing supply and quality
Transport	Developing **modern, competitive strategic transport infrastructure** which improves access from industrial areas to employment centres and supports the expansion of the economy, including through: • **Gauge enhancement of the East Coast Main Line** to Scotland and to Birmingham with connections to Teesport to enable high cube containers to and from the new Northern Gateway Container Terminal at Teesport by rail • **Tees Valley Bus Network** (RFA1), providing a co-ordinated approach to public transport provision with improvements in frequency, reliability, quality and convenience • **Tees Valley Metro (Phase 1)** a rail based Metro solution to assist regeneration and improve connectivity within the conurbation • **Tees Valley Trunk Road Improvements** including ramp metering, High Occupancy Vehicle (HOV) lanes and active traffic management (ATM) • **East Billingham Corridor t**o provide an alternative route direct to the A19, away from residential areas in Billingham, for heavy goods vehicles accessing the North Tees heavy industrial complex
Skills	Improve skills levels by developing **high level skills necessary for key economic sectors** to expand and **tackle long standing employability problems** within Tees Valley

B. Durham

Economic Context

4.12 At the heart of the North East, County Durham is well placed to connect areas of opportunity with more deprived communities in former coalfield and rural areas, as well as the conurbations to the North and South of the region. However, although the visible scars of the sub region's industrial past are largely gone, a legacy of social and employment problems remain.

4.13 GDHI per head in County Durham stood at 85% of the UK rate in 2006, almost matching the North East rate of 86%. However, in terms of GVA per head, Durham was just 61% of the national rate, a level significantly below the North East average of 79%. This gap is explained by the fact that Durham still has a relatively high proportion of its population claiming incapacity benefits as well as some net out-commuting to surrounding sub regions. JSA unemployment rose by over 5,000 in the year to December 2008, up to 11,500 (3.7% of the working age population).

4.14 The economic history of the sub region has generated a spatially fragmented and isolated geography of small dispersed settlements. Many communities are locked into a cycle of multigenerational unemployment, deprivation and state dependency: 65.8% of residents live in the highest 30% of Lower Super Output Areas ranked nationally on the basis of employment deprivation.

Priorities and Regional Funding Advice

4.15 Over the medium to longer term, a transformational vision for Durham, led by the new unitary authority, will result in a programme of integrated, spatially sensitive and fine grain interventions to respond to Durham's unique settlement pattern and industrial legacy. Alongside this, a programme of investment in the sub region's major economic assets will be brought forward to release their potential for growth and to connect them with deprived places in need of regeneration.

4.16 The following key priorities will be taken forward within Durham and are supported through the specific investment priorities included within **sections 5, 6, 7 and 8** of this advice.

Economic Development	In response to current conditions, **secure job retention and business survival, minimising increases in unemployment and contraction of the business base** - problems which are particularly acute in the former coalfield areas. In the medium to long term, **build on the sub region's existing economic centres and its engineering, manufacturing and research base** while encouraging integration with, and development of, a knowledge driven economy across the County, including through: • Investment in Durham City through **Durham City Vision** to increase its economic strength as a key tourism and research centre, building on Durham University research strengths

	• the ‘innovation connector’ at **NETpark,** complementing other regional assets, such as Newcastle Science City
Housing and Regeneration	**Housing-led regeneration within a holistic approach to place-shaping and economic development**, enhancing the sustainability of existing settlements, including through: • development of the **South and East Durham Growth Point** • Investment to support housing led **regeneration in the sub region’s most deprived communities** • A focus on **Local Authority stocks within Easington and Wear Valley and Durham City** in each of the forthcoming three years • Maintain existing programmes of i**nvestment in areas of outdated private sector housing stock** • **Meet the needs of homeowners in private sector accommodation** by investment in improvement grants in order to maintain existing programmes of investment
Transport	Bridging the gap between areas of opportunity and need, by **increasing connectivity physically and virtually and sustainable investment across the sub region**, ensuring viability of its economic centres and minimising long distance commuting with its attendant congestion and carbon emission issues, for example through: • **Transit 15** to create a core network of high quality public transport routes linking major settlements with Durham City • **East Durham Link Road (Phase 2)** assisting the regeneration of East Durham by improving east-west road links between Seaham and the A1(M) • Sustainable transport measures and **infrastructure improvements in Durham City** • Additional **rail stations at Peterlee / Horden, Easington and Blackhall** on the Durham Coast Railline to improve access to jobs in Tees Valley and Tyne and Wear • Improvements to the **Bishop Auckland to Darlington railway** to provide connectivity for Housing Growth point areas and improve tourist access to the Durham Dales • Support **proposed study of transport issues** in rural areas highlighting social inclusion, rural economy and tourism issues • Co-ordinated approach to **Network Management** and introduction of regional smart card • **Capacity enhancements on A167, A693 and A19** corridors
Skills	Ensuring that Durham’s residents have **access to emerging opportunities by investing in improving the skills base at all levels and driving forward an employer led skills agenda**

C. Tyne and Wear

Economic Context

4.17 Tyne and Wear City Region is the key economic hub of North East England, defined by the core Tyne and Wear conurbation and its wider travel to work footprint, which stretches out into areas of Northumberland and Durham sub regions. The population of the City Region is 1.65 million and it accounts for approximately 65 per cent of the population of North East of England, and more than 60 per cent of the region’s gross domestic product (GDP). Tyne and Wear City Region is characterised by major concentrations of private businesses, high value industrial sectors, world-class education and research establishments, infrastructure and cultural assets alongside some localised areas of weaker economic performance.

4.18 Tyne and Wear City Region MAA sets out a strategy to address challenges in transport, employment and skills. The priorities set out below reflect this city regional approach and there is alignment between the content of this section and those covering Durham and Northumberland sub regions, set out in **sections B and D**.

4.19 In terms of solely Tyne Wear *sub regional* performance (i.e. not including Durham and Northumberland sub regions), Tyne and Wear gross value added (GVA) per head was 92% of UK average, higher than the other sub-regions, but the gross domestic household income (GDHI) per head is slightly lower than the regional average (84% compared with 86% for the North East). This partly reflects the fact that many relatively higher earners who work in Tyne and Wear sub region travel to work from the broader city regional geography, reinforcing the importance of the City Regional MAA as a mechanism for policy development.

4.20 In terms of skills, the proportion of the labour force unqualified in Tyne and Wear sub region is around the regional average, although the proportion with NVQ4 is 3.4 percentage points lower.

Priorities and Regional Funding Advice

4.21 The Tyne and Wear City Region MAA provides the basis for the priorities set out below. The vision of the Tyne and Wear MAA is to achieve a more competitive city region by building competitive industries and world class talent and to achieve a more economically inclusive city region – ensuring economic opportunity and access for all.

4.22 The following key investment priorities are identified in **sections 5, 6, 7 and 8** of this advice and respond to the priorities of Tyne and Wear. Many of these initiatives have been designed in the city region context and contribute to growth across the wider Tyne and Wear city region area (i.e. including areas of Durham and Northumberland).

Economic Development	**Support businesses and employees through the economic downturn at the same time as we support the growth of knowledge based and high value-adding industries over the long term** through targeted investment in stimulating innovation and improving innovation infrastructure, improving quality of place in the key urban centres, and increasing business competitiveness for, example through: • **Newcastle Science City** • **Software City, Sunderland** • Growth in **design and creative industries** • Support for marine/offshore and renewable energy business infrastructure on the **north bank of the Tyne** • Continued investment in **tourism and culture** as key growth sectors • ensure that **new economic opportunities** are made available **for individuals and communities on the margins of economic activity**
Housing and Regeneration	**Improve the supply and quality of the residential offer** in the City Region, addressing the short term conditions within the housing market and **closing the gap between the best and the worst** Continue to **develop long term plans for sustainable housing supply** including: • **Bridging NewcastleGateshead Priority Areas** • **New Growth Points** • **Tyne Gateway: Walker, Wallsend to North Shields on the north bank; Hebburn and South Shields riverside** • **Cleadon Park South Shields** • **Sunderland central area and river Wear corridor** • **Hendon, Hetton Downs and Castletown**
Transport	**Create an integrated and effective transport network** which provides strong connections to places and markets elsewhere in the UK and overseas, particularly through transport improvements to: • Improve parts of the strategic road network **(A1, A19)** to ensure benefit is realised from the **New Tyne Crossing** through more reliable connections to markets and employment (including **A19 Junctions and Silverlink improvements**) • Major improvements to local public transport services via bus (**Orpheus Phases 1 and 2**) and **Metro Reinvigoration** to improve access to employment • **Sunderland Strategic Transport Corridor** to facilitate the regeneration of the south bank of the River Wear and facilitate connectivity between the port, city centre and national road network • **Sunderland Central Route** which will link industrial areas and improve access to employment
Skills	**Support an active labour market for employment and skills progression** which is integrated with business support and our key physical regeneration and investment priorities. **Boost opportunities for young people and increase workforce productivity** by ensuring that skills provision meets employers' needs, led by the employer-led Tyne and Wear Employment and Skills Board, **Ensure that more of the workforce is equipped with, and to be able to use, higher level skills to drive innovation, creation and competitiveness** of sectors, businesses and places. In order to build an integrated employment and skills system, **create the foundations for a stronger knowledge-based economy by raising participation in higher and further education** and creating strong partnerships with the private sector. Specifically, asking the Government to support new flexibilities and incentives for FE and HE providers to work with employers to invest in high-level skills.

D. Northumberland

Economic Context

4.23 Northumberland is embarking on a journey that will transform leadership and delivery over the coming years. This transformation journey will drive economic growth, promote sustainable communities and, in the short term, address the challenges of the current economic downturn.

4.24 Northumberland is the highest ranking sub region in the North East in terms of GDHI, at 95.8% of the UK average, however GVA per head is 2nd lowest, at 65.1%. This reflects the high level of commuting from Northumberland into Tyne and Wear to access higher level jobs and the relative dearth of high value employment in parts of the sub region. The environmental and cultural assets of Northumberland which lead to this pattern of travel to work are significant strengths of the sub region, as well as key challenges.

4.25 Northumberland's business base and new business registrations are considerably higher than Durham, Tees Valley and Tyne and Wear, although there is still a significant gap with the UK average. In common with the North East region as a whole, Northumberland has a high proportion of small firms in the economy alongside a large public sector.

4.26 Whilst the proportion of unqualified people in Northumberland is the lowest of the North East sub-regions, the consistent North East shortfall in the proportion of high level qualifications is present within Northumberland which is 4.5 percentage points lower than the UK.

Priorities and Regional Funding Advice

4,27 Northumberland and its partners are moving towards an integrated economic and social strategy. This will target specific sub regional challenges including the sharp contrasts between some localised areas of high growth and areas of weak economic performance.

4.28 The following key priorities will be taken forward within Northumberland and are supported through the specific investment priorities included within **sections 5, 6, 7 and 8** of this advice.

Economic Development	**Develop Northumberland's economic strengths to achieve increased economic performance,** including through: • Investment in continued world class innovation excellence at the **New and Renewable Energy Centre (NaREC)** • Continued **focus on the economic centres of the sub region** through the South East Northumberland and North Tyneside Regeneration (SENNTRI) investment strategy including regeneration investment in **Blyth and Ashington** • Supporting and growing the number of **technology and knowledge based businesses in rural Northumberland** through a focus on key market towns, on tourism and on flexible business support to help vulnerable businesses survive the downturn • Promoting and **strengthening Northumberland's unique tourism assets and environmental economy**
Housing and Regeneration	Support **sustainable housing growth and regeneration** including through: • Delivering the **Northumberland Growth Point** bid, bringing forward ambitious proposals for accelerating growth in the south east of the county in support of regional and national objectives • Delivering **major 'place' based physical regeneration scheme**s, focussed on Northumberland's economic centres including **Blyth Estuary Initiative, Blyth Town Centre and Quayside, and Ashington** and investment in market towns, especially **Alnwick and Berwick** • Bringing forward **affordable housing, eco-homes and stock improvement initiatives** in order to sustainably meet housing needs across the sub region, with a strong focus on rural areas
Transport	Use transport infrastructure and service improvements to **unlock growth across the sub region** and address climate change, including through: • **Morpeth Northern Bypass** (RFA1) the final **link between South East Northumberland and the A1** • **South East Northumberland Public Transport Corridor** linked to the Housing Growth Point, redevelopment of Ashington and Blyth and **transport integration with Tyne and Wear** • **Blyth Central Link Road** supporting the development of Blyth and the Growth Point • Ponteland Bypass, removing unacceptable levels of heavy goods traffic on the A696 through Ponteland • **A19 Junction Improvements** (RFA1) at Seaton Burn, Moor Farm and the Coast Road

	• Improved **connectivity to the Edinburgh City Region** by capacity and safety improvements to the A1 • Support proposed study of transport issues in rural areas highlighting improved economic social and cultural opportunities
Skills	Ensure that **skills provision plays a role in meeting the challenges of an economic downturn and supports the growth required for long term competitiveness** in a diverse geographical area, including through: • Addressing **14-19 skills performance** • **developing workforce skills** and increasing employer engagement • enhancing employability to **reduce levels of worklessness**

5 ECONOMIC DEVELOPMENT INVESTMENT

Strategic Context

5.1 The core PSAs driving our economic development investment plans are those that focus on raising overall UK productivity levels (PSA 1) and improving regional economic performance (PSA 7). The ERDF programme has also been designed to deliver the core principles of the Lisbon agenda and the *UK National Strategic Reference Framework*. There are also important interrelationships between the priorities set out within this section and those set out within **sections 4, 6, 7 and 8.**

5.2 The region believes the long term direction set out in the RES and RES Action Plan remains correct and we remain committed to the vision and targets they set out for sustainable economic growth in the North East. However, in the short to medium term the region also faces a number of significant challenges related to the economic downturn, for which we need ongoing flexibility to respond creatively and with agility (see **Section 3 – Evidence and Economic Context**).

Managing Short and Long Term Economic Development Priorities

5.3 Reflecting the complex economic context, we have prioritised interventions that respond to the short term effects of the economic slowdown but which proactively prepare for the upturn and support a continued focus on long term sustainable growth, ensuring the right balance of investment between short and long term priorities.

5.4 We have prioritised the following key areas for action over the **short to medium term** (detailed interventions are set out in **case study 1**, page 4):

- Increased investment in access to finance and packages of support to aid businesses with difficulty in accessing finance and cash flow
- Increased investment in productivity and efficiency support for businesses to offset volatile energy costs and weakened export markets, particularly in manufacturing
- Increased investment in emergency measures to support businesses under threat of closure and to manage the impact of large scale business closures and redundancies
- Review of physical regeneration schemes to understand increased market risks and to secure delivery of priority initiatives, supporting the construction and housing sectors
- Proactively investing in preparing for the upturn

5.5 Over the **longer term** we will continue to work towards the priorities set out in the RES and RES Action Plan and the direction set by the new Regional Strategy and Delivery Plan. In particular, over this RFA period, we will:

- Build on progress made in increasing the quantity and quality of business start-ups and in strengthening the business base, particularly in high value and internationally competitive businesses through targeted support for enterprise, access to finance, business support, manufacturing productivity, and targeted attraction of investment
- Continue to develop and embed innovation across the regional economy in key sectors
- Target our ‘people’ related activities towards the aim of improving labour productivity, increasing inclusion and talent attraction and retention
- Increasingly target our ‘place’ related expenditure towards economic outcomes and specialist business infrastructure, including for innovation and the visitor economy. We will also explore new opportunities for infrastructure investment, working with the HCA to align investment plans with that of local authorities and other partners

- Invest in strengthening regional evidence and analysis to ensure robust and effective policy development, appraisal and evaluation

Single Programme Support for Place-Based Regeneration

5.6 The region believes that Single Programme capital investment is an important source of funding for place-based regeneration initiatives. However, we note that reductions in Single Programme capital and the current commitment of Government and the RDA to focus Single Programme on supporting businesses through the recession are reducing the scope for Single Programme activity within the 'Place' strategic programme, with the effect that investment in generic 'place based' regeneration initiatives will be constrained.

5.7 It is also important to recognise that investment priorities within the 'Business' and 'People' strategic programmes are significant contributors to improving quality of 'place'. For example, investment in innovation connectors (under the 'Business' strategic programme), such as CPI/Wilton, Digital City, Science City, and NaREC all represent significant investment in the development of economic infrastructure in 'places', supporting sustainable local economies and, in turn, attracting increased private and public investment into wider 'place' improvements in those locations. In this funding context, it will also be increasingly important for local authorities and other partners to explore innovative solutions to 'place' funding to mitigate pressures on Single Programme funding.

5.8 Over the longer term, there is likely to be scope to explore the extent of Single Programme funding for generic 'place' interventions once the upturn begins and when the public funding position eases.

Single Programme Priorities

5.9 Single Programme investment (approximately £250m per annum) will continue to be prioritised across the three **strategic programme areas** identified in the RES and an evidence and strategy development programme, with the following approximate funding allocations:

- **Business** – 60%
- **People** – 10%
- **Place** – 29%
- Evidence and regional strategy development – 1%

5.10 The following key activities will be delivered within the **Business, People** and **Place strategic programme areas** over the RFA period.

A) Business

5.11 The ambition for our investment in the '**Business' strategic programme** is to accelerate and build on business success, supporting enterprises of all types and sizes, including through current economic conditions, at the same time as we increase long term competitiveness through innovation and creativity. We will do this in the context of a changing economic and national policy context.

5.12 Examples of priority areas for action within the business strategic programme are to:

- **Build a new enterprise surge**
  - Increase conversion of enterprise aspirations into new business start ups
  - Provide targeted support for high growth start ups
  - Attract new entrepreneurs to the region
- **Support existing businesses through high quality business support services**
  - Continue the development and evolution of Business and Enterprise North East
  - Provide support for strategic businesses through strategic account management
  - Provide targeted support for manufacturing businesses through MAS/NEPA
  - Invest in high quality packages of financial assistance and access to finance for businesses
  - Attract inward investment
- **Promote strategic growth areas in the regional economy**
  - Implement tailored strategies for growth and productivity for our key sectors
  - Support adoption of digital technologies
  - Support the development of a green economy

- Promote science and innovation, including through investment in the following key ‘Innovation Connector’ initiatives (and building on the local priorities set out **section 4**), Newcastle Science City, NaREC, Wilton/CPI, Digital City, NETPark, Design Centre for the North, Sunderland Software City

Case Study 3: New and Renewable Energy Supporting Sustainable Economic Growth: The New and Renewable Energy Centre, Blyth

The New and Renewable Energy Centre (NaREC), based in Blyth brings together city regional, regional, national and international priorities for business growth, employment and renewable energy as well as driving local ‘place’ based regeneration. NaREC is identified within the RES as a key regional ‘Innovation Connector’ and is identified as a key initiative within **sections 4 and 5** of this advice. It is developing a role nationally and internationally as a centre for expertise in renewable technologies and is a focus for the development of a new international ‘clean energy’ business cluster.

Locally, NaREC is acting as a catalyst for physical change, linked with major improvements to Blyth’s commercial, leisure and housing provision. It forms part of the shift from a former coal and shipbuilding base to a new future centred on energy and technology, which transforms the role, image and prospects of Blyth and the wider region.

Delivery of NaREC is being taken forward as part of a ‘place’ based approach to regeneration in Blyth and demonstrates alignment of investment from Single Programme, ERDF and the HCA. Investment in transport, to deliver regional and city regional connectivity and in skills, to provide new employment opportunities and local high quality training is also being coordinated within the initiative.

B) People

5.13 The ambitions for our investment in the ‘**People’ strategic programme** are to ensure that the adult workforce – and young people entering the labour market – acquire additional, relevant skills, that the region raises aspirations and attainment, and to promote economic inclusion by reducing worklessness and promoting equality and diversity. Single Programme funding is targeted at influencing mainstream DIUS and DWP skills and employment investment.

5.14 Examples of priority areas for action within the people strategic programme are to:

- **Ensure a foundation of basic skills whilst equipping the workforce with the higher level skills required to ensure global competitiveness, raising the aspirations of individuals and employers at all levels.** We will do this through interventions in employer and demand led learning; Train to Gain and workplace learning; higher level skills; raising aspirations and attainment; and attraction and retention of skills
- **With our key partners, deliver an integrated programme of employment, skills support and mentoring for those seeking a return to the labour market, ensure economic opportunity for all and promoting diversity.**

C) Place

5.15 The ambition for investment in the ‘**Place’ strategic programme** is to invest in quality of place and physical infrastructure in order to encourage, support and sustain economic growth. We will do this by building on the city-regional and sub-regional priorities set out within **section 4 – The Important of Place**. We will have an investment focus on the city regional drivers of regional economic growth, but also a strong recognition of the differing needs of ‘place’ across the region.

5.16 Examples of priority areas for action within the place strategic programme are to:

- Invest in **physical regeneration initiatives,** with a focus on interventions which deliver economic benefits for the region as a whole and those which improve the competitiveness of cities and towns, including Durham City Vision:2020, the Stockton-Middlesbrough Initiative, Tees Valley Coastal Arc, Darlington Gateway, SENNTRI, and the NewcastleGateshead CDC and Sunderland ARC investment programmes
- Invest in the supply of **high quality business accommodation** where market failure exists, with a focus on developing facilities and infrastructure for new enterprise and innovation, including through specialist business incubators
- Support the development of **digital infrastructure** and, where appropriate, support **transport infrastructure** in order to ensure business competitiveness and labour mobility

- Invest in the above in a way which provides **support in the short term for construction sector jobs and businesses** so that productive capacity is retained for the long term
- Maintain, strengthen and promote the North East's **natural, heritage and cultural assets**, ensuring we maximise their contribution to sustainable economic growth:
  - Invest in the North East tourism assets that will deliver economic growth
  - Deliver a world-class regional marketing campaign to promote the region as a competitive business location, to attract highly skilled labour, to raise North East aspirations and perceptions and to support the tourism economy

Overall Single Programme Investment Profile

5.17 The outline Single Programme investment profile is set out in **Table 2**, below, illustrated as funding totals across three funding periods. This illustration includes grant in aid but excludes other RDA incomes (e.g. capital receipts and European income). It excludes non-programme expenditure (e.g. running costs and contingencies). The funding illustration does not take account of two re-profiling factors which will be agreed by the One North East Board in March 2009: reductions in Single Programme capital in 2009/10 and 2010/11 of £7m and £33m respectively; and further re-profiling to address the economic downturn. The production of a new Integrated Regional Strategy will also influence Single Programme allocations post 2011/12.

Table 2: Single Programme Investment Profile

Programme Area	2008/09 to 2010/11 3yr Total Spending Assumption[2]		2011/12 to 2014/15 4yr Total Spending Assumption[3]		2015/16 to 2018/19 4yr Total Spending Assumption[4]	
	Total %	Total £'000	Total %	Total £'000	Total %	Total £'000
Business	60	422,813	60	579,600	60	630,000
People	10	70,469	10	96,600	10	105,000
Place	29	204,359	29	280,140	29	304,500
Strategy and Evidence	1	7,046	1	9,660	1	10,500
Total	100	704,687	100	966,000	100	1,050,000

Sub Regional Priorities

5.18 All Single Programme investment contributes to the creation of sustainable places and local priorities have informed Single Programme investment. We have worked to ensure that economic development investment aligns with funding in the other RFA blocks by considering alignment in each sub region. **Section 4** describes key sub regional priorities for Single Programme investment.

Strategic Partnerships, Delivery and Value for Money

5.19 Ongoing Single Programme investment will be agreed by the RDA Board and will be influenced through key strategic partnerships including: RDA Board/Local Authority Leaders Board joint working; the Science and Industry Council; Leadership Councils; City/Sub Regional Partnerships in Tees Valley, Tyne and Wear, Durham and Northumberland; The Northern Way; Employment Consortia; Area Tourism Partnerships; and wider business and third sector engagement.

5.20 For Single Programme resources, One North East will follow three broad approaches to delivery in future: a) direct delivery by the Agency (e.g. core activities such as responding to economic shocks, inward investment, access to finance, Grant for Business Investment); b) delivery through contractual partnerships and extended enterprises (e.g. MAS/NEPA, Business & Enterprise North East, Innovation Connectors); and c) delivery through sub-regional and local partnership arrangements (primarily physical regeneration interventions and economic inclusion, supported by increased programme responsibilities for local authorities and other local delivery bodies, including CDCs and URCs). To ensure effective delivery and to maximise use of resources One North East,

[2] Based on One North East 2008 Corporate Plan budget allocations.
[3] Based on 2008 RFA Guidance planning totals.
[4] Based on 2008 RFA Guidance planning totals.

HCA, local authorities and other partners are committed to developing a joint 'investment planning' approach.

5.21 In all RDA programme areas Single Programme will be used to lever additional value from other private and public sector investment. In particular, the RDA will be working closely with the HCA and local authorities to ensure aligned investment in 'place' interventions, and with Job Centre Plus, the LSC and public and private providers to align other public investment in 'people' interventions.

European Regional Development Framework (ERDF)

5.22 For the period 2007-13 the region will implement the North East ERDF Competitiveness Operational Programme (OP). The Programme is worth Euro 376m (£255m) to the region, of which £70m is capital expenditure. This amount, when matched with other resources, will result in total resources of some £510m over the lifetime of the OP.

5.23 Regional partners have worked closely with CLG and the European Commission to ensure that the North East ERDF programme is fully aligned with RES objectives. ERDF is therefore significant in supporting delivery of the region's economic development ambitions and of the RFA objectives more broadly. ERDF particularly aligns with **section 4 – The Importance of Place** and **section 5 – Economic Development Advice.**

5.24 Agreement has been reached with partners and the European Commission that the Programme will focus primarily upon the region's Innovation, Business, and Enterprise agendas broken down as follows:

- **Priority One - Enhancing and Exploiting Innovation** (£135m - 53%)
- **Priority Two - Business Growth and Enterprise** (£110m - 43%)
- **Priority Three - Technical Assistance** (£10m - 4%)

5.25 The Programme will be assessed against its performance in meeting quantified targets agreed as part of the Operational Programme. The Programme's objectives are as follows:

- By 2016 to increase GVA per capita in the North East towards 90% of the UK average in a sustainable manner through actions leading to
    - o increased productivity among the region's businesses resulting in an increase in £1.1bn in regional GVA per annum
    - o increased business density as a result of the creation of 3,000 new businesses, of which 15% are in disadvantaged areas
    - o the creation / safeguarding of 28,500 gross jobs of which at least 10% are in disadvantaged areas

5.26 The region has contracted to deliver these agreed priorities and outputs, however there are a number of specific points it is relevant to make as part of RFA regarding ERDF delivery:

- The production of the OP in this ERDF planning cycle has resulted in **comprehensive alignment with the RES**, which was signed off in advance of the OP, unlike in previous rounds. This has strengthened the strategic impact and added value of EU investment
- We believe that there will be considerable advantage in having **an overarching Regional Strategy that sets the economic development framework at NUTS 1 level**
- **We are keen that future ERDF/IRS planning cycles allow similar alignment of strategic planning** and increase integration between ERDF, ESF and agricultural and rural development funding
- We feel it is important to note the risks associated with national re-prioritisation of regionally allocated funds. **Reductions in RDA Single Programme capital / revenue allocations raise the potential for ERDF programmes to fail due to a lack of match funding, resulting in under-spend and under-achievement of outputs**. This in turn has the potential to lead to significant reputational and political risk to national and regional Government. We are keen to work with Government and the European Commission to manage the impact of this reduction in Single Programme and to ensure that effects on the ERDF deliverability are minimised
- Finally, depreciation of Sterling against the Euro is likely to significantly increase the Sterling value of the Programme, **exacerbating the match funding issue**s

Case Study 4: Innovation, Skills and Urban Regeneration: Newcastle Science City

Newcastle Science City aims to capitalise on the world-class scientific research being conducted in Newcastle for the economic and social benefit of the city and wider region, creating an environment that enables science and business to work together.

Science City also represents a coordinated approach to 'place' based regeneration which reflects national, regional, and local priorities, bringing together RDA, local authority, HE and private investment. Science City is identified within the RES as a key regional 'Innovation Connector' and is a key initiative within **sections 4 and 5** of this advice. Science City also links closely with the priorities set out in **section 8**.

The project involves a combination of: investment in large scale physical regeneration in a central city location; investment to facilitate the commercial exploitation of scientific research; providing tailored specialist business support services and facilities for scientists and entrepreneurs and existing businesses; actively promoting science and encouraging participation in science-related subjects in secondary and higher education; and ensuring that there are wider community benefits in innovation, science, enterprise and business growth; and investment in high level skills development.

6 HOUSING AND REGENERATION INVESTMENT

Strategic Context

6.1 As set out in **section 4 – The Importance of Place**, the North East is committed to supporting successful, sustainable places by ensuring that funding and priorities align around the specific needs and opportunities of 'places'. The Region's Advice for Housing and Regeneration investment has this commitment at its core. **Section 4** describes the way in which the advice in this document supports this new 'place-based' approach. There also close interrelationships between the activities covered by this section of the advice and those within **sections 5, 7 and 8.**

6.2 This advice for housing and regeneration has been produced during a period of institutional change, most notably the establishment of the new HCA, and in the context of economic uncertainty and a rapidly changing housing market. Our advice is designed to recognise and respond to these factors. In developing the advice, partners have had regard to current national guidance in housing growth and renewal, in particular: the Housing Green Paper; the Parkinson regeneration report; the proposals detailed in 'Facing the Housing Challenge'; and the first report of the National Housing and Planning Advice Unit. The advice also seeks to build on the legacy of growth and renewal delivered as a result of the Sustainable Communities Plan and Towards an Urban Renaissance. While the advice has had regard to the full range of PSAs, the housing and regeneration advice has been particularly informed by PSAs 7, 20, 21 and 28. We are also mindful of the imminent Government response to the Taylor Review of Affordable Housing.

6.3 RFA decisions have been informed by the four objectives of the Regional Housing Strategy, the Sub Regional Housing Strategies, emerging HCA priorities and the two Housing Market Renewal Partnerships. The advice has also considered the approach being explored in the Northern Way Residential futures research for Tyne and Wear and Tees Valley.

Managing short and long-term challenges

6.4 The region is agreed on the importance of both retaining our long term focus and also responding to the challenges posed by the current economic downturn. There will be a requirement to change the tactics of delivery to address current short term difficulties, however the region will seek to achieve the right balance between short term decisions and our pursuit of our long term aspirations.

6.5 Whilst there is a need to build new homes in the region and to tackle ongoing problems of housing market failure (problems that could worsen in a deteriorating market), this needs to be within a wider context of rebalancing the region's housing stock and delivering a step change in 'quality of place' to support economic competitiveness.

6.6 In this context, the region has taken an approach to the housing and regeneration allocation of RFA which: a) describes the region's short term advice including the Regional Housing Pot, Housing Market Renewal funding, and Growth Fund to 2011; and b) sets out the strategic housing and regeneration priorities that should guide funding decisions over the medium to long term.

6.7 This approach allows the region to maintain flexibility in changing circumstances and maximises the value of the new Homes and Communities Agency and its discussions with regional and sub regional partners.

Establishment of the new Homes and Communities Agency (HCA)

The establishment of the HCA in December 2008 represents a new opportunity to support housing and regeneration in the region. Using the new 'Single Conversation' approach, the HCA offers the possibility of working with a range of local and regional partners to harmonise a variety of funding streams on a place-based basis to help in securing national, regional and local ambitions.

It will be important to ensure that the HCA is in a position to operate flexibly, particularly in the context of current economic conditions. In the short term, securing housing supply will remain the priority, but it is important that the HCA is also be given the flexibility to enable outcome focused investment in place within the North East.

The HCA has already begun the process of engaging with key stakeholders in the region and responding to the downturn, including meeting with leading RSLs and house-builders to discuss effective, tailored responses to the current market conditions (**case study 1**, page 4, describes this activity in more detail). HCA has also begun to develop the Single Conversation process with two of the sub-regions, in Durham and Northumberland.

A. Investment Priorities for the Short to Medium Term

6.8 This section sets out the region's investment priorities for the short to medium term, based on the current indicative Regional Housing Pot Allocation. Throughout this section the need for a short-term response to the challenges posed by the economic downturn is balanced with the need for a focus on the long term. The short-term challenges are significant, both in terms of maintaining capacity and delivering on targets and must be met without compromising our aspirations for high standards of quality.

Responding to the Downturn Whilst Retaining a Long Term Focus

6.9 It is clear that the economic downturn has severely impacted on delivery in the public and private sector. Many housing and regeneration projects have relied on residential values in urban areas to deliver wider benefits. In the short term this will have severe impacts on housing supply of all types and on delivery of regeneration projects. This will require a change of tactics in the short term whilst retaining a long-term focus to realise the region's ambitions.

6.10 In responding to current economic challenges the region will focus on efforts to maintain delivery capacity in the industry through helping to restore confidence in the private sector, including through intervening to help to support key sites. There is scope for the HCA, RDA, local authorities and other agencies to undertake joint ventures with private sector developers and to use investment to unlock public sector land and property assets to act as a catalyst for development. The work of the Northern Way Private Investment Commission may also suggest new opportunities and different approaches to securing greater private investment.

6.11 The region recognises the importance of maintaining a long term focus. In order to do this, we will avoid reactive short-term responses that run the risk of delivering more social houses in areas where the strategic aim should be to diversify the tenure mix away from one dominated by social housing. There are opportunities to utilise RSL expertise in the short term, requiring pragmatic and flexible responses from all partners.

6.12 Maintaining capacity in the building industry and sustainable communities professionals for the upturn is vital, highlighting the importance of supporting employment and skills retention.

Indicative Regional Housing and Regeneration Allocations

6.13 The following section sets out the current indicative housing and regeneration allocations for the current CSR period and explains how the available funding will be marshalled to help to retain the short-term economic capacity of the region while simultaneously contributing to the region's long-term ambitions for growth and renewal.

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Table 3: Current Indicative Regional Housing Pot Allocation (£'000)

	2008-09	2009-10	2010-11	Total 2008-11
North East	88,000	95,000	100,000	283,000

6.14 Our housing allocation is informed by the overarching North East Regional Housing Strategy objectives:

1: Rejuvenating the housing stock (51-60%)
2: Providing choice and quality (10-20%)
3: Improvement and maintenance of existing housing (10-20%)
4: Meeting specific community & social needs (10-20%)

6.15 A key element of investment for the Regional Housing Pot is the ring fenced monies for local authorities to deliver the Decent Homes Programme for public sector stock up until 2010/11. This takes account, as far as possible, of pending and future Large Scale Voluntary Transfers. The remainder of the Regional Housing Pot has been allocated on the basis of the percentages against each of the four priorities.

Table 4: Thematic Indicative Allocations (£'000 and rounded to nearest £50k)

Year	Indicative Allocation	Ring Fenced LA Decent Homes	National Affordable Homes Programme (NAHP)	LA Regeneration and Private Sector Decent Homes
2008-2009	88,000	17,150	48,000	22,850
2009-2010	95,000	17,150	55,000	22,850
2010-2011	100,000	17,150	59,000	23,850
Total 2008-11	**283,000**	**51,500**	**162,000**	**69,500**

Housing Market Renewal (HMR) Pathfinder Commitments

6.16 The North East has two HMR Partnerships – Bridging NewcastleGateshead (BNG) and Tees Valley Living (TVL). Over the next three years TVL has set programmes and priorities that relate directly to wider regeneration projects in the Tees Valley. BNG will focus on delivery by combining need with opportunity and alignment with the NewcastleGateshead Growth Point, which BNG will lead. In the current CSR period, the region remains committed to the indicative allocation for the pathfinders set out in below.

Table 5: Indicative Housing Market Renewal Partnerships Funding Allocation (£'000)

	2008-09	2009-10	2010-11	Total 2008-11
North East	47,000	44,000	39,000	**130,000**

6.17 In the longer term, Housing Market Renewal will continue to be strategically important to the region as part of a place based approach that aligns growth and regeneration in the current pathfinder areas and across a range of the communities in the North East.

Growth Funds

6.18 Delivering growth alongside regeneration underpins the North East's housing and regeneration policy. The region has five successful Growth Points that will be important to delivering this approach. The region remains committed to the funding awards in this spending period.

Table 6: New Growth Point Funding Allocations 2008-2011 (£'000)

	2008-09	2009-10	2010-11	Total 2008-11
North Tyneside	0,100	0,967	1,516	**2,583**
Newcastle & Gateshead	0,150	1,835	2,877	**4,863**
South East Northumberland	0,100	1,048	1,643	**2,791**
Tees Valley	0,200	2,408	3,775	**6,384**
South and East Durham	0,100	1,270	1,955	**3,325**

6.19 In addition to the allocated funds, the region awaits the outcome of bids for Community Infrastructure Fund (CIF), which will facilitate the delivery of transport schemes to support sustainable housing growth. (As set out in **Section 7- Transport Investment**)

Property and Regeneration Funding

6.20 The RFA Guidance sets out indicative allocations for former EP funding (now the responsibility of HCA) to the North East amounting to approximately £50m per annum over the period. Over the short to medium term this funding will be broadly delivered in line with existing commitments. However, some re-profiling and reprioritisation may need to take place to account for changes in economic conditions, resource levels, and escalated risk in key schemes, and HCA is working closely with the RDA on this. Over the medium to long term, HCA investment will be aligned with the investment plans arising from Single Conversations led by local authorities, with RDAs, the private sector and other partners.

B. Long Term Strategic Housing and Regeneration Priorities

6.21 In recognition of the opportunities presented by institutional change in housing and regeneration in the North East, and acknowledging the high degree of uncertainty in the economy generally and the housing market specifically, the region has deliberately focused on setting the strategic, longer-term priorities that will guide investment decisions by regional partners through the current CSR period and beyond up until 2018/19***.***

i) Developing an Integrated, Outcome Focused, Place Based Approach to Investment

6.22 Notwithstanding current market conditions, there remains a need to deal with areas of market failure, to raise the quality of our places and residential offer that are a legacy of the rise and decline of heavy industry. We maintain our commitment to investment in the areas of need, however we need to align these investments with our ambition to improve regional economic competitiveness by making investments that will deliver transformational change. This will require investment in areas of opportunity such as the growth led regeneration proposed by the New Growth Points.

6.23 These areas demonstrate how aligning interventions around a common place based objective can deliver benefits and contribute to the delivery of wider regional and national objectives. A place based approach is required to ensure investment and action is planned to respond to the very different issues, problems and opportunities in different places of what is a highly diverse region. Delivering quality places requires a co-ordinated approach to a number of investment streams.

6.24 The region has already made progress in aligning ‘place’ based investment, including through the region’s Urban Regeneration Companies. This will be developed further through the shift towards area based investment planning and ‘single conversation’, involving local authorities, the HCA, One North East and other funding bodies.

ii) Supporting Regeneration-led Growth: combining Housing Growth with Renewal

6.25 The region is delivering housing growth in a number of ways, with a focus on using housing growth to deliver urban regeneration and transformation. The New Growth Points packages underline the integrated approach that the region is adopting to deliver urban renaissance, with a better range and quality of housing in attractive and well managed neighbourhoods.

iii) Rebalancing the North East’s Housing Stock

6.26 The region has adopted a bold approach to reshaping its housing stock; including ensuring that public sector investment in existing stock only takes place where it has a long-term future. Remaking existing places through remodelling is ongoing in Tyne & Wear and Tees Valley, in particular through the work of the Housing Market Renewal Pathfinders. The region is also committed to ensuring a good range of new homes are delivered in the right locations to support growth. The region is developing and will support a range of public-private partnerships to deliver the correct range and balance of stock in key places

iv) Addressing Housing Need and Affordability

6.27 An important theme running through the Housing and Regeneration strand is the need to provide more and better homes. Household formation has been outstripping housing supply for some time and combined with inward migration in recent years, there are worsening housing needs. Maintaining delivery and quality to address this need is a core economic and social objective for the region.

v) Addressing Rural Affordability

6.28 The rural economy supports relatively low wage levels, and housing affordability is a significant issue. A number of factors have driven rural housing prices up, including second home ownership, long-distance commuting into the region's cities and business parks, itself driven by relatively poor urban housing choices and historic decisions to locate business parks in peripheral locations.

6.29 Addressing urban residential quality is a major objective to address this problem, but alongside this a programme in rural areas and the role of rural housing enablers is clearly important in the future.

vi) Improving the Quality and Sustainability of New Homes and Existing Stock

6.30 Poor conditions in the housing stock affects broader economic performance, impacts on physical and mental health, reduces choice and opportunity, community sustainability and impacts disproportionately on vulnerable households. There is an ongoing need to address problems of condition of the region's existing housing stock, particularly in the private sector which may worsen in the current downturn. The quality of new and existing homes is improving but more can be done with public and private sector collaboration:

- A regional Home Improvements Loan Scheme is being developed to provide a more efficient use of available resources to assist homeowners to improve condition including thermal performance
- The challenge of retrofitting existing stock to meet climate change targets also offers significant business opportunities which relate well to priorities in the RES
- The delivery of CfSH compliant homes will help commercialise new technology which will have benefits for upgrading existing stock
- There are opportunities to utilise waste heat from industrial users for domestic properties, for example in Tees Valley and to establish an Energy Services Company in Newcastle

Case Study 5: Regeneration, Science, Housing and Heritage - Durham City Vision: 2020 and Durham Growth Point

The Durham City Vision: 2020 is a successful and unique partnership approach to regeneration, aimed at building on the combined local assets of Durham City to increase economic growth and improve quality of place in Durham and the wider region. The partnership consists of Durham Council, One North East, Durham University, Durham Cathedral and the private sector.

Together with Durham Growth Point, this initiative brings together investment in physical regeneration and business infrastructure (Single Programme funding), housing (Growth Point funding), skills and higher education, heritage and transport to drive economic improvement in a key regional centre and build Durham's ability to attract business, investment and tourists to support its long term success.

These activities will directly respond to local needs at the same time as delivering a number of national and regional objectives including increased economic performance, housing growth and attraction of skills and investment. Durham City Vision and the Durham Growth Point are key schemes highlighted in **sections 4, 5 and 6** of this advice.

7 TRANSPORT INVESTMENT

Introduction

7.1 The North East has recently undertaken Future Direction, a review of the region's short, medium and long term priorities for transport in response to the Government's new approach to transport planning – Delivering a Sustainable Transport System (DaSTS) - and in preparation for the development of a new Regional Strategy. The first phase of this process is a critical review of the region's transport evidence to establish a baseline against which priorities and progress can be determined. The findings of this work have been used to develop a regional consensus around the region's key transport challenges.

7.2 This work builds on the challenges identified in the RSS and RES and provides a strategic context for the development of our Regional Strategy, a framework for our consideration of investment priorities and a guide for our response to DaSTS. Developing a more sustainable transport system for the North East requires an approach which recognises the importance of:

- Improved access to markets, employment and training
- Making more effective use of existing resources and infrastructure including the use of intelligent transport systems
- Minimising our impact on the environment and climate change in part through behavioural change
- Linking areas of disadvantage with areas of opportunity
- Delivering quality places through a co-ordinated approach to investment planning

Strategic Context and Evidence

7.3 The region has the capacity to grow and presents an opportunity for economic growth that the UK could and should grasp. **Section 3 – Evidence and Analysis** includes an overview of the region's transport characteristics priorities. The content of our transport advice is closely linked with the proposals for economic development and housing and regeneration set out in **sections 5 and 6**. It also reflects the spatial priorities set out in **section 4.**

7.4 The region has a number of significant longer term ambitions in relation to transport. We are developing the evidence base and business cases for these improvements through our Future Directions work and our response to DaSTS. These include:

- Improved connectivity within the region and to adjacent regions including South East Scotland
- A first class integrated public transport system accessible to all residents
- An intelligent transport system harnessing new technology
- High speed links to London and other regions
- Improved connectivity for our ports and airports

7.5 In accordance with the approach advocated in Delivering a Sustainable Transport System, the second phase of the region's Future Direction work involved a process of developing consensus and consent around the region's transport challenges. These are set out below:

International/National

- To ensure sustainable transport links support the economic asset of NE regional sea ports and their future development to the UK
- To ensure transport links enhance the economic capability of NE regional airports by providing high quality international air links for business, either directly or through key hubs, thereby supporting the global competitiveness of the North East across all sectors of the economy
- To provide high quality road and rail connectivity with key UK markets to encourage economic growth across the region
- To provide high quality road and rail connectivity to the regional airports and seaports for the four sub-regions for both freight and passengers to minimise trips and environmental impact
- To reduce the dependence of national and international transport systems on energy intensive fuels such as fossil fuels and oil based petroleum

Between Sub-Regions

- To maintain and improve the existing road and rail links between the four sub-regions.
- To reduce the dependence of inter-regional transport systems on energy intensive fuels such as fossil fuels and oil based petroleum
- To provide efficient and effective freight links both between sub-regional centres and to and from their markets

Within Sub-Regions

- To develop sustainable transport systems to better connect the polycentric settlement patterns, both existing and future, including supporting sustainable, accessible development of the region's Housing Growth Points and economic sites (as set out in **sections 5 and 6** of this Advice)

- To reduce the dependence of intra-regional transport systems on energy intensive fuels such as fossil fuels and oil based petroleum
- To develop transport infrastructure that supports the key economic assets of the region
- To provide transport solutions that contribute to addressing the high levels of deprivation in the region
- To extend economic, social and cultural opportunities provided by the city regions' integrated approach to land use planning to maximise the potential of trip and distance reduction when assessing development applications, to provide economic and environmental benefits

7.6 A review of evidence as part of the Future Direction work suggests that the key challenges which are likely to have the greatest impact on securing the region's economic performance are:

- Access to national and international markets – specifically measures to improve services and access to/from the region's primary ports and airports and also access to London and the South East
- Access to opportunity in the city regions – specifically measures that support agglomeration benefits within the Tyne and Wear city region and improve connectivity within Tees Valley

7.7 Existing commitments in RFA1 largely address city regional or sub regional challenges reflecting their origins in the previous bidding process. Some emerging RFA2 schemes have a greater regional focus but there remains a need for the region to influence 'national' funding programmes in order to address the area's national and international challenges. The North East welcomes the opportunity provided by DaSTs to advise on option generation work on the national and international networks led by DfT and to lead work on the appraisal of city and regional networks by agreeing priorities for a programme of work by June 2009. In regard to identified national corridors, we are concerned by the inconsistent approach to corridor 10 where a modally agnostic approach is abandoned north of Newcastle.

7.8 There remains a strong consistency with the priorities of the Northern Way Growth Strategy which focus on north-south and east-west links and access to ports and airports. In particular the Northern Way has prioritised the following proposals :

- A1 Newcastle Gateshead Western Bypass which is heavily congested
- A19 New Tyne Crossing (now under construction)
- Connecting the North East directly into the national motorway network by upgrading the A1 in Yorkshire (Government commitment)
- Improvements to the north – south and trans-Pennine rail network
- Support for pan-northern smart ticketing

7.9 The Northern Way has also co-funded Network Rail's assessment of the feasibility to gauge clearing the East Coast Main Line north of Doncaster to freight centres east of Glasgow as well as gauge clearing the routes to the Tees and Tyne ports and a route to freight centres in the Midlands. Implementing this by 2014 is both a regional and Northern Way priority.

Transport Investment Programme

7.10 The region will make the best use of resources through the development of a dynamic process of effective programming of infrastructure investment. The RFA national transport programme as a whole under-spent in 2006/7 and 2007/8 partly due to optimistic assumptions about delivery timescales. We therefore recognise the need to challenge and verify assumptions on timing and funding. However the relatively small allocation for the North East means that the larger major schemes account for a significant proportion of the region's funding programme. As a consequence the slippage, or indeed failure, of any individual project can have a major impact on the profiled spend. Additionally, 75% of the region's trunk road network is currently classed as regional, meaning that improvements must be funded from RFA. These Highway Agency projects have a relatively high cost, as a consequence the risk to spending the full allocation is increased.

7.11 The potential impact of any slippage in any one of these major projects must be addressed through a process of astute risk management, hence the need to over-programme in order to ensure that the allocations are spent in full. We consider that a bigger pool of projects is needed to ensure flexibility to spend the funds available in any given financial year. There is also a need to address the issue of development costs of which DfT meets 50% once a scheme is granted programme entry. However development costs can be a significant barrier to bringing schemes forward.

Commitments

7.12 Existing commitments from RFA1 and significant cost increases, particularly on Highways Agency schemes, mean that there is very limited headroom for new projects (see **Annex 1**)

7.13 We have therefore carried out a reassessment of all schemes not legally committed to ensure that they continue to meet our strategic priorities, remain value for money and are deliverable within the programme period. In the light of this health check we are able to **confirm our commitment to the following schemes.** (A funding profile is set out in **Annex 1**)

- A1056 Northern Gateway
- Sunderland Central Route
- Sunderland Strategic Transport Corridor
- A19 Seaton Burn
- A19 Testos
- Orpheus Phase 1
- Orpheus Phase 2
- Morpeth Northern Bypass
- Transit 15
- Tees Valley Bus Network
- A19 Coast Road
- A19 Moor Farm

7.14 We have also appraised a number of new schemes, taking account of the emerging strategic framework for the region, sub regional priorities, and requirements in relation to carbon and environmental impact. We have identified the following list of '**provisional priorities**' comprising schemes which demonstrate good strategic fit, which could proceed within the programme period and which will provide the region with flexibility to manage the programme.

- Tees Valley Metro (Contribution to Stage 1) £30 million
- Tees Valley Action Area Plan (Phase 1) £15 million
- East Billingham Transport Corridor £4 million
- East Durham Link Road (Phase 2) £11 million
- SE Northumberland Public Transport Corridor £35 million
- A1 Dualling (part) £40 million
- NE Smart Ticketing £15 million

7.15 The region has prioritised these provisional schemes which local 'sponsors' are committed to progressing. We seek to work with DfT to explore how these schemes can be developed further in order that they can be brought forward quickly to avoid under-spend if any Highways Agency or local scheme slips or fails to proceed. We also need DfT / HA support to achieve a more accurate assessment of scheme profiles which may enable us to bring forward a number of provisional priorities and help to smooth out the current programme spend across the RFA1 and 2 periods. Generally, the region is anxious to work with DfT to examine ways of managing the programme more effectively, to avoid under-spend and to prepare schemes which are able to proceed quickly to respond to changes in funding including opportunities which may arise to bring forward capital spending to support the economy.

7.16 A number of schemes have been identified which require further work. We will examine these as part of our work on DaSTS alongside other priorities with a view to developing a **programme beyond 2019**. Schemes currently identified include:

- Tyne and Wear Urban Traffic Management Control £13 million
- Orpheus (Phase 3) £30 million
- South Tyneside Metro Dualling £36 million
- Tees Valley Area Action Plan (Phase 2) £40 million
- Tees Valley Metro
- Durham Coast Railway £10 million
- Ponteland Bypass £30 million
- Blyth Central Relief Road £40 million
- A1 Dualling (further phases) £140 million
- Blaydon Bridge
- Scotswood Bridge Head
- Sunderland Strategic Transport Corridor (Future Phase)

7.17 As part of the region's commitment to examining the feasibility of further dualling of the A1 north of Newcastle, partners have asked the Highways Agency to develop more detailed costs for improvements between Adderstone to Belford and Morpeth to Felton.

Carbon Assessment

7.18 The North East Regional Emissions Study found that transport accounted for 19.22% of all CO_2 emissions in 2005. Road transport accounted for 12.4% and 'other transport' (rail, air and sea) accounted for 6.82%. The two transport sectors were the only sectors of the economy to see an increase in emissions between 1990 and 2005. Emissions from both transport sectors were predicted to rise further by 2020 and 2050. It is therefore essential that the carbon impact of infrastructure investment is monitored and minimised.

7.19 The carbon impact of schemes was assessed using estimates of emissions where available. These were used after adjustment to common units (carbon dioxide rather than carbon) and a common year (2020). Webtag guidance on changes in emissions levels and TEMPRO detail of changes in trip levels through time were used where necessary to carry out these conversions. For some schemes it was necessary to derive estimates based on the anticipated impact on traffic levels. Further work will take place to strengthen work on carbon impact.

Integrated Transport and Maintenance Blocks

7.20 Our advice is that the existing distribution of Integrated Transport and Maintenance Block funding to local authorities should be retained. These budgets are already considered to be stretched and establishing a robust economic case to support an alternative proposal would be difficult.

7.21 However, local authorities in the region have considered a number of options and propose allowing flexibility in the use of these blocks through a degree of virement between blocks and within sub regions in order to enable smaller capital schemes to be implemented. This proposal includes the use of block allocations to provide a contribution towards major schemes either reducing the call on the RFA programme directly, levering additional funding into the region, or as part of the local contribution now required for major schemes. Crucially, these decisions would be taken at local authority or sub regional level ensuring that the direct impact is also felt locally.

Case Study 6: Programme Flexibility Delivering Joined-Up Transport, Employment and Environmental Objectives: Tyne and Wear Metro Ticketing and Gating Project

This project addresses social exclusion and environmental issues in Tyne and Wear, bringing together economic and employment needs with environmental and transport investment and demonstrates alignment of the objectives set out in **sections 4, 5, 6, 7 and 8** of this advice.

The project also highlights the benefits of ensuring that there is flexibility in the transport programme. It is an example of a scheme that was brought forward during the first round of RFA in order to address an under-spend arising from delays in other projects. We would hope to take advantages of any similar opportunities in RFA2, and our advice has been constructed to reflect this.

The project has also provided match funding to lever funding from other sources and has provided the impetus for developing a partnership of local authorities and operators with the objective of introducing smart media technology to the region's public transport network.

8 SKILLS PRIORITIES

Introduction

8.1 The region has made rapid progress in recent years in improving employment and skills performance, but still faces significant challenges. As set out in **section 3 – Evidence and Analysis**, the region has a predominance of relatively low value, low skilled occupations. Added to this, the current recession threatens to undermine positive movements in the region's labour market in recent years, through which the North East had begun to close the gap with the rest of the UK. Alongside the rapid increase in unemployment, there is evidence of widespread short-time working and reduced demand for skilled trades occupations. There is therefore a critical need to both keep skilled people in work wherever possible, and support those made redundant to find work and retrain, to retain key skills in the region

8.2 The region's skills priorities focus on supporting the Regional Economic Strategy by improving productivity and participation, with clear leadership from city regional and sub regional partnerships on local priorities. There is a tight focus on sectoral strengths including: the chemicals and process industries; offshore engineering; renewable energy and environmental technologies; construction and sustainable communities; healthcare and life science; the automotive sector; knowledge intensive business services and tourism and hospitality.

8.3 We have developed our skills advice in this context in close consultation with businesses, partner agencies and providers. Our Advice aims to ensure that employment and skills provision in the region is:

- Simple, effective and integrated enough to meet our needs
- Flexible and responsive to the region's specific and changing needs
- Locally and regionally specific to support our regional strategy

8.4 One specific theme which runs through our advice is that whereas **increased regional flexibility** and influence over 'business' and 'place' interventions has increased our ability to achieve positive outcomes, for 'people' interventions, the current arrangements and planned changes make a co-ordinated, regionally specific and flexible response to the region's people and skills issues more difficult. Our skills advice seeks to propose practical steps that could be taken to address this challenge, to help the region work flexibly to better respond to the skills issues it faces and to increase alignment between skills activity and the priorities set out in **sections 4, 5, 6, 7 and 8** of this Advice.

Case Study 7: Joining-up Employment and Skills Working in the North East

There are strong arrangements in place to promote close working between employers and providers across regional, sub-regional and local levels within the North East, intervening at the appropriate spatial level for each issue. This means that there is not a choice between devolving skills interventions to regional level or devolving them to local level, rather an approach that guarantees that devolution will result in better outcomes for the people and businesses of the North East. Emerging arrangements in the North East (from 2009/10) are:

- The prime contact between supply and demand happens through direct local relationships between employers and providers, facilitated where needed through an integrated brokerage service
- This is supplemented by twelve strong local authorities working closely with local employers and delivery partners through LSPs, addressing local engagement of learners and the unemployed. Joining-up supply and demand at a strategic level and addressing any mismatches between the two is primarily the responsibility of four, developing employer-led Employment and Skills Boards (ESBs) or similar arrangements, covering Tees Valley, County Durham, Tyne and Wear and Northumberland
- These ESBs work closely together to address cross-boundary travel to work and travel to learn issues in line with developing city region approaches
- Tyne and Wear and Northumberland form a single commissioning group for 14-19 provision
- The Regional Skills Partnership, made up of Employment and Skills Board (ESB) employer representatives, other employers and key funders, provides co-ordination, support and challenge to the sub-regional ESBs, oversees regional funding streams on employment and skills, and interfaces with national bodies

A. Immediate Measures to Simplify, Strengthen and Integrate our Skills System

8.5 There needs to be significant further simplification of the national approach to adult skills, and strengthening of capacity, in order to stimulate, capture and respond to demand from employers and learners. Employers still find the UK skills system too complex, too inflexible and unresponsive. Recent Train to Gain flexibilities are welcomed but do not go far enough to create an adult skills system that responds to employer needs and is easily understood and accessible for learners.

i) Simplified and Integrated Brokerage

8.6 In the light of business support simplification, we welcome the transfer of responsibility for skills brokerage from the LSC to the RDA as an opportunity to further integrate skills and business brokerage. The majority of the UK CES simplification proposals for employer engagement in adult skills are broadly welcomed as there is a need to de-mystify the complex way in which employers access the broad skills offer. However, there needs to be a distinction between the role of the impartial brokerage service and the activity of providers in selling training to employers, which should not be called 'tied brokers'. Both are valid aspects of a demand-led market, and take-up of Train to Gain through both routes has been relatively strong in the North East. The relationship between providers and employers is an important part of the skills system and the role of the provider is key in stimulating demand. It should be recognised that brokerage is not a substitute or replacement for direct relationships between providers and employers. Indeed, true brokerage should be seen as an impartial route to help employers and providers develop relationships, not as an obstacle to those links.

ii) Stronger Employer Links

8.7 There should be greater commitment and support for capacity, on both the employer and learning sides, to effectively engage employers in shaping the content and supporting the delivery of skills. In particular, Sector Skills Councils have a key role in providing intelligence to providers on employer demand. However, the extent of regionally related working varies between the 25 SSCs. Whilst most SSCs employ a dedicated regional or Northern representative, there is limited capacity for this resource to engage regionally, and even less at a sub regional level. UK CES should provide guidance on minimum standards of regional capacity and engagement, increasing SSC capacity to engage with regional partnerships.

iii) Integrated Capital Development Between Partners

8.8 Skills and capital development support each other in three key ways: firstly, excellent facilities for training are clearly a factor in achieving our ambitions to improve skills standards; secondly, training developments can play a crucial role in wider economic regeneration initiatives; and thirdly, physical regeneration projects can provide a major opportunity to develop training and employment opportunities for excluded groups. All of these can and should be supported through maintenance of the major public investment in schools, colleges, universities and other training venues, and the promotion of national standards for the integration of employment clauses within public regeneration/construction projects. (Integration of capital programmes is a critical element of the place-based approach set out in **section 4 – The Important of Place**).

iv) Information, Advice and Guidance for 14-19 and adults

8.9 It is vital that accurate information on current and anticipated future demand informs learner choices. It is important that the transfer of responsibility for 14-19 provision to local authorities maintains a strong focus on economically relevant skills alongside a focus on student choice and entitlement. There is some concern that the transfer of responsibility may cause a disconnect between pre 19 and post 19 education and skills. To address this, we recommend that Government supports local authorities to work together with regional partners to co-ordinate and integrate IAG provision across both 14-19 and adults, to meet regional and local labour market needs as well as the needs of individual learners.

v) Integration of Apprenticeships

8.10 In the North East, there is a consistent high level of demand for apprenticeship places, which we could build on through an integrated budget covering adults and young people. Adult apprenticeships are often highly regarded by employers for their productive contribution, so the integrated promotion of apprenticeships to employers should be aligned to regional strategy rather than determined separately for pre- and post-19. Equally, apprenticeships brokerage should be delivered as an integrated, business-focused element of the brokerage service, rather than managed through a separate agency.

B. Systemic Improvements to Increase the Flexibility and Responsiveness of our Skills System

8.11 It is essential for employment and skills provision to respond effectively to demand from employers and learners. To support this, we have identified key flexibilities and responsiveness that are currently lacking, which could be addressed relatively easily. These are all changes to rules and implementation arrangements that should be made as soon as possible, to enable us to respond to changing economic circumstances.

vi) Responding to the Need for Increased Science, Technology, Engineering and Maths (STEM) Skills

8.12 There is a critical link between schools provision and the aspirations of young people and overall skills performance. Actions to promote and encourage the take up of STEM subjects, ensure appropriate progression routes and support up-skilling in STEM related careers are vital to all of the North East's priority sectors, and should be maintained and enhanced across 14-19 and adults. All of our key sectors require an increased flow of technically skilled people to replace, grow and up-skill their workforces. However, demographic changes will significantly reduce the supply of school-leavers in the region. So, it is vital both that a higher proportion of school leavers develop STEM capabilities, and that adults are supported to up-skill and retrain. SMEs that recruit STEM graduates require support to ensure that appropriate career progression is available to staff to maintain a highly skilled and up to date workforce and support graduate retention.

vii) Responding to Future Growth Opportunities in Priority Sectors

8.13 Specific action is needed to maximise the growth potential of priority sectors within the region, both by stimulating and aggregating demand for higher level skills in these sectors, and by investing in the capacity of the region to meet that demand over the medium-term. Sectoral growth investments will take several years to come to fruition. Providers are therefore unlikely to risk developing significant training capacity in advance of demand. As the North East has a relatively small base of large head office companies, there is a lack of private sector risk-taking investment in training capacity. Therefore, there is a need to overcome the potential market failure in the demand-led skills system, where significant investment is needed in high quality infrastructure (both trainers and facilities). We are working with priority sectors, and the relevant SSCs, to identify key skills capacity issues and establish plans to address needs, for which we will seek Government support through skills investment programmes.

viii) Flexibility on Higher Level Skills

8.14 In order to support retraining as part of the response to difficult economic circumstances, we propose exemptions from the presumption of fees for Equivalent Level Qualifications for key higher level skills areas, for unemployed people whose original qualification is no longer economically relevant. We also support regional application of Tyne and Wear City Region MAA Asks 4 and 5: 'New measures to be introduced in the region that provide additional financial support for the achievement of first full level 4 and level 5 qualifications within Train to Gain.' And 'HEFCE to provide additional flexibility to FE Colleges in the City Region to deliver units of foundation degrees. We would also like to see a greater degree of unitisation within the LSC funded provision at level 4.' (See **section 5 – Importance of Place, Tyne and Wear**)

ix) Flexibility on Eligibility of Branch Plant Operations

8.15 We seek flexibility for certain branch plant operations within key sectors and where the regional operations are below 250 employees to be treated as if they were SMEs for the purposes of Train to Gain funding. Within the North East, there are few big private sector employers but many branch plants of larger organisations who often act in a similar way to SMEs, treating training as a cost rather than an investment. If branch plants could benefit locally from assistance currently confined to SMEs, there would be an increased incentive for regional investment in skills.

x) Flexibility over Assumed Fee Levels

8.16 There should be discretion within the North East to vary (i.e. reduce) assumed fee levels for employers and for learners within LSC/SFA funding methodologies, where this is shown to be necessary to stimulate demand for particular priority sectors or occupations. This applies in particular to employer contributions to apprenticeships (both pre- and post 19) and to intermediate courses for adults. Because wages in the region are generally below average, there is less affordability for learners and a lower earnings premium for skills, so fees act as a greater barrier for learners than elsewhere. Means tested learners can benefit from fee exemption but there is no discretion on fee levels to support people on low incomes into learning and development.

C. Evolution Towards a Regionally and Locally Shaped Skills System

8.17 This section of our Advice proposes longer-term structural changes that should be agreed as a 'direction of travel' to move us towards a more effective system. Elements of this could be trialled in different ways in parts of the region.

8.18 The current economic crisis is demonstrating the importance of understanding and reacting to the particular challenges and opportunities, and variations in skills demand and supply at local level. The ability to handle this variation is far greater at regional, sub regional and local levels than nationally. It is vitally important that there is sufficient flexibility to manage funding, vary products or try new approaches across budgets to reflect these variations. The relatively low level of demand in the North East means that we need to have particularly effective ways of identifying demand, stimulating demand and ensuring that providers are responding to that demand.

8.19 While we support measures to devolve influence to local areas through City Strategy Pathfinders, Employment and Skills Boards and MAAs, we are concerned that the national approach is inconsistent between Departments and the spatial coverage of initiatives can cause a confusing patchwork of arrangements within the region. The ability of the North East to deliver its RES in a regionally appropriate way varies considerably across the three priorities of business, people and place:

- For **business** interventions, the region enjoys a single funding stream and a clear strategic lead – both through the RDA – to ensure *a co-ordinated, regionally specific and flexible* response to economic pressures and opportunities.
- For **place** interventions, the creation of the Homes and Communities Agency, the integration of Regional Spatial and Economic Strategies and the Regional Funding Advice process is providing the building blocks for a closer alignment between funding streams to deliver a common set of interventions, supporting *a co-ordinated, regionally specific and flexible* regional development programme.
- For **people** interventions, by contrast, the policy and institutional context mitigates <u>against</u> *a co-ordinated, regionally specific and flexible* response to the region's people and skills issues. There is still scope for the Government changes to result in increased confusion and difficulty in identifying and responding to regional and local employment and skills issues. This arises from:
    - the separation of responsibility for **people** issues across three Departments (DIUS, DCSF and DWP)
    - differing approaches to devolution and local management from different departments
    - divergence of approach even within Departments (for example, within DIUS a demand-led focus for Adult Skills contrasts with an institutional focus for HE)
    - the increasing tendency towards national contracting arrangements
- Specifically, there are considerable limitations on the region's ability to ensure that skills activities are aligned with the advice set out in **sections 4, 5, 6 and 7** of this advice.

xi) Devolution of Targets and Budgets

8.20 In view of the above, we propose that moves to **devolve responsibility for joining up the skills system** to sub-regional levels be taken further and faster in the North East, across the full spectrum of adult skills and employment issues, within a consistent regional and national framework, in line with Tyne & Wear MAA's ask for statutory powers in relation to national employment and skills policy. Further, that the North East region should work with Government to develop a coherent framework for employment and skills that will underpin moves to devolve responsibility to local and sub-regional arrangements. This framework would take the form of statutory regional targets and budgets for employment and skills within the national framework to meet regionally specific needs, allowing flexibility to vire between programmes as necessary. Delivery of these targets would be through existing demand-led arrangements and the emerging sub-regional arrangements, coordinated by the Regional Skills Partnership on behalf of the Regional Leadership arrangements for the Integrated Regional Strategy. This is not intended to increase management of sub regional arrangements, but to devolve the setting of targets and management of budgets within which these arrangements operate from national to regional level. In this way, we can move towards truly effective integration of the Regional Strategy across Business, People and Place.

xii) Support for Part-Time, Flexible Level 4 Provision

8.21 A significant and increasing proportion of Higher Education provision in universities, colleges and private providers budget should be part-time, short, flexible provision, through a demand-led route. Specific action is needed to maximise the growth potential of priority sectors within the region, both by stimulating and aggregating demand for higher level skills in these sectors, and by investing in the capacity of the system to meet that demand over the medium-term. Train to Gain Higher Level Skills Pilot has proven effective in engaging the HE sector in this agenda but concerns remain that funding for HE is still not sufficiently responsive to the immediate skills needs of regional and local employers. There is a continuing need for the region to have the flexibility to develop appropriate capacity to drive demand and support HE providers. One way to achieve this could be for some higher level skills funding to be managed through a demand led co-funding mechanism similar to Train To Gain.

xiii) Co-commissioning of DWP Contracts

8.22 As an example of the type of integration the above arrangements should promote, we support Tyne & Wear MAA's progress towards a co-commissioning pilot for employment and skills provision in the City Region, in line with the model for devolution set out in the recent DWP welfare Reform White Paper. We would want to see this approach developed in Tees Valley City Region and eventually across the whole region. This will enable the region to be fully covered by a jointly-procured employment support service focussed on the needs of employers, based on the Regional Employability Framework model. (See **case study 7**, page 31)

9 NEXT STEPS

9.1 This advice forms part of the region's ongoing work to increase sustainable economic growth. We look forward to working closely with the Regional Minister and Government Departments to take forward the content of this advice in a way which delivers the maximum possible contribution to national, regional and international ambitions.

9.2 The North East will ensure that the content of this advice is embedded through the following key **areas for action for regional partners**:

- Implementation of the recommendations of the Sub National Review including:
    - Formation of new regional leadership arrangements including partnership between a Leaders Board and the RDA Board
    - Development of a new Regional Strategy and Delivery Plan
    - Evolution of sub regional working including MAA implementation and area based investment planning
- Embedding of the Homes and Communities Agency
- Future rounds of European Funding negotiations

9.3 However, we would also strongly welcome discussions with the Government to agree how we can maximise alignment between the North East's specific priorities and national spending plans going forward. In particular, we feel that there are two key **areas for action for Government**.

9.4 Firstly, we feel that RFA must evolve in order for it to continue to be valuable within a new set of strategic and institutional arrangements. **We recommend that future RFA rounds be taken forward as part of the development of Regional Strategy Delivery Plans** and that, in this way, RFA becomes the mechanism through which national Departments and Agencies set out their contribution to the region's specific growth plans.

9.5 Secondly, to ensure that RFA can fulfil this function, **we recommend that future RFA rounds are extended to include more of the national funding streams relevant to sustainable growth in the regions**, including:

- Skills funding, including HE and FE revenue and capital programmes
- DWP employment and enterprise programmes, including Job Centre Plus
- Schools (DCSF) and health (DfH) capital programmes
- DfT investment for rail as well as road
- Additional European funding including ESF and Rural Development Funds

Annex 1

North East RFA2 expenditure, 2009/10-2018/19

REGIONAL PRIORITY SCHEMES

Note: All amounts shown are in £m, and refer to the amount of RFA contribution sought. All figures provided are based on latest scheme monitoring returns for Quarter 3 2008/09. Spend profiles for A19 schemes are subject to further review and dialogue between the region and DfT/HA. In finalising these profiles we will be mindful of the need to remain within the financial envelopes for RFA1 and RFA2 as set out in DfT guidance.

* Actual anticipated RFA contribution for Sunderland Central Route is ≈£15m. Figures quoted below are based on Q3 monitoring returns which reflect the original departmental contribution set at provisional approval stage. This scheme was endorsed as a regional priority by the Interim Regional Transport Board on 25 May 2007 at an estimated RFA contribution of £15.2m.

** Three potential scheme options are currently being considered for the A19 Seaton Burn interchange improvement. Figures provided below reflect the lowest cost option.

*** Two potential scheme options are currently being considered for the A19 Testos junction improvement. Figures provided below reflect the Highways Agency's preferred 'on-line' option.

SCHEME	CURRENT STATUS	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Total
North Middlesbrough	**Under construction**	3.4										**3.4**
A1056 Northern Gateway	**Programme Entry**		5.6	3.9								**9.5**
Metro Reinvigoration Phase 1	**Conditional Approval**	7.3	5.6									**12.8**
Sunderland Central Route*	**Provisional Approval**			1.2	4.7	3.2						**9.1**
Sunderland Strategic Transport Corridor	**Programme Entry**			25.6	45.0	27.4						**98.0**
A19 Seaton Burn**	**HA Stage 2**	1.4	0.5	0.5	0.5	8.7	14.4	4.7				**30.7**
A19 Testos***	**HA Stage 2**	1.0	1.0	1.8	16.2	20.1	11.1	0.3				**51.5**
Orpheus Phase 1	**Not yet approved**	0.5	5.2	9.8								**15.5**
Orpheus Phase 2	**Not yet approved**			7.5	7.5							**14.9**
Morpeth Northern Bypass	**Not yet approved**	0.2	0.2	0.6		12.5	20.4	1.4	0.6			**35.9**
Transit 15	**Not yet approved**		2.8	2.9								**5.7**
Tees Valley Bus Network	**Not yet approved**	15.3	14.7	10.3								**40.3**
A19 Coast Road	**Pre-TPI**	0.9	1.4	3.7	3.0	38.4	68.2	13.1				**128.7**
A19 Moor Farm	**Pre-TPI**			0.6	0.8	1.1	1.4	1.4	25.0	46.8	9.0	**86.1**
TOTAL RFA SOUGHT		**30.1**	**37.0**	**68.3**	**77.6**	**111.4**	**115.5**	**20.9**	**25.6**	**46.8**	**9.0**	**542.2**
RFA2 ALLOCATION		**45.0**	**45.0**	**46.0**	**47.0**	**47.0**	**48.0**	**49.0**	**50.0**	**51.0**	**52.0**	**480.0**
DIFFERENCE (-ve denotes under spend)		**-14.9**	**-8.0**	**22.3**	**30.6**	**64.4**	**67.5**	**-28.1**	**-24.4**	**-4.2**	**-43.0**	**62.2**
RFA SOUGHT AS % OF RFA ALLOCATION		**67%**	**82%**	**148%**	**165%**	**237%**	**241%**	**43%**	**51%**	**92%**	**17%**	**113%**
RFA ALLOCATION + 20%		**54.0**	**54.0**	**55.2**	**56.4**	**56.4**	**57.6**	**58.8**	**60.0**	**61.2**	**62.4**	**576.0**
DIFFERENCE (-ve denotes under spend)		**-23.9**	**-17.0**	**13.1**	**21.2**	**55.0**	**57.9**	**-37.9**	**-34.4**	**-14.4**	**-53.4**	**-33.8**

PROVISIONAL PRIORITY SCHEMES

Tees Valley Metro (Stage 1 contribution)	-	-	-	-	-	-	-	-	-	-	**30.0**
Tees Valley Area Action Plan	-	-	-	-	-	-	-	-	-	-	**15.0**
East Billingham Transport Corridor	-	-	-	-	-	-	-	-	-	-	**4.0**
East Durham Link Road (Phase 2)	-	-	-	-	-	-	-	-	-	-	**11.0**
SE Northumberland Public Transport Corridor	-	-	-	-	-	-	-	-	-	-	**35.0**
A1 Dualling (part)	-	-	-	-	-	-	-	-	-	-	**40.0**
NE Smart Ticketing	-	-	-	-	-	-	-	-	-	-	**15.0**
										Total	**150.0**