North East
Local Enterprise Partnership

Executive summary

Our Economy 2019

With insights into what makes the North East competitive

Contents

“We are committed to up to date economic analysis, evaluation and evidence development giving us confidence that the strategy we have set and the programmes of delivery we have put in place are addressing the North East’s needs and opportunities.”

“In this year’s Our Economy we have examined in greater depth what makes the North East competitive. England is one of the most competitive nations in the world and we are pleased to showcase the region’s distinctive offer and the part it plays in this.”

Welcome from
Andrew Hodgson, Chair,
North East Local Enterprise Partnership

Those who attended the launch of the updated Strategic Economic Plan in February will know that the health of our local economy has never been under greater scrutiny as we react to changes to the global and national economy, as well as the UK’s imminent departure from the European Union.

While there will always have to be an element of fluidity in how we respond, the North East LEP is committed to up to date economic analysis, evaluation and evidence development giving us confidence that the strategy we have set and the programmes of delivery we have put in place are addressing the North East’s needs and opportunities.

As such, it is a pleasure to introduce the Our Economy 2019 report, which provides an update on the performance of the North East economy and how it is changing over time.

This year’s theme is competitiveness and we have considered the elements such as innovation, the skills and capabilities of our people and the quality of life in the North East that give us a truly global competitive edge.

This also helps us understand our weaknesses so we can focus investment and interventions.

Our Economy helps inform the Local Industrial Strategy (LIS), which we are working on with government and the wider region.

The LIS will set out how the North East will improve productivity and living standards and contribute to the national Industrial Strategy to ensure a co-ordinated approach.

Our Economy is an important read and I’m grateful to everyone who has contributed and worked hard to make it such a valuable resource.

My thanks go to the North East LEP team for coordinating its publication.

Andrew Hodgson,
Chair, North East Local Enterprise Partnership

An overview from
Victoria Sutherland, Senior Economist,
North East Local Enterprise Partnership

It’s a real pleasure to share the second annual ‘Our Economy’ report. When this was first launched last year, we outlined how the North East economy was performing against a wide range of indicators. These were selected to reflect the international evidence on what drives regional economic growth and the issues and priorities identified in the North East Strategic Economic Plan. We’ve now revisited these indicators to see what

- Despite significant uncertainty, the North East economy has continued to grow, with improvements in both the employment rate and productivity. On both measures, the gap between the North East and England excluding London has narrowed since the Strategic Economic Plan was launched in 2014
- Good progress is being made across a wide range of indicators, with almost two-thirds showing improvements since 2014 and with the North East having closed the gap with England excluding London on roughly a third of the indicators over the same time period
- Key areas of progress since 2014 include increases in the number of businesses that are scaling up, R&D expenditure and access to superfast broadband and decreases in unemployment and in employers reporting skills gaps
- Despite significant progress on a range of indicators the North East continues to underperform England excluding London on many measures especially in relation to the size and dynamism of the business base and innovation. Other issues include the ageing of the population and a decline in the use of public transport.

In February 2019, the North East LEP published an updated Strategic Economic Plan for the region. This sets out the progress that has been made since 2014 and how areas of underperformance are being tackled.

In this year’s Our Economy we have examined in greater depth what makes the North East competitive. England is one of the most competitive nations in the world and we are pleased to showcase the region’s distinctive offer and the part it plays in this.

Victoria Sutherland,
Senior Economist, North East Local Enterprise Partnership

Introduction

The North East Local Enterprise Partnership area

The North East LEP area covers seven local authority areas:

- County Durham
- Gateshead
- Newcastle
- North Tyneside
- Northumberland
- South Tyneside
- Sunderland

The North East economy was traditionally dominated by mining and manufacturing.

Whilst manufacturing remains an important part of the regional economy, this is increasing high value, advanced manufacturing, with clusters in a number of sectors including automotive and medicines.

The North East economy has diversified over recent decades and has:

- Key assets in the energy sector, including offshore energy and subsea technologies, regional energy and demonstration and innovation
- World leading clinical research that supports a growing health and life sciences sector
- A vibrant digital community with a combination of start-up, high growth and established businesses across a wide range of specialisms
- Capabilities across a range of enabling services including education, financial, professional and business services, transport and logistics, and construction
- Significant employment in the public sector across both local services and central government back office and shared services
- A strong cultural, heritage and sports offer that supports the tourism sector.

Our Economy report

The report:

- Provides an annual overview of the North East LEP area economy and how it is changing over time
- Provides a resource for partners to inform decision making
- Positions the North East for future opportunities, including those arising from the Industrial Strategy.

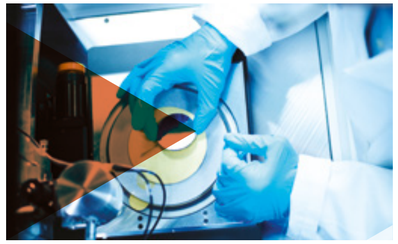
As well as providing an overview of the North East economy, this year's report assesses the region's competitiveness. A wide range of factors influence the North East's competitiveness including the innovation and creativity that takes place in the region, our business structure, our technological readiness, the skills and capabilities of our residents and how effectively we are deploying them.

The region's competitiveness is supported by the size of the market that the region's businesses serve, the quality of decision making and governance and the quality of life available to residents.

Throughout this report:

- The most recent available data has been used. This is generally for 2017, 2018 or 2017/18
- Change over time has been measured from 2014, to reflect the publication date of our Strategic Economic Plan
- The North East LEP area has been benchmarked against England excluding London in line with our Strategic Economic Plan targets. In a small number of cases, where data was not available for England excluding London, England or the UK have been used as an alternative benchmark
- Not all datasets are available at a LEP level. Where LEP level data is not available, data for the North East region as a whole, which includes the Tees Valley LEP area, has been used. To differentiate, where these are used, we refer to the North East region. A clear priority going forward is to work with data providers to encourage them to publish more data at a LEP level
- Where data has a monetary value such as GVA and value of loans, nominal values have been given, which means that data as not been adjusted to account for inflation
- From time to time data sources available to the North East LEP will change because of the ways in which data is collected or reported by ONS or other data providers. We will keep the data sources under review and where necessary, change the indicators we use or report in consultation with the North East Economic Evidence Forum
- Section 2 provides data for each of the programmes of delivery outlined in the orth East Strategic Economic Plan. As part of the process of updating the Strategic Economic Plan during late 2018, it was decided to reorganise the programmes. We have updated the structure of Section 2 to reflect this reorganisation. The indicators considered have remained the same.

Map of the North East LEP area



Section 1

Update on the Strategic Economic Plan targets

Section 1

Update on Strategic Economic Plan targets

The Strategic Economic Plan sets out six targets for the region to achieve between 2014 and 2024.

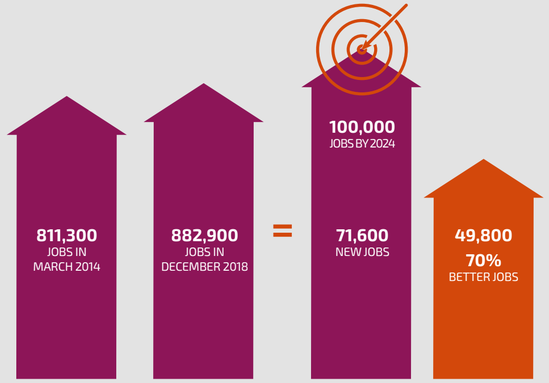
Our headline targets are to create more and better jobs in the North East LEP area.

More and better jobs

In 2014, there were 811,300 jobs in the North East LEP area. We have set a target to increase this by 100,000 to 911,300 by 2024.

In addition, we have set a target that 70% of the additional 100,000 jobs are 'better jobs'. Better jobs are defined as managers, directors and senior officials; professional occupations (such as civil engineers and doctors); and associate professional and technical occupations (such as laboratory technicians and graphic designers).

Progress: By December 2018, the number of jobs had increased by 71,000. 49,800 (70%) of these were better jobs.



Source: Annual Population Survey - Workplace Analysis (Nomis)

We also have four targets that compare the North East LEP area performance with English excluding London.

Employment rate

It is important that residents in the North East LEP area are benefiting from the additional jobs created. One way of measuring this is the employment rate. In 2014, the North East LEP area had a lower employment rate than England excluding London. We have set a target to close the gap between the North East's employment rate for 16-64 year olds with England excluding London by 100% by 2024.

Economic activity rate

The economic activity rate measures the proportion of people aged 16 to 64 who are participating in the labour market, including those employed and those out-of-work but actively seeking a job. Again, the North East has a lower economic activity rate than England excluding London. We have set a target to reduce the gap between the North East's economic activity rate and England excluding London by 50% by 2024.

Private sector employment

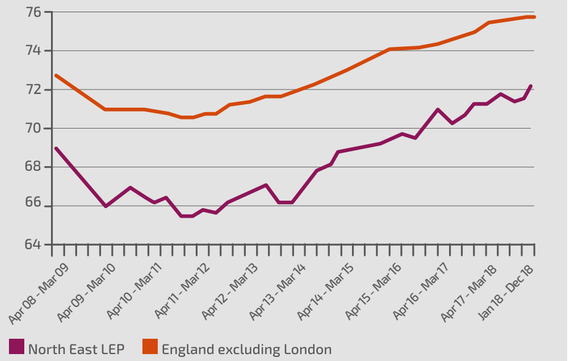
There are fewer private sector jobs per working age adult in the North East than in England excluding London. We have set a target to reduce this gap by 50% by 2024. Continuous data is only available from 2015 so we are using this as a baseline year rather than 2014.

Gross Value Added per hour worked

Gross Value Added (GVA) measures the contribution to the economy of each individual producer, industry or UK region. GVA per hour worked is a way of measuring productivity. We have set a target to reduce the gap between the North East and England excluding London on GVA per hour worked by 50% by 2024.

Employment rate

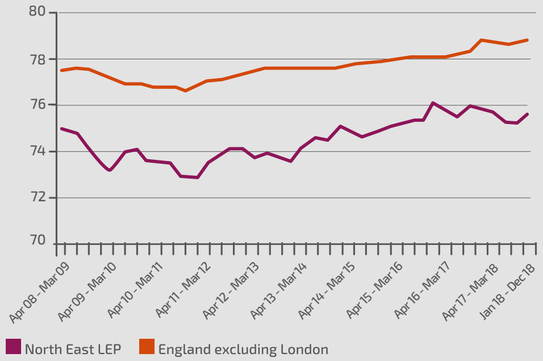
Progress: By December 2018, the gap between the North East LEP area and England excluding London had reduced by 34%.



Source: Annual Population Survey (Nomis)

Economic activity rate

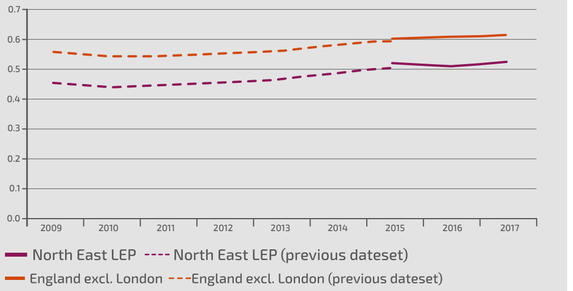
Progress: By December 2018, the gap between the North East LEP area and England excluding London had reduced by 15%.



Source: Annual Population Survey (Nomis)

Private sector employment

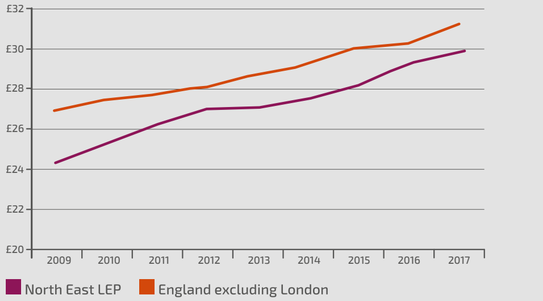
Progress: Between 2015 and 2017, the gap had widened by 5% on this measure. This reflects a 3.2% increase in private sector employment across England excluding London, compared to a 1.5% increase in the North East LEP area.



Source: Business Register and Employment Survey - (Nomis)

Gross Value Added per hour worked

Progress: By 2017, the gap between the North East LEP area and England excluding London had reduced by 29%.



Source: Annual Population Survey (Nomis)

Section 2

Strategic Economic Plan programmes of delivery: data and next steps

The North East Strategic Economic Plan sets out five programmes of delivery. These are:

- Business growth
- Innovation
- Skills, employment, inclusion and progression
- Transport connectivity
- Infrastructure and investment

Section 2

Business growth

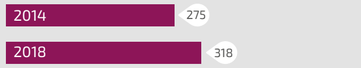
Research has shown that growth businesses are a key source of new jobs in the economy – so supporting business growth is critical to achieving 'more and better jobs' for the North East.

Business base

There were 51,845 private sector enterprises in the North East LEP area in 2018 – equivalent to 318 private sector enterprises for every 10,000 adults.

Private sector enterprises per 10,000 adult population

North East LEP



England excluding London

If North East performance matched England excluding London we would have 25,500 additional businesses

Source: UK Business Counts (Nomis) Business Demography (ONS)

Business births and deaths

There were 7,130 business births in the North East LEP area in 2017 – equivalent to 44 business births per 10,000 adult population, compared to 65 across England excluding London.

There were 40 business deaths per 10,000 adult population in the North East LEP area in 2017, compared to 62 in England excluding London.

Whilst the North East underperforms on each of these measures, it has made progress on them since 2014 – suggesting that the business base is growing and becoming more dynamic.

Access to finance

In 2017, the North East region accounted for

2% of UK equity investment by value

2% of UK equity deals

Half of equity deals in the North East region in 2017 involved government funds

Sources: British Business Bank Business Demography (ONS)

Business growth

Growth of start-ups

1.7% of 2014 start-ups that survived to 2017 generated more than £1 million in revenues in 2017

This is slightly below the English rate (1.9%)

Growth of existing businesses

7.4% of businesses with a turnover of £1 million to £2 million in 2014 had increased turnover to £3 million or more by 2017

Again, this is slightly below the English rate (7.5%)

Whilst business growth is slightly below the English rate, the gap is relatively small and the North East outperforms a number of other core city LEPs.

This suggests that the smaller business base is not adversely affecting the North East's ability to generate growth businesses.

Source: UK local growth dashboard (ERC)

Foreign Direct Investment (FDI)

In 2017/18, North East LEP area:

Secured 68 FDI projects

Secured just under 1,400 new jobs

Safeguarded just under 1,500 existing jobs

The North East LEP area significantly outperforms the national average on securing FDI – with one and a half times more jobs per person created or safeguarded due to FDI projects than across England excluding London in 2017/18.

Sources: Invest North East England, DIT

Exports

From the North East region

In 2018, the value of exports in goods was

£13.2 billion

In 2016, the value of exports of services was

£4.2 billion

In 2018 the North East region accounted for 6.2% of the value of goods exports from England excluding London and 7.4% of those specifically to the European Union. For service exports, the North East accounted for 3.9% of the total for England excluding London.

From 2014 to 2018 the value of North East region goods exports to the European Union increased by 10% but for those exported to other countries the total decreased by 2%.

Sources: Regional Trade Statistics (HMRC), International Trade in Services (ONS)

What next?

The North East is performing well across a number of indicators but there is still more to be done to increase the size and dynamism of the business base and to increase the proportion of businesses that are growing.

Looking forward, our key priorities for developing our evidence base include improving our understanding of the:

- Factors underpinning our low business birth rate
- Firm-level aspirations in the North East and how more businesses can be encouraged to have ambitions to grow and develop
- Levels, drivers and variations in firm-level productivity in our region
- Impact and effectiveness of our interventions, with a particular focus on understanding which delivery models are most effective.

In terms of our programme of delivery, priorities include:

- Ensuring North East people and businesses have simplified access to the support required to start, scale and improve
- Encouraging high potential start-ups through a new programme of support for this key target group
- Building on Supply Chain North East to encourage more North East businesses to trade outside the region to improve both resilience and productivity
- Ensuring North East businesses are able to access information and support to prepare for changing economic circumstances, including the UK leaving the EU.

Innovation

By bringing forward new products and processes, innovation plays a key role in improving the North East's productivity and competitiveness. The vast majority of data available on innovation is for the North East region.

Innovation active businesses

42% of North East businesses report they were innovative active between 2014 and 2016 – compared to 51% in England excluding London.

North East businesses defined as 'broad innovators' are more likely than non-innovators in the region to:

- **Export**
- **Employ science and engineering graduates**
- **Employ graduates in other subjects**

North East innovative businesses are five times or more likely than non-innovators in the region to employ individuals with the following skills:

- **Engineering / applied sciences**
- **Graphic arts / layout / advertising**
- **Design of objects or services**

Source: UK Innovation Survey (BEIS)

Expenditure on R&D

In 2017, expenditure on research and development (R&D) within the North East region was £707 million, equivalent to 1.3% of GVA. This is a lower proportion than across England excluding London.

Expenditure on R&D (percentage of total GVA)

Over a half (54%) of North East expenditure was by businesses, compared with almost three quarters (74%) in England excluding London. When measured on per adult basis, business expenditure on R&D in the North East region is lower than the national comparator but the gap has closed since 2014.

Expenditure by businesses on R&D per 10,000 adults (£m)

Sources: UK Expenditure on R&D, Business Enterprise R&D

Employment

4.4% of employment in the North East LEP area is in science, research, engineering and technology, professional roles

Whilst this is below the rate in England excluding London (5.4%), the gap has decreased since 2014.

Number employed in these roles in North East LEP area has increased by 5,100 since 2014.

Source: Annual Population Survey Workplace Analysis (Nomis)

Research funding

The North East has been successful in securing funding for research in a number of subject areas including energy, information and communications technologies, astronomy observation, civil engineering and built environment and materials science. Combined, the region has secured £165.2 million in funding for these five topics from the UK Research Councils over the last 10 years.

Top 10 research subjects by funding awarded, North East region, 2007 to 2017

	Funding (£ millions)	% of UK funding
Energy	**46.2**	7.5
Information and communications technologies	**40.5**	3.1
Astronomy – observation	**29.9**	9.0
Civil engineering and built environment	**28.7**	10.5
Materials sciences	**19.9**	3.7
Geosciences	**18.0**	7.0
Particle physics – experiment	**15.6**	3.8
Chemical synthesis	**11.5**	4.6
Atomic and molecular physics	**11.0**	4.1
Medical and health interface	**10.0**	3.0

Source: Analysis by Technopolis based on RCUK Gateway to Research

What next?

Since 2014, the North East has seen an improvement across a range of different measures of innovation, including on R&D expenditure and employment in science and research-related occupations. However, the North East continues to underperform England excluding London on most indicators so there is much more to be done.

A key issue is that the available innovation datasets do not reflect the issues that are most important to the North East and they lack detail to allow detailed planning.

To help address these, the North East LEP has commissioned research to identify the key innovation sectors, assets and competencies in the region. This will help inform the development of innovation delivery partnerships, a new model of delivery that will enable us to accelerate the commercialisation of ideas in our niche areas of competency.

Over the next year, we will also work with partners to explore how the data available could be developed to provide more useful insights and narratives on North East innovation.

The priority for programme delivery is to increase business engagement with and investment into innovation. The North East LEP is currently developing an innovation framework with partners that will outline how we will achieve this, with key elements including an innovation business support programme, a prioritised pipeline of innovation projects, the development of innovation delivery partnerships, coordination activity through the Innovation SuperNetwork and preparing the region for early adoption of 5G.

We will also work with partners to implement to findings of the Science and Innovation Audit into the application of digital technologies in advanced manufacturing.

Skills, employment, inclusion and progression

Investment in skills helps individuals access available employment opportunities and helps drive productivity growth and social mobility. However, skills are only part of what is needed to help individuals access these opportunities, with wider measures required to ensure inclusion and progression.

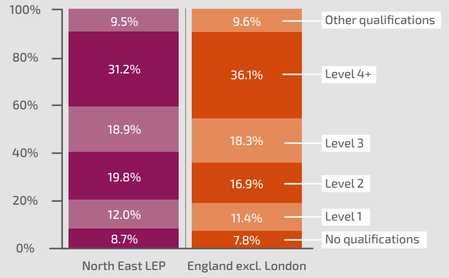
Skills

The North East LEP area has a lower qualifications profile than England excluding London with:

- A higher proportion with no or low (Level 1 and 2) qualifications
- A lower proportion with high (Level 4+) qualifications.

However, this qualifications profile is beginning to change. Since 2014, the proportion of 16 to 64 year olds qualified to level 4 and above has increased by 2.7 percentage points.

Highest qualification (% of 16-64 population), North East LEP and England excluding London, 2018



Note: Definition of qualifications levels: No qualifications: No formal qualifications held, NVQ level 1 equivalent: e.g. fewer than 5 GCSEs at grades A-C, foundation GNVQ, NVQ 1, intermediate 1 national qualification (Scotland) or equivalent. NVQ level 2 equivalent: e.g. 5 or more GCSEs at grades A-C, intermediate GNVQ, NVQ 2, intermediate 2 national qualification (Scotland) or equivalent. NVQ level 3 equivalent: e.g. 2 or more A levels, advanced GNVQ, NVQ 3, 2 or higher or advanced higher national qualifications (Scotland) or equivalent. NVQ level 4 equivalent and above: e.g. HND, Degree and Higher Degree level qualifications or equivalent. Other qualifications: Includes trade apprenticeships (which are split 50/50 between NVQ Levels 2 and 3) and any other qualifications that are not elsewhere classified including foreign qualifications and some professional qualifications

Source: Annual Population Survey (Nomis)

Employment

In 2017, employment was 826,000 in VAT/PAYE registered organisations in the North East LEP area.

This is equivalent to 665 jobs per 1,000 working age population - a measure known as employment density. This compares to 739 across England excluding London and 763 across England as a whole.

If North East performance matched England excluding London we would have 93,000 additional jobs

The largest employing sectors in the North East LEP area are:

- Health (14.5%)
- Manufacturing (11.3%)
- Retail (10.2%)
- Accommodation and food services (9.1%)

Skills shortages and gaps

Compared to England excluding London, fewer employers in the North East LEP area reported skills shortage vacancies – with just 29% of employers with vacancies in 2017 having a skills shortage vacancy, compared to 32% nationally. This had increased since 2013, most probably reflecting the tightening of the labour market over this period.

The proportion of employers in the North East LEP area reporting skills gap amongst their current workforce was the same as for England excluding London in 2017 (13%) – with this having declined from 18% in 2013.

Sources: Business Register and Employment Survey (Nomis), Employer Skills Survey (DfE)

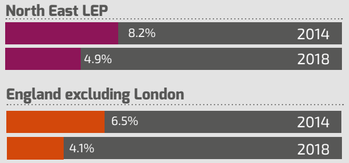
Inclusion

Employment rate	72.1%
Economic activity rate	75.8%
Unemployment rate	4.9%

Since 2014, both the employment rate and economic activity rate have improved, with the gap in performance with England excluding London narrowing over this period.

Unemployment has declined from 8.2% in 2014. Unemployment in the North East has remained above the England excluding London rate (4.1%) but the gap has narrowed since 2014.

Decline in unemployment rates



Looking at unemployment in more depth:

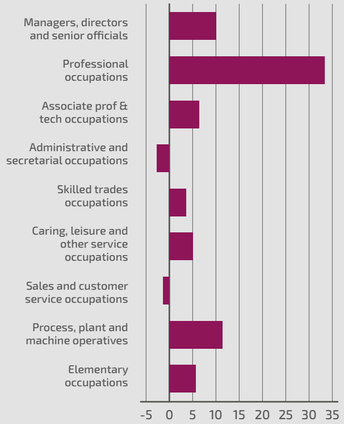
- The age group with the highest unemployment rate is young people aged 16 to 24, with 11.5% unemployed in 2018. There has been a large decline since 2014 when the rate was 20.0%. This improvement has brought the youth unemployment rate in the North East in line with the England excluding London average
- The unemployment rate for the 50-64 population in the North East LEP area is 4.1%. Again, this has declined since 2014, from 5.6%. However it is still above the England excluding London rate of 2.8%. It is particularly important for the North East to tackle unemployment within this group because of our older age profile.

Source: Annual Population Survey (Nomis)

Progression

Between March 2014 and December 2018 employment in professional occupations in the North East LEP area increased by 33,600. This was a 25% increase compared to 11% across England excluding London. The number of North East managers, directors and senior officials increased by 15% (up 9,900) and there was also large net growth in the number of process, plant and machine operatives (up 11,600 or 20%). The growth in higher level occupations has provided opportunities for individuals to progress in work.

Net change in employment (000s) by occupation, North East LEP area, 2014 to 2018



In 2018

9.0% of North East LEP working-age people had received job-related training in the previous four weeks

17.0% had received job-related training in the previous 13 weeks

These proportions were lower than in England excluding London (10.0% and 18.6%)

Sources: Annual Population Survey - Workplace Analysis (Nomis) Annual Population Survey (Nomis)

What next?

The North East continues to make progress, with increasing employment and qualification levels and declines in unemployment rates and skills gaps.

The North East has recently established a Skills Advisory Panel (SAP). The key task of the SAP is to examine the data on employment and skills and make recommendations about future provision. There will be a major programme of work over the next year to develop this evidence base. Key priorities will include developing a better understanding of:

- Current and future skills needs
- Outcomes for different groups and what underpins these, with a particular focus on older workers and ethnic minority communities
- Skills provision in the region, mapping current assets and resources and assessing the extent to which these can meet future needs and opportunities.

Priorities for programme delivery include:

- Building on the learning from our pilot activities to roll out improved careers provision at primary, secondary and further education levels across the region
- Encouraging employer engagement with the region's high level technical provision, including the new Institute of Technology
- Ensuring progression and development opportunities are available across the region, helping deliver the Taylor Review's ambition of 'good work'. The establishment of the National Retraining Scheme and devolution of the adult education budget to the North of Tyne Combined Authority will enable new approaches to be developed and we will work with partners across the region to ensure these are maximised.

Transport connectivity

Links within and between regions are fundamental for facilitating economic growth, allowing businesses to move their goods to market and allowing individuals to access employment opportunities.

Public expenditure on transport

In 2017/18, public expenditure on transport in the North East region was £320 per head. This compares to £372 across England excluding London.

Public expenditure per head increased by 37% between 2014/15 and 2017/18 in the North East region. However, the rate of increase was faster across England excluding London (49%), meaning the gap between the North East and England excluding London has widened over this period.

2014/15

North East Region	£234
England excluding London	£250

2017/18

North East Region	£320
England excluding London	£372

Source: Country and regional analysis (HM Treasury)

Usage of public transport

Usage of public transport is high in the North East, with 36.4 million passenger journeys by Metro, 139.2 million passenger journeys by bus and 15.2 million entries and exits at North East railway stations in 2017/18. Bus passenger journeys and Metro patronage have both decreased since 2014/15, whilst entries and exits to North East rail stations have increased.

Metro 36.4 million passenger journeys; 197.1 million passenger miles (2017/18)

Bus 139.2 million passenger journeys; 64.2 million vehicle miles (2017/18)

Rail 15.2 million station entries and exits; including 8.8 million in Newcastle and 2.7 million in Durham (2017/18)

Sources: Bus statistics, Light rail and tram statistics (both DfT), Estimations of station usage (ORR)

Road freight

In 2017, 51 million tonnes of freight were lifted by GB-registered heavy goods vehicles from the North East region.

The destination for the majority (63%) of this freight was within the North East region.

The number of tonnes lifted in the North East region has decreased from 57 million in 2014.

This is an 11% decrease, compared to the 6% increase for England excluding London.

51 million tonnes

Source: Road freight statistics (DfT)

Air transport

In 2018, 5.3 million passengers travelled through Newcastle International Airport.

This was 7.1% of all passengers in English airports outside of the five in the London area and is 18% higher than in 2014

Most passengers (67%) were en route to and from non-UK airports within the EU and about a fifth (22%) were on UK domestic flights

Newcastle International Airport also handled 5,524 tonnes of freight

Sources: Terminal passenger time series; air passenger route analysis; air freight statistics (all CAA)

What next?

The North East has good internal and external transport connectivity, with high usage of public transport and a diverse port and airport offering. Whilst public expenditure on transport per head in the North East has increased since 2014, this still lags behind the national position and, as expenditure has increased more rapidly elsewhere, the gap is widening.

In terms of developing the evidence base in relation to transport connectivity, our key priorities are:

- Collating and analysing the data to inform the Regional Transport Plan
- Exploring how the massive increase in data availability (for example, from sensors) can be best used to increase our planning, delivery and maintenance of transport infrastructure and services and to stimulate business growth and innovation.

Priorities for programme delivery include:

- Ensuring effective delivery of current investment programmes, including the upgrading of Metro infrastructure
- Securing additional investment into the region, including through the Transforming Cities Fund, and to improve external connectivity
- Influencing upgrade of the East Coast Mainline between Newcastle and York, including diversionary routes, so there is sufficient resilience and capacity when Northern Powerhouse Rail and Highspeed 2 trains use the route from 2033
- Developing a new Regional Transport Plan and a pipeline of future priority projects for investment.

Infrastructure and investment

Infrastructure helps enable economic growth by providing premises for growing businesses and homes for workers. Investment is required to help deliver this infrastructure and other regional priorities.

Housing

Net additional dwellings, North East LEP area, 2014/15 to 2017/18

2014/15	5,074
2015/16	5,825
2016/17	8,136
2017/18	7,362

In 2017/18, the rate of net additional dwellings in the North East LEP area was below the rate in England excluding London (8.1 per 1,000 dwellings compared to 9.3). Although, the rates had improved for both areas since 2014/15, the North East rate was 42% higher compared to an increase for England excluding London of 29%, meaning the gap has closed on this measure.

Source: Net additional dwellings (MHCLG)

Business premises

In 2015/16, the North East LEP area had 20.4 million square metres of business floorspace.

This is equivalent to 12.6 square metres per adult – comparable to England excluding London (12.7).

The volume of business floorspace only increased marginally on 2014/15 (by 47,000 square metres)

Rateable values

£54 per sq.m	£65 per sq.m
North East LEP	England excl London

The rateable value of the available floorspace is £58 per metre squared compared to £65 across England excluding London. The total rateable value of all business premises in the North East LEP area is £1.6 billion.

There was no change in rateable value for either North East LEP or England excluding London between 2014/15 and 2015/16.

Source: Business floorspace statistics (VOA)

North East Enterprise Zones

North East Enterprise Zones were created to support economic growth by developing sites with key attributes to help businesses start-up, grow and expand.

Since their initial launch in 2012, the sites have attracted businesses and investors keen to take advantage of the generous financial incentives on offer, as well as the strategic locations available for development.

- 21 sites
- 296 hectares of land
- Will deliver over 750,000 square metres of new workspace

National Infrastructure and Construction Pipeline

The National Infrastructure and Construction Pipeline estimates that between 2018/19 and 2020/21, there will be an annual per capita investment of £1,013 in the North East region.

This is the second highest figure among the nine English regions, behind the South West (£1,105).

Annual per capita investment, North East region

£1,013

£262 (26%)	£751 (74%)
Central and local government investment	Private sector investment

The North East region has the lowest value and proportion of investment coming from government. In contrast, it has the second highest value of private investment in England (after South West)

Source: Analysis of National Infrastructure and Construction Pipeline (HM Treasury)

Digital connectivity

95.0% of premises in the North East LEP area have access to superfast broadband (30Mbit/s+). This is a slightly higher percentage than for England excluding London (94.1%).

The percentage of indoor premises that receive 4G mobile coverage from all operators ranges from 71% in County Durham to 91% in Newcastle.

4G services, geographic (indoor): % with signal from all operators 2018

Newcastle upon Tyne	91
North Tyneside	89
Gateshead	86
Sunderland	85
England urban	83
England Total	78
South Tyneside	77
Northumberland	74
County Durham	71
England rural	42

Source: Connected nations (Ofcom)

What next?

The Strategic Economic Plan sets out a plan for maximising investment into the North East, including around the development of infrastructure. Whilst some of the indicators on this are positive, especially around digital connectivity and future investment, the North East still lags on many indicators.

In terms of the evidence base, our key priorities are:

- To develop our understanding of the North East property market, with a focus on identifying what current and future needs are not being met and how these can be overcome
- To develop the evidence base required to develop a pipeline of regional priority projects for investment
- Ongoing horizon scanning for potential funds to help maximise investment into the region and to improve access to finance.

Priorities for programme delivery include:

- Ensuring we deliver existing investment and infrastructure project as planned
- Accelerating the development of Enterprise Zone sites as these will be key assets for the region
- Developing a pipeline of regional priority projects for investment
- Securing further investment into the region.

Section 3

What makes the
North East competitive

Section 3

What makes the North East competitive

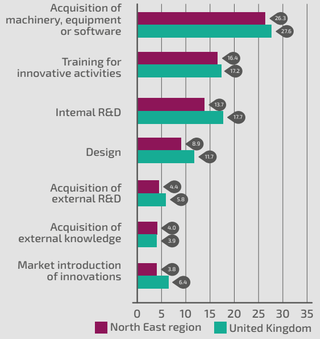
The European Union Regional Competitiveness Index 2016 defines regional competitiveness as "the ability of a region to offer an attractive and sustainable environment for firms and residents to live and work." This definition aims to balance the goals of business success with those of personal well-being over both the short and long term. In this section, we assess the North East's competitiveness across a range of different dimensions. Section 2 outlines our performance across the North East Strategic Economic Plan's programmes of delivery. Many of the indicators considered there also contribute to our competitiveness and this section builds on this further.

Innovation and creativity

Business engagement in innovation activities

Innovation is a key source of productivity and competitive advantage. 42% of North East businesses with 10 or more employees were innovation active between 2014 and 2016, with businesses that are innovation active being more likely to be exporting and more likely to employ graduates. The main types of innovation activity are the acquisition of machinery, equipment or software for innovation, training for innovative activities and internal R&D.

Proportion (%) of businesses engaging in various innovation activities, North East region and UK, 2014 to 2016



Sources: UK Innovation Survey 2014-2016 (BEIS); Spinouts UK

Businesses were also asked about their engagement in wider innovation activities.

19% Had adopted new business practices

14% Had adopted new methods of organising work responsibilities

9% Had adopted new methods organising external relationships

10% Had made changes to marketing concepts or strategies

A key impact of the innovation activities being undertaken by North East companies is on turnover. Between 2014 and 2016:

7% of turnover was from goods or services that were 'new to market'

11% of turnover was from goods or services that were 'new to business'

12% of turnover was from goods or services that were 'significantly improved' due to innovation

Other innovation activities

Earlier in this report, we highlighted the North East region's success in securing funding from the UK Research Councils. The majority of this was secured by the region's universities. Our universities also make a number of other important contributions to innovation in the region. One of these is the creation of spinouts and other businesses.

Since 2000, the four universities within the North East LEP area have generated:

- 86 spinouts (based on university IP)
- 11 start-ups (formed by university staff and students but not based on university IP)
- 9 others (such as not-for-profit organisations or student businesses)

The North East is also home to a number of other innovation assets.

Five Catapult Centres
- Digital
- Energy Systems
- High Value Manufacturing
- Offshore Renewable
- Satellite Applications

Two National Innovation Centres
- National Innovation Centre for Ageing
- National Innovation Centre for Data

Business sophistication

Employment in knowledge intensive business services is growing in the North East LEP area

2014	2018
12.5%	14.5%

- Financial and insurance activities
- Professional, scientific and technical activities
- Real estate activities
- Administrative and support service activities

A higher proportion of employment in the North East LEP than in England excluding London is in knowledge intensive business services and the region has experienced faster growth than England excluding London between 2014 and 2018. However, the proportion of GVA accounted for by this sector is below the England excluding London rate (25% compared to 29%), with the proportion remaining constant between 2014 and 2017.

Key collaborators of innovating businesses:

Another key indicator of business sophistication is collaboration between businesses. For example, innovation can be a complex process and often requires businesses to work with each other or to seek external information, advice or support.

Virtually all of the businesses that were 'broad innovators' between 2014 and 2016 had engaged in external collaborations.

- Suppliers of equipment, materials, services or software – **84%**
- Clients or customers from the private sector – **70%**
- Other businesses within enterprise group – **59%**
- Clients or customers from the public sector – **43%**
- Universities or other higher education institutions – **40%**
- Consultants, commercial labs, or private R&D institutes – **38%**
- Government or public research institutes – **33%**

Compared to the UK as a whole, businesses in the North East region were:

- More likely to collaborate with suppliers
- Equally likely to collaborate with universities
- Less likely to collaborate with clients, other businesses in same group, competitors or consultants and research institutes.

Sources: Annual Population Survey - Workplace Analysis (Nomis); Regional Gross Value Added (balanced approach) (ONS); UK Innovation Survey 2014-2016 (BEIS)

Technological readiness

Having high levels of technological readiness and adoption allows an economy to improve productivity and develop new products and services for market. The North East LEP area benefits from being in one of the most highly ranked countries in the world for technological readiness.

World Economic Forum Global Competitiveness Index 2017/18

Ranks the technological readiness of 137 countries

Overall	Large advanced and emerging economies
4th	1st

Household use of technology

In 2018, 87% of households in North East LEP area had used internet in the last three months. This is a similar proportion to England excluding London (90%).

Looking at usage in more depth. In 2017, in the North East region

- 78% of people aged 16-74 used the internet daily
- 73% of people aged 16-74 had participated in social networks
- 64% of people aged 16-74 had used online banking
- 76% of people aged 16-74 had used e-commerce.

Generally, regions in the UK had amongst the highest rates of usage across the European Union.

Sources: Global Competitiveness Index 2017/18 (World Economic Forum); Internet Users 2018 (ONS); ICT usage and e-commerce (Eurostat)

Human capital

The Organisation for Economic Co-operation and Development (OECD, 2001) defines human capital as "the knowledge, skills, competencies and other attributes embodied in individuals or groups of individuals acquired during their life and used to produce goods, services or ideas in market circumstances."

Research has shown that countries and regions with higher levels of human capital have greater potential for economic growth, meaning it is a good indicator of an economy's future competitiveness and well-being.

The total value of the North East region's human capital is £680 billion. This has grown by £26 billion (3.9%) since 2014.

£680 billion - Total value of the knowledge, skills, competencies and other attributes held in those living in the North East region in 2017

Quality and relevance of education

Developing a region's human capital requires having good quality educational institutions that are delivering provision that meets the needs of employers.

Schools

24% of schools rated as outstanding by OFSTED

61% rated as good

Universities and colleges

Teaching Excellence and Student Outcomes Framework (TEF) assesses excellence in teaching at universities and colleges and how well they ensure excellent outcomes for their students. All four universities in the North East have been assessed, along with seven of our colleges

Gold: 2 **Silver: 8** **Bronze: 1**

Most common subjects being studied at the four universities in the North East LEP are:

Undergraduate	Postgraduate
Business and administrative studies	Business and administrative studies
Social studies	Education
Subjects allied to medicine	Subjects allied to medicine
Biological sciences	Engineering and technology
Languages	Social studies

Overall, the North East's four universities account for 4.6% of undergraduate students and 4.1% of postgraduate students in England.

- 7.5% of all architecture, building and planning undergraduates, 6.5% of language undergraduates, 6.3% of physical sciences undergraduates and 5.5% of all medicine and dentistry undergraduates in England are studying at a North East university
- 6.6% of computer science postgraduates, 6.4% of language postgraduates, 6.3% of agriculture and related subjects postgraduates and 5.6% of law postgraduates in England are studying at a North East university.

These subjects are closely aligned with the region's key sectors and areas of competitive advantage.

Educational outcomes

The North East has good educational outcomes with 88% of students at the end of Key Stage 5 (aged 18) going into a sustained destination, a similar proportion to England as a whole (89%). Students in the North East LEP area are:

- More likely to go into an apprenticeship (10% compared to 6%)
- Less likely to go into employment (18% compared to 22%).

Young people in our region have a similar likelihood of going into education as those in England as a whole (60% compared to 61%).

They are slightly more likely to go into further education (9% compared to 7%) and whilst the overall proportion going into higher education is similar (49% compared to 50%), a smaller proportion get into the top third of universities nationally (14% compared to 17%).

Sources: Human capital estimates (ONS); State funded schools inspections and outcomes (OFSTED); TEF outcomes (Office for Students); HE student enrolments by HE provider and subject of study (HESA); Student destinations after key stage 5 (DfE)

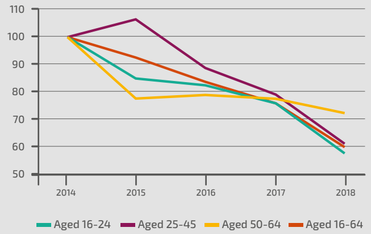
Labour market efficiency

Developing the human capital of a region will only have an impact on its competitiveness if the labour market in that region is operating effectively.

Unemployment

Unemployment is a key indicator of how effectively the available labour pool is being utilised. But there has been a significant decrease in unemployment in the North East since 2014. Unemployment has decreased across all age groups during this period.

Decrease in unemployment, North East LEP area, 2014 to 2018 (indexed, 2014=100)



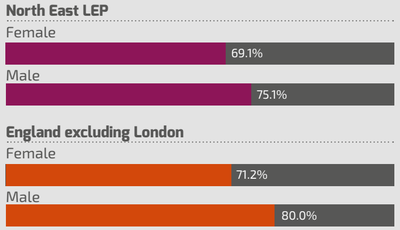
Gender equality

It is important that regions are taking advantage of as much of the human capital within their region as possible. Where labour markets are not equal, the skills and capabilities of some individuals are being lost. In the North East LEP area, females:

- Are less likely to be in employment than males
- Are less likely to be unemployed than males
- In full-time employment earn on average just 84% of their male counterparts.

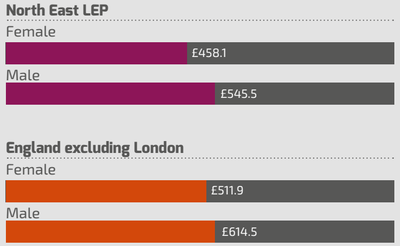
However, the gap between females and males is very similar in the North East LEP area to England excluding London, suggesting that the factors that are inhibiting greater gender equality in the labour market are national rather than local. The exception to this is unemployment.

Employment rate (%) by gender



Unemployment rate (%) by gender

Average (median) gross weekly pay of full-time workers (£) by gender

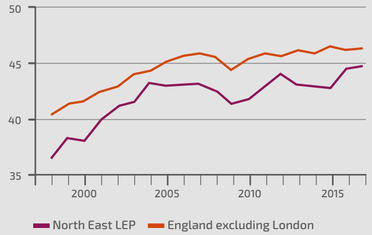


Labour market productivity

Labour market productivity is a measure of the value of the goods and services produced by each unit of labour input (for example, per job, employee or hour worked).

In 2017, the North East LEP area had a labour productivity of £44,700 per job, 4% below the equivalent result for England excluding London. The gap has narrowed since 2014.

Labour productivity (GVA per workplace job) (£), North East LEP and England excluding London, 1998 to 2017



Within the North East LEP area, the sectors with the highest labour productivity are:

- Agriculture, mining, electricity, gas, water and waste
- Financial and insurance activities
- Information and communication
- Manufacturing
- Construction

Sources: Annual Population Survey (Nomis); Annual Survey of Hours and Earnings (ASHE) – Workplace Analysis (Nomis); Regional and sub-regional productivity in the UK (ONS).

Market size

Another factor underpinning the competitiveness of an economy is the size of the market businesses can serve.

The North East accounts for:

3.5% of English population
2 million

2.6% of English GVA
£40.1 billion

In 2016, the combined disposable income of households in the North East was £31.0 billion in 2016. This is the amount of money available for spending or saving after tax. This is larger than disposable income available in the LEP areas of Liverpool City Region, Sheffield City Region and West of England (including Bristol). On average, households in the North East region had a gross disposable income per head of £15,763. Whilst this is only 85% of the England excluding London rate, this is offset by lower cost of living.

Another key consideration is the extent to which businesses in the North East are engaging in other markets

62% of North East region businesses serve regional markets (within 100 miles)

45% serve markets elsewhere in the UK

17% serve EU markets

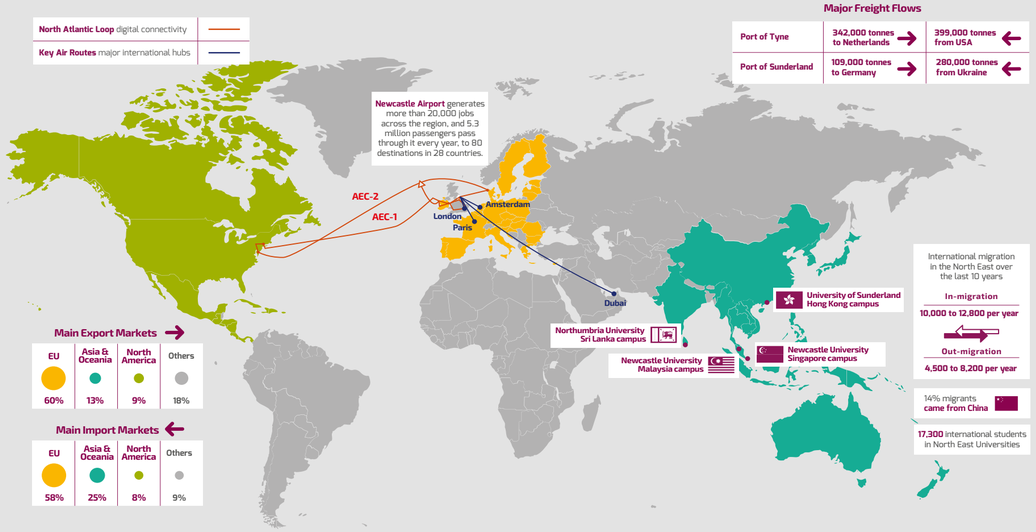
13% serve other international markets

North East businesses that are innovation active are 40% more likely to be serving the wider UK market and almost three times as likely to be serving the EU market than those that are not innovating.

20% of North East region businesses said 'entering a new market' was one of key factors that underpinned their drive to innovate between 2014 and 2016

Having strong air, rail, sea and road links and digital connectivity is critical to ensuring North East businesses are able to sell their goods and services outside the region. The map below shows some of the North East's most important global connections.

Global connections



Major Freight Flows

Port of Tyne	342,000 tonnes to Netherlands →	399,000 tonnes from USA ←
Port of Sunderland	109,000 tonnes to Germany →	280,000 tonnes from Ukraine ←

International migration in the North East over the last 10 years

In-migration
10,000 to 12,800 per year

Out-migration
4,500 to 8,200 per year

14% migrants came from China

17,300 international students in North East Universities

Sources: Population estimates (Nomis); Regional Gross Value Added (balanced approach) (ONS); Gross Disposable Household Income (GDHI) (Nomis); UK Innovation Survey 2014-2016 (BEIS); Regional Trade Statistics (HMRC); Port Statistics (DfT); Local Area Migration Indicators (ONS); Census 2011 (Nomis); Student numbers (HESA)

Transparency and accountability

Having strong institutions, an effective legal system and an absence of corruption are important prerequisites for a competitive economy.

The European Quality of Government Index (EQI) is based on a survey of perceptions and experiences with public sector corruption, along with the extent to which citizens believe various public sector services are impartially allocated and of good quality. In the most recent EQI in 2017, the North East region was ranked 28 out of 202 EU regions. Within the UK, only the West Midlands is ranked higher than the North East (ranked 27). Across Europe, the regions that were ranked higher than the North East were all in the Nordic countries (Denmark, Finland and Sweden), Germany or the Netherlands.

28 **EU Quality of Governance Index**
North East region rank (out of 202 regions)

More generally, the North East benefits from being part of the UK which performs well on a number of international rankings of good governance.

12 **World Justice Project's Rule of Law Index**
UK rank out of 126 countries

9 **World Bank's Doing Business Survey 2019**
UK rank out of 190 countries

Sources: EU Quality of Governance Index 2017; Rule of Law Index (World Justice Project); Doing Business 2019 (World Bank)

Quality of life

Personal wellbeing

On average, people living in the North East region rate their personal wellbeing, as high with the North East's similar to England as a whole. In addition, individuals in the North East have reported relatively low levels of anxiety on average.

Average scores on key measures of personal wellbeing, 2017/18

	North East region	England
Life satisfaction	7.66	7.68
Worthwhile	7.88	7.88
Happy	7.48	7.52
Anxiety	2.92	2.90

Where the scores are:

- Life satisfaction, worthwhile and happy – low 0-4; medium 5-6; high 7-8; very high 9-10
- Anxiety – very low 0-1; low 2-3; medium 4-5; high 6-10

Cultural, heritage and natural environment

One of the key factors contributing to personal wellbeing in the North East is the wide range of cultural, heritage and natural environment assets in the region.

The National Heritage List for England is the official record of nationally designated heritage assets in England. The North East region has almost 14,000 assets – 3.5% of the total.

Nationally designated heritage assets in North East region

- 12,414 listed buildings
- 6 battlefields
- 1,397 scheduled monuments
- 1 protected wrecks
- 55 parks and gardens
- 2 World Heritage Sites

Reflecting the varied offering in the North East, rates of participation in cultural activities are high in the North East region.

Proportion of adults taking part in cultural and heritage activities, North East LEP, 2017/18

The North East LEP area is home to one National Park and two Areas of Outstanding Natural Beauty (AONB):

- **Northumberland National Park** was designated in 1958. It covers 1,048 square kilometres and contains 424 scheduled monuments, three National Conservation Areas and one Conservation Area.
- **North Pennines AONB** which is also an UNESCO Global Geopark, is the second largest AONB in the UK, covering almost 2,000 square kilometres across the local authority areas of County Durham, Northumberland, Cumbria, Carlisle, Eden and North Yorkshire
- **Northumberland Coast AONB** covers a narrow coastal strip from Berwick-upon-Tweed to Amble and includes many important sites of special scientific interest and the Lindisfarne National Nature Reserve.

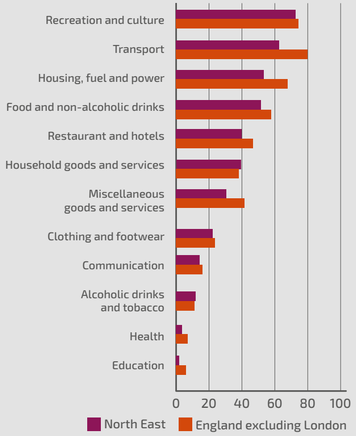
More generally, the North East has a high quality natural environment.

- 20 out of our 25 coastal waters were classified as excellent in 2018.
- Four wetlands of international importance designated under the Ramsar Convention
- 19 Special Areas of Conservation (SACs), sites formally designated by the UK government and adopted by the European Commission

Cost of living

Another factor that influences quality of life is the cost of living. When costs are low, it allows people to purchase more goods and services (or to save more). The North East region has one of the lowest costs of living in the UK. Housing and transport costs are particularly competitive, allowing residents to spend a greater proportion of their income on discretionary items such as recreation and culture.

Household expenditure (£), North East region and England excluding London, 2018



Sources:Headline estimates of personal well-being from the Annual Population Survey (APS): by counties, local and unitary authorities, year ending March 2012 to year ending March 2018 (ONS); National Heritage List for England (NHLE); Taking Part Survey 2017/18 (DCMS); UK protected sites (Joint Nature Conservation Committee). Household expenditure by countries and regions 2018 (ONS)

What next?

Ensuring the North East is a competitive location is important so that our businesses can be successful in the global economy and our residents are able to access good quality sustainable employment opportunities and have a high quality of living.

The evidence shows that the innovation being undertaken in our region, our dynamic business structure and technological readiness and our efforts to build the skills and capabilities of our residents are all key factors underpinning our competitiveness. This is further supported by our access to markets, the transparency and accountability of our processes and the high quality of life in our region.

Our Economy is intended as a summary of the region's performance as assessed using data and statistics. However, there are a number of elements of our competitiveness that it is more difficult to capture using data. In particular, partners across the region often flag that the highly collaborative nature of the North East is a distinctive strength.

Looking forward, it will be important that the North East develops in more depth its understanding of specific elements of its competitiveness to better target its interventions. Key priorities for the next year include improving our knowledge of:

- Barriers to undertaking innovation activities
- Business aspirations and growth mindsets
- Our global supply chains.

We will continue to work with partners, including through the North East Economic Evidence Forum, to develop new data sources, analyse existing data and ensure the insights from the evidence base are being effectively communicated. Combined these should mean partners across the North East are able to focus their efforts on the activities that will make the greatest difference.

The region is currently working with government to develop the North East Local Industrial Strategy which will set out our joint approach to improving productivity and living standards over the next decade and the region's contribution to the national Industrial Strategy. Combined, the actions within the North East Strategic Economic Plan and the North East Local Industrial Strategy will help drive the future competitiveness of our region.

North East
Local Enterprise Partnership

This document is an executive summary of a more detailed report available on our website at **nelep.co.uk/oureconomy**

North East
Data Hub

Visit the North East Data Hub for access to the region's latest transport and economy data. All data is available to download, export and compare. **northeastdatahub.co.uk**

northeastlep.co.uk
@northeastlep
info@nelep.co.uk