Briefing Note

The Tees Valley Economic Assessment – Initial Findings
6th October 2009

Background

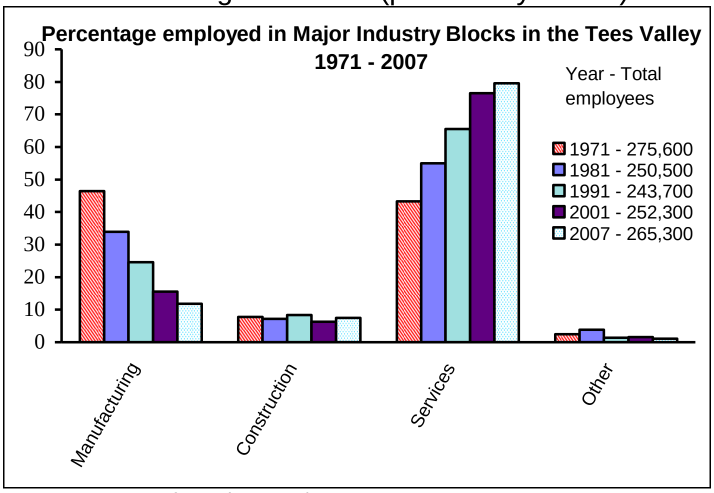
TVU is currently preparing an Economic Assessment for Tees Valley. This is in advance of the legislation which will place a statutory duty on the local authorities to prepare an economic assessment for their area and a city region or sub regional assessment where the economic geography of the area extends beyond local authority boundaries. The Economic Assessment builds on the substantial evidence base that TVU has already developed and the draft guidance on economic assessments. The full Tees Valley Assessment will be available in February 2010. This briefing note provides some of the initial findings from the assessment.

Business

Forged out of the industrial revolution the Tees Valley is famed for its iron and steel, heavy engineering, bridge building, shipbuilding and chemicals. It is the birthplace of the passenger railway and renowned for its entrepreneurship and inventiveness. In turn, its industries have facilitated industrial growth around the world.

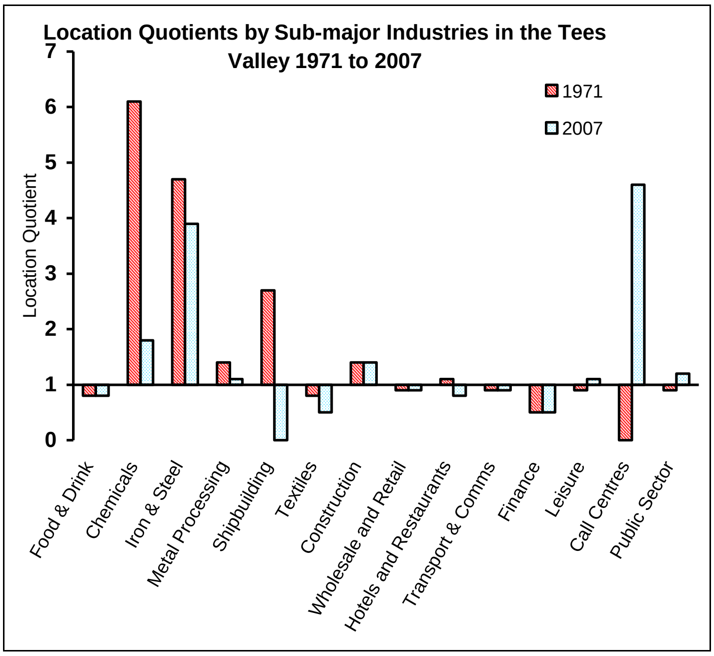
Since the 1970s the Tees Valley has seen an enormous shift in industry types, with a major decline in manufacturing sector employment and a rise in service sector employment. In fact The Tees Valley lost close to 100,000 manufacturing jobs. These have been gradually replaced by 92,000 jobs created in the service sector.

The rise in service sector employment also reflected national trends but the Tees Valley has seen disproportionately more growth in leisure industries, call centres and government (particularly health).



Source: Census of Employment/ABI

Of course many of the changes in employment in the Tees Valley simply reflect national changes in industrial structure whilst some are more specific to the sub-region.



Source: ABI. Note :A location quotient of 1 indicates the level of employment we would expect locally given the National distribution, whilst a quotient of more than 1 indicates where the Tees Valley has more than we would expect.

This analysis shows that the chemicals, Iron, Steel and Metal Manufacture have declined but still remain a significant presence in the Tees Valley and ship building no longer is part of our industrial profile. Leisure, Call Centres and the Public Sector have all grown faster than the national average.

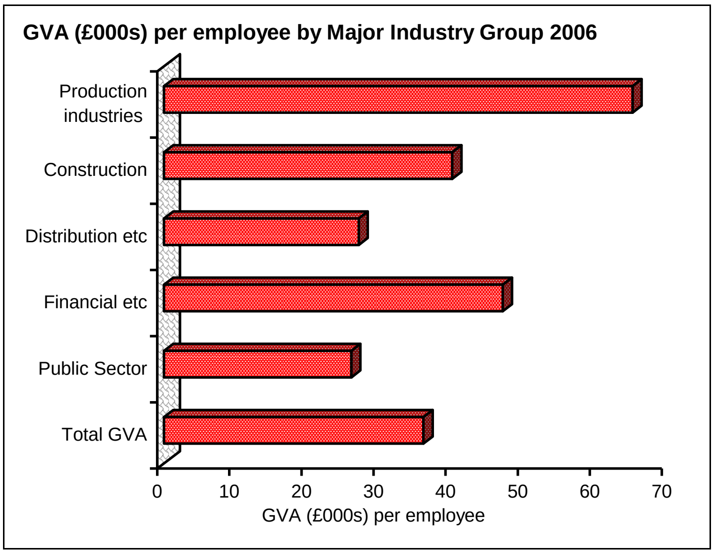
GVA

This massive change in industrial structure led to a corresponding widening of the gap in economic growth levels (GVA).

In the early 1970s GVA in the sub-region was above the national average and third highest in the country after London and Aberdeen. Most recent figures show the Tees Valley's GVA per head to be only 78 percent of the national average.

Whilst employment in the service sector is increasing the type of jobs being created is not generating sufficient GVA growth to reflect the national growth level and the Tees Valley is thus continuing to fall behind national GVA levels.

An analysis of GVA per employee shows that each job in the Tees Valley contributed £36,000 to overall GVA. However, each job in the declining production sector contributed £65,000 whilst those in the growing service industries were contributing well below average apart from financial services (and in the sub-region this is not a significant employment sector).



Source: National Statistics/ABI

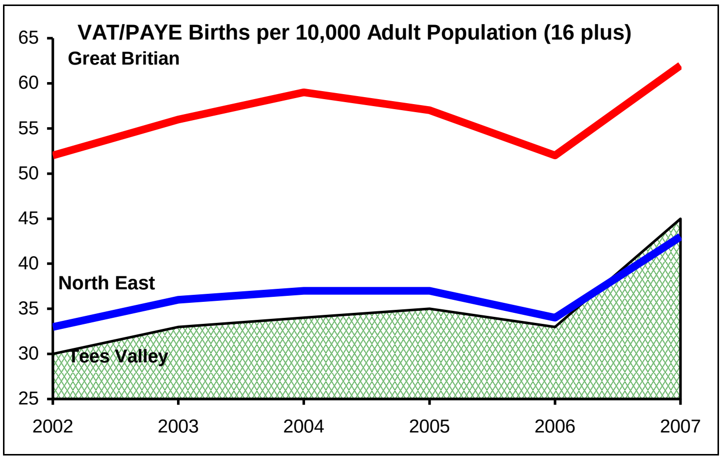
In order to redress this imbalance the Tees Valley needs to generate new employment opportunities in specialist high earning sectors as well as to develop and strengthen high production sectors already here eg chemicals. In short it must embrace the 'knowledge economy'.

Although the Tees Valley performs well against the national average for high & medium high technology industry (4.3 percent of all employees compared to 3.8 percent nationally) it falls well below the national figures for knowledge based services (15.0 to 19.9 percent respectively). This shortfall is one of the factors affecting the sub-region's ability to narrow the gap in GVA with the national average.

Business & Enterprise

The Tees Valley has a relatively low level of businesses, compared to the national average. (34 per 1,000 people of working age compared to 56 nationally). In common with national figures most workplace sites in the sub-region are small – 80 percent have fewer than 10 employees and represent only 16 percent of total employees. However, the very few large workplace sites account for a large proportion of workers. For example, the 1 percent of larger sites (over 200 employees) are responsible for a third of total employees.

Business growth shows promising signs in the Tees Valley with new registrations closing the gap with the national average over recent years (22 percentage points below the national average in 2002 but only 17 points below in 2007).



Source: BIS

A further sign of improving business performance in recent years is the steep rise in the number of very small firms showing growth in the sub-region - consistently better than those nationally throughout the period.

People

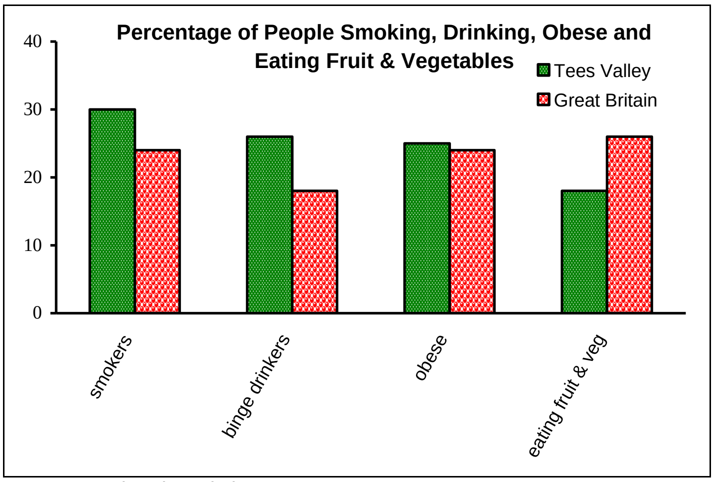
The population of the Tees Valley has been increasing steadily in recent years and is now over 662,000. However, the catchment area population of the sub-region is significantly higher, with up to one million people within thirty minutes drive time from its main centres and 2.7 million within one hour.

The working age population of the Tees Valley is over 400,000 but well over 600,000 people of working age live within thirty minutes drive time of its main centres and over 1.6 million within one hour.

Health

In general the health of people in the Tees Valley is relatively poor with life expectancy below the national average. Standard mortality ratios are 13 percent above those nationally and for under 75s 21 percent above.

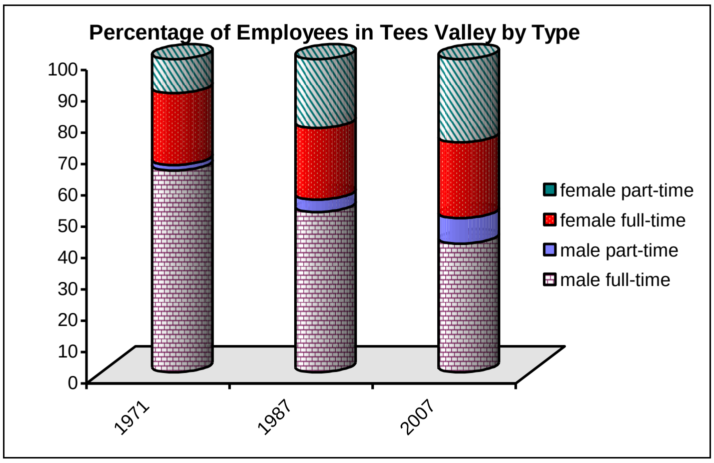
A higher proportion of people in the Tees Valley smoke, binge drink and are obese than the national average whilst a lower proportion eat the recommended amount of fruit & vegetables



Source: National Statistics

Economic Activity & Employment

The massive changes in industrial structure in the Tees Valley led to an increase in the importance of the service sector as a way into employment. This, along with other social changes, resulted in more women in the labour market – a demand for more flexible working and part-time working etc.

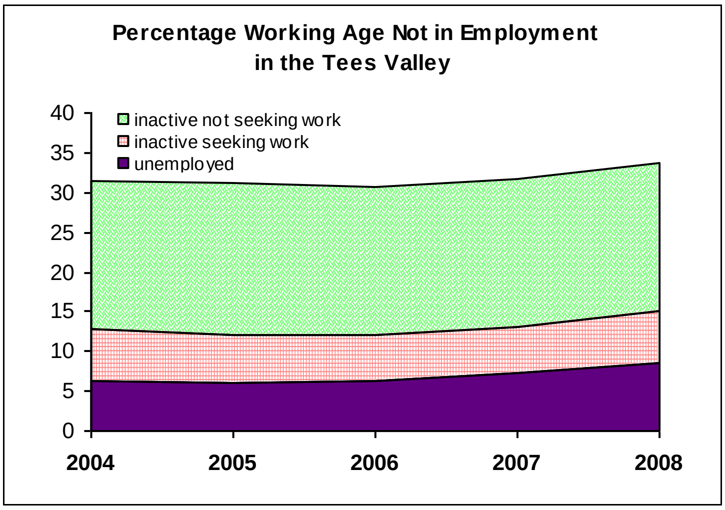


Source: Annual Business Inquiry

The effect was to significantly increase female economic activity rates from 66.7 percent in 2000 to 70.7 percent by 2008 - an increase of 4 percentage points compared to a national increase of 1.5 percentage points.

Unemployment and Worklessness

By 2008 almost a third of working age people (128,000 out of 400,000 working age people) in the sub-region were not in work for whatever reason.

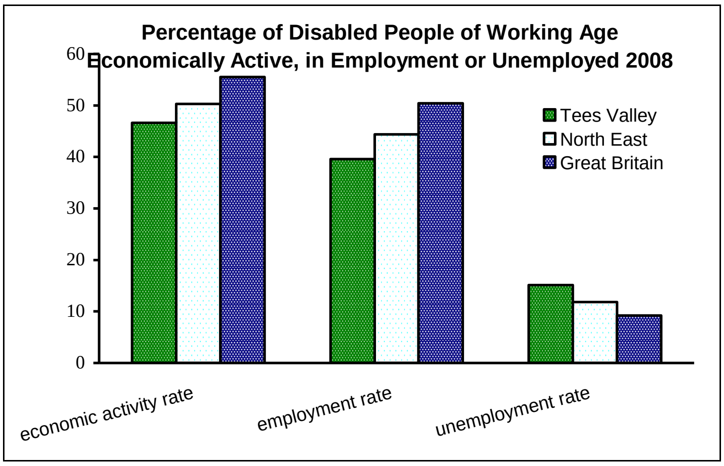


Source: APS

Two thirds of the total people without jobs may not actually be seeking work – they may be retired, severely disabled/carers or students for example. The remainder are unemployed (25,000 seeking work and available) or seeking work but not able to start looking (a further 26,000) – the main reasons for the latter being long-term sick or looking after family. Currently claimant unemployment rates in the Tees Valley were 6.2 percent (August 2009) compared to 4.2 percent nationally.

Long-term unemployment, whilst great strides have been made in reducing levels, remains a significant problem for all age groups in the Tees Valley.

The issue of worklessness in the Tees Valley has started to be addressed and the numbers of people on out-of-work benefits has decreased from 20.8 percent of working age people in 2000 to 17.5 percent in 2008. Nationally, the fall was from 13.7 to 12.3 percent.



Source: APS

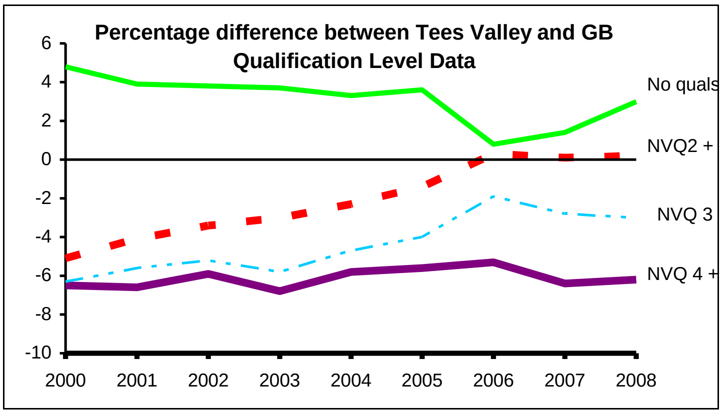
In the Tees Valley people with a disability are less likely to be in work than the national average. Over 15 percent of people with a disability are unemployed compared to a national average of 9.2 percent.

Skills & Qualifications

Evidence indicates that a qualified workforce is more employable and that the higher the qualification level the more likely the chance of being employed. For example, 85 percent of people with higher level qualifications are in employment compared to only 38 percent of people with no qualifications.

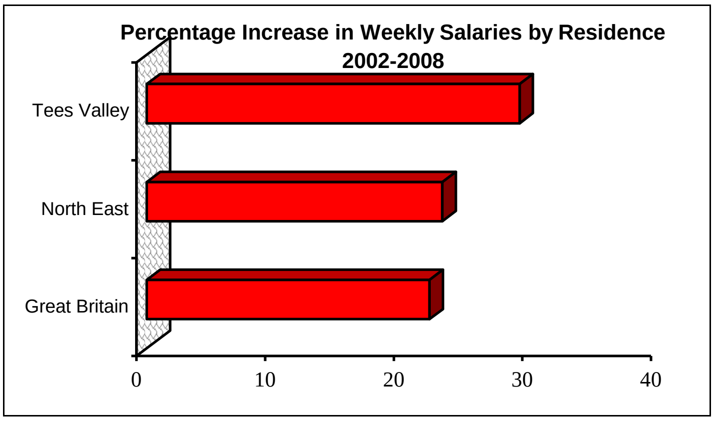
Skilled and knowledge occupations also attract higher salaries. Unfortunately Tees Valley has relatively fewer employees in these occupations compared to the national average.

However progress has been made to increase the knowledge levels of the workforce and has helped close the gap with national figures – although this has mainly been at Level 2 and 3 qualifications – and probably chiefly as a result of the success of apprenticeships.



Source: APS

This has contributed to a faster increase in earnings in recent years, closing the gap with national rates (between 2002 and 2008 earnings increased by 29 percent in the Tees Valley compared to 22 percent nationally).



Source: ASHE

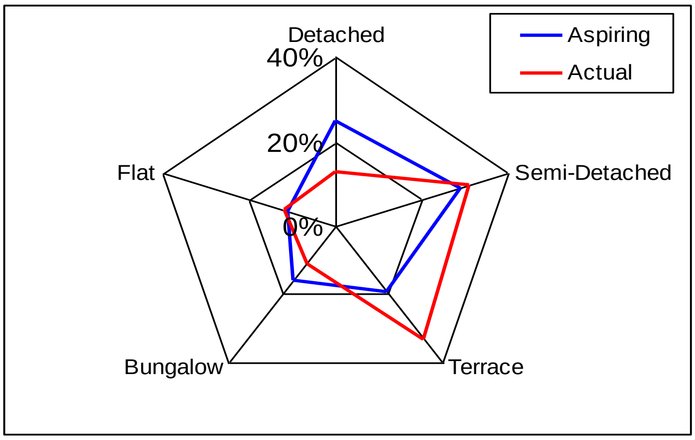
Prior to the recession almost a quarter of establishments in the sub-region are experiencing skills gaps with almost 20,000 employees not fully proficient or trained. Also, at basic levels employers have claimed that younger workers in particular were poorly prepared for work. Despite increasing university and FE enrolment levels there is still a significant group of people for whom low expectations, low qualifications, low pay (and therefore no upward social mobility) seem to be the norm.

Quality of Place

Quality of place is considered vital in establishing prosperous, sustainable communities. 'Quality of Place' relates to the physical characteristics of an area – the way it is planned, designed, developed and maintained – and covers housing, transport and connectivity, business locations, green infrastructure and the environment, heritage and culture, plus retail and leisure. Findings thus far have focused primarily on the first three areas.

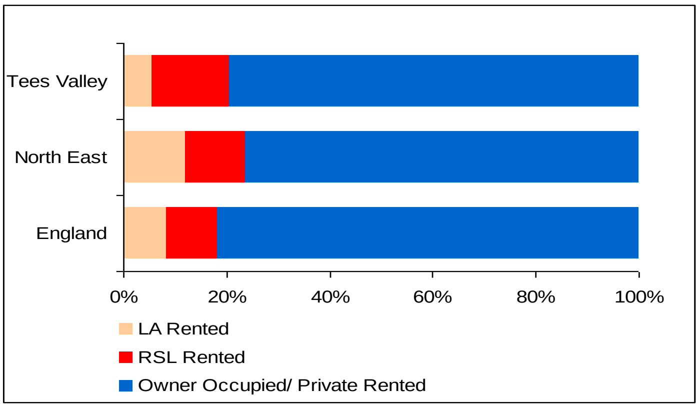
Housing

Housing offer in the Tees Valley must meet the future demands of its population. Currently there is an evident over-supply of terraced stock which does not meet the aspirations of households in the sub-region. The proportion of social rented housing in the Tees Valley is also out of balance with the aspirational demand.



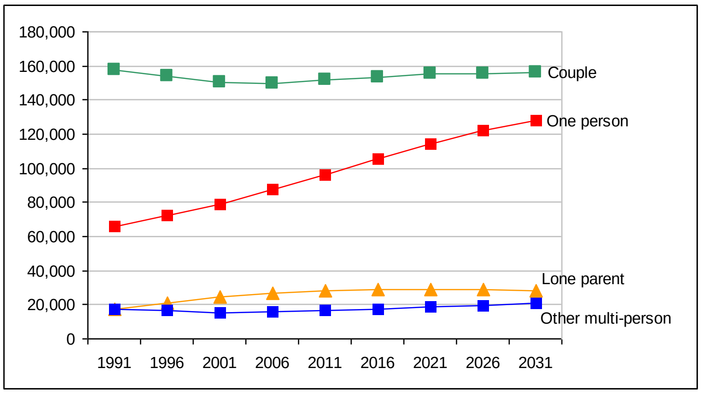
Source: TV Local Housing Assessments, 2007

Nationally 17 percent of housing is social rented whilst in the Tees Valley this figure is 23 percent. An objective will be to move towards the national average.



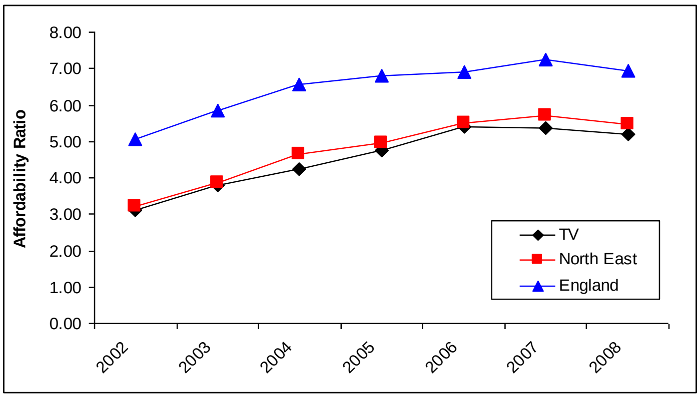
Source: HSSA, 2008

Household projections indicate a need to cater for the future growth of one person households. In fact, by 2031 it is expected that one person households will be twice the number seen in 1991. Consequently the average household size is also expected to drop from 2.52 persons per household to 2.08 persons.



Housing sales in 2008/09 were around half those seen a year earlier and have been falling year-on-year from mid-2007. House prices in the Tees Valley are amongst the lowest in the country. From April to June 2009 the average house price was £128,900; this compares to £136,300 regionally and £203,300 nationally. Prices today are around 5-10 percent less than when at their peak.

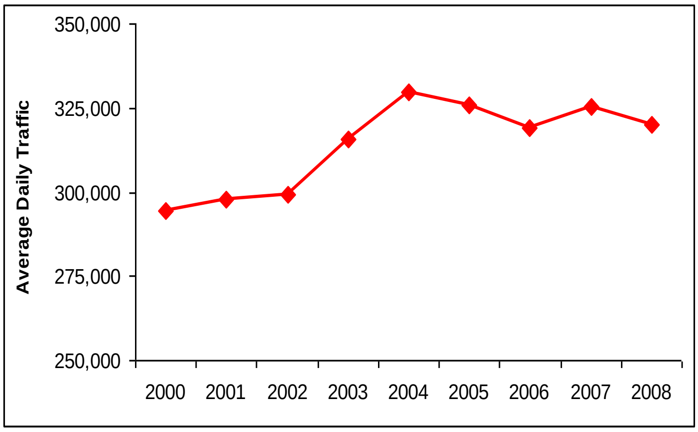
Property in the Tees Valley has been consistently more affordable than both regionally and nationally. However, as prices increased so did the relative affordability. Comparison of house prices to earnings show the affordability ratio has risen from 3.1 in 2002 to 5.2 in 2008; regional and national affordability ratios for 2008 were 5.4 and 6.9 respectively.



Source: CLG Live Tables

Transport & Connectivity

The Tees Valley has seen a 9 percent increase in road traffic from 2000 to 2008, creating further congestion on the main trunk roads. Department for Transport figures show that the percentage of households in the Tees Valley without access to a car will decrease from 34 percent in 2005 to just 23 percent in 2021, most likely leading to greater congestion.



Source: TV JSU

Whilst the Tees Valley has reasonably extensive public transport coverage across City Region, the lack of a single commercial centre does make it harder to sustain a viable public transport network.

Latest figures show a fall in bus usage with a 13 percent drop seen since 2001/02. Bus reliability is also a concern with recent figures showing the percentage of buses running on time falls well below target performance.

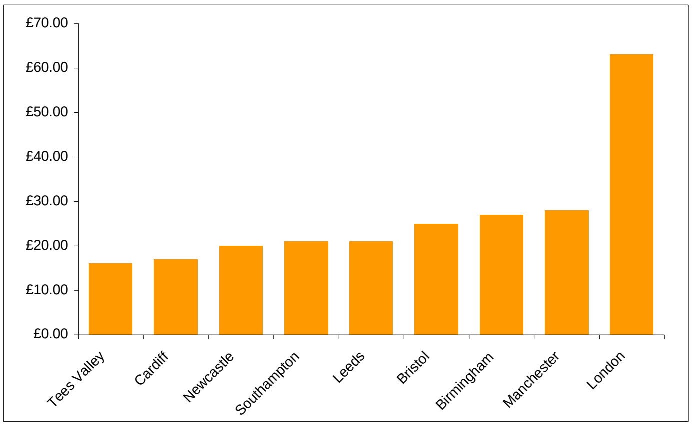
Rail passenger footfall at Tees Valley rail stations has shown encouraging growth with a rise of 57 percent from 1999/00.

Passenger numbers from Durham Tees Valley Airport have fallen and are expected to decline further in the light of the loss of daily flights to Heathrow. By comparison, other airports in the north have also seen decline in recent years with only Leeds/Bradford and Liverpool seeing growth in numbers.

Teesport is one of the three largest ports in the UK, and has national significance, handling more outbound liquid and dry bulk traffic than anywhere else in the country. The port has consistently handled around 50 million tonnes of freight traffic. The development of a deep sea container will see an increase in traffic from the port with direct links to China created.

Business Locations

More than two-thirds (69 percent) of the existing commercial floorspace in the Tees Valley is occupied for industrial sector use. Retail and office uses occupy 17 percent and 11 percent respectively. In fact, the amount of commercial floorspace in the Tees Valley increased by 18 percent from 1997 to 2007. By comparison the regional increase was 12 percent and national 10 percent. The Tees Valley also has a portfolio of sites and premises available with highly competitive rental values, making it an attractive commercial option as vast savings can be made compared to locating elsewhere.



Source: VOA, 2008 (as appeared in TVR Factsheet)

Green Infrastructure & Environment

The development of the Tees Valley Green Infrastructure Strategy plans to enhance ‘quality of place’ so that investment and skilled workers can be attracted and retained. Key initiatives across the Tees Valley – Stockton / Middlesbrough Initiative, Coastal Arc & Darlington Gateway – demonstrate an awareness of the importance of ‘quality of place’ in improving urban competitiveness as part of improving overall economic performance.

Heritage and Culture

The Tees Valley as an area remains relatively new and can be classed as an emerging destination in comparison with other areas of the region and there is a lack of understanding of where the Tees Valley is located – particularly amongst younger age groups.

Despite this, in 2007 2.2 million overnight trips were made to the Tees Valley. A further 13 million day trips were made. Tourism expenditure generated a total of £540 million for the Tees Valley economy.