Evaluation of *Realising Our Potential*

Draft Report for

One NorthEast

frontline
CONSULTANTS

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Contents **Page no**

1 Introduction

Realising Our Potential was the second Regional Economic Strategy (RES) for the North East of England. Published in 2002, the document was created in a process that included:

- a substantial consultation process across the region
- an independent evaluation commissioned by One NorthEast of *Unlocking Our Potential,* the first RES prepared in 1999
- scrutiny report recommendations prepared by the North East Assembly

1.1 Evaluation objectives

The brief for this evaluation called for:

- an academic assessment of economic progress over the lifetime of the RES
- looking forward, identifying how lessons learned could contribute to the development of a clear economic model and underpinning the RES in order to ensure the RES tells a coherent economic story
- identifying the extent to which the long term aspirations and targets of the strategy have been met including progress in key areas
- identifying the role of key partners in delivering the RES
- measuring the strategic added value produced through the RES

The work was conducted jointly by Frontline Consultants and TERU at Glasgow University. This evaluation was conducted at the same time as the draft of the new RES was published for consultation. This had benefits in interviewees considering *Realising Our Potential,* in the context of looking forward to the new RES. To avoid confusion between RES versions, this document uses the following convention:

- RES 1 – *Unlocking Our Potential* (1999)
- RES 2 – *Realising Our Potential* (2002)
- RES 3 – Current consultation draft (2005)

2 Approach and Method of Working

In this section the approach, method of working and structure of this report are presented.

2.1 Approach to the evaluation process

Recognising the need for this evaluation to draw learning from the RES 2 process so that RES 3 could be improved, the approach looked at:

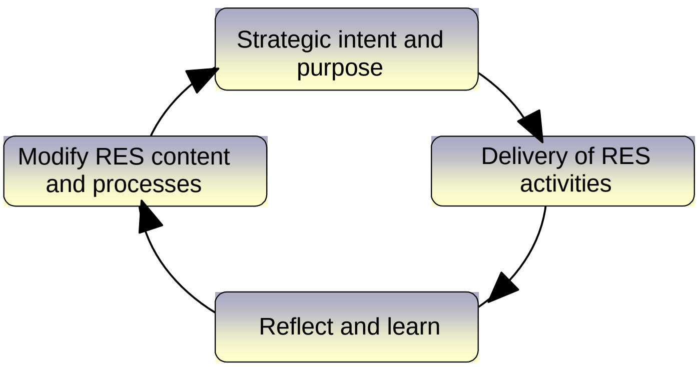
- **content** – the ‘what’ of the strategy and the extent to which the key components of the strategy are being delivered
- **process** – the ‘how’ of stakeholder engagement and working together in the strategy process as a route to improving performance in the North East

Evaluating the RES 2 strategy development and implementation experience, as a whole required questioning on both the content and process. It also gave perspective and enabled reflection on the ‘whole system’ that the strategy was designed to address. This enabled a critical assessment of the underlying assumptions of the economic model on which the RES was based, and gives a basis for continuous improvement in both the strategy development process and the content.

To achieve this, the evaluation focused on the effectiveness with which RES 2 has influenced the **attitudes** and **behaviours** of partners and stakeholders, and the extent to which those may have changed as a result of the RES 2 experience.

To deliver this, an ‘after action review’ process was used in parallel with traditional fact-finding and research. This was specifically designed to draw out learning in a constructive and non-judgemental way and thereby enable continuous improvement for the RES 3 strategy development process.

The evaluation therefore focused on the ‘reflect’ and ‘modify' elements of the learning loop below.



2.2 Method of working

The method of working comprised:

- review of existing desk material
- economic data collection and analysis comparing the North East with the rest of the UK
- interview programme with key stakeholders
- analysis and reporting

3 The North East's Economic Performance

This section presents evidence on the performance of the North East's economy as an initial means of assessing the nature and extent to which RES 2 has had an identifiable impact.

3.1 Measuring Impacts

Recent changes in the North East's economic performance could be due to many factors other than RES 2. It is not possible in this study to even try to separate out the impacts on economic performance of the RES and other factors.

However, the strategic aim is to bring about a 'step change' in economic performance. An assessment of recent developments illustrates whether this goal (either due to the RES or other factors) is being achieved. To demonstrate recent performance we have analysed some of the key indicators used to support the strategy as presented in the Economic Analysis and Technical Report. These focus on macro-level data.

As will become apparent, the conclusion drawn from the previous evaluation quoted in the RES that '*to date, there is no statistical evidence that an economic step change in the North East…. is being achieved*' (p. 4) may still largely hold. However, four points should be stressed.

First, the fact that the Region's relative economic performance (i.e. compared to the national average) has not consistently improved does not mean the RES has had no impact. It may mean, for example, that its impact has not yet had time to feed through into macro-economic data. The first RES was launched in 1999 and RES 2 in 2002. For most macro-economic indicators, the most recent data is for 2003. This is very little time for any RES impacts to become visible.

Second, even if the North East's relative performance has not improved, it is possible that the RES and its implementation have prevented a deterioration in the Region's economic performance.

Third, the type of supply side initiatives outlined in the RES (the Centres of Excellence outlined as part of *Strategies for Success*) can take many years to 'get up and running', and even longer before an impact can be seen in terms of increased R&D, research commercialisation and high tech new starts, which themselves, take several more years to grow.

Finally, it is still the case that many of the activities and projects under the RES were already planned and would have occurred anyway. Even if not spent under the RES, much of the money would have been spent with Keynesian demand side impacts with, or without, the RES.

Consequently, for these reasons, it is unlikely the RES should be expected to have, as yet, brought about a ‘step change’ in the Region’s economic performance on a scale which is readily visible in macro-level data.

3.2 Gross Value Added

3.2.1 2.2.1 Long Term Trends

Gross Value Added (GVA) measures the wealth produced in the Region. At current prices (i.e. making no allowance for inflation), Regional GVA has grown from £17.2bn in 1989 to £32.26bn in 2003. However, as illustrated in Figure 1, growth has consistently lagged the UK average. This long term trend has not been fundamentally changed in the last few years.

Figure 1: Growth in GVA North East and UK 1989 – 03: 1989 = 100

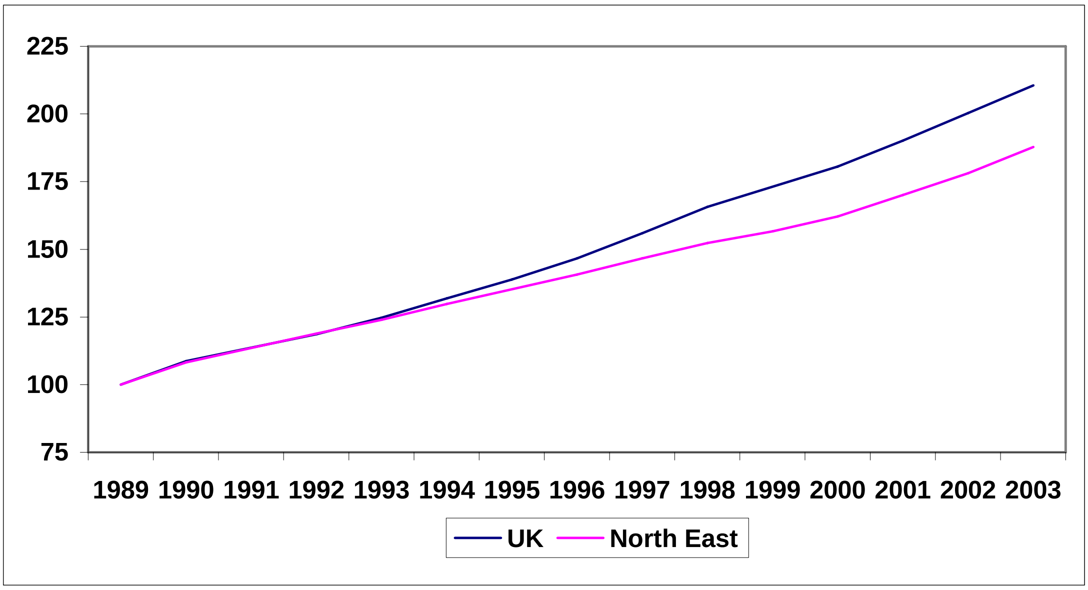


Figure 2 shows the annual change in GVA for the same time period comparing the North East and UK. This shows that annual growth rates are higher in the UK in all years between 1992 and 2002. However, in 2002/3 the North East’s GVA growth, (at 5.5%) exceeded UK growth (5.04%). This might be taken as an indicator that the RES is beginning to have a positive impact and that the North East’s relative economic performance is beginning to improve.

Figure 2: Annual % Change in GVA: North East and UK

	North East	UK
1989 – 90	8.2	8.6
1990 – 91	4.9	4.5
1991 – 92	4.7	4.4
1992 – 93	4.4	5.2
1993 – 94	4.7	5.6
1994 – 95	4.2	5.0
1995 – 96	4.0	6.0
1996 – 97	4.3	6.3
1997 – 98	3.8	6.3
1998 – 99	2.8	4.5
1999 – 00	3.5	4.3
2000 – 01	4.9	5.3
2001 – 02	4.7	5.4
2002 – 03	5.5	5.0

Care is required when interpreting this data as the most recent GVA data are subject to revision which could change the position. More importantly, Figure 2 shows that for short periods of time (1990 – 92) annual growth in the North East has exceeded UK growth, but without being sustained over the long term.

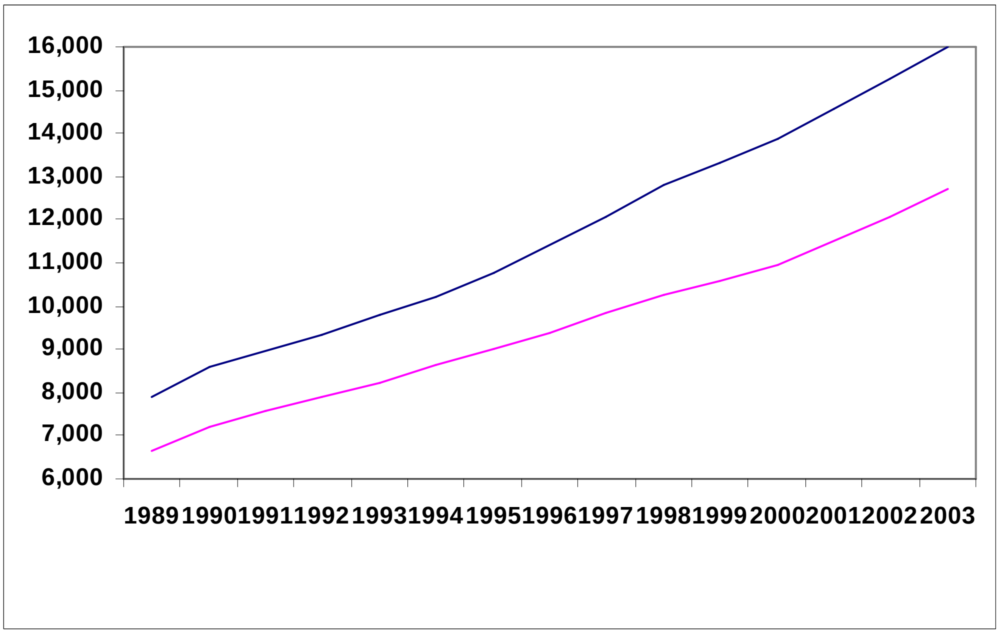
Only the future will show whether things are different this time. It is, however, possible that the North East's superior annual performance in the last year is more a cyclical phenomena rather than a long term structured improvement. While annual growth in the North East's economy continued to improve between 2001/2 and 2002/3, the UK growth rate declined. In part, the North East's economic cycle is lagging the UK cycle. If this is the situation, there is no reason to expect the North East's superior annual growth to be maintained over the long term.

In this context, the North East's superior annual performance in 1990/92 is worthy of note. During this period, the UK experienced a severe recession with annual growth rates well below the long term trend. This recession appears to have affected the North East less than the UK (with the recession hitting the South East particularly hard). However, on recovery from recession, the UK economy once again quickly began to out-perform the North East.

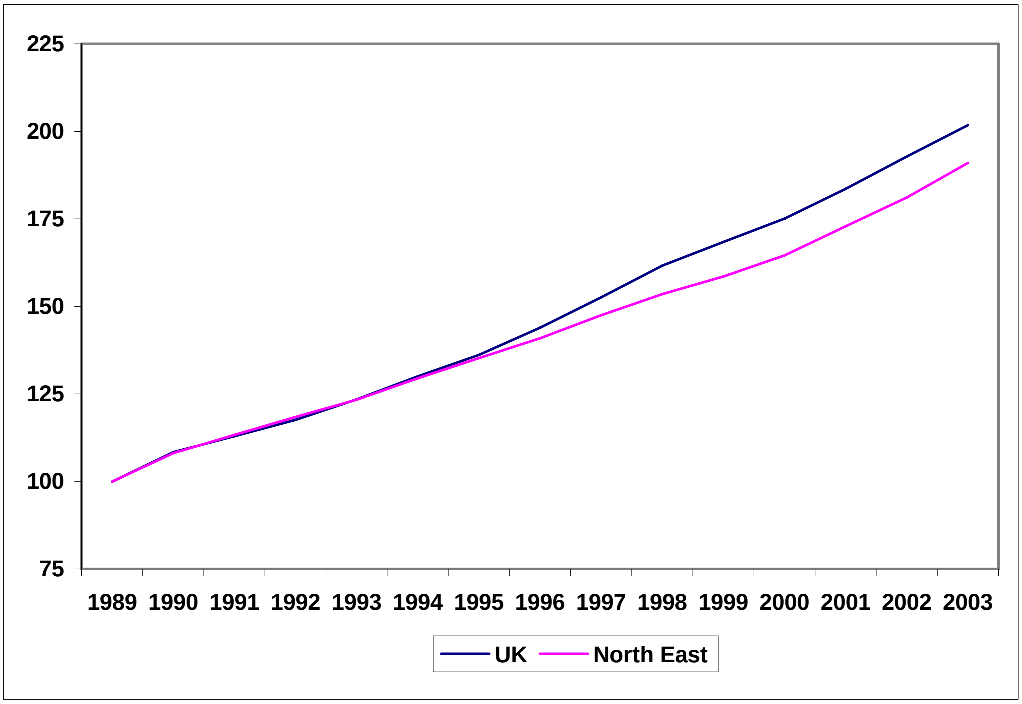
Nor is the North East's improved annual growth sufficient to make much difference. Indeed, in absolute terms, the UK continued to grow more per capita than the North East. In the UK, GVA increased by £767 per capita compared to £664 in the North East. The absolute gap continued to widen[1].

[1] This is due to the fact that the North East starts from a lower base. Hence, in absolute terms, a given percentage means less in the North East than the UK.

Figure 3: GVA per Capita: North East and UK 1989 – 2003
GVA Per Capita £s



GVA per Capita: North East and UK 1989 – 2003 (1989 = 100)



Source: National Statistics (2005) Regional Accounts.
Note: UK GVA figures exclude extra-regio income. Figures are at current prices.

3.2.2 GVA Per Capita

GVA per capita measures the amount of wealth produced per regional resident. In 2003, this was £12,736 in the North East compared to the UK average of £15,980. This is a large gap. Wealth production is 25% higher per capita in the UK than the North East.

Figure 3 shows the long term trend in GVA per capita in the North East and UK. Over time, the gap has gradually increased. Again, there is no evidence that this trend has changed in recent years.

Nevertheless, as with total GVA, the North East's annual growth rate for 2002/3 (5.4%) in GVA per capita exceeded the UK rate (4.6%). As previously discussed, because the North East starts from a lower figure, its higher percentage growth continues to translate into lower absolute growth in per capita GVA.

3.3 The Production Gap

Figure 4 shows estimates of the North East's 'production gap' for 1999 and 2003. This shows actual GVA, 'expected' GVA and the 'production gap' measured as the difference between actual and expected GVA. The expected GVA is calculated as the GVA the North East would have with the UK level of GVA per capita.

Figure 4: The North East's Production Gap (£ billion)

	1999	2003
Actual GVA	26.96	32.34
Expected GVA	34.01	40.58
Production Gap	**7.05**	**8.44**

In 1999, the production gap was £7.05 bn. This is 26% of the total GVA. By 2003, the shortfall was £8.44 bn (i.e. 25% of total GVA).

As discussed in Chapter Two, the production gap can be due to:

- relatively low labour productivity (i.e. each person in work generates less GVA than the UK average); and/or
- relatively low levels of economic activity as measured by labour market participation (i.e. relatively low levels of regional employment)

Whether Regional GVA is low because of low productivity and/or low levels of employment should influence the nature of the previous and future RES.

An analysis of the 'production gap' is presented in Figure 5. In both 1999 and 2003, both productivity and the employment rate (i.e. the proportion of the population in employment or self-employment) is below the UK average. Consequently, the North East's production gap is due to both low productivity and low levels of economic activity.

Figure 5: Analysis of the Production Gap

1999 Data and Analysis		North East	UK
	Employment (m)	1.041	26.218
	Self-Employment	0.098	3.168
	Total in Jobs	**1.139**	**29.386**
	Employment Participation Rate	44.66	49.34
	GVA per Job (£s)	23,669	26,634
1999 Production Gap			
	NE 'Expected GVA' With UK Productivity (£bn)	30.34	
	Gap Due to Productivity (£bn)	3.38	
	Actual Gap	7.05	
	Gap Due to Productivity	3.38	
	Gap Due to Low Employment Participation	3.67	
2003 Data and Analysis			
	Employment (m)	1.069	27.063
	Self-Employment (m)	0.086	3.403
	Total in Jobs	**1.155**	**30.466**
	Employment Participation Rate	45.48	51.16
	GVA per Job (£s)	28,000	31,238
2003 Production Gap			
	NE 'Expected GVA' With UK Productivity (£bn)	36.08	
	Gap Due to Productivity	3.74	
	Actual Gap (£bn)	8.44	
	Gap Due to Productivity (£bn)	3.74	
	Gap Due to Low Employment Participation (bn)	4.70	

Note: The calculations include both the employed and the self-employed in the estimates of both productivity and participation rates. Similar analyses often exclude the self-employed. However, the self-employed are now so numerous (at least outwith the North East) that their exclusion introduces considerable inaccuracies to the estimates.

In 1999, labour productivity was about £23,670 in the North East. This was 11% below the UK average. By 2003, productivity in current prices had risen to £28,000. At 10% below the UK average, hence the gap has narrowed marginally.

Turning to the employment participation rate, in 1999 44.7% of the Region's population were in a job. This compared with 49.3% of the UK population. By 2003, the Region's employment participation rate had improved to 45.5%. However, this remains 11% below the UK employment participation rate. This compares with 9% below in 1999. To achieve the UK employment participation rate, the Region requires an additional 145,000 people in a job, either as an employee or self-employed.

In 1999, 48% of the gap was due to below average labour productivity and 52% because of the Region's low economic activity (as measured by employment). This implies the need for the RES 2 to focus on both productivity and the generation of additional economic activity.

In 2003, below average productivity accounted for 44% of the Region's 'production gap' and below average economic activity (or employment) was 56%. This suggests that the situation has not changed dramatically. The Region needs both to improve the productivity of existing businesses and generate additional new economic activity. An important conclusion from this analysis is that in both 1999 and 2003 the North East had too few people in employment.

3.4 Employment

In 2003, regional employment stood at 1.069m and self-employment at 86,000 (see Figure 6). As illustrated in the previous section, the proportion of the regional population in employment (45.5%) was substantially below the UK average (51.2%). This represents a job shortfall of 145,000. Around 60% of this was due to an employee shortfall and 40% was due to the Region's low levels of self-employment.

Between 1999 and 2003, employment in the North East increased by 2.7%. This compares to a UK growth of 3.2%. Converting this into the number of actual additional people in employment, growth in the North East was 110 per 10,000 population compared to 144 in the UK. Looked at this way, the number of people in employment increased much more rapidly (30%) than elsewhere in the UK.

Figure 6:Employment in the North East and UK 1999 – 2003

	North East		Change 1999 – 03 Per 10, 000 Pop.	
	1999	**2003**	**North East**	**UK**
Employment	1.041	1.069	109.7	144.0
Self-Employment	0.098	0.086	-47.1	40.0
Total	**1.139**	**1.155**	**62.7**	**184.0**

The gap is even more dramatic for self-employment. Nationally it increased substantially. In the North East, it declined substantially.

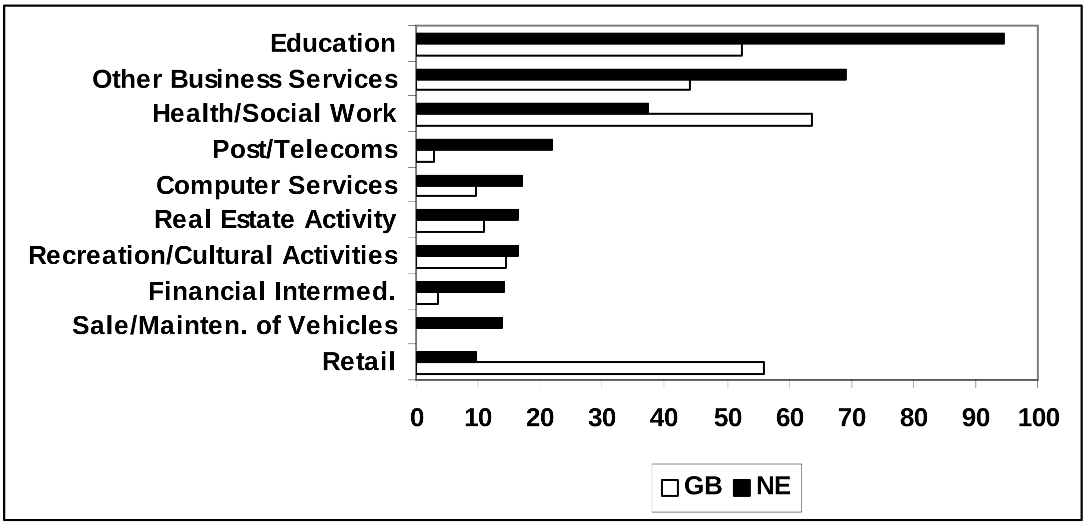
In contrast to GVA (and as we will see subsequently, population trends), there is no evidence that employment growth (relative to the UK average) has picked up in the most recent time period for which data is available.

The North East's employment growth sectors (2-digit SICs) are shown in Figure 7. Most growth has been in education, apparently adding over 24,000 jobs. Health and social work also grew rapidly, but to a lesser extent than elsewhere in the UK. In both of these sectors, the North East has more jobs per capita than the UK average.

In growth sectors such as post/telecom services, computer services and other business services, growth in the North East exceeded the UK average. However, all remain substantially under-represented in the Region. A 'catch up' process may be underway and this may be an important opportunity.

A major reason for the North East's below average employment growth was the slow growth between 1999 and 2003 in retail employment compared to rapid growth elsewhere. Per capita, the Region has some 15% fewer retail jobs than the UK average.

Figure 7: The North East's Growth Sectors 1999 – 03: Employment Growth per 10,000 Population



3.5 The Corporate Sector

3.5.1 Corporate Stock

RES 2 recognises that the Region's corporate stock is relatively small compared to the national average. As shown in Figure 8, this remains true. However, the growth in the corporate stock in the North East grew more quickly between 1999 and 2003 than in the previous five years. The growth rate gap between the Region and Great Britain also narrowed dramatically due mainly to a fall in national growth. Nevertheless, the Region's corporate stock continues to grow more slowly than the national average.

Figure 8: Changes in the Corporate Stock 1994 – 2003: North East and Great Britain

	North East	Great Britain
Stock per 10,000 Population		
1994	167.9	288.8
1999	169.7	310.3
2003	175.4	322.0
% Change in Actual Stock		
1994 – 1999	1.1	7.4
1999 – 2003	3.4	3.8

The VAT data used in this analysis excludes most (but not all) businesses set up and run by the self-employed. Compared to the national average, self-employment in the Region was low in 1999 and it remains low today. The Region has 86,000 self-employed. This means that 5.5% of the population of working are self-employed and that 5.2% of all those in a job are self-employed. The equivalent national figures are 9.5% and 11.2%.

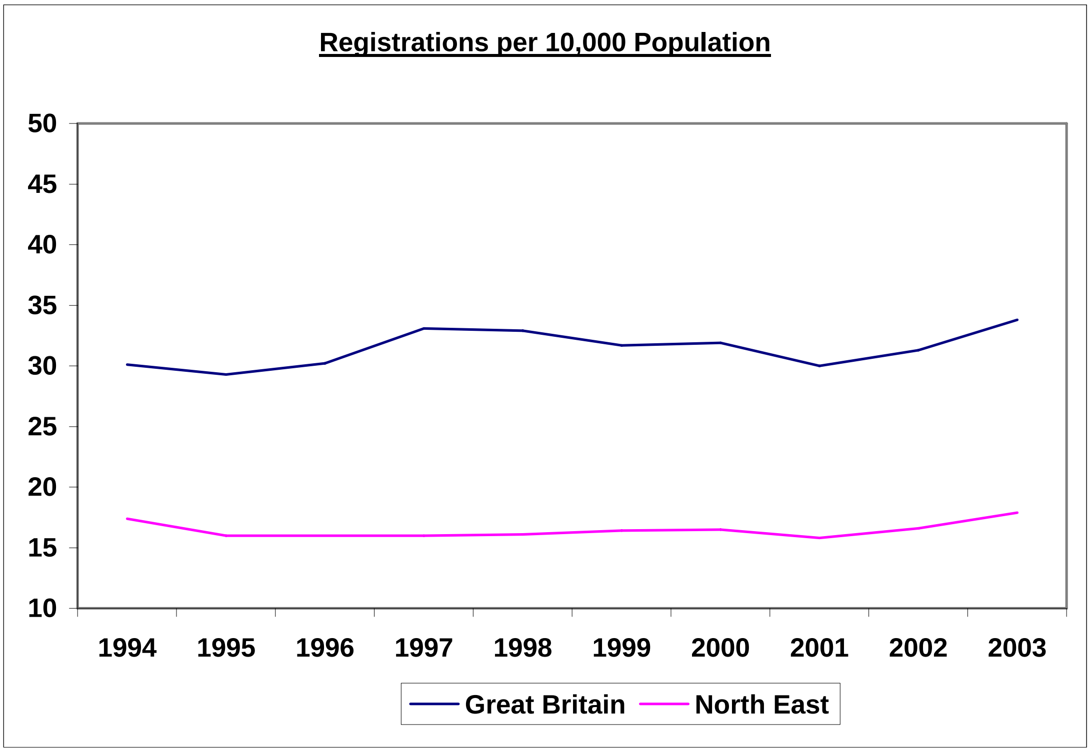
As shown in Figure 8, self-employment declined by 12% between 1999 and 2003 compared to national growth of 9.6%. Consequently, while the proportion of the workforce and those in a job who are self-employed has been increasing nationally, it is declining in the North East.

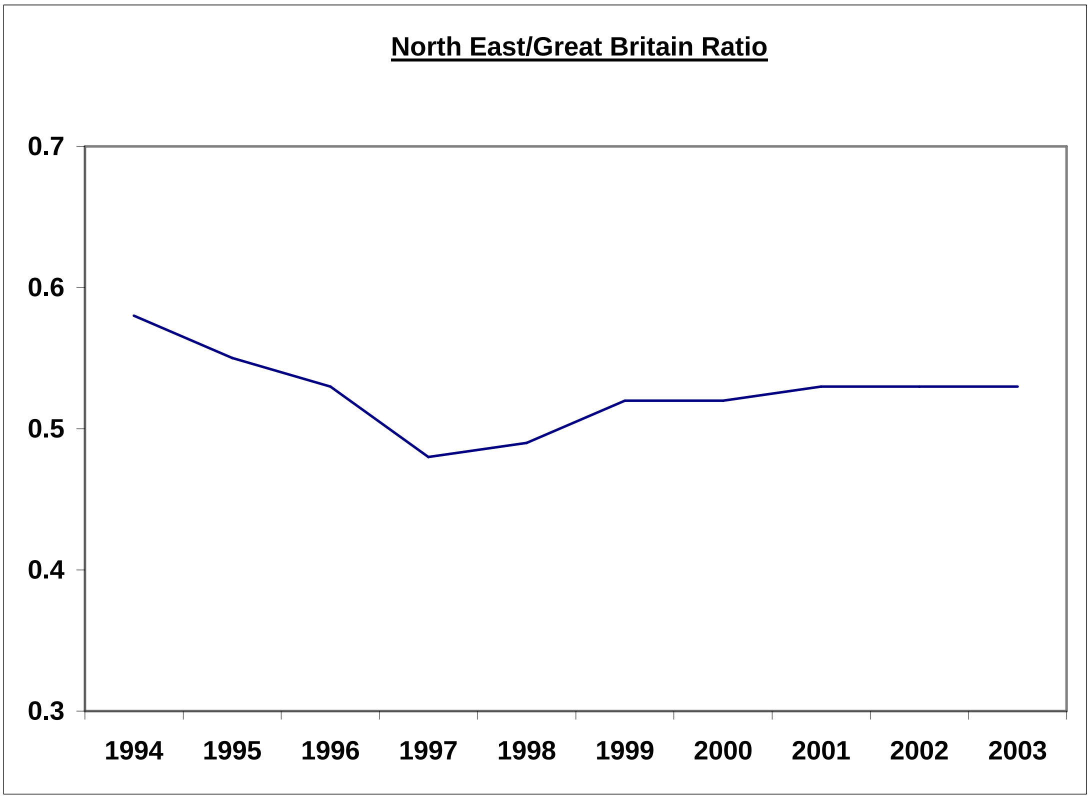
3.5.2 Business Birth and Closures

The slow growth in the Region's corporate stock could be due to either a low business birth rate and/or a high closure rate. The RES sets out to both increase the business birth rate and reduce the closure rate.

Figure 9 analyses the North East and national business birth rate (using VAT registrations as a proxy) for the period 1994–03. During the 1980's the national business birth rate per 1,000 population increased substantially. In contrast, the last decade, both nationally and in the North East, has seen little further growth in the business birth rate. The North East's business birth rate has been consistently below the national aveage. There has been a small rise in both the Region and the UK since 2001. In both areas, the rate now marginally exceeds those in 1994.

Figure 9: North East and Great Britain's Business Birth Rate





To obtain a better impression of relative changes, Figure 9 also shows the ratio of the North East's Birth Rate to the national rate. Between 1994 and 1997, the Region's birth rate compared to the national average fell from 58% to 48%. It has since recovered somewhat. However, the ratio has remained constant at 53% since 2001. This does not suggest the RES has yet brought about a major improvement in the North East's business birth rate.

Over the period 1999 – 03, there were almost 21,550 new VAT registratoins in the North East. Had the region achieved the national business birth rate per capita, there would have been an additional 18,050 (84%) new businesses in the North East.

RES 2 states that the North East has a 'dismal' business closure rate. As shown in Figure 10, for the period 1994 – 98, the North East's percentage closure rate was marginally above the national average. With the national average closure rate, 20,990 businesses would have closed rather than the actual figure of 21,345. A reduction in the closure rate to the national average would have increased the North East's corporate stock in 1999 by just 350 (a 0.8% increase). This does not justify the description 'dismal' relative to the rest of the UK.

Between 1994/98 and 1999/03, the number of business closures in the North East declined by 8% compared to a national increase of 2%. Consequently, the closure rate is now below the national average. It is not clear whether or not the RES can claim credit for these changes.

Figure 10: Business Closures: North East and Great Britain

	Actual Closures		**% Closure Rate**	
	North East	**Great Britain**	**North East**	**Great Britain**
1994 – 98	21,345	784,775	49.1	48.3
1999 - 03	19,710	800,955	44.9	45.9

Note: Closures are the aggregate for each 5-year period. The percentage is calculated based on the 1994 and 1999 stock.

The main factor which explains variations in the number of businesses which close across the country is the number of businesses which are set up. This is because in all parts of the country, a substantial proportion of new businesses do not survive into adolesence or middle age.

The proportion of new starts surviving after three years in the North East and Great Britain are shown in Figure 11. Of the businesses set up in 1994 in the North East, 58% were still in existence three years later. The other side of the coin is that 42% had closed. The equivalent national figures are 62% and 38%.

Figure 11: New Firm Three-Year % Survival Rates: North East and Great Britain

	North East	UK
1993	58.5	62.1
1994	58.6	62.5
1995	62.4	65.3
1996	64.7	66.0
1997	66.4	67.4
1998	66.2	66.3
1999	65.5	66.5

Source: SBS

While the Region clearly had an above average new firm closure rate, it is important to keep this in perspective. For the period 1993/96, there were 10,390 new starts surviving after three years in the North East. With the national survival rate there would have been an additional 410 surviving businesses (i.e. an increase in the stock of just 0.9%).

This implies that the Region's closure rate when the RES 2 was being written was not a major regional problem. Furthermore, as shown in Figure 11 the new firm survival rate has steadily improved in the North East and now matches the national average. Again, it is not clear whether or not the RES can claim credit for this improvement.

3.6 Births and Closures: Orders of Magnitude

The RES aims to increase the business birth rate and reduce the closure rate. However, it gives no indication of priorities and makes no 'orders of magnitude' estimates of whether it is business births or closures which matters.

In 1999, the Region had 168.3 VAT registered businesses per 10,000 population compared to 305.8 in Great Britain. Compared to its 1999 business stock of 43,925, with the national stock per capita, it would have had 77,990 businesses. This is a shortfall of 34,060 (80%).

As illustrated in the previous section, reducing the closure rate to the national average would add very few (say, 400) businesses to the stock over a five-year period.

Compared to 21,550 new starts between 1999 and 2003, with the national aveage, the Region would have had an additional 18,050 new starts. Allowing for the high closure rate (say, 60%) after three years, this would have added an additional 7,200 businesses to the Region's corporate stock.

These orders of magnitude suggest a reason for the North East's low growth rate is its low business birth rate rather than high business closure rate. However, such a conclusion cannot be reached on the basis of this data alone. An explicit 'model' of how business births and closures relate to economic development is also required. Such a model is not presented in RES 2.

3.7 Skills

The RES aims to increase the skills of the workforce and, in particular, the role of graduates. As shown in Figure 12, in 2003 almost 21% of the Region's working age population had qualifications at NVQ4+. The national average is 25%.

Figure 12: Changes in Workforce Skills 1999 – 2003: North East and Great Britain

	% of Workforce					
	North East		Great Britain		% Change in Numbers With	
	1999	2003	1999	2003	NE	GB
NVQ 4+	16.8	20.7	22.5	25.2	23.4	14.3
No Qualification	21.2	18.0	16.8	15.1	-14.9	-8.1

Source: Labour Force Survey

Between 1999 and 2003, the proportion of the working age population with NVQ4+ qualifications increased substantially. In absolute terms, the number increased by almost one quarter (23%) which is well above the national average.

Turning to the other end of the spectrum, 18% of the Region's working age population (compared to 15% nationally) have no formal qualifications. However, between 1999 and 2003 the number declined by 15%. This compares with a fall of just 8% nationally.

On these indicators of skill, substantial improvements are being brought about in the skills (qualifications) of the Region's workforce both in absolute terms and relative to the national average.

Increasing workforce skills should impact on the number of hard-to-fill job vacancies and the proficiency of those in employment. Figure 13 shows that between 2001 and 2004, the number of vacancies in the Region due to skill shortages actually rose from 0.4% of employees to 0.7%. The proportion in now the same as the English average. There are approximately 7,500 job vacancies in the Region due to skill shortages. To put this into context, in Section 3.4 it is estimated that the Region has an employment shortfall of 145,000. This implies that increasing skills on its own is unlikely to generate a substantial increase in employment.

Figure 13: Skill Shortages and the Skills Gap: % of Employees

	Skill Shortage Vacancies		Skills Gap	
	North East	England	North East	England
2001	0.4	0.8	9	9
2004	0.7	0.7	6	7

Source: Employers Skills Survey 2001, 2004

Figure 13 also shows the 'skills gap' in 2001 and 2004 in the North East compared to England. The skills gap is defined as 'in the opinion of the employer, an emplyoee is not fully proficient at their job'. In the North East, this applies to 6% of employees in 2004 (i.e. around 64,000 employees).

The skills gap is no worse than the English average and the proportion of employees assessed as not fully proficient has declined since 2001.

3.8 R&D and Innovation

RES 2 sees an increase in R&D, and its exploitation via innovation, as an important means of bringing about a long term improvement in the Region's economic performance. Based on the Annual Business Inquiry, employment in R&D (SIC 7310) appears to fluctuate from year to year. Nevertheless, between 1999 and 2003, it increased from just over 1,420 (i.e. 0.1% of regional employment) to just over 1,980 (0.2% of regional employment). Its share of national R&D employment also rose from 1.57% to 2.13%. Despite this growth, employment in R&D businesses remains relatively low in the Region.

Much R&D employment is within companies classified under other SIC codes and the universities. An indication of output from all R&D is the number of patent applications and the patents granted. The Centres of Excellence, for example, are expected to increase the level of patenting.

Figure 14 presents recent data on patents. In 2000, just over 1,630 patent applications were made to the UK Patent Office from the Region and just over 200 patents were granted. Indeed, the North East accounted for a more than respectable 7% of UK patents.

Figure 14: Patent Activity in the North East

	2000		2001		2004	
	Number	**% Share of UK**	**Number**	**% Share of UK**	**Number**	**% Share of UK**
Patent Applications	1,632	7.6	440	2.1	377	2.0
Patents Granted	206	7.0	46	1.7	51	1.3

Source: Patent Office

However, between 2000 and 2001, there was a sharp fall in both applications and patents granted. As a consequence, the North East's share of patent applications fell to just 2.1%. We do not know why there was such a sharp fall. However, it is clear from Figure 13 that there has been no recovery in patenting since 2001. Consequently, there is no evidence from this data source showing any major impact as yet from *Strategies for Success*. As noted previoulsy, it is reasonable to expect a significant time lag.

Expenditure in the North East is shown in Figure 15 and changes in expenditure 1998 - 02 are shown in Figure 16. Overall, the Region has just 1.3% of national R&D expenditure (compared to a 4.3% share of population). While in cash terms, R&D expenditure increased by £5m between 2000 and 2002, its share of UK expenditure declined from 1.7% to 1.5%. In other words, R&D in the North East grew more slowly than the national average.

R&D expenditure by Government rose in the North East and declined elsewhere. However, the amounts are not significant. Between 1998/00 and 2000/02, business expenditure on R&D declined in the North East while increasing elsewhere. Indeed, the rate of decline increased from 8% in 1998/00 to 22% in 2000/02.

Figure 15: Expenditure on R&D in the North East

	2000		2002	
	£m	**% of UK**	**£m**	**% of UK**
Business	164	1.4	128	1.0
Government	2	0.1	6	0.3
Higher Education	122	3.3	159	3.6
Total	**288**	**1.7**	**293**	**1.5**

Figure 16: % Change in Expenditure on R&D: North East and UK 1998 – 2002

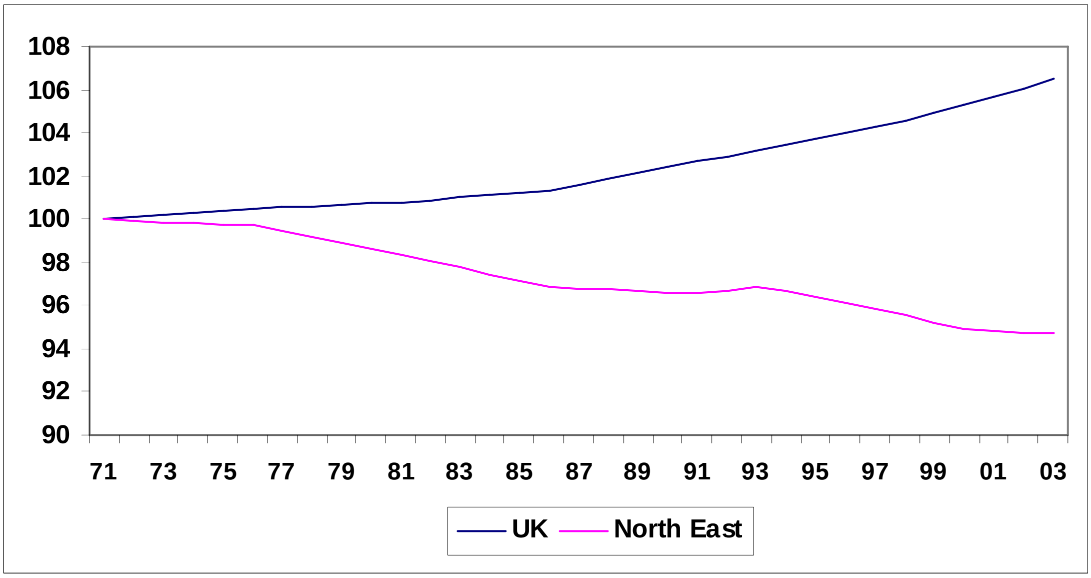
	1998 – 2000		2000 - 02	
	NE	**UK**	**NE**	**UK**
Business	-8	12	-22	13
Government	-33	3	200	-18
Higher Education	16	20	30	21

In contrast, R&D expenditure in the Region's universities is increasing. Between 1998 and 2000 expenditure (at current prices) rose by 16% compared to 20% in the UK. However, between 2000 and 2002, university R&D increased faster than the UK average (30% compared to 21%). Nevertheless, the Region continues to get less than its 'population share' of university R&D.

3.9 Population

In 1971, the North East's population was 2.68m. By 2003, this had fallen to 2.54m. As illustrated in Figure 17, the Region has experienced a slow but steady population decline. In contrast, the UK population has steadily increased.

Figure 17: Population: North East and UK 1971 – 2003



Discussion of population trends have been left to the end because population change now depends, to a large extent, on economic performance. Natural change is now relatively small with births and deaths more or less in balance. Migration is the main determinant of the North East's population change relative to the UK. Migration is storngly influenced by employment availability both in the North East and potential destination regions such as London and the South East.

During the UK's period of rapid growth 1995 – 2000, the Region lost on average 6,700 people per year. Subsequently, population decline has slowed. Between 2000 and 2003, the annual average loss was just 1,000 per year and, indeed, there was a marginal growth of 1,000 between 2002 and 2003. However, compared to the long term trend shown in Figure 16, this growth is hardly visible.

In combination with recent growth in GVA, this might be taken as a sign of positive improvement. The main reasons for the slow down in population decline (and recent increase) is a fall in out-migration. This may reflect the slow down of the South East's economy rather than improved economic opportunities in the North East.

The last time there was a small increase in the Region's population was 1991/93. This proved to be a temporary phenomena due to recession in South East England reducing the attraction of out-migration. With recovery from recession in the South East England, out-migration from the North East increased and population began to decline again. While we suspect a similar situation may currently exist, only the future will tell whether the current population increase is sustained over the next few years.

4 RES 2 – An Academic Critique and Commentary

The evaluation called for an 'academic' commentary and critique of the economic development model underpinning RES 2. This section presents that commentary.

4.1 Introduction

The published strategy does not set out an explicit economic development model. However, the supporting Economic Analysis and Technical Report provides data which are used to justify the strategy and, throughout the strategy document, there is a series of cause and effect statements which underpin specific proposals and strategic themes. From these, it is possible to identify an implicit economic development model underpinning RES 2. This commentary is based on an interpretation of this implicit model.

It is, of course, possible that our interpretation and description of this implicit model is not fully accurate and others could interpret the model differently. Furthermore, the commentary on this model is informed by our own perspective on, and models of, economic development. These are not necessarily more appropriate or more correct than those in the strategy.

Consequently, this commentary should not be taken as recommendations for an alternative model of, or approach to, economic development in the North East. Rather, it raises questions which should be more explicitly addressed and clarified during the current development of RES 3.

The commentary focuses on two inter-related but different issues. First, it examines the RES 2 perspective on productivity. In particular, the argument is that it is far from clear about the meaning of this concept and its contribution to economic development. Second, it examines the RES 2 assumptions of what drives and determines productivity (or more accurately, what determines Gross Value Added per capita).

4.2 Productivity and Economic Development

As both a measure and determinant of economic development, RES 2 sees improving the Region's productivity as a key objective. However, it does not spell out the definition, or economic development role, of productivity. It is not always clear whether the strategy sees the issue as production per employee (the normal definition of productivity) or production per resident (normally taken as an indicator of regional wealth creation). As will become apparent subsequently, this lack of clarity has important implications for the strategy.

To illustrate the issues, some basic definitions and discussion of concepts are required. Productivity, or more specifically labour productivity, is generally defined as:

$$\textbf{Productivity} = \frac{\textbf{Gross Value Added}}{\textbf{Employment}}$$

This is a measure of the amount produced by each person in employment, and this is often interpreted as a measure of efficiency. RES 2 and its supporting documentation presents little evidence on productivity.

Rather when discussing productivity, it appears more concerned with the amount of wealth produced in the region per resident. This is defined as:

$$\textbf{GVA Per Capita} = \frac{\textbf{Gross Value Added}}{\textbf{Population}}$$

The supporting technical report demonstrates clearly that GVA per capita is substantially below the UK average. The main strategic goal of RES 2 appears to be to increase GVA per capita towards closing that gap by 2010.

Whether the goal is to increase productivity and/or GVA per capita is important because the policies required to increase GVA per capita and productivity may be, but are not necessarily, the same.

Conceptually, the North East's below average GVA per capita can be attributed to:

- below average **productivity**, ie each person in a job produces **less** than those elsewhere in the UK; and/or
- below average employment **participation**, ie a low proportion of the population in employment. In this case, GVA per capita is below average because there is **insufficient** economic activity

GVA per capita can be increased by either increasing productivity and/or by increasing the level of economic activity and employment.

Again, this is important because policies to increase productivity and employment are not necessarily the same.

It is possible for productivity to be above the UK average and GVA per capita to be simultaneously below the UK average. This would occur when the North East has relatively few people in employment, but those in employment are highly productive. It is also possible to increase GVA per capita and reduce regional productivity. For example, this could occur when policies designed to bring people back into the labour market and put them into low productivity jobs.

RES 2 does not spell out, and gives no guidance on, whether the North East's 'problem' (ie low GVA per capita) is due to low productivity and/or low levels of economic activity/employment. This is a significant ommission as 'closing the gap' is a widely recognised ambition for RES 2 and will be again in RES 3.

Policy choices are available and the most appropriate options may vary depending on the nature of the problem. Only at full employment must policy focus exclusively on increasing productivity. With no labour free to be put to productive use, the only way to increase GVA per capita is to increase productivity. At this point, we simply note the analysis in Section 3 shows that the North East's low GVA per capita is caused by both low employment levels and below average productivity.

Even when the main policy aim is to increase productivity, there are policy options as productivity can be increased via different mechanisms. This can be achieved by:

- reducing the denominator (i.e. employment) in the productivity equation. This means producing current output more efficiently with fewer employees; and/or
- growing the numerator (i.e. GVA) in the equation. This means, for example, producing higher value products or, to use conventional RDA terminology, 'moving up the value chain'

Over-simplyifing to illustrate the point:

- policies to improve the efficiency of existing businesses and process innovation reduce the denominator
- policies to promote product innovation and/or high tech new starts might help grow the numerator

The strategy gives no guidance on whether the region needs to focus on reducing the denominator (eg because the North East's businesses are in some way inefficient) or growing the numerator (eg because the region's busineses are producing low value added products or because there is simply not enough businesses in the region).

While perhaps somewhat abstract, answers to these questions are of more than academic concern. The answers should inform the strategy and enable the identificaton of priorities. The effectiveness of different policies will also vary depending on the nature of the region's problem.

Because there is no explicit analysis of why the North East has below average GVA per capita, there is no clear statement on whether the region needs to increase productivity and/or generate additional employment.

As illustrated in Section 3, the region has a below average level of employment. However, the need for additional employment is not explicitly recognised. Indeed, much of the strategy appears to be based on the assumption that the North East is at full employment (or perhaps more accurately, could be if all available jobs were to be filled). There is no empirical support for such a view.

While parts of the strategy recognise the region's low employment participation rate, there is no explicit analysis or explanation of this phenomena. Is it due, for example, to an absence of job opportunities or because local residents are unable to fill large numbers of job vacancies? Again, the answer to this question should have important implications for the priority, nature and potential effectiveness of, for example, training policies.

Having commented on the strategy's treament of productivity, the rest of this section examines the factors assumed to drive or determine productivity or, more accurately, GVA per capita. Before looking at the specific factors identified in RES 2, it is worth noting that, while increasing productivity might cause growth, growth also brings about an increase in productivity. Consequently, increasing the level of economic activity in the North East may also enable an increase in productivity.

4.3 The Role of Business

RES 2 appears to recognise that businesses drive growth and increase productivity. Reflecting an export base model of economic development, the importance of exporting sectors is explicitly recognised. The universities are seen as playing a key role in improving the performance of the business sector both through, inter alia, knowledge transfer to existing businesses and the creation of high tech start-ups. The role of the universities is based on a recognition of knowledge (or at least is exploitation) as a potential driver of growth.

To improve the performance of the corporate sector, RES 2 identifies, inter alia, the following requirements:

- an improvement in the productivity of all businesses in the North East
- attraction of inward investment (under the heading of promoting strategic regional investment)
- an increase in the business birth rate; and
- a reduction in the region's business closure rate which is described as 'dismal'

A variety of mechanisms are proposed to achieve these including proposals under *Strategies for Success* (eg Centres of Excellence, venture capital for high tech start-ups), the development of clusters and business networks, and the restructuring of business support services.

While retaining a concern to attract invward investment, RES 2 is much more based on an indigenous model of economic development. However, within this context, it is not clear whether the major drivers are seen as existing businesses, the need for new starts (and a more entrepreneurial culture) or the reduction in business closures. Each of these has very different implications for business development policies.

RES 2 appears to give at least equal priority to increasing the business birth rate and reducing the closure rate. (Indeed the language sometimes seems to imply the latter as the top priority). As illustrated in Section 3, it can at least be argued that some basic orders of magnitude analysis shows that the Region's closure rate was a marginal problem. In contrast, its low business birth rate was (and still is), a major reason for the North East's average growth.

The strategy could usefully have identified whether the North East's problems arose from:

- rapid decline of its economic base or
- a failure to generate sufficient new economic activity. The focus on reducing closures reflects a wider tension in the strategy between the desire to generate new economic activity eg *Strategies for Success*) and the protection of existing economic activity and structures (eg reduction of business closures, a focus on problems or declining areas).

An important part of the implicit model are the factors seen as driving busines productivity. Apart from the development of clusters and knowledge transfer from the Centres of Excellence, the following are the main drivers and policy mechanisms identified:

- the use of ICT and e-commerce enabled by investment in broadband infrastructure
- restructuring to remove overlap, duplication and confusion relating to the existing business support systems; and
- the creation of new investment funds. While this includes venture capital under Strategies for Success, it also includes (under the theme Our Passion for Risk Taking) funds designed to reduce business closures (p 32)

The question which needs to be posed is whether such proposals are enough to improve the competitiveness and performance of the corporate sector.

Much time and effort, for example, has been put into restructuring and reforming the business support system. This may be necessary and possibly important. However, the obvious question is whether, and how, a restructured business support network affects business growth and productivity or increases the business birth rate? It is difficult to believe (or find evidence to support) the idea that the business support system is a key determinant. Other regions in the UK (e.g. the South East) are successful without such an extensive business support system. Reducing confusion in service delivery may not be a key driver of growth and output improvement .

There is a potentially extensive agenda of issues which might need to be tackled to improve the growth and productivity of the corporate sector. These include management, innovation, costs such as business rates or the support for investment. These are issues relevant to the business community.

While RES 2 discusses few such issues, it does comment that:

> *'Underpinning these drivers is the need for businesses to promote equality and diversity in the workplace… by for example, adopting family friendly policies, recognising the productivity benefits such policies bring.' (p. 14).*
>
> *'In addition, adopting best practices in environmental performance and resource productivity can make cost savings that go straight to the bottom line'. (p. 14)*
>
> *'Environmental performance is a key element of business competitiveness.' (p. 16)*

Such observations may be correct. However, are they the key drivers of economic growth and productivity? It might, for example, be difficult to get busiensses to engage with the business support system if its main priority was seen to be promoting diversity, family friendly policies and environmental protection.

Finally, and more self-evidently related to improving the performance of the corporate sector, we comment on the two key proposals in the strategy, *Strategies for Success* and Clusters.

The success of *Strategies for Success* is a critical determinant of long term impact of the RES. We note that it is not expected to have short term effects on, for example, employment or even innovation. However, in the long term, it is expected to generate a phenomena something like Cambridge. Here, we simply note that the Scottish equivalent to this strategy was expected to have relatively little impact over a 10-year period.

Second, turning to clusters, the proposals in RES 2 are for futher strategy development work. It provides a discussion of different types of clusters and a long list of possible clusters in the North East. However, it does not say which of the list falls into which category or, indeed, which clusters (if they exist) are to be given priority. Essentially, the strategy proposes further work. Hence, cluster work is unlikely to have much (if any) impact on business performance, GVA per capita or employment during the lifetime of RES 2.

4.4 Regional culture

RES 2 argues strongly that regional culture is a major driver of productivity (or GVA per capita). To quote from the strategy '*Realising Our Potential sees investment in our culture as a key to our sustainable prosperity.*' (p.10). It further argues:

> *'Successful modern economies require a dynamic cultural environment in which to flourish. Communities with artists, nightlife, sport and diversity will draw entrepreneurs, academics and creative and ICT professionals – those able to drive economic growth in the new age.' (p. 10).*

In addition to attracting skilled and creative people, investment in culture is seen as helping attract high quality inward investment, encouraging private sector investment in infrastructure, motivating young people to improve their school performance and ensuring the benefits of growth are spread throughout the community.

Reflecting this argument, the creative industries is one of the clusters identified in the strategy and specific illustrative projects are mentioned in the Great North Run, the bid for the European Capital of Culture 2008 and developments such as the Centre for Contemporary Arts and the Gateshead Millennium Bridge.

No evidence is presented, and we are aware of no such evidence from the research literature, deomonstrating that regional culture is a key driver of economic development. This is not to deny that the Region's population would benefit from such investment or that it could contribute to economic development. This might be particularly true when all the other development ingredients are in place. However, questions should be asked about the relative importance of culture compared to the many other factors which drive economic development.

It is not obvious how investment in culture (or at least the type of cultural projects identified in the strategy) will motivate and bring about an improvement in school performance. More and higher quality employment prospects may have as much, if not more, influence. The majority of entrepreneurs set up in business near to where they live. Very few choose to move to a culturally vibrant location to set up their business. The majority of creative and skilled individuals move into a region because of employment opportunities and not because of the sporting or nightlife culture. Indeed, it may be that successful regions create a vibrant culture rather than a vibrant culture, in some way, directly generating economic growth.

Throughout the strategy, there is a focus on attracting talented people. In-migrants are important. For example, it is well known that such individuals are more likely to set up their own business than non-migrants. However, it is not clear how this is to be achieved. Nor is it clear that the strategy is based on a sound understanding of what determines migration flows.

It is possible that success, or at least employment, rather than culture, attracts in-migrants. This might raise doubts relating to whether policies to attract in-migrants can be a successful means of driving economic development

Nevertheless, there may be specific opportunities which could be exploited. For example, from other work we are aware of business service companies which have found it difficult to recruit staff (especially from South East England). However, the constraints were not 'cultural', but rather housing and the difficulty of re-entering the South East property market if, or when, the individual wished to return – generally for job reasons.

4.5 Skills

The Economic Analysis and Technical Report demonstrates that there is a low level of skills (as proxied by qualifications) in the Region's workforce. The regional economy is characterised as having a low skill equilibrium defined as:

> *'Few skill shortages or an employed workforce which is predominantly low skilled and/or poorly qualified'. (p. 35).*

The proposed solution is to attract highly skilled individuals and to invest in education and training to increase the skills of existing residents.

The assumption is that increasing the supply of skills generates demand for skills and enhances regional competitiveness (productivity and/or GVA per capita). Consequently, the strategy's proposals focus on increasing the supply of skills. The specific mechanisms are:

- raising the aspiration of young people (especially post Key Stage Three)
- raising the demand for learning from individuals
- increasing employability of the workforce
- developing, attracting and retaining highly skilled people
- developing a learning framework based on standards of excellence informed by quality information

This is essentially a supply side approach and none of these are about increasing the demand for skills from business. In this context, it is important to note that increasing demand for learning by individuals is not the same as increasing demand for skills from businesses.

There is no analysis or statement of how increasing the supply of skills generates employment, increases productivity or GVA per capita. The impact varies depending on whether there are large number of job vacancies due to skill shortages. No evidence is presented on this question.

In the absence of such vacancies, the impact mechanisms may be via the increased supply of specific labour skills putting downward pressure on wage rates with some increases (depending on the wage elasticity of demand for labour) in employment. There will also, however, be considerable displacement. Supporting analysis of these issues would help establish strategic priorities.

4.6 Social inclusion

The strategy gives considerable prominence to equality, social inclusion and ensuring that all parts of the community and region benefit from economic development. However, it goes further than seeing them as a 'good thing' and desirable policy objectives. It appears to argue that a focus on inclusion and equality is a determinant or driver of economic development.

For example, recognising the substantial numbers (especially older men) outwith the labour market and the consequent below average employment participation rate, it argues:

> *'Bringing those currently excluded from the workforce back into employment would make a significant contribution to boosting productivity and prosperity in the North East.' (p. 38).*

In this view, the strategy appears to assume that there are plenty of available jobs, for their returnees, or that they are being readily and quickly created throughout the economy.

If job vacancies are not widely available, questions need to be asked about the effectiveness of policies aiming to bring those outwith the labour market back into employment. Such policies may, or may not, achieve such an objective. In doing so, they may, however, have significant labour market displacement effects and make relatively little contribution to Regional GVA per capita.

This is not to argue that such policies are incorrect or inappropriate. However, it is to argue that such policies should be given priority based on an explicit understanding of their likely impact and contribution to the region's economic development.

A second illustration relates to the strategic focus on the regeneration of rural and other deprived areas. For example, RES 2 states:

> *'To build a more prosperous North East, it is* ***essential*** *to focus directly on the Region's most deprived rural and urban communities'. (p. 74).*
>
> *'The Region's commitment to rural and urban regeneration is a* ***pre-requisite*** *to accomplishing the objectives of B1 to B5 (i.e. those relating to the competitiveness of businesses). Experience indicates that progress based solely on wealth generation fails to secure inclusive long term outcomes.' (p. 74).*

These are legitimate policy choices. However, is it really esssential to focus on the most deprived areas as a pre-requisite for business competitiveness? There are many regions which have achieved substantial development without first tackling these issues.

4.7 What really matters?

The strategy is wide ranging and aims to be comprehensive. However, an implication of this breadth is that it is not always self-evident what is important and what is less important for economic development.

The strategy contains much detail potentially relevant to local regeneration. For example, it notes:

> *'One NorthEast and the Sub-Regional Partnership are committed to working more closely with the fire services in the Region on strategic economic development issues.' (p. 112).*

There may be a good reason for such a statement and the fire services may have an important role in specific initiatives. However, given all the other issues which need to be addressed, is such a working relationship fundamental to the future of the economy or to some other aspect of regional development?

It could be argued that this is an example of the failure to identify what really matters. Indeed throughout, the strategy does not make choices. For example, as RES 2 states:

> *'we do not see any choice between economic, social and environmental development, they go hand-in-hand.' (p.8).*

In many ways this may be true. Nevertheless, choice is necessary. At its simplest, resources are limited. The RES process may need to decide whether the priority is to invest in economic, social or environmental development.

The same point can be made, perhaps somewhat unfairly, from the social inclusion agenda. RES 2 notes the region's interest in those 'communities' which regularly encounter discrimination and disadvantage including:

> *'black and ethnic minority communities, refugees, faith groups, women, older people, young people, disabled people and people discriminated against because of sexual orientation.' (p. 110).*

Elsewhere, concerns are expresssed for other groups (e.g. ex-offenders). In total, these groups constitute the majority of the region's population. The link to economic development is not made clear and, even from the social inclusion perspective, which groups are to be given priority is not self-evident.

To some extent the difficulty in identifying priorities and the need to make choices appears to derive from the strategy's commitment to 'joined up thinking'. The need for such thinking is strengthened by the recognition that 'everything effects everything else'. Consequently, the strategy has an implicit systems or cumulative causation model of economic development.

While conceptually preferable to an overly simple view of the process based on one-way cause and effect relationships, it means that doubtful or, at best weak, cause and effect assumptions are used to justify elements of the strategy. As suggested throughout this analysis, it sometimes appears that cause and effect relationships are reversed. Certainly, there is no evidence presented for some of the more questionable relationships assumed in the strategy.

Finally, in terms of what really matters (from the persepctive of increasing GVA per capita), there is no sense of proportionality or orders of magnitude. No indication is given of how much difference the various policies might make. The example of the emphasis on the ‘dismal’ business closure rate has already been quoted. As illustrated in Secton 3, some basic ‘order of magnitude’ calculations would have demonstrated that reducing the closure rate to the national average (or even below it) is (and was) unlikely to make a major difference to the regional economy. In contrast, improving the business birth rate would have a marked effect.

5 RES 2 Evaluation Interview Findings

This section reports the findings and analysis of the interviews.

5.1 Introduction

The interviews were segmented:

- focus on specific RES 2 themes (24)
- from a ‘whole system’ perspective of the RES 2 process and outcomes (9)

Twenty four theme interviews were undertaken, with stakeholders segmented by the theme with which they had been most closely involved:

- creating wealth by raising the productivity of all businesses
- establishing a new entrepreneurial culture
- creating a healthy labour market supported by a skilled workforce
- recognising our universities and colleges at the heart of the region’s economy
- meeting 21st Century transport, communication and property needs
- realising the renaissance of our rural and urban communities
- sub-regional partnerships

Stakeholders were asked questions to the development and the impact of the RES using Likert scales to quantify their response. They were then asked to provide further qualitative details that supported their scoring. The interviews addressed the following issues and the findings are reported below:

- purpose of RES 2
- process effectiveness
- value of the RES
- contents of RES 2
- consequences of the process
- the economic model of the North East used

The ‘whole system’ interviews were designed to look at the RES 2 strategy and strategy development process from a holistic perspective. The objective was to access the effectiveness of the RES process in :

- contributing to strategic value add
- influencing stakeholder attitudes and behaviours
- establishing a process that enables continuous improvement in strategic thinking capacities in the North East
- improving prioritisation, delivery and economic performance in the region

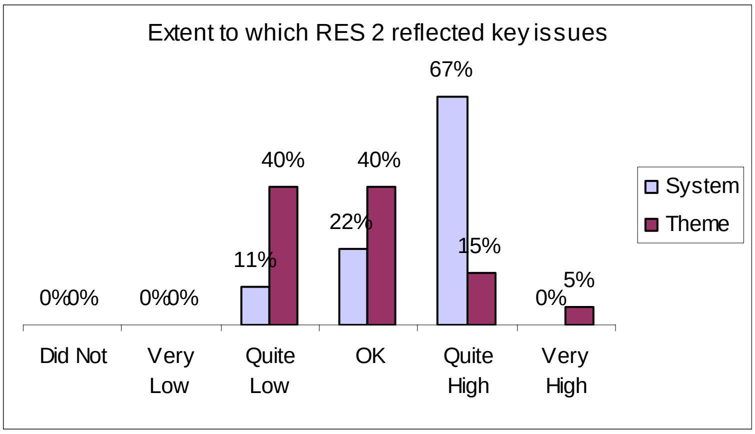
The graphs in this section include both theme and system responses.

5.2 RES 2 purpose

Respondents were asked their views on the purpose of the RES process, and the extent to which RES 2:

- reflected the key issues for the North East at the time of development
- contextualised these issues in terms of future and global perspectives

5.2.1 Extent to which the RES reflected the key issues for the development of the region at that time



As the graph shows RES 2 reasonably reflected the extent of knowledge on the key issues facing the region at that time. Those with a 'system' view were markedly more positive than the themes. However, respondents noted that the shared understanding of the region has changed significantly and the evidence base supporting current RES 3 analysis has also improved. This evidence suggests a trend of improvement in the RES process.

The purpose of RES 2 was to set a framework for what needed to be done in the region at that time and there is consensus that:

- it identified the appropriate six themes and they remain broadly correct
- there were no 'big issues' missing

There is a recognition that there were gaps in longer term thinking in the North East. The Strategic Futures objective within RES 2 (implemented as the SHINE project) addressed that issue and SHINE has had a significant role in influencing the RES 3 process and content in producing 'future evidence'.

There are concerns about shared ownership of the RES. It was noted that, while it was the region's economic strategy, there was a tendency for ONE to see it as the sole regional strategy forgetting the (legislative) requirement for other processes such as the Regional Spatial Strategy (RSS).

RES 2 needed to be much more specific on the priorities for other related strategies and the RSS, eg which were the key development sites and by implication, which were not.

A related difficulty was that strategic choices and priorities, that should have been made under other processes, eg the Transport Strategy had not been taken, hence the RES could only list the projects rather than present decisions. This suggests a need for better alignment in the 'strategy geography' of the North East.

One of the most important 'gaps' in RES 2 was prioritisation of actions. This raises questions that RES 3 should address including:

- responsibility – who should have made the choice of priorities
- mechanisms – what processes existed to make that happen

There is a strong view that the RES process is about what is needed – growth and prosperity in the North East – on which there is agreement. There is a concern that it did not explicitly consult on, or discuss, alternative strategic options, eg concentrate resources on business creation <u>or</u> on the environment. In that sense RES 2 seemed to avoid issues about which there might be disagreement. While this may be part of the price paid in building stakeholder engagement, it is not a substantial position if the region is to take significant steps forward.

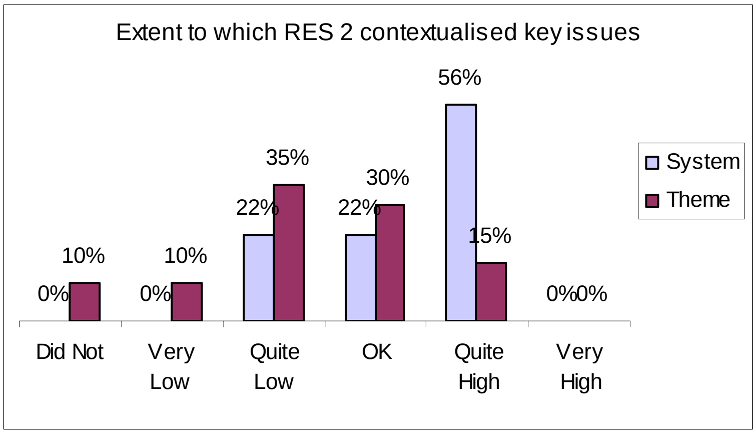
The process of updating the RES every three years is a concern. A common reaction was 'we have just got used to the priorities (from RES 1), so don't change them': This was balanced against the recognition of new policy changes, eg on clusters, and innovative new strategies, such as the role of the universities.

In terms of emerging policy priorities, the City Regions' agenda is seen as a major driver with the view of cities as the engines for economic growth and drivers of regional performance. This agenda is seen as potentially carrying threats for some parts of the North East.

The issue of leadership, a key feature of the draft RES 3, was raised by most of those it interviewed and it was emphasised that:

- the issue of leadership is not about controlling, it is about facilitating and orchestrating the skill and resources to deliver on the priority issues for the North East
- expectations about increasingly seeing a role for more powerful and effective city managers
- the issue about leadership is important, but fundamentally it is about coaching and in the North East a major programme of leadership development with a 'whole team' approach is needed
- these indicate a need for RES 3 to go beyond commenting on leadership and be specific on actions that will drive up leadership competencies in the region

5.2.2 Extent to which the RES contextualised the key issues in light of potential future challenges and the global environment



Respondents believed that, at that time, RES 2 as a 'system' was contextualised well although there is a significantly lower scoring from 'theme' respondents. This may reflect the level of detailed context setting that theme users may expect in comparison to the more strategic view. However, they uniformly noted that since then, particularly the SHINE process, there has been considerable progress and RES 3 will be much better in terms of being both:

- international and outward looking
- future focused

"I think we still try to compare ourselves against other English regions too much – we need a more international perspective."

The impact of SHINE is considerable and it is one of the significant outcomes of RES 2. It has strongly influenced both the process and the content of RES and it remains an asset with potential to contribute strategic value for the North East.

The ongoing OECD work was noted as being likely to further accelerate capacity building in the North East's economic policy community, thereby further driving up the quality of strategic thinking and policy making. This is perceived as a form of 'peer review' that brings value and credibility to the North East.

"We now know much more abut the region and about the global context as a result of SHINE. There is now an OECD team in Newcastle looking at our performance and that will provide further information and continue to improve the context."

The RES process has a key role as a 'space' within which increasingly challenging issues can be raised, and decisions made. It was noted that RES 1 and RES 2 have now 'sold' the idea to the partners that an economic strategy was needed and this is now accepted widely.

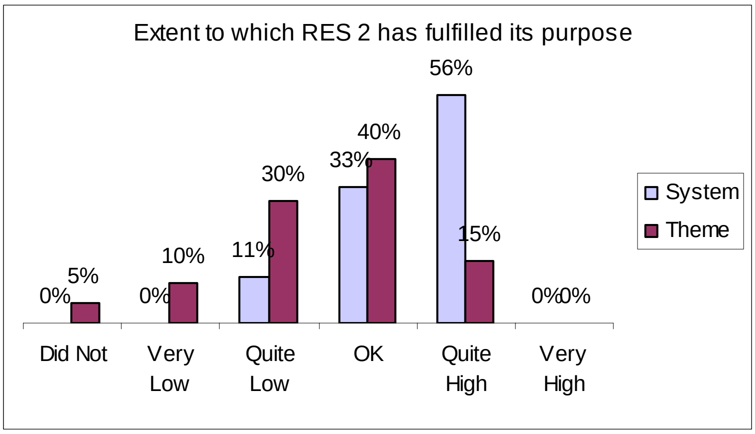
The RES is now part of the policy-making 'scene' in the North East and is an achievement that is adding, and will continue to add, strategic value.

The RES has had a positive role in making the North East less introspective and more aware of both problems and the need for action in solutions. The RES process has helped the region achieve:

- a more subtle and sophisticated view of what to look at and how
- a richer texture of both research information and performance evidence
- organisational behaviours increasingly towards deeper and more complex partnership working

It was noted that there is still some 'institutional clutter' in the region that could be tidied up to enhance delivery in the North East.

5.2.3 Extent to which the RES has fulfilled its purpose in the last three years



While concerns were identified interviewees believe that, RES 2 has fulfilled its purpose. Again that view is markedly stronger from the 'system' perspective. It is important to note that all of the interviewees were engaged in the RES 3 consultation process and answered this question with that updated level of awareness. There is a shared view that the RES process has been on a 'journey' of improvement in economic development policy making in the North East from pre-RES to draft RES 3. The concept of the journey is discussed more fully in Section 7.

There is awareness of one of the key dilemmas faced by RES authors. If it does not specify specific priorities, it is criticised as being "all things to all men". If it tried to be more specific, they would be criticised for "telling people what to do". This dilemma of role needs to be discussed explicitly by the key partners as it offers scope for organisational and political various it left unclear. This is probably one of the greatest challenges facing the leadership agenda in RES 3.

A related criticism of RES 2 was that it was "too broad", hence almost any project proposal could be seen as 'acceptable'. The strategy lacked specifics and a clear statement of priorities. As a result disagreement began to emerge when implementation began and the issues became 'how to achieve the motherhood statements'.

The main impacts of RES 2 that respondents identified from a 'whole system' level that evidenced success in its purpose and contributed strategic volume were:

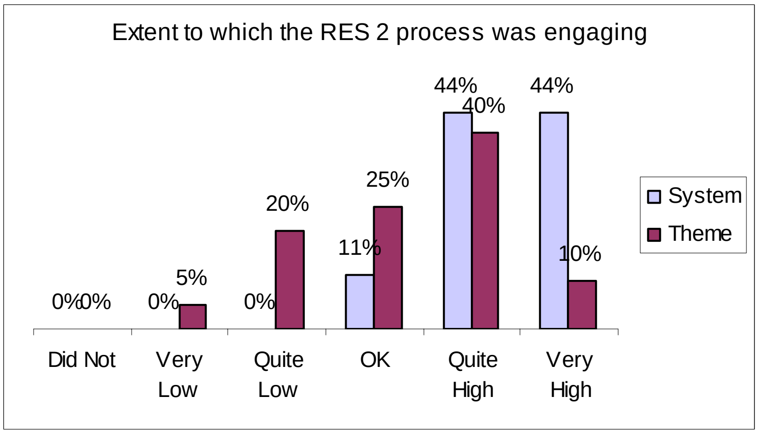
- adding to the case for the Single Programme funding which government subsequently delivered
- creation of the Sub-Regional Partnerships
- the Strategies for Success and Centres of Excellence work
- putting the universities much higher on the economic development agenda
- acceptance of the document by the key regional partners was widespread and that is something that can be built on RES 3
- there is now a shared vision for the region that is owned by ONE, GONE and the Regional Assembly
- it helped consolidate what is now the core framework of strategies for the North East in the RES and Regional Spatial Strategy
- delivery of SHINE
- initial steps in improving the fragmented delivery mechanism eg business support services

5.3 Process effectiveness

Respondents were asked to assess the effectiveness of the RES process and the extent to which RES 2:

- was engaging for stakeholders
- led to greater alignment of policy and of stakeholder organisations
- priorities remained relevant over the three year life of the strategy
- extent to which key agencies committed to delivering the RES

5.3.1 Extent to which the RES process was engaging



The graph makes clear that the process was seen as open and inclusive. It was noted that ONE had learned from the RES 1 experience, when it was criticised for not consulting enough. RES 2 took account of organisations' views, but there is concern that notice was taken of all the consultation comments, but key choices were left unmade.

A criticism of the RES process is that it lacked debate and shared decision making. An example cited was the options of 'bottom up' community based model (fitting development to the existing culture) or the more traditional economic development model (changing local culture to fit the needs of the global economy). These options were never explicitly examined within the RES process. It is reasonable to note, as in Section 4, that the lack of a shared economic model for the region enabled this ambiguity.

The combination of a vague economic model and a lack of evidence enabled the RES 2 process to both avoid making choices and keep stakeholders engaged and feeling totally consulted. However, significant progress is thought to have been made in evidence gathering.

> *"I feel that we are better able to take these kind of hard decisions on the current revision of the RES (3)."*

Concerns were raised about the nature of the consultation process and the influence this may have had on the quality of discussion. Preferences were expressed to have more one-to-one contact, as opposed to some of the general workshop sessions.

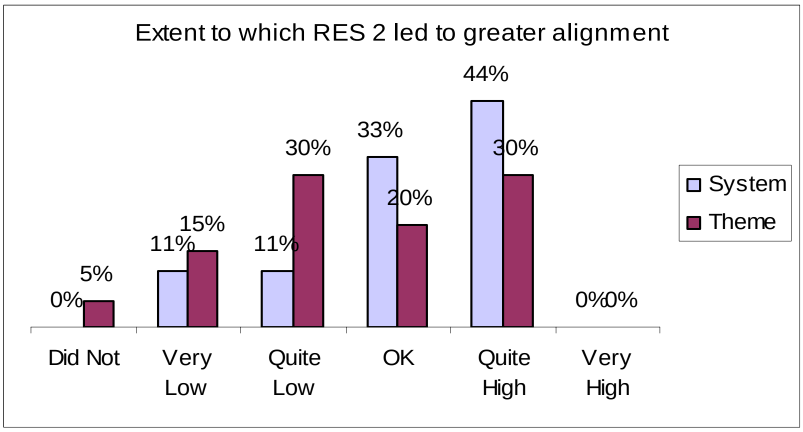
> *"I think smaller and more specialist groups work well. I think that's a better approach rather than more 'public' engagement which is often rather generic."*

There is a concern about the 'volume' of activity required to deliver the RES process and document. Specific comments included:

- in revising the RES consideration is required on there having been major changes, either externally or internally. If there was not, then all it would need is a 'light touch' revision
- there is a perception that every three years a new team restarts the RES process. There is no 'corporate memory' and a tendency to wait to 'start from scratch'
- the current three year cycle tends to feel like one year preparation and two years delivery
- there is an increasing view that the region cannot wait for a review of the RES every three years and something has to happen more frequently
- a large scale consultative process is thought to be increasingly unhelpful, and there needs to be much more fluid, reflective and flexible approach

The RES, and the accompanying public consultations, are requirements set by government. However, as the three RES processes to date evidence, the North East is 'getting better at it'. This suggests that a review immediately post RES 3 may yield insight on potentially significant process improvement opportunities.

5.3.2 Extent to which the RES led to greater alignment of policy and key organisations in the North East



While the RES process was seen as an open and engaging process at 'entry' points, there are questions about the extent of genuine partner alignment at process 'exit' and into delivery.

Continuously improving economic data sets have enabled more rigorous analysis of the regional economy. In parallel, the SHINE process has made significant steps in bringing an international and future based context to the RES process. These new inputs have been shared widely and are an influence towards greater alignment as there is a shared understanding of the key issues.

There is a greater alignment in that people state the problem in the same way and this implies that they agree on a solution. Assuming that the vision for a solution is the obverse of the problem, then agreement should be 'easy'. This is not the case and emphasises the need for further development is shared strategic thinking.

Opinions on the buy-in to a shared vision indicative that, while the immediate response is 'yes', a more reflective view suggests that this is actually shared view of 'what we are going away from', rather than 'where we are going to'. This status makes strategic choices difficult as while the 'starting point' may be agreed there is yet a genuinely shared view of the:

- destination (preferred outcome priorities)
- preferred routes (to be resourced)
- non-preferred routes (not to be resourced)

There may be an assumption that, because organisations engaged with the *creation* of the RES, then they would and align their policies and service in its *delivery.* RES 3 should challenge that and require more explicit evidence of stakeholder alignment in delivery, particularly in the change in funding allocations towards RES priorities.

> *"We are now working more clearly with the LSC on how ONE capital and LSC revenues can be brought together to achieve more outcomes more effectively."*

Further work is required on the alignment with other strategies, eg the Regional Spatial Strategy (RSS). It was noted that the Northern Way rather than the RES has influenced the RSS and public policy on transport.

The 'closing the gap' goal underpins RES 2 and RES 3. However, as discussed in Section 4, there is not a shared view on the magnitude of the step change required, eg 30,000 new companies in the North East, to get to the national equivalent levels. A much more explicit 'headline' and tangible quantification of 'the gap' could be a subtle, but significant, motivator to aligning partner engagement in making clear a compelling case for change.

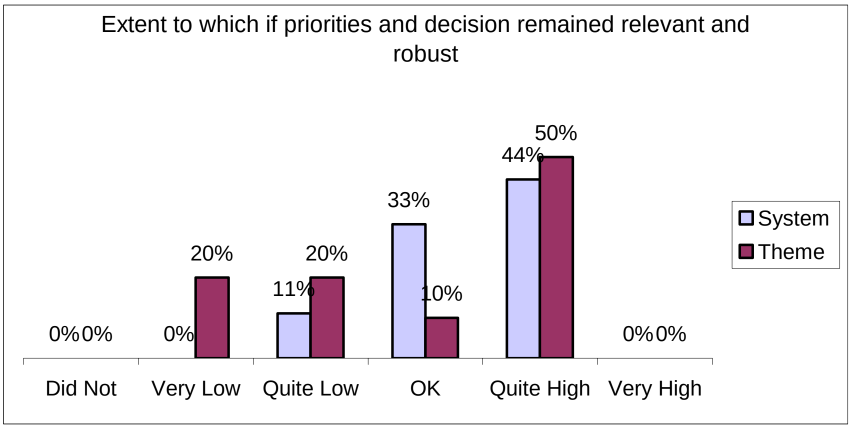
> *"I don't believe there is a clear understanding of the changes required in the dynamics of the processes and programmes that we need to deliver this."*

The North East economy is a "small cog in a very large machine" (the UK economy) and local agencies actually have little control over most of it. The RES has to be designed to deliver within that constraint and target those activities that offer the stakeholders priorities that offer both:

- higher ability to influence
- highest impact outcomes

The experience of RES 2 suggests that stakeholders in the North East are now more willing to enter a stage of greater alignment thinking that would see continuous improvement in policy, resource and delivery alignment.

5.3.3 Extent to which the priorities and decisions in the RES remained relevant and robust



There is widespread recognition that the core themes of RES 2 remain broadly appropriate, RES 2 was created only three years ago, it is reasonable to expect that the priorities would not have changed much. However SHINE and the improving evidence base have recalibrated these views in a challenging way.

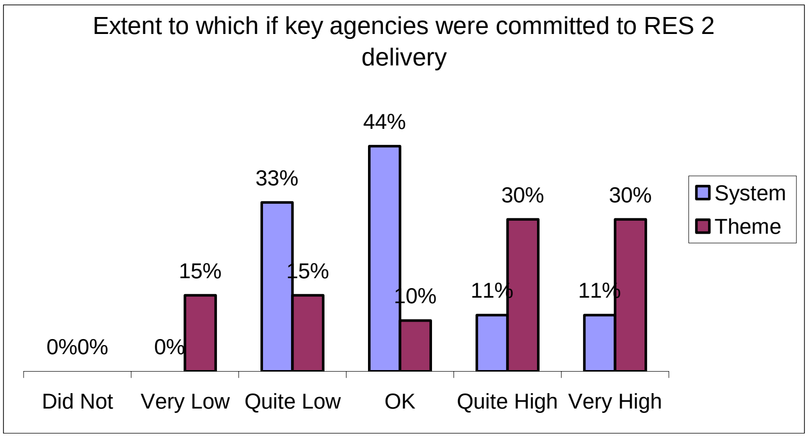
The themes are discussed in detail in Section 6 of this report. The 'system' respondents reported higher levels of satisfaction that those at a 'themes' level. This is a reasonable reflection of their more detailed perspective on the theme and their working experience. High level perspectives include:

- the skills and productivity themes remains critical but should be linked together more effectively in wealth creation
- creating an entrepreneurial culture is essential but is a long term objective that requires persistence and 'patience' in not expecting speedy returns
- the universities theme was innovative and challenging for the regions and probably not yet achieved as much as would have been desired
- the transport, connections and property theme suffered from the lack of specific choices on priorities being made and the 'jam spread too thin' across the four sub-regions
- the Renaissance in communities theme has significant social components and ONE is seen as focusing sources or economic rather than social priorities

RES 2 was not clear enough in specifying who the partners were for specific themes and where the leadership fell. This failure had adverse implications for implementation.

The cross-cutting themes were never specifically mentioned in the interviews. However, as statements of desired outcomes, rather than strategic objectives, they were implicit in responses.

5.3.4 Extent to which key agencies committed to delivering the RES



There are opposing views on the extent to which agencies in the region are committed to delivering the RES. The first may be summarised as 'not a great deal of change'. The second is that, as a result of the changes in funding through the Sub-Regional Partnerships, a great deal has been achieved at a delivery level. It is interesting to note that the 'theme' interviewees had much more positive responses and this may reflect their personal closeness to actual delivery work.

> *"As strategic options were not explicitly considered, this suggested some routes were discounted and choices were 'glossed over', then 'buy in' was shallow."*

There is wide recognition of some of the critical funding 'realities' that indirectly influence the perceived impact of the RES:

- budgets shifted in line with the SRB rather than the RES
- major government spending programmes are only really 'bendable' at the margins, hence there is limited scope for change
- recognising that, while the RES is written within the region, central government expenditure budgets and priorities are not, and congruence should not be expected

A major criticism was that ONE did not follow through on the strategy and get more deeply into partners' accountability for delivery. As a result, the policy implementation framework (PIF) became a bureaucratic and large document and was described as "almost unmanageable in the end". More systematic evaluation, monitoring and reporting processes are required to assess future RES delivery.

There is recognition of the importance of higher quality relationships with partners as being key to real commitment to deliver the RES. The 'system' responses suggest there is more to do on developing and monitoring the effectiveness on those relationships. An approach to this is discussed in Section 7.

The trend towards greater strategic focus in RES 3 will deliver further benefits and value by:

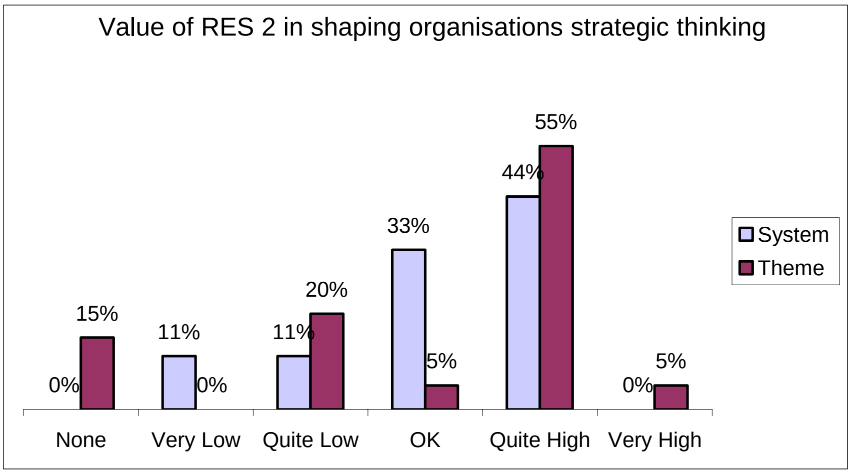
- reducing delivery fragmentation
- getting into bigger programmes with higher impacts
- building more activity on the higher value relationships

5.4 Value produced

Respondents were asked to assess perceptions of the value of the RES process and on the extent to which RES 2:

- shaped their organisation's thinking
- delivered benefits

5.4.1 Value of the RES in shaping organisation's strategic thinking



The graph suggests a more positive impact from the 'system' perspective and that is positive evidence of the RES having influence.

A number of those interviewed observed that only a small number of operational 'theme' people from their organisations were actually engaged in the RES process. It is partner's in-house corporate and strategic plans that defines the actual role from their perspective ie the RES is one step removed.

It is not possible to make detailed comments on the implications of this strategy interpretation and communication 'gap' but it is worthy of further investigation to ensure a more explicit and effective connectivity from the RES to partner strategies, delivery and performance monitoring processes.

> *"There is an underlying issue that this is not the One NorthEast agency strategy, it's everyone's. However, I'm not absolutely certain that everyone sees it that way yet."*

The main benefits the RES brought to partner organisations thinking included:

- the RES was the primary economic focus for the region and for agencies engaged in economic development
- the RES gives One NorthEast a clear mandate and legitimacy to act
- the RES had some impacts on the PSA targets although the Northern Way now compliments that

The primary criticisms of RES 2 in influencing partner strategic thinking, also reflected in the academia critique, lie in:

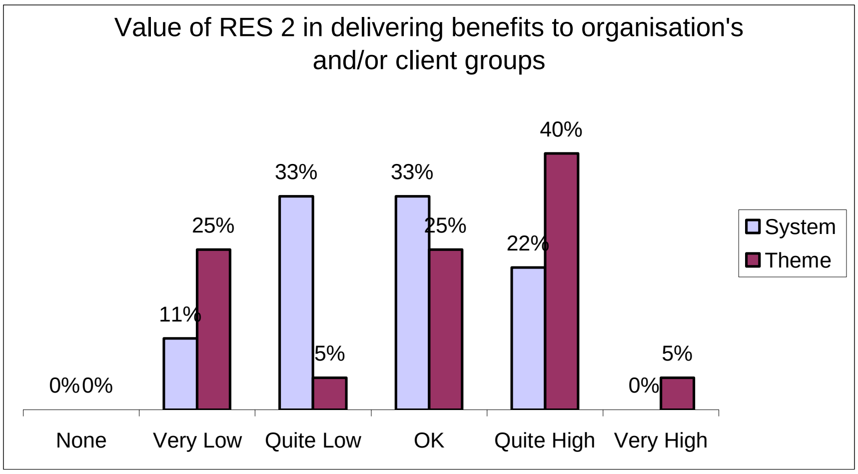
- while the RES sets the strategic planning context, it raises but does not answer, questions on spatial issues, for example the strategic sites
- the RES did not answer all the questions that it raised, eg the responses concerning the RES proposals on the airports with Middlesbrough being designated as a freight centre (which the local community did not agree with)
- the problem raised by a number of interviewees that “when it gets tough, the RES can be silent”

The RES serves three generic purposes that could shape stakeholders’ strategic thinking.

- posing questions – about the future of the North East economy, thereby setting a challenge to the strategic thinking within stakeholder agencies
- proposing answers – setting out specific policy choices (having being made) for stakeholder organisations to then adopt and deliver within their individual strategies
- stimulating learning, capacity building and sustainable continuous improvement

The primary benefit attributed to the RES is that it has created a focal point in which discussions about the development of the North East can take place. In that regard, it is useful to consider the RES *process* as being an important contributor to strategic thinking and strategic value add across the region, while the *product* ie the document, tells the ‘story’.

5.4.2 Value of the RES in delivering benefits to organisation’s and/or client groups



A criticism of RES 2 is the lack of connection between strategic thinking and delivery. This reflects comments from the academic critique in Section 4 that the strategy was too generic and descriptive of the 'problem' rather than defining specific actions in 'solution'.

> *"With hindsight, I think we should have been much clearer about the geographic focus – that was only really found in the appendices – it stopped short of describing how the geographic focus would go in the future, rather than simply describing or defining the past".*

The RES process may be a robust platform from which to build and project a stronger North East regional case for influencing UK policy. This could be one of its most potent long term benefits from RES and is a powerful reason to ensure continuous improvement of:

- quality of analysis
- clarity of purpose
- alignment of stakeholders

An example cited of this potential benefit was that the RES could have been used more effectively in creating the Regional Emphasis Document for the spending review in 2004.

As a test of the perceived contribution of the RES to economic development of the North East, respondents were asked their views on the counter-factual ie what would have happened without the RES. The key points raised evidence of strategic value being added:

- purpose – prior to the RES there had been no agreed rationale and direction for economic development in the North East and that a strategy had to be 'written down'
- structure – without the RES the delivery mechanisms for economic development would have remained fragmented with considerable inefficiencies and gaps as different organisations pursued different priorities with relatively unclear roles
- delivery processes – without RES the Sub-Regional Partnerships would probably not exist and projects such as the Business Support Review would not have been completed
- innovation – without the RES it was recognised that the *Strategy For Success* and some of its main components, eg the Centres of Excellence would not have been envisaged and delivered
- new players – without RES 2 the universities would not enjoy the prominence they now have and the benefits they have contributed to economic development policy and delivery in the North East

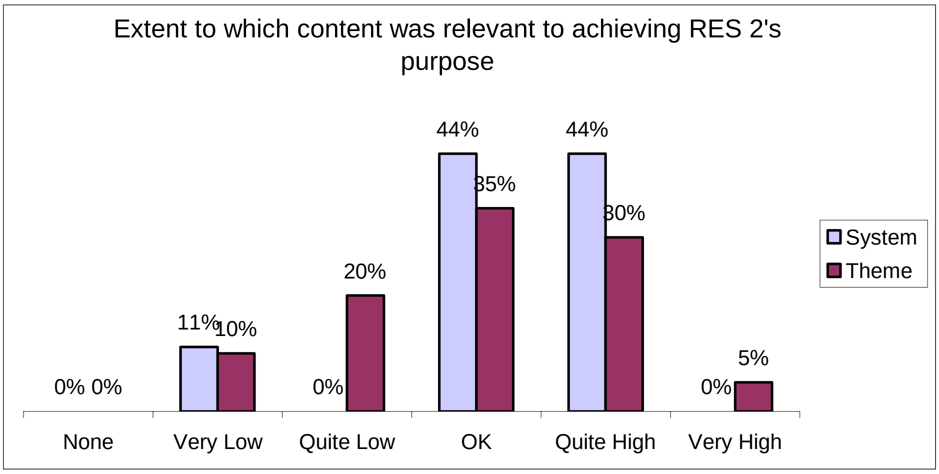
> *"If it wasn't there we would have to invent it".*

5.5 Content of RES 2

Respondents were asked their views on the content of the RES and the extent to which:

- the content was relevant to achieving its purpose
- the presentation of the RES was accessible to stakeholders

5.5.1 Extent to which the content of the RES was relevant to achieving its purpose



Interviewees interpreted the RES purpose at two levels:

- generic – achievement of overall success for the North East economy
- specific – focusing on particular themes and how they were to be delivered

There were positive views that RES 2 had a role in helping the area extend its outward looking thinking and raise aspirations. The role of SHINE was emphasised in contributing to this.

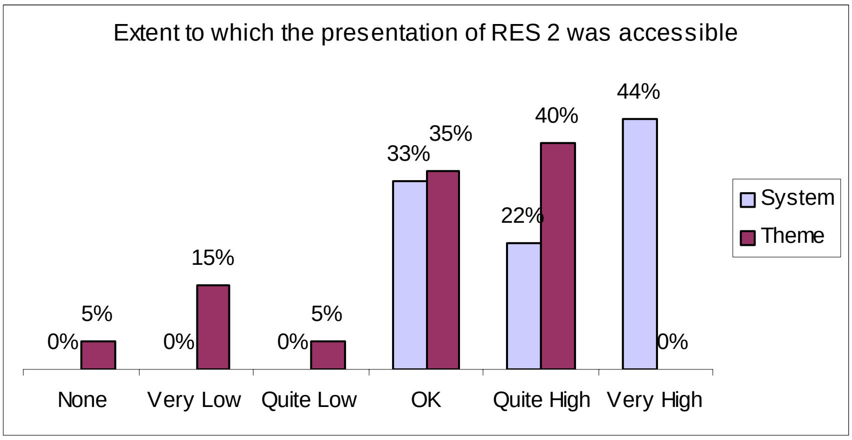
Issues raised that would improve the relevance included:

- being very explicit that the economy is the 'number one' focus for the North East and that the RES should be more focused specifically on economic issues
- focusing more on a step change agenda and driving a strong case for action that addresses closing the gap
- a more prominent and rigid prioritisation with projects and programmes thereby making the focus clearer and countering stakeholders 'batting for my patch'
- a need for RES 3 to focus on outputs, with 'what are we getting for the investment' and how that contributes to closing the gap

There is a recognition of some significant legacy issues in the North East economy that may take a very long time to address successfully. These timescales, when set against shorter term impact opportunities present a significant dilemma for RES policy makers. Specific examples included:

- client groups where there are now three generations of under or unemployed
- raising the aspirations of, for example, a 40 year old person who has fallen out of the manufacturing sector and getting them re-engaged on terms that they will find individually acceptable
- the relatively low levels of entrepreneurship in the region
- a tradition of dependence on large scale employers in the region, previously private but now public sector

5.5.2 Extent to which the presentation of the RES was accessible

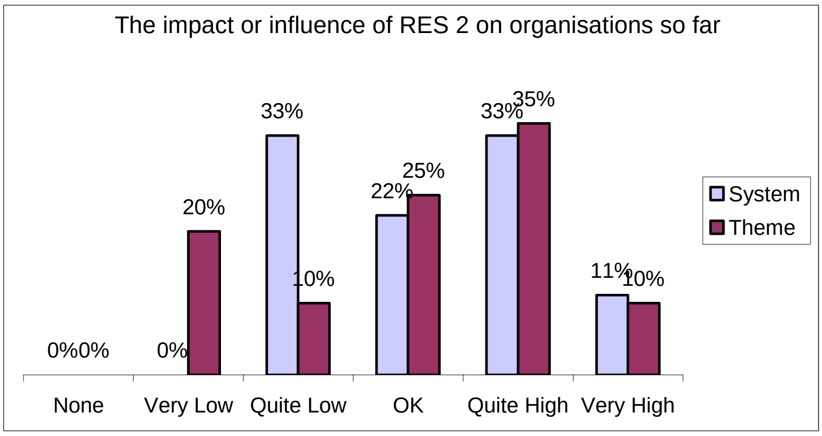


Overall views on the presentation of RES 2 were favourable. It is recognised that it is a technical document designed for specific groups of clients, eg DTI, local policy and delivery partners.

It was noted that a 10-page summary for consumption by the ‘man on the street’ and businesses would be a valuable communication device.

5.6 Consequences

5.6.1 Impact or influence of the RES on organisations so far



The spread of perceived impacts of RES 2 by interviewees may be a concern. However it is important to reflect that for most of the respondents, the RES is not their primary document, eg within ONE the Corporate Plan is the top level operational document that influences their thinking.

There may be a case for developing the RES process with a stronger brand-building element that more strongly reflects a unifying ‘North East plc’ approach. This may be a significant intangible asset that will contribute to future RES development and delivery.

The RES, as an over-arching strategy, meshes with stakeholder organisation strategies in ways that enables attribution and can help avoid ‘ownership’ conflicts.

Respondents noted that the RES impacts are not yet strong enough. This reflects the limited ownership of the RES (per se) within One NorthEast and its partners. This further supports the need for the RES to be on specific on actions and priorities, thereby identifying specific ‘budget line’ objectives for stakeholder organisations to realign budgets as appropriate.

Interviewees report evolution in economic development perspectives in the region are changing (eg acceptance that it is not all about inward investment, old regional policy and road building and is more about entrepreneurship and indigenous company development). RES 1 and RES 2 have reinforced these changes.

> *“If you can identify the real issues to drive up the region’s economic performance, then that is what you need to do.”*

It is recognised that the RES has triggered public sector organisational change. Examples cited were the Business Support Review and the incorporation of the Tourist Board into ONE. In parallel, several participants were critical of the organisational changes as being ‘activity rather than action’ in working on processes rather than driving up outputs.

> *“Sometimes people do things that are easier to do than other. There is something about being seen to be doing something rather than nothing.”*

A significant number of the activities identified in Tier 2 Reports relate to research to test feasibility and creating partnerships and collaborative relationships. There is a strong sense that more emphasis on delivery is now required.

One interviewee noted an interesting example of an 'unintended consequence' for statutory planning. Referring to the RES as one of many examples of 'Happy Plans'. (We are going to be one of the best in Europe, one of the most successful and competitive etc), it talks of rapid growth, major job creation, etc, without really saying where this will come from. In consequence people and local authorities began to 'believe' the rhetoric and inflate forecasts of the need for new housing and housing land. The allocation of that land needs to go into the Spatial Strategy (but RES 2 gave no indication of where) and would be subject to public enquiry etc. This is causing conflicts over the allocation of housing land in green belts which will probably be unnecessary if the 'happy plan' scenarios do not materialise.

> *"I believe that the RES process has thrown more light on a key problem in how do you get a balance between continuity and flexibility in strategy development and delivery processes. While the RSP is like an oil tanker the RES is more nimble and flexible and responsive".*

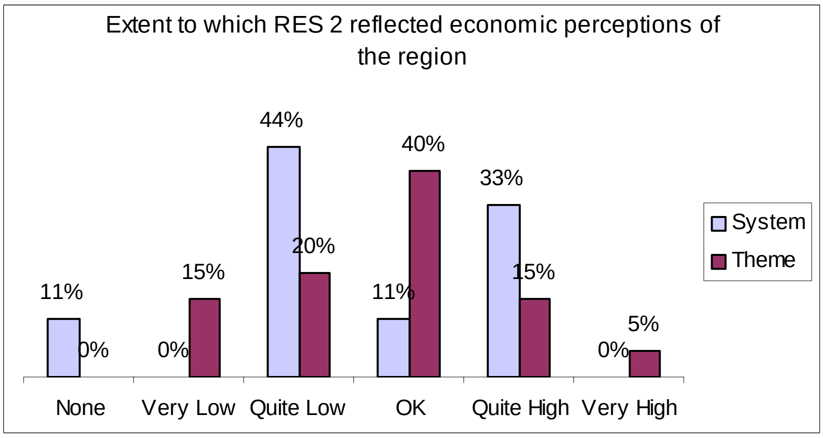
5.7 Economic Model

The RES process is designed to support a shared approach to economic development. It is therefore critically dependant on the framework and strategic choices being made on shared assumptions about how the North East economy works. The absence of a shared economic model brings risks and scope for:

- uncertainty and poor decision making
- fragmentation and conflict between stakeholders on priorities
- inefficient and ill-informed strategic thinking
- sub-optimal outcomes for the North East

Respondents views on this issue are highly significant because of consequential impacts the region economic development. This issue was also discussed in Section 4, the academic assessment of RES 2.

5.7.1 Extent to which the thinking underpinning the RES reflected perceptions of the economy in the North East



There was a widely held view that there was some form of economic model underpinning RES 2, but it was not explicitly stated. As a result, respondents were uncertain about the model and highly supportive of the need for a clearer, and evidence based model for RES 3 and beyond.

"I don't believe there was a single model of the economy, you only have to ask how the 80,000 jobs figure was derived. I think that there may have been 4-5 different models in people's heads."

"I'm not sure there was a clear and shared model (but the Treasury want us to have one for the current RES). There's a certain amount of this where there is a bit of a mix of qualitative and quantitative issues in the economic model."

Three further benefits from a shared model were identified:

- explaining the 'gap' and the helping people understand that it would require unprecedented levels of growth and productivity improvements across every sector in the North East economy to actually close the gap (growth rates constantly in excess of the Far East tiger economies were cited)
- clarifying, or killing, the many 'conventional wisdoms' common in the region. These may, or may not, be true but they have an informal influence on current policy making
- building consensus on approaches to key economic issues as there are currently different perceptions

"I suspect under the façade of 'buy in' and consensus, there is, in reality, relatively little consensus on how regeneration is to be achieved."

There is a need to define what is meant by an 'economic model'. While some interviewees discussed substantive econometric modelling, the prevalent view was for a higher level 'systems view' model that makes very clear what are the key drivers and which of these can realistically be influenced by RES policy and stakeholders.

"We need to understand <u>not</u> the whole economy – we just need to understand where there is a market failure and therefore what we need to do to fix it."

5.8 Summary of interview findings

RES 2 broadly reflected the key issues for the development of the North East as perceived at that time. The common criticisms were:

- the need to address broad brush issues, leading to a lack of specificity and a general feeling that the document was 'all things to all men'
- lack of deliverables – it was strong on the strategic steer but weak on implementation; *"no guidance on how we actually make it happen"*

The issues highlighted in RES 2 could have been better contextualised in the light of future challenges and the global environment. There was a perceived tendency to look at the global environment only in terms of exports and potential inward investment, rather than examining the threats from off-shoring and emerging markets. Similarly, the potential opportunities in an increasingly globalised economy were not recognised.

SHINE is recognised as having started a valuable process in considering future and global challenges and opportunities. While many respondents felt hopeful that this new perspective would enhance the robustness of RES 3, some remained sceptical.

There are mixed views on the extent to which RES 2 has fulfilled its purpose in the last three years. Critics suggest this is because of the lack of specificity and deliverables in the document. The RES certainly mobilised people and agencies around shared objectives but did not provide sufficient guidance on how these objectives were to be enacted. Critics also commented that the lack of boldness within the RES meant that incremental, rather than radical, change would be the likely outcome.

In contrast, the majority of interviewees also stated that RES 2 had fulfilled another purpose very effectively: uniting agencies and organisations around an agreed vision of the priorities for developing the North East. This appears to be a result of the inclusivity of the process, agreement on the nature of the problem and the clarity of the high level themes.

RES 2 was a very inclusive process, with ONE making a substantial effort to engage with the range of partners with an interest in economic development in its widest sense. A key strength of RES 2 is that it was not ONE's document, it was the region's and there was a genuine sense of the shared vision and aspirations the document sets out.

It is possible that the breadth of consultation (in the interests of being inclusive) was to the detriment of the depth of engagement. This led to some degree of frustration that there were not enough in-depth opportunities to influence the development of the RES. However, on the whole, stakeholders felt that shared ownership and buy-in to the RES was a really big win for the region.

In the pursuit of inclusivity, there was a tendency to try and appease all stakeholders and this led to a lack of specificity and action orientation in the final document which would have had a more directive influence on stakeholder spending priorities.

RES 2 has led to greater alignment of policy and of the organisations involved in economic development in the North East with less policy being developed in an ad hoc or individualistic way. There is a sense that the key organisations across the themes share a clear and collective vision for the direction of travel for their theme in the North East.

The principal exception to this was the B6 theme – realising the renaissance of our rural and urban community. The partners engaged across this theme are diverse with disparate agendas and constituents. This militates against a clear vision. For instance, the voluntary and communities sectors, whilst often classified together by other agencies, come from very different perspectives and have very different visions of what development in their theme would look like. However, the partners involved in the B6 theme did not view a lack of vision as a major barrier to them being able to work together and deliver benefits for the region.

Overall, respondents felt that the priorities and decisions within RES 2 remained robust throughout the period and into RES 3 which validates the strategy process. However, some of the respondents stated that the priorities remained relevant because insufficient progress had been made against them during the period of RES 2.

Critics believe that the RES 2 priorities and decisions lacked a social inclusion perspective, which detracted from the overall relevance and robustness of the priorities within the document. This is a key issue for RES 3 both in terms of addressing worklessness and in recognising the potential role of the social economy in helping address that issue.

A common view for improvement from RES 2 was that the priorities and actions be bolder and take more radical steps to deliver bigger impacts.

The majority of interviewees stated that RES 2 had been valuable in shaping their organisation's strategic thinking. Agencies and organisations operating predominantly at the regional or sub-regional level stated that RES 2 had been influential in shaping the way they deployed budgets and resources to enable alignment around the themes of the RES. Additional benefits included a mix of softer impacts, which lay the foundation for improved outcomes in future, and some hard deliverables.

Perceptions of benefits from RES 2 vary. Whilst this was a broadly positive picture, Sub-Regional Partnerships saw RES 2 as the vehicle for leveraging resources for their priority projects at a local level. Some issues were raised about the level of strategic alignment between SRP spend and the RES in some sub-regions. There were concerns that money was divided up amongst local authorities within the partnership rather than being deployed for key projects. A number of comments were made regarding the RES 2 role as a lever for funding expressing concerns that the RES just became *'a book you get money from'.* This may require changes to the funding and major project commissioning models to ensure a strategic focus for investment that aligns that spend with regional priorities as defined in the RES.

6 RES 2 – The Strategic Themes

6.1 Introduction

This section reviews the six strategic themes identified by the RES. It summarises RES proposals under each theme and the substantive initiatives and actions as recorded in One NorthEast Progress Reports. It is through these initiatives and actions that the RES has an impact. Without substantive actions, it can have little impact. Consequently, a description of these activities gives a 'feel' for the potential influence and impact of the RES.

The analysis only 'picks up' One NorthEast activities. Consequently, it does not identify the activities of other organisations which are helping to implement the strategy. Many of the successes and deliverables recorded by ONE concern its leadership and influencing role. This includes, for example, participation in much strategy development (e.g. the Northern Way), submissions to Government and Select Committees and co-ordination and relationships within the North East. These have no direct impact on the economy and are not recorded in this analysis. They may, of course, have important future impacts.

The chapter also draws on the theme specific interviews, the analysis of economic performance presented in Section 3 and outcome measures based on statistical evidence. The RES does not identify specific measurable indicators to assess progress under each theme. Consequently, where possible, we have used indicators similar to those in ONE's Tier 2 and 3 Progress Reports required by the Government's monitoring framework. However, the targets and indicators included in this framework are not necessarily those which would ideally be used to assess the RES per se.

The 'macro' data based indicators would, ideally, be complemented by impact and evaluation studies of the most substantive activities and projects undertaken to implement the RES. However, many of these are still at an early stage and have not been subjected to evaluation. Consequently, the analysis has been unable to draw on such 'bottom up' assessments.

6.2 Resource allocation

Before examining each theme, the allocation of ONE resources between the six themes is first examined (Figure 1). It is not always self-evident how expenditure has been allocated. For example, expenditure on urban/rural renaissance could include business development and skills projects. Nevertheless, over the period:

- over £195m was spent under the theme 'Meeting 21st Century Transport, Communication and Property Needs'
- just over £200m was spent on urban/rural renaissance
- £118m was allocated to the role of universities and colleges. Expenditure increased substantially over the period
- skills accounted for £76m of expenditure. Expenditure on skills is declining marginally

- creating wealth through existing business accounted for £80m of expenditure and the creation of a more entrepreneurial culture took a further £60m. While allocated least money, the emphasis on creating an entrepreneurial culture increased over the three-year period

Figure 1: ONE Expenditure 2002/5 by RES Theme (£m)

	2002/3	2003/4	2004/5
Creating Wealth	35.3	42.0	42.3
Entrepreneurial Culture	15.3	16.2	28.3
Skills	27.4	24.7	23.6
Universities/Colleges	25.1	48.4	44.9
Transport/Property etc.	46.8	69.7	75.9
Urban/Rural Renaissance	72.0	64.1	67.5
Total	**221.7**	**265.1**	**282.3**

Note: i) Includes below £3 and £5m expenditure allocated to coalfield areas.
ii) Comparable data for earlier years is not available.

It is not possible to compare the distribution of expenditure with previous time periods because the budget and responsibilities of ONE have changed and increased. However, it is worth noting that for the two years 1999/01, just 1.3% of ONE expenditure went on creating wealth/entrepreneurial culture and 1.8% on skills/universities. Almost 80% (£196m) was for Urban and Rural Renaissance (i.e. £98m per year) and 18.9% (or £23.8m per year) on property etc. The increase in ONE expenditure since 2002 has been concentrated on enterprise skills and the universities.

When RES was launched, of the expected 2002/05 expenditure, just over 60% was for 'legacy' projects and a further 30% was allocated to SRBs. This left 8% (£50m) which could be influenced by the RES.

Figure 2: % Distribution of Actual and Expected Expenditure 2002/05

	Expected	Actual
Creating Wealth	9.7	15.6
Entrepreneurial Culture	6.7	7.8
Skills/Labour Markets	13.6	9.8
Universities/Colleges	10.8	15.4
Transport/Property etc.	21.0	25.0
Urban/Rural Renaissance	38.2	26.4
Total	**100**	**100**

Source: i) Expected Spend; SQW Regional Economic Strategic Evaluation 2002
ii) Actual Spend: ONE.

6.3 Theme B1 – Creating wealth by raising the productivity of all businesses

6.3.1 Activity reported

RES 2 *Productivity/All Businesses*	**Activity reported per Tier 2 Progress Reports**

B1.1 Innovation and E-Enablement
• Strategies for Success – Regional Science and Industry Council
  - Centres of Excellence
  - NorthStar
• Restructuring of Business Link
• Business Link to provide environmental advisory service (new)
• Accelerate Programme
• Implementation of NE Innovation Strategy and Action Plan and Towards an eRegion: Strategic Electronic Development for North East England
 	
B1.2 Develop Key Business Clusters and Collaborative Networks
• Preparation of cluster strategies/plans (e.g. Tourism). They are working on 14 areas (and more to follow!)
• Assessment for new globally competitive clusters
• Development of the Process Innovation Centre (Chemicals Cluster)
 	
B1.3 Strategic Regional Investment (largely inward investment)
• Identify target markets (industry, firms, clusters) more rigorously.
• Improve offer e.g. regionally endorsed and co-ordinated high quality sites for inward investors.
• Improve organisational co-ordination (e.g. Regional Business Development Plan).
 	
B1.4 Improve International Trade
• Improve organisational co-ordination/co-operation.
• Regional Language Network North East
	The key activities that are in progress or have been completed are:
	
	• The development of clusters to build on existing industrial strengths, i.e tourism, creative industries, energy, food and drink and environment (2002/2003)
	• Tourism cluster: Hadrian's Wall Study (2002/2003)
	• The Tourism Advisory Board approved the Tourism Strategy in February 2005
	• Regional Centre for Manufacturing Excellence set up
	• A £100 million Growth Fund was established, for the 2005-08 period, comprising £50 million from ODPM with the balance being made up of equal contributions from the three RDAs
	• The Strategy for Success launched in 2002 has had a number of key milestones, including the establishment of the Science and Industry Council and a series of policy seminars and conferences (2002/2003)
	• The Digital Factory programme delivered 2,200 training opportunities within manufacturing
	• The Manufacturing Advisory Service (MAS) has continued to support companies to improve their competitiveness and productivity. Over 200 companies have received approved consultancy (level 4), with over 600 diagnostics and 1800 enquires
	• The Investment Team was credited with 43 successful investment projects and 9 global partnerships during the year. These were associated with in excess of 1,606 new jobs being created and over 3,274 jobs being safeguarded
	• A joint RDA and NHS project to identify ways to maximise the economic impact of the health sector
	• A considerable amount of consultation and development work was undertaken to redesign and implement a new delivery network structure for tourism to ensure that the strategy is delivered and the Region's resources are used to greatest effect
	• The Tourism Marketing Campaign, "Marketing the North to the World" was developed in conjunction with Yorkshire Forward and North West Development Agency and England's North Country
	• In Renewable Energy and Environmental Technologies, the signing of a Memorandum of Understanding between ITI (Newcastle University spin-out) and the Federation of Thai Industries to trial gasification technology developed in the North East was facilitated by the Agency
	• ONE started preparing a Manufacturing Strategic Action Plan, highlighting the support requirements of manufacturing in the North East and identify specific actions to address the needs

RES 2 *Productivity/All Businesses*	Activity reported per Tier 2 Progress Reports
	• North East Productivity Alliance (NEPA) continued to deliver a series of programmes to improve the performance of the Region's manufacturing industry by boosting skills, productivity and competitiveness including: - Dissemination of Best practice - Engineering Fellows - Digital Factory • The Agency started a review of the Investor Development Programme, and a dedicated resource within the Agency is now focussed on proactively meeting with FDI companies to better understand their requirements, enabling them to embed within the regional economy • 138 applications were received with 80 Selective Finance for Investment – England (SFIE)/Regional Selective Assistance (RSA) offers accepted to the total value of £14.4 million. These projects were associated with £114.3 million capital investment and were forecast to create 2,478 new jobs and safeguard 1,537 jobs • ONE assumed responsibility for administering SME Grant scheme, and during the year 40 grant offers were accepted to the total value of £1.3 million. These projects were associated with £8.2 million capital investment and were forecast to create 150 new jobs and safeguard 175 jobs • NERIF3 was established by the Agency in December 2003 and launched in January 2004. • During the year, £5.375 million was committed to 40 businesses, levering in £8.2 million of additional 'private sector' funds and creating 150 jobs • The Proof of Concept £10 million fund was launched in September 2004, 17 applications were received resulting in 7 offers being made totalling £510,000 • The £23 million North East Co Investment Fund was launched at the end of 2004

6.3.2 Outcome measures

Beyond general measures of wealth creation (i.e. GVA per capita), ONE's targets as required by the Government's monitoring framework, have no specific indicators relevant to this theme. Consequently, changes in labour productivity is adopted as an indicator.

Figure 3 shows that labour productivity in the North East has increased marginally faster than in the UK. Nevertheless, productivity remains 11% below the UK average.

Figure 3: Labour Productivity (£s) 1999 – 2003

	1999	2003	% Change
North East	23,669	28,000	18.3
UK	26,634	31,238	17.3

Note: Changes in labour productivity do not directly mean increases in productivity within existing businesses. Changes occur via a number of mechanisms. For example:

i) Average productivity could increase because low productivity plant close down.

ii) It could fall because the source of growth (e.g. new firms, the public sector) have below average productivity. Nevertheless, while average productivity follows, the regional economy continues to grow.

Progress on the development of key clusters and sectors should eventually feed through into impacts on GVA and productivity. However, this may take some time. Consequently, it would be possible to assess progress on each RES cluster.

As an illustration of possible cluster indicators, visitor numbers and expenditure are shown in Figure 4. This does not suggest major progress over and above national trends. However, given that much of the activity recorded relates to strategy development and organisational restructuring, this is not surprising. The critical question is whether such activity has a significant future impact.

Figure 4: Tourism in the North East 2000 and 2003

			% of UK	
	2000	2003	2000	2003
Number of Visitors (m)	5.6	4.8	4.0	4.0
Expenditure (£m)	738	825	3.7	4.0

Source: United Kingdom Tourism Survey

Note: Data for 2004 is available showing a fall in the number of visitors to, and expenditure in, the North East along with a decline in the Region's share of UK tourism. However, because of methodological problems, it is advised that the 2004 data should only be used with great care.

6.3.3 Interview findings

RES 2 recognised the issue of business support. However its scope was perceived as limited to key sectors, innovation and science. Whilst these are key priorities in the North East, there were concerns about how the RES reflects issues for other organisations which, although not being part of the priority group, make a substantial contribution to the economy and require support to drive up productivity.

The approach to clusters was noted as being 'fashionable' but due account of the critical mass requirement was not made and there were simply too many unrealistic assumptions made about clusters. It is also notable that the clusters material was not linked to a supporting skills agenda. The relative 'decline' of the clusters agenda is seen as positive evidence of increasing focus and prioritisation within RES 3. A similar case was made for the support for business productivity which, when sub-divided across SRPs, allowed money to be "frittered away on pet projects". Each SRP having its own ICT and broadband strategy was cited as an example.

There was a recognition that much of the business support agenda was already set out by *Strategies for Success* and the terms of reference for the Business Support Review, which were already in place. These limited the extent to which the RES could be bold on the subject of business support and raising productivity. Respondents also commented that ONE was not bold enough in the review of business support and the process had not been radical enough.

The business community had concerns about the sub-regional partnerships and the extent to which they were duplicating effort across the region and reducing the potential for achieving critical mass in funding, initiatives and impact.

The business and business support communities alike cited the lack of measurement and monitoring processes as a key weakness in the implementation of RES. They also believed that keeping the business community up to date with progress would have a substantial impact on:

- the interest the business community would have in the RES
- the degree to which the RES and its actions might influence businesses

There was a strong recognition of the importance of the participation and social inclusion agendas to the aims of creating wealth and raising productivity, particularly worklessness. That these were missing from RES 2 was seen as an issue, as any actions were built on incomplete assumptions.

The RES process was credited as having a strong role in bringing stakeholders closer to the policy making for business agenda which, in turn, has refocused some of their thinking and engagement.

6.4 Theme B2 – Establishing a new entrepreneurial culture

6.4.1 Activity reported

RES 2 *Entrepreneurship*	**Activity reported per Tier 2 Progress Reports**
B2.1 Increasing New Business Creation • Nothing specific mentioned (except general comment on restructuring business support services).	The key activities that have been completed under B2 are: • A Regional Enterprise Campaign has been running since 2001 which includes a number of enterprise events in the region, in both urban and rural locations (2002/2003) • The launch of the North East Social Enterprise Partnership (NESEP) and Social Enterprise Regional Action Plan in 2003 who have developed a Research & Development Unit (2002/2003).

RES 2 *Entrepreneurship*	Activity reported per Tier 2 Progress Reports
B2.3 Encouraging Greater Levels of Business Survival • Reform and use of best practice in the business support system. • Greater use of business networks. • Access to finance: New Funds – NERF 3 (North East Regional Investment Fund 3). • Access to finance via operation of existing funds: • Capital North East (regional venture capital fund); • Micro-Finance Loan Fund; • Community Loan Fund; • Spirit of Enterprise Loan Fund (for the disabled); • Bridge Community Venture Ltd (for SMEs in deprived areas). B2.4 Addressing the Needs of High Growth Businesses • Pilot support scheme is being run. (Will inform future approach).	• Supporting Shell Livewire and Young Enterprise in addition to enterprise challenge awards at Newcastle University (2002/2003) • Developed new model, single access point, of the Business Support infrastructure (2002/2003) • Regional Investment Funds and a Micro Loan fund for SME's (2002/2003) • Made 7 offers for funded through the Proof of Concept fund (2004/2005) • 81 loans were made through the Regional Micro Loan Fund (2004/2005) • 10 loans were made through the Environmental Micro Loan Fund (2004/2005) • Developed an entrepreneurship programme, Enterprise Insight, involving students of all ages (2004/2005) • Funded programmes to encourage different groups to become more involved in business start ups – women, ethnic minorities and refugees etc (2004/2005) • The first National Enterprise week was held in Northumberland (2004/2005) • Enterprise facilitator training completed for 130 intermediaries ranging from Youth and Community workers to teachers (2004/2005) • Embedding enterprise into the school curriculum (2002/2003) • Approved IGM funding for 'Aspire' aimed at raising the aspirations and attainment of young people in the Region (2004/2005) • The Agency has continued its support for the Business Ambassador Programme, which aims to raise young peoples' economic and industrial understanding through in–work role models recruited from local businesses • The Enterprise Insight Campaign was developed and run • New partnerships working in the fields of enterprise in education and young people, particularly with the Education Business Link Organisations (EBLOs) and other providers including Shell Livewire, Young Enterprise, Prince's Trust and People into Enterprise • Four 'Drop the T' (Turn Can't Do Into Can Do) road shows were held - across the region • A pilot initiative aimed at influencing people operating in the "informal Economy" to legitimise their business activity was launched in December 2004 • ONE secured resource from Small Business Service (SBS) nationally to fund a coordinator for the further development of women's enterprise both within the Region and through the broader Northern Way Initiative

6.4.2 Outcome measures

The main direct impact on the economy should be an increase in the business birth rate and a reduction in the closure rate (i.e. an increase in business survival).

The Region's business birth rate has been well below the national average for many years and, as illustrated in Chapter Three, there has been no substantive improvement in the Region's performance. For the most recent period, Figure 5 shows annual birth rate figures for the North East compared to Great Britain. The Region's business birth rate in 2003 is 9% higher than in 1999. There is a greater percentage increase than the national average (6%).

Figure 5: Business Birth per 10,000 Population

	North East	Great Britain
1999	16.4	31.7
2000	16.5	31.9
2001	15.8	30.0
2002	16.6	31.3
2003	17.9	33.8

However, compared to annual fluctuations, these changes are small and it should not be too readily claimed that the Region's relative performance is improving. The gap against the national average rmains a gulf. Furthermore, in absolute terms, the national birth rate increased by more (1.9 percentage points) than did the North East's business birth rate (1.5 percentage points).

Turning to business survival rates, Chapter Three has shown:

- The business closure rate has fallen in the North East since the 1994 – 98 period. It was marginally below the national average for the period 1999 – 03.
- The survival rate of new firms in the Region has improved and now essentially matches the national average.

6.4.3 Interview findings

While the number of interviewees was small, it was agreed the RES helped put the issue of business start-ups (including the importance of the pre-start stage when 'would be' entrepreneurs are created) on the policy agenda. Although not necessarily explicitly recognised or accepted, the RES does appear to have helped some organisations give greater priority to entrepreneurship. Hence, it seems acceptable that it has moved up the policy agenda and that the issues are now better understand.

However, when it came to more specifics, there is much less agreement that the RES understood either the nature of entrepreneurship or mechanisms for stimulating it. Nevertheless, it is accepted that it enabled new approaches to pre-start interest generation (e.g. enterprise roadshows etc).

6.5 Theme B3 – Creating a healthy labour market supported by a skilled workforce

6.5.1 Activity reported

RES 3 *Skills/Labour Markets*	Activity reported per Tier 2 Progress Reports
B3.1 Raise the Aspirations of Young People and Attainment at Key Stage 3 and Beyond • Use the area wide inspections to improve learning provision for 16 – 19 year olds. • North East Regional Education Form to research and promote improvements in standards. • FRESA developing (presumably with a view to implementing) wide range of action plans. • An enhanced programme to reduce drop out rates. B3.2 Raise the Demand for Learning by Individuals and Employers • Implement FRESA action plans. • Improve availability and co-ordination of advice, information and guidance. • Build on the Union Learning Representatives in the Region and develop a strategy for non-unionised firms. • Develop affordable, high quality childcare for learners (and I presume employees, etc). • Promote demand within businesses: - IIP; - sector skill plans; - the NHS. B3.3 Employment and Long Term Employability • Nothing specific. B3.4 Develop, Retain and Attract High Level Skills • Ensure graduates know what the Region has to offer in terms of culture, sport, amenities, etc. • Evaluate, build on graduate retention schemes. • Establish a Talent Fund (new). B3.5 Develop a Learning Framework Based on Standards of Excellence and Informed by Quality Intelligence • Create such a framework.	The key activities that have been <u>completed</u> under B3 are: • Continued to make significant contributions to the 14-19 Agenda through initiatives such as the 'Tyne and Wear Flexible Curriculum Programme 14-19' and 'Work Related Learning from Modern Apprenticeships to Graduate and Beyond' • Funding provided to increase awareness of skill gaps for employers. Fund include the Flexible Training Fund and Learning for All (2004/2005) • Funded 7 Regional Skills Development Managers for specific sectors, i.e. constriction and tourism/hospitality (2004/2005) • Established an Education Team to lead on plans, programmes and policies relating to skills and higher education. (2004/2005) • Continous development of the Framework for Regional Employment and Skills Action (2002/2003). • The launch of 3 pilot initiatives to test measures that will add value to JobCentre Plus' Pathways to Work in helping incapacity benefit clients move off benefits and into work (2004/2005) • The development of Sector Skills Councils (2004/2005) • Further funding of the Learning for All until 2007 (2004/2005) • Working with the health sector in developing policy and programmes to address barriers to work, particularly those caused by ill health and incapacity – for example, working with Easington PCT to develop a Northern Way worklessness pilot • Progress in developing three pilot initiatives to test measures that will add value to Jobcentre Plus' Pathways to Work in helping Incapacity Benefit clients move off benefit and into work, as part of the Northern Way • In addition to establishing a Skills Group with NePIC, the Energy Cluster Skills Action Plan was launched • 2004/2005 saw the successful establishment of the Regional Skills Partnership (RSP), Skills North East, building on regional work on the FRESA and Adult Skills Pilot • The RSP Team led the development of the Regional Skills Action Plan, which following consultation was published in March 2005 • ONE is providing £650,000 of flexible funding, alongside a network of skills brokers in the Region's Business Links • ONE has worked with partners to develop a revised model for delivery of skills brokerage and flexible skills funding, building on existing best practice and recognising the new relationship between the Agency and Business Links • During 2004-05 the Agency provided funding support for the TUC-led Learning for All Fund, driving demand for skills from individuals in the workplace

6.5.2 Outcome measures

One of the aims highlighted in the RES is an improvement in school pupil performance at Key Stage 3. Figure 6 shows Key Stage 3 performance for the North East and England for 2000 and 2004. Between the two years, there has been a substantial (6-9 percentage point) increase in the proportion of pupils achieving a Level 5 and above assessment. While slightly less, there has been a similar national increase. Consequently, the North East figures remain a few percentage points lower than the national average.

Figure 6: Pupil Performance: Key Stage 3 Assessments (14 Year Olds)

	% of Pupils Achieving Level 5 and Above		
	Maths	**Science**	**English**
North East 2000	61	56	61
2004	70	63	67
England 2000	64	59	65
2004	73	66	71

Source: DfES National Curriculum Assessments

Similar changes have occurred in GCSE results. The proportion of North East students gaining 5 or more graded (A – C) GCSE rose from 41.6% in 2000 to 48.7% in 2004. Over the period, the Region closed the gap relative to the English average which stands at 53.7%.

Figure 7: GCSE Results 2000 and 2004

% Gaining 5+ GCSE (A – C)			% Gaining No Graded GCSEs	
	2000	**2004**	**2000**	**2004**
North East	41.6	48.7	6.4	4.6
England	49.2	53.7	5.6	4.1

Source: DfES

The Monitoring Framework sets targets for young people's NVQ levels. These are shown in Figure 8. Again, the pattern is one of improvement, but with the proportion of young people with NVQs slightly below the English average.

Figure 8: Qualifications by Age Group

	North East	**England**
% of 16 – 19s with NVQ 2+ 1999	52.2	55.4
2003	54.1	57.5
% of 20 – 24s with NVQ3+ 1999	44.0	47.6
2003	50.0	51.3

Source: Local Area Labour Force Survey
Notes: The extent of sampling error means it is very difficult to know whether the North East/England gap has narrowed or essentially remained the same.

6.5.3 Interview findings

Respondents believed that, in general, RES 2 reflected the key issues for skills and labour market development and that these issues remain valid. RES 2 is seen as a significant advance on RES 1. Good progress was reported particularly around basic skills development, but that a key weakness in the RES was the supply-driven emphasis. There is a perceived need to shift towards a demand-led model, based more on the needs of businesses and the economy. Otherwise any up-skilling activities will not be sufficiently aligned with:

- fuelling the growth of businesses and key sectors, or clusters thereby
- creating opportunity for individuals

The experience of FRESA illustrated a lack of cohesion and the conflicting priorities amongst the partners involved in skills and labour market development. However FRESA was viewed as setting the agenda, and now the Regional Skills Partnerships are seen as a more cohesive vehicle for delivering that agenda.

Skills Partnership was seen as positive, and in parallel with the RES. The action plan produced has 37 actions, named responsible individuals as well as defining milestones and a monitoring framework.

The significance of worklessness in the region has now achieved much higher prominence and that is expected to be reflected in RES 3. There is also some expectation that tackling this will demand considerable levels of innovation in how delivery partners, eg the voluntary sector might be engaged.

There are concerns that RES 2 reflected only the local and regional issues. There is a need for recognition of the national agenda and an attempt to align the regional priorities in the light of the national picture.

The majority of respondents believed there were high levels of partner commitment to this theme. These reports of lower levels of commitment reflected on the tension between regional level development and the engagement of government agencies with a centrally-set agenda and budgets, such as Jobcentreplus and Learning and Skills Council. It was as difficult for these agencies to engage deeply in regional initiatives because of the centralised constraints upon them. However, those who mentioned this issue also reported improvement in recent months and this should be continued.

Respondents perceive the business community as not engaged enough with the skills agenda. However, this needs to be qualified by considering the extent to which businesses are engaged in the Regional Skills Strategy and at an SRP level. This is an example of the two-stage communication gap discussed in Section 7.

6.6 Theme B4 – Recognising our universities and colleges at the heart of the region's economy

6.6.1 Activity reported

RES 4 *Academia*	Activity reported per Tier 2 Progress Reports
B4.1 Establish Centres of Excellence and Commercially Developing University Based Research • Implement, develop the recently created system i.e. Science Council, 5 Centres of Excellence, NorthStar. • Explore case for Northern Business School (focusing on innovation, high growth and technology firms). B4.2 Increase the Contribution of Our Colleges to the Regional Economy • A study of how this can be done. B4.3 Widening Participation and Maximising Contributions to Community Development • No specific proposals relate to widening participation. • Greater involvement in local communities; open up facilities and involvement in physical regeneration projects.	The key activities that have been <u>completed</u> under vision B4 are: • Initiated discussions with internal and external partners with a view to establishing how the Agency will work with Higher Education Institutions • Supported the University Innovation Centre for Nanotechnology, located in all 5 Regional Universities, and the Centre for Excellence, CENAMPS. (2004/2005) • Newcastle had been awarded 'Science City' status. Newcastle is one of only three English cities to receive the accolade, which will see the city gain a share of £100 million, over a six-year period • signing of a Memorandum of Understanding in respect of Science and Technology Exchange with the Shanghai region of China • Discussions were also initiated on the role of Higher Education within the Regional Skills Partnership, in accordance with the policy directive set out in the recent Skills White Paper • The Agency further developed an already strong relationship with the Higher Education Funding Council for England (HEFCE) in areas such as Additional Student Numbers, HEIF, HEFCE's Structural Development Fund and around the Northern Way • Launched of the Enabling Fund in July 2004, both SMEs and universities in the Region can access a valuable source of support to help them develop and prepare higher quality FP6 bids • Work was carried out to develop the Knowledge Transfer Partnerships (KTP) project with the aim of strengthening the competitiveness and wealth creation of the Region by stimulating innovation in business. KTP is achieved via a tripartite arrangement between the Region's Universities, FE Colleges and local businesses • Key areas of research have been supported and there have been major developments, including the work of the Stem Cell Group, which attracted worldwide attention

6.6.2 Outcome measures

As shown in Section 3, corporate sector R&D and patent activity have declined in recent years in the North East. However, the RES focuses on the Centres of Excellence and the role of Universities. Section 3 shows university research in the Region is increasing at a rate above the national average.

While we have no reliable data to show changes over time, Figure 9 presents data on University patenting for the two years 2002 to 2003. The Universities applied for 84 new patents (3.8% of the UK University total) and obtained 10 (1.7% of the UK total) new patents. Based on their patent portfolio, they obtained 12 new licenses for their IPR. The level of activity remains relatively small (and below the North East's share of the UK population).

Figure 9: Patents and Licensing (2001/03) by North East Universities

	Number	% of UK
Disclosures	160	3.1
Applications Filed	84	3.8
Patents Granted	10	1.7
Active Portfolio (2003)	187	3.2
New Licenses	12	2.7

Source: Higher Education Business Community Information Survey 2002/3. HEFC 2005.

One means of commercialising university research is via spin out companies. The number of such companies is shown in Figure 10. Over the two years, 29 'formal' spin offs were set up. These are businesses in which the University has a formal role (e.g. an equity stake) or were set up by staff. The number is not large but in line with the Region's share of University research.

Figure 10: Academic Spin Offs (2001/03)

	Number	% of UK
Formal/Staff Spin Offs	20	3.8
Graduate Start-Ups	56	6.8

Source: Higher Education Business Community Information Survey 2002/3. HEFC 2005.

According to University responses to the HEFC Survey, they are aware of just over 50 'formal' university spin offs which are currently active. These are believed to have employment of around 100. To date, no major success stories are being reported.

While the numbers are small, the Region has a more impressive level of graduate start-ups relative to other regions. Furthermore, it is probable that the Universities are not aware of the majority of graduate start-ups. Again, however, employment in these businesses is limited.

In addition to a contribution via growing and commercialising research, the RES is seeking to stimulate a wider contribution by the Universities to economic development. As shown in Figure 11, the Universities obtained over £48m from 'regeneration' sources (e.g. ERDF, ESF, RDAs, Central Government) over the two years 2001/3. They obtain almost 18% of UK 'regeneration' income. This is consistent with a significant regeneration role.

Figure 11: North East University Economic Development Income 2001/03

	£000's	% of UK
Consultancy Contracts	14,638	5.1
Income from Regeneration Sources	48,148	17.7
Income from Patents/Licenses	281	0.5
All Income from IPR	5,931	7.0

Source: Higher Education Business Community Information Survey 2002/3. HEFC 2005.

Two other indicators are shown in Figure 11. First, the Region's Universities earned over £14m from consultancy contracts. This suggests that the Region's Universities have an above average involvement in consultancy.

Second, Figure 11 shows income from intellectual property. Taken at face value, the data suggests that the Region's Universities do relatively well. Over the two years they earned almost £6m. This is 7% of all UK University income from the sale of intellectual property.

However, this arises from over £5m made from the sale of shares in spin out companies in 2001/2. This form of one-off sale has a large impact on the figures. Focusing on ongoing income from licenses and returns on patents, the Universities obtained less than £150k per year which is just 0.5% of UK University income. On this evidence, their performance is less impressive.

Finally, it is worth noting that the public sector's role in the Region is reflected in the composition of university governing bodies. Compared to 22% in the UK, 41% of members in the North East are from the public sector. With 31% of members (compared to 35% nationally), the business is somewhat under-represented.

6.6.3 Interview findings

Universities' and colleges' contributions to the development of the North East were perceived as being quite narrowly interpreted in the implementation of RES 2, with a focus on:

- spin outs
- science
- innovation

However, respondents believe the contribution made by the FE and HE sectors is genuinely cross-cutting and much wider than it is perceived by other partners. They contribute substantially to the North East economy in a number of tangible and intangible ways:

- stimulating intellectual dynamism in the region
- contributing to the region being an attractive place to live, work and invest
- creating employment opportunities
- forming a key part of the skills pipeline
- actively supporting the internationalisation of the region, through links with international counterparts and attracting foreign students

The universities in the North East have been working hard to influence their partners to take a much wider perspective of their contribution to the economy. Whilst some progress has been made, it has been slower than the universities would have liked.

Experience suggests that universities are not a ‘magic bullet’ answer to technology led growth in the knowledge economy. There is a wider role that includes ‘softer’ activities, including some that the universities already deliver.

Other regions of the UK are now starting to pick up on the changing role of universities and colleges in regional development. The universities in the North East are keen for the region to be in the vanguard of this work, and have been championing it throughout the region and the UK HE community.

There has been progress in the last 1-2 years in the universities and the economic development community becoming more engaged in the tangible sense across a widening range of activities. It was noted that ONE has put in £18m from the Single Programme, plus funds from ERDF and others. The successful Science City bid is evidence of more ‘joined-up’, and highly productive working.

A higher degree of working together across a broader range of activities will continue to evolve and accumulate:

- experience of ‘how to do it’
- awareness and understanding of the full potential
- benefits for a wider range of stakeholders across the region

6.7 Theme B5 – Meeting 21st Century transport, communication and property needs

6.7.1 Activity reported

RES 5 *Infrastructure*	Activity reported per Tier 2 Progress Reports
B5.1 Securing Improvements in Transport Infrastructure • Develop both Newcastle and Teesside Airport (and the Industrial Park at Teesside). • Upgrade to East Coast Mainline. • Upgrade roads: - A1, A19 and A189; - A66 to dual standard; - Second Tyne Tunnel. • Invest in ports. • Invest in the Regional/Local Transport System. • Introduce passenger services on the Ashington, Blythe and Tyne rail line; • Tyne/Tees Express; • Rural rail (e.g. extra stations); • Tees Valley Light Rapid Transit; • Creation of an accountable Regional Transport Executive. B5.2 Accelerating Access to Broadband Services • Implement Towards an eRegion. • Sub-Regional Partnerships to draw up plans to get coverage/use especially in rural and disadvantaged areas. • Explore use of satellite and wireless technologies (especially for rural areas). B5.3 Portfolio of High Quality Sites and Buildings • Sub-Regional Partnerships to undertake a review/assessment of property needs. • ONE to establish a public-private partnership to renew its property portfolio (1,700 properties; 65 estates). • A list of 10 physical redevelopment sites (p. 71/72). • An incubator programme (including workspace in rural areas). • Increased use of 'Building in Sustainability' into property projects.	The key activities that have been <u>completed</u> under B5 are: • Regional Market Town ICT Initiative which have brought 1000 businesses on line (2002/2003) • Achieved 100% broadband availability in the North East (2004/2005) • Urban Regeneration Companies set up by One North East are continuously improving the transportation infrastructure in their areas (2004/2005) • Involvement in Housing Strategy aimed at tackling current mis-match between the existing stock and demand (2002/2003) • made substantial financial commitments to both the Urban Regeneration Companies (URCs) • The Limited Partnership (LP) North East Property Partnership (NEPP) was established on the 1 April 2004 between ONE and UKLEP (2003) Limited • ONE transferred its property portfolio into the Limited Partnership on completion with a transfer value of £148.125 million and a book asset value of £117.7 million • Taking advantage of a buoyant investment market BfB sold the portfolio of 24 mature investments at the beginning of this year at a price of £28.25 million, which was £6.15 million (27.8%) higher than the transfer value

6.7.2 Outcome measures

Figure 12: Derelict Land (Hectares) 2001 and 2004

	2001	2004	% Change
North East	3,840	3,061	-20.3
England	36,140	33,973	-6.0

6.7.3 Interview findings

RES acted as a rallying cry to the partners involved in infrastructure development, however there is still a need to improve engagement with commercial developers. They perceive the public sector as a 'sluggish bureaucracy'. However, experience of implementing the RES shows that the commercial sector can be engaged where they can see a financial gain. The property database project has helped articulate financial benefits and improved engagement of commercial developers in regeneration projects.

There are concerns about the lack of clarity in RES 2 about how place interacts with other elements of development. There is a close interdependence between people, place and prosperity. However because this was not recognised in the RES, it enabled property-led developments to take place that might have yielded broader economic benefits.

One of the key challenges for ONE is making the shift from funder to investor. Progress has been made during the period of RES 2, but more work is required in:

- syndicating risk to the commercial sector
- investing in projects (and therefore seeking a return on investment)
- leveraging risk and finance from the commercial sector

Other areas of weakness in RES 2 were the lack of qualitative assessment of the property stock and a failure to recognise some of the future changes in the marketplace. For instance, the introduction of new self-administered company pension scheme regulations has enabled businesses to develop property to fund in-house pension schemes. This has led to increasing demand for small plots (0.5 to 1 acre), but this demand was not anticipated and is not being catered for.

Respondents stated that one of the key strengths of RES 2 has been the introduction of rigour and discipline to the processes of prioritising and programming projects. It is noted that more work is required to continue this and improve links with the RSP and other relevant partner strategies.

6.8 Theme B6 – Realising the renaissance of our rural and urban communities

6.8.1 Activity reported

RES 6 *Urban/Rural Regeneration*	Activity reported per Tier 2 Progress Reports
B6.1 Renewing Rural and Urban Communities • Mostly the implementation of national programmes/schemes (New Deal for Communities, Sure Start, Neighbourhood Renewal) for problem/deprived areas. • ONE will work with the Assembly to demonstrate the need for more (presumably government) resources. B6.2 Developing Cultural Assets • Develop the creative industries. • Champion physical activity and modernise sports facilities. • Implement the Regional Cultural Strategy; - Physical infrastructure; - Content creation. • Develop a tourism strategy. • Bid for the European Capital of Culture. B6.3 Creating and Enhancing the Environment • Promote high quality architecture and design. • Restore heritage. • Reclaim old derelict industrial sites. • Develop a prioritised programme of flagship environmental and integrated regeneration projects. • Develop/implement the Regional Waste Strategy. • Develop/implement the Regional Renewable Energy Strategy. B6.4 Harnessing the Third Sector • Explore how to provide more sustainable funding. • Strengthen its capacity to implement Realising Our Potential.	The key activities that have been completed under vision B6 are: • Establishment of a Rural and Environment Team (2004/2005) • Created a Sustainable Regeneration Team (2004/2005) • Northumberland LSP's have been given £20,000 to help progress their development resulting in a number of projects being funded, including Blyth Action Team for jobs and Partnership Capacity Development (2002/2003) • Tyne & Wear LSP's have engaged with local communities and brought forward projects that have been successful in getting funding, including ILMs and Equal Tyne & Wear Employability Partnership (2003/2003) • The setting up of two Urban Regeneration Companies, namely Sunderland SACR and Tees Valley Regeneration (2002/2003) • The legacy SRB programme is continuing to fund projects aimed at improving employment levels, educational attainment, increased business start up etc. (2002/2003) • The development of Community Regeneration and Targeted Employment packages will provide a programme to develop structures to deliver comprehensive community regeneration in Darlington (2002/2003) • Implementation of Modernising Rural Delivery (MRD) took place after negotiations at national and regional level, which resulted in the successful transfer of two members of staff and resources from the Countryside Agency into One NorthEast

6.8.2 Outcome measures

The RES is not specific about the priority to be given to different urban and rural communities. Nor does it identify how progress is to be measured. However, under Regeneration in ONE's targets in the Government Monitoring Framework, several targets and associated indicators are identified. These are used in this analysis.

The regeneration targets relate specifically to the areas covered by the two Regeneration Companies (for Tees Valley and Sunderland) set up under RES 2. By implication, the strategy gives these two areas some priority. Similarly, the monitoring framework sets targets for the rural areas.

The monitoring framework sees population growth as one indicator of regeneration. This is shown in Figure 13. Between 1999 and 2003, the North East's population declined by 0.4% (compared to a national growth of 1.7%). In terms of urban regeneration, Sunderland's population continued to decline more rapidly than the Regional average. On the other hand, Tees Valley experienced modest growth.

Figure 13: Population Change: 1999 – 2003

	Number	%
Urban		
Sunderland	-4,400	-1.5
Tees Valley	1,600	0.2
Total	-2,800	-0.2
Rural		
Alnwick	200	0.6
Berwick	-200	-0.8
Morpeth	100	0.2
Redcar and Cleveland	-400	-0.3
Teesdale	400	1.6
Tynedale	900	1.5
Wear Valley	-600	-1.0
Total	400	0.1
North East	-10,900	-0.4
England		1.7

Source: NOMIS, August 2005

Turning to rural regeneration, some areas achieved modest growth while others experienced modest population decline. However, in aggregate rural areas experienced some growth compared to the continuing Regional decline.

Regeneration depends substantially on the local population being in employment. Consequently, the employment participation rate is one of the target indicators. These are shown for the North East, Tees Valley, Sunderland and the aggregated rural areas in Figure 14.

Figure 14: Employment Rate 1999 and 2004: % of Working Age Population

	1999	2004
England	74.4	74.6
North East	66.6	70.0
Tees Valley	63.5	70.2
Sunderland	62.8	68.3
Rural Areas	69.5	72.7

Source: NOMIS August 2005 from Labour Force Survey.
Notes: The Labour Force Survey is subject to sampling error.

While the precise extent of change should be interpreted with care because of sampling error in the Labour Force Survey, between 1999 and 2004 the North East's employment participation rate increased substantially and, consequently, narrowed the gap with the English average. In terms of regeneration:

- There was a significant improvement in Tees Valley. It now has an employment rate equivalent to the Regional average.
- There was also a substantial improvement in Sunderland. However, its employment participation rate remains below the Regional average.
- In both 1999 and 200, rural participation rates were higher than the Regional average (but below the English average).

While the employment rate shows the proportion of an area's working age residents in a job, Figure 15 shows employment located in the regeneration areas. Over the period 1999 – 2003, regional employment grew faster (4.5%) than the English average (3.3%). Tees Valley expanded more rapidly (6.2%) than the Regional average. Growth (3.1%) was also achieved in the rural areas. However, Sunderland's employment appears to have remained more or less static.

Figure 15: % Employment Change 1999 and 2003

England	3.3
North East	4.5
Tees Valley	6.2
Sunderland	0.1
Rural	3.1

Source: Annual Business Inquiry (2003). This shows employment in the specific areas.

Much of the Region's 'entrepreneurial culture' activity has focused on the 'economically excluded' and, by implication, issues of urban and rural regeneration. Figure 16 shows that the business birth rate has increased in both rural areas and the Tees Valley. However, there are no signs of improvement in Sunderland.

Figure 16: VAT Registrations per 10,000 Population

	1999	2003
Tees Valley	15.6	17.2
Sunderland	15.3	14.1
Rural Areas	19.7	23.0
North East	16.6	18.3
England	32.1	33.6

Source: NOMIS, August2005

Economic exclusion and issues of equality are important dimensions of the urban/rural renaissance policy agenda. Figure 17 shows that the number of people in receipt of Income Support has fallen dramatically in the Region between 1999 and 2003. This fall is in line with national trends. However, the proportion of the population in receipt of Income Support remains above the national average.

Figure 17: Recipients of Income Support 1999 and 2003

	Number			
	1999	**2003**	**% Change**	**% of Pop. 2003**
England			-42.9	3.7
North East	217,500	126,600	-41.8	5.0
Urban				
Tees Valley	54,700	34,300	-37.3	5.3
Sunderland	27,900	15,300	-45.2	5.4
Rural	25,900	14,600	-43.6	3.7

Source: NOMIS August 2005

The numbers have also fallen dramatically (more or less in line with national trends) in the two urban priority areas. Nevertheless, the proportion remains above the Regional average. In the rural areas, the proportion of population in receipt of income support is in line with the national average (and below the regional average).

Changes in the number of people in receipt of Jobseekers Allowance tells a similar story. There has been a substantial fall across all parts of the Region at a rate above the national average. Nevertheless, the proportion of the population who are on Jobseekers Allowance remains above the national average. It is relatively high in Sunderland and Tees Valley but below the Regional average in the rural areas.

Figure 18: Recipients of Jobseekers Allowance 1999 and 2003

	Number			
	1999	**2003**	**% Change**	**% of Employment 2003**
England			-22.7	3.2
North East	74,000	49,500	-33.1	4.9
Urban				
Tees Valley	23,000	15,400	-33.0	5.7
Sunderland	9,000	5,800	-35.6	5.2
Rural	9,800	6,000	-38.8	4.4

Source: NOMIS August 2005

The RES focuses attention on school pupil aspirations and attainment. As an indicator of progress, Figure 19 uses GCSE results by Local Education Authority area. This shows improvement in all areas. Nevertheless, the performance in the core urban regeneration areas continues to lag both the national and regional average. This is particularly true in Middlesborough. In contrast, attainment in the most rural LEA (Northumberland) has improved substantially and exceeds the national average.

Figure 19: School Qualifications 2000 and 2004

	% of Pupils Gaining 5 Graded GCSEs	
	2000	**2004**
England	49.2	53.7
North East	41.6	48.7
Northumberland	49.6	56.2
Sunderland	38.4	44.2
Hartlepool	35.7	48.6
Darlington	45.0	49.0
Middlesborough	34.6	40.8
Redcar and Cleveland	45.6	49.0

Source: DfES

Urban and rural renaissance depends upon the entire range of RES proposals and not just those linked under the specific themes. Bringing together all the evidence presented in this section suggest:

- over the past few years the economic performance of the Tees Valley has improved and at least matched the Regional average. Nevertheless, it still lags the Regional average
- there is little evidence of relative improvement in Sunderland
- in aggregate, growth in the rural areas has out-performed the Regional average and, on many indicators, the current level of performance (e.g. education, recipients of Income Support, employment participation rates) is above the regional and sometimes even the national average

6.8.3 Interview findings

Whilst interviewees expressed concern that this theme of RES 2 was a 'catch-all' theme, they did report some good progress in shifting the way community regeneration is delivered. For example, there has been a shift towards building capacity of voluntary and community organisations and wider engagement of partners in the field.

As a result, there is a greater emphasis on developing the skills and capabilities of the people working within community regeneration, and the RES generated a more thoughtful analysis of *how* community and voluntary organisations operated as well as *what* they delivered. There is also evidence of more effective prioritisation of community development work, to ensure alignment with the economic development agenda. A number of respondents stated that their organisations had benefited from networking more widely within the community and voluntary sectors as a result of the RES.

There is a difficulty in creating a theme which encompasses such a disparate group of partners and tasks, as they have different perspectives on the issues depending on their ethos and origin. Therefore it is very difficult to create unity of vision and future regional strategies may have to accommodate a wide array of incremental activities as distinct from large scale and concentrated projects.

The voluntary and community sectors, which are often classified together by other agencies, come from very different perspectives and have very different visions of what development in their theme would look like. However, the lack of a shared vision was not considered a major barrier to partners being able to work together and deliver benefits for the region.

The role of the RES in defining policy priorities was not seen as strong for this theme. Local authority strategic planning is drawn from national government priorities and local political agendas rather than the RES. However, it is noted that RES 2 reflects local authority thinking.

It is recognised that the city region agenda is now a much more powerful factor than it was in RES 2. This is seen as positive by the city managers, less so in the rural communities where it is seen as a further policy marginalisation.

There are concerns that RES 2 took a narrow view of what community regeneration meant, with a focus on it being as a ‘route to jobs’ and there is a perception that ONE is not disposed towards social-inclusion-based models of development that include family development and neighbourhood renewal.

The role of the voluntary sector in this theme was noted. While the sector has well established routes to some of the key client groups, there are concerns about its ability to deliver. This was reflected in comments about the business competence of voluntary sector organisation leaders and the assistance RES 3 might bring to helping rectify that situation. A second criticism is the lack of critical mass and the high degree of organisational fragmentation in the sector with many small organisations that cannot readily deliver services at competitive costs.

6.9 Sub-regional partnerships

There is a recognition that RES 2 gave real credence to the concept of sub-regional development and enabled local flexibility and responsiveness.

There is a tension at the sub-regional level between local authorities' responsibilities to their electorate and the need to work across the sub-region. This has been handled more effectively in some regions than in others. However, RES 2 has been a unifying influence amongst partners in the sub-regions, with the majority buying in to the key themes and objectives. SRP action plans and organisational structures have been influenced significantly by the RES.

There are criticisms that RES 2 tended to have a very urban focus, and did not fully recognise the challenges of the rural environment.

There were concerns that, whilst the extensive devolution of funding to SRPs was good for sub-regional level development, the funding retained by ONE for big impact projects at the regional level might be compromised.

Concerns were also raised about governance:

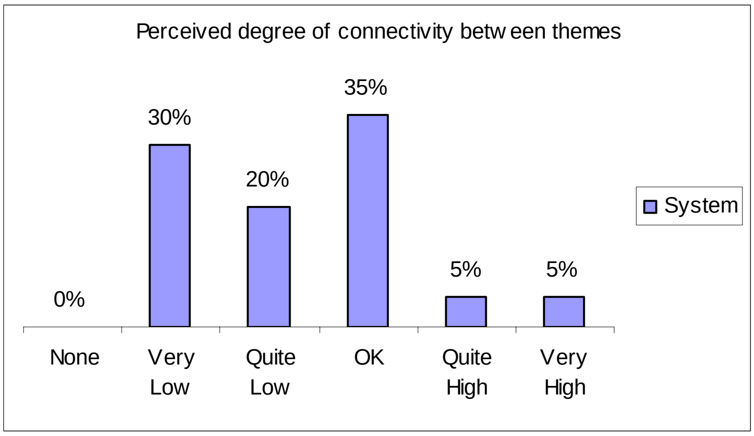
- how funding is allocated within the SRP structure
- how progress is monitored, tracked and reported
- how projects are selected

Sub-regional partnerships see RES 2 as the vehicle for leveraging resources for their priority projects at a local level. However, some interviewees cited concerns about the level of strategic alignment between SRP spend and the RES in some sub-regions. There were concerns that money was divided up amongst local authorities within the partnership rather than being focused on key projects.

Respondents suggested that they would like to see a shift in the governance relationship with ONE, moving towards ONE commissioning projects of strategic significance rather than responding to action plans. It was also proposed that ONE demonstrate greater rigour in defining the required deliverables and reporting processes.

6.10 Connectivity

6.10.1 Degree of connectivity between the different themes of RES 2



The degree of connectivity between the themes was rated low or OK by the majority of interviewees. Whilst respondents recognised the value of the clarity with which each theme was defined, they expressed concern that this same clarity prevented partners from viewing the themes as part of an interconnected whole, for example, the interdependence between the skills and labour market theme and the wealth creation and productivity theme.

The majority of respondents believed that the lack of connectivity contributed to continued silo thinking in the North East and that this represented a lost opportunity to maximise the impact of RES 2 process. This should be addressed in RES 3.

7 Strategic Added Value and RES Process Learning

In this section the issues of strategic added value and RES process learning and development are discussed.

7.1 Strategic added value

The brief explicitly asked for an assessment of the RES strategic added value. We have taken this to mean the strategic leadership provided by the RES and its catalytic role as reflected by its influence over other organisations in the North East. This includes the extent to which the evidence-base assembled for the RES has influenced the policy agenda and the activities of local players.

The extent and nature of RES leadership is complex and varies from topic to topic. Furthermore, it is difficult to separate the leadership provided by RES 1 and RES 2. This is because the agenda set out in RES II is largely a continuation of RES 1. Consequently, it is not possible to identify in any absolute terms the influence of the RES from that of One North East's ongoing activities.

While it is not possible to attribute specific changes to the RES (or even to be too specific about the extent of change which has taken place), the Regional Strategies and ONE have contributed to a process of evolution in the regional policy agenda.

A review of the various regional strategy documents and our interpretation of interview comments suggests that compared with the late 1990's, there is:

- much greater consensus about the nature and extent of the region's economic problems, and that new and more ambitious policies are required to close the gap with the UK's more prosperous and dynamic regions
- more widespread recognition that the Region cannot rely on inward investment for new wealth creation capacity, and that it needs more than investment in physical infrastructure and environmental improvement
- greater acceptance that the North East's economic future depends upon action taken by those within the Region. The 'solutions' are less likely to be seen as simply the responsibility of Central Government. In this evaluation we did not encounter the view that 'if only Government would give us more money, the problems could be solved'
- wider acceptance of the need for 'indigenous' growth, enhanced competitiveness, entrepreneurship and, in particular, the important role that knowledge and the universities need to play. The importance of business and the private sector is more widely accepted
- while there is still a strong commitment to the locality, there is greater acceptance of a regional perspective. It is also accepted, at least conceptually, that such a perspective may mean focusing resources on specific initiatives and/or areas with a need to more clearly specified and higher input priorities

In addition, the strategy has, of course, had influence through its control of the purse strings. Regional strategies and bids for resources have had to be, at least in broad terms, consistent with the RES and that has reduced fragmentation, overlap and the potential for waste.
The extent of leadership and the significance of these changes from the RES should not be over-estimated. While there is widespread consensus relating to the Region's problems, there is little consensus on the specific policies required to overcome them. The pros and cons of alternative strategic options were not explicitly examined in the RES, its evidence-base or the consultation process. Consequently, it did not establish consensus on solutions and strategic priorities.

Our interviewees had many different implicit or explicit economic development models, and, therefore, the policies required to drive economic development. Indeed, there are strongly held differing views on what constitutes development. For example:

- some want a more clearer focus on the economic agenda believing that without job creation and economic growth, much else in the strategy (e.g. social inclusion, better health, urban renaissance) is simply wishful thinking
- some see development in a much wider context. Improved health, education, environment and social equality are the key requirements rather than more jobs and growth per se
- some see development being driven by community 'bottom up' action, social enterprise and alternative business forms. Indeed, some are searching for a new public sector driven model of capitalism
- some see the solution as the need for more skills and training while others believe such policies are likely to be largely ineffective in the absence of policies which generate employment and more directly grow the economy
- some believe that investment in the environment and infrastructure will create growth conditions, while others would focus resources more directly on the business sector

These differences are perhaps not surprising. Complete consensus is not possible and probably not desirable. Nevertheless, in the future we believe the RES needs to provide greater leadership relating to alternative futures and strategic options. We believe that the consensus achieved around RES II is limited to the problems. However, it would have been (and probably remains) much more difficult to achieve consensus relating to solutions and priorities. Interviewees' comments on RES 3 suggest progress is being made.

Future RES documents need to:

- set out the cases for the alternative options
- make explicit choices based on robust evidence
- direct resources to chosen priorities and not to the secondary options

More specifically, the limited nature of RES leadership is reflected in the widespread agreement amongst our interviewees that:

- the RES enabled most organisations to justify their existing activities in terms of RES implementation. Very little is excluded
- the RES does not clearly set out priorities and, with the exception of Strategies for Success, identify what really matters
- while policy change and clearer priorities are required, almost all interviewees felt that it was others that needed to change and what their organisation was doing are self-evidently regional priorities

There is little evidence that stakeholder organisations have done something different because of RES. Interviewees were also unable to identify specific things they had decided not to do because of the RES. However, it should be stressed that its influence is likely to be subtle and many interviewees and organisations may not be aware of changes in their policies and activities because of changing attitudes and perspectives brought about by the RES over several years.

It is also important to recognise that the RES influence on stakeholder policies and expenditures may not be recognised as being directly attributable. This is because staff in stakeholder organisations see policy changes coming through their in-house strategies rather than the RES. This two-stage communication process may understate attribution of outcomes to the RES. A detailed analysis of policy change traceability would be required to evidence this and may be an essential component of the evaluation of RES 3 if full attribution of the strategic value add is to be made.

The RES sought to influence and provide leadership for the Region's public sector organisations. It made little attempt to influence the private sector. Indeed, its relevance to, and engagement with, the private sector has been relatively limited. In this context, the difficulties encountered in taking forward the cluster agenda is illustrative. This also underlines the difficulties encountered in establishing a shared understanding of the region's future economy and in engaging the private sector in public sector problem solving processes.

A final component of strategic value added relates to the influence achieved via the 'evidence base' established by the RES. It is widely believed that the RES/ONE contributed to the case for a 'single pot' budget within ONE. The RDA may also have had an influence via its lobbying role on subjects outwith the scope of this study. However, there is little evidence that the evidence base assembled for the RES (as reported in the Technical Annex) has had substantial influence.

As a description of the 'state of the region', the evidence-base contributed to establishing consensus about the existence and nature of the problem. However, it provided no evidence relating to cause and effect relationships or the potential impacts of alternative policies. To provide leadership relating to solutions, the evidence-base needs to go well beyond the assembly of data describing the 'state of the region'. It must then address "so what we are going to do and why . . .".

In commenting on the limited extent of RES' strategic added value, it is important to note that the extent to which the RES can be expected to provide leadership is itself limited. The RES is a document; it is the stakeholders' attitudes to and engagement with what the document proposes that is the platform for strategic value add.

7.2 RES – A learning process driving strategic maturity

The purpose of the RES is to set out the economic development strategy for the region. However, a document is only black marks on white paper; it is the change in attitudes and behaviours stimulated by the RES process that drives improvements. Therefore, establishing processes in the North East policy community that enable change, drive continuous improvement and build strategic thinking capacities will accelerate the potential to:

- generate strategic added value
- close the GVA gap

The review of documents and the interviews indicates strongly that the North East economic development community has been on a 'journey' from pre-RES to the current draft of RES 3. This 'journey' has seen change and development in:

- policy content – the objectives set out in the strategies and the extent to which they have been subject to continuous refinement, improvement and focus
- processes – in terms of depth of awareness and capabilities, and the extent to which a cycle of continuous improvement in those processes has now been established
- competencies and capacities – in the skills and infrastructure supporting RES design and delivery

The scoring from the 'system' interviewees suggests that they, as individuals and representatives of this organisation, believe that the RES process has broadly met its objectives. However, they were also among the sternest critics of the process element of RES with the highest expectations of what needs to be done to continuously improve its performance. This indicates that they:

- see benefits from the work to date
- recognise the value of the process
- recognise the potential for improvement
- want to realise the potential benefits

It may be concluded that the RES process is a powerful tool with the potential to deliver continuously improving strategy development processes in the North East, and that those engaged are willing participants.

While it is not possible to state categorically that a 'virtuous circle' has been established in the RES at this stage, there is strong evidence to suggest that this is readily within the grasp of the North East Policy Community.

In parallel, the 'theme' interviewees, while showing broad support for the RES as a whole, indicate their satisfaction with the robustness of the strategic thinking at the theme level, but strongly support the need for clearer evidence (reflecting their practical experience of implementation) that will continue to refine and influence the RES process.

The benefits of an increasingly robust process are that it can reasonably expect to handle more 'difficult' content issues. As both the academic critique and interviews make clear, a significant task for RES 3 and subsequent strategies is to narrow down the range of activity and focus on those high impact initiatives that will deliver the big wins and close the GVA gap.

The somewhat mechanistic 3 year cycle of the current RES strategy could become a barrier to development of the process and improvement of the outcomes. ONE and the key partners should review the process design with the objective of developing it to meet future needs and rising levels of North East user capacities and expectations, and accelerating progress in strategic maturity.

It is reasonable to conclude that the economic development policy community in the North East is developing as a result of the RES process and it may be said to be progressing along a maturity curve with components including:

- increasing economic self-awareness across the region
- shared assumptions about the economic model for the North East
- adequate evidence to validate the economic model and support policy choices
- recognition of the reality and scope of 'the problem'
- improving articulation of 'the solution'
- recognition of self-responsibility to address that problem as a team rather than a group of geographically co-located stakeholders
- difficult decisions being made on resourcing the priority activities that will deliver high impact
- the potential readiness for deferred gratification in some organisations or locations in a trade-off for higher level impacts for the region

A simple outline example of a maturity model on the basis is presented below. The assessments of current performance are presented for illustration only.

	Little or no Awareness	Appreciation of Need	Action in Delivery	Evidence of Excellence
Economic self-awareness				
Shared economic model				
Evidence base				
Shared view of the 'problem'				
Articulate 'solution'				
Genuine shared ownership				
Ability to decide priorities				
Willingness to trade-off				

We believe that the development of a shared strategic maturity model for the key stakeholders would be a powerful driver to improve self-awareness and self-assessment of progress in *process improvement* across the high level strategic partnerships in the North East. Success in applying the learning from RES in process improvement will tend to accelerate the performance of all partners in closing the GVA gap.

8 RES 2 Evaluation – Conclusions

The conclusions and recommendations from the interviews and the academic analysis of RES 2 are presented below.

8.1 Critical requirements for RES success

There is criticism that the underpinning economic model in RES 2 was too traditional and that it did not sufficiently recognise the restructuring of the economy. While it was a fair reflection on people's and organisations' thoughts at the time, RES 2 lacked the evidence to support whether these views were valid. There is a need for an explicit and shared economic model that underpins strategic thinking in the region that will be the basis for future RES, and related strategy development across the North East.

A clear and well understood shared economic model will allow more effective identification of the proportionality of the problems being tackled and thereby guide both the prioritisation and the scale of resources applied to specific issues.

The RES is strongly influenced by central UK government thinking which reflects the needs of the UK economy as a whole, and particularly the South East. Hence, there is an underlying tension for the North East in how it can develop strategies that are highly relevant to its regional needs whilst operating within a UK-wide framework. Improving the RES will improve the quality and robustness of a case for non-'standard' approaches in the North East.

The RES process has brought about some policy maturity in the North East, for example a shift from legacy thinking and a focus on foreign direct investment. This evidences a dynamic in the strategic thinking and delivery competencies within the region. These should be specifically developed and facilitated within RES and other strategy processes within the region, ensuring the basis for improved performance.

Both the interviews and the academic assessment identify the lack of an evidence base or a major flaw in RES 2. Recognising this, the partners have been building up a significant body of research and evaluation evidence, thereby creating this essential foundation for RES 3 and subsequent work.

8.2 RES processes

There is a need for more explicit consideration of the major policy options being considered in the RES. It is recognised that posing these choices may challenge, or break, the stakeholder consensus that has now been established. However, there is a need to make explicit statements of:

- what options are being considered – ensuring completeness
- what choices are being made – setting out decisions

There is a broad consensus in the North East on the nature of 'the problem'. There is a need to build and communicate that same level of consensus on 'the solutions' as a compelling case for partner engagement and commitment to the actions required.

The degree of connectivity between the RES themes prevented partners from viewing the themes as part of an interconnected whole. For example, the interdependence between the skills and labour market theme, and the wealth creation and productivity theme is not made explicit. This lack of connectivity contributed to continued silo thinking in the North East and that was a lost opportunity to maximise the impact of RES 2 and is an area for improvement.

Development of the RES process in terms of both the maturity model and making it a more fluid and flexible process (as discussed in the previous section) will continue to accelerate the effectiveness of the process in engaging partners and delivering outputs for the region.

8.3 RES content and presentation

The content of RES 2 was viewed as relevant to achieving its purpose. While the content was broadly correct at the strategic level, it was commented that '*it was so broad that it was bound to be right'.* Whilst it was recognised that the RES is a strategic document, greater clarity on deliverables would focus partners and ensure that project development was more closely aligned to the RES priorities. The main weakness of RES 2 is a perceived lack of actions, deliverables and progress measurements and this should be a priority for improvement.

There is a need to articulate more effectively the magnitude of the economic problem facing the region, particularly in terms of employment and business creation. While there is wide recognition of 'the gap' of £9b in regional GVA, that is a less tangible concept than numbers of jobs or businesses required. A specific and tangible articulation of 'the gap' will create greater clarity and ease of communication of what needs to be done and in winning commitment to action.

While RES 2 was seen as broadly right in terms of direction of travel, it lacked boldness or bravery. *'It wasn't hard-hitting enough – it was too soft and not frank enough'*. This related especially to some of the challenges in manufacturing, productivity, cycles of industrial decline and provision of infrastructure. A more assertive stance in RES 3 will present a strong and more compelling case for engagement and action.

A significant weakness of RES 2 is in the link between intention and planned actions; RES 2 set out intentions and aspirations, but did not define the actions or responsibilities which would deliver these intentions. There is a need to address accountability for delivery of the RES across all partners.

While RES 2 broadly followed the policy directions set out in RES 1, there is a need to ensure persistence in attacking key problems identified and that the time and resources are not wasted in 'fashion chasing'. An example of this is the significance with which clusters emerged in RES 2 but are now being scaled down and rethought with a return to a more sector-based approach.

A significant criticism in both the interviews and the academic critique of RES 2 is the lack of focus on specific activities that will increase economic outputs.

There is a need to move beyond research, restructuring and co-ordination activities with less focus on process and more on outputs. While RES 2 took on a significant 'set-up' role, there is a need to ensure RES 3 focuses on 'production'.

8.4 Engagement in RES

RES 2 is seen as having positive impact on partner engagement. The majority of respondents felt that their budgets and priorities had been adjusted to reflect the themes of RES 2. The extent of these adjustments varied between organisations and may reflect internal rather than RES motivations. Budget adjustments and spending re-direction is evidence of action rather than agreement, and these should be key indicators in RES 3.

The extent to which local authority and other key partner budgets are aligned with the RES should be reviewed. Education and social services budgets are 'untouched' by RES, despite having the potential to be significant levers of change and development in, for example:

- education – influencing the skills and attitudes of young people as the workforce of the future
- social services – supporting greater participation and inclusion through the provision of social care services aligned with tackling worklessness

There are constraints to budget alignment for major players such as Jobcentreplus. Increasing the quality and persuasiveness of the RES as a compelling case for national policy flexibility in support of regional development would take steps towards this.

The interviews make clear the difficulty people have in perceiving the extent of the influence and impact of the RES because of the two-stage communication process. Future evaluations would benefit from a more explicit RES policy 'influence map' that enables traceability of influence and attribution of impacts on the North East system as a whole.

There is an interesting dilemma in that as RES has value as a change mechanism and provocateur to thinking about economic policy, it will tend to draw stakeholders on a narrower focus, eg on the economic rather than social activities. This will reduce RES influence as a change agent on non-economic activities, hence there is a trade-off. North East stakeholders should consider the lessons that can be drawn from the RES process to be applied in other areas of policy where high impact change and output improvement would benefit the North East.

8.4.1 Positioning of the RES – beacon or stealth?

The RES process has had a strong role in building a consensus and engagement in the regional policy community, and the differences in interviewee responses between the whole system and theme interviewees suggest a difference in how the RES is perceived.

The interviews suggest that RES 2 is perceived by different stakeholders to have been delivering in both ‘beacon’ and ‘stealth’ modes:

- strong brand leadership, ie a high visibility ‘beacon’ status
- a behind-the-scenes ‘stealth’ process, the impacts of which are seen primarily in individual stakeholder strategies in a two-stage communication process

The preferred approach is a policy choice for the North East and must consider issues such as individual and stakeholder organisation motivators and sense of ownership of the RES content. For example, would an SRP employee relate more strongly with a priority (that is common to) the SRP action plan and the RES? Arguably, it does not matter whose label is on it; only that it gets done. This choice may therefore be expressed for RES as a:

- beacon – offering explicit and widely recognised leadership in a directing and controlling mode with a high profile ‘brand’ across the region
- stealth – offering explicit and narrowly recognised leadership in a highly effective influencing and ‘soft power’ mode

There are considerations in terms of perceived ownership of objectives, attribution of benefits and allocation of resources that are common to all multi-agency working. These may be relatively insignificant where priorities are shared, however they may become much more important when, for example in RES 3, priority choices will be made.

8.5 Monitoring and measuring

We recommend that a maturity model for the RES process impacts be developed. This would enable a more explicit articulation of progress on some of the higher level and systemic stakeholder attitudes and behaviours that evidence progress in:

- the quality of the RES process
- behaviours in delivering against the RES
- capacities in stakeholders to continuously improve strategy development and delivery capabilities, and deliver future benefits

The lack of evaluation evidence was discussed earlier and substantial programme of current activity is noted. However, the RES is maturing and moving towards an increasingly ‘joined-up’ process, hence traditional evaluation processes may not be appropriate to capture the wider range of benefits generated. Identifying these should be a component of all such evaluation and process learning commissions.

The complexities of attribution of benefits from the RES present a challenge, particularly when considering the 'two stage' strategy communications process discussed earlier. Stakeholders should consider approaches to evaluation that capture these linkages effectively. It is recognised that the contribution of the RES lies in its additionality and that is a further complication in measuring progress.

It is our view that an effective maturity model would be an influential driver of continuous improvement. We believe that the combination of 'soft' (qualitative and behavioural) and 'hard' (economic and quantitative evidence) tools will be a powerful and innovative combination in accelerating the performance of RES 3, as well as subsequent and related strategies in the North East.

We would argue that, as an indicator of shared behaviours, the maturity model could be a more influential motivator for activity and change across the region. The parallel role of the economic model is to ensure that the motion is in the 'right' direction.

Frontline Consultants
September 2005

Appendix 1

List of Interviewees

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Jane Robinson	ACNE
Melanie Laws	ANEC
Tony Sarginson	ARK Associates
Beverley Prevatt Goldstein	BECON
Steve Rankin (replaced by Liz Smith)	CBI North East
Lesley Calder	currently on secondment to Northern Way
Bob Ward	Durham County Council
John Heywood	Government Office for the North East
Jonathan Blackie	Government Office for the North East
Betty Weallans	ICCQ Neighbourhood Management Initiative
Diane Headley	Jobcentre Plus
Sandra Cartlidge	Middlesborough Council
Sue Underwood	NEMLAC
Paul Rubenstein	Newcastle City Council
Paul Wilding	North East Assembly
George Cowcher	North East Chamber of Commerce
Andrew Sugden	North East Chamber of Commerce
Malcolm Bowes	North East Regional Assembly
Kevin Rowan	Northern TUC
Mark Henderson	Northumberland County Council
Alan Wann	Northumberland County Council
Alan Clarke	One North East
Pat Ritchie	One North East
Richard Maudslay	One North East
Phil Shakeshaft	SHINE
Bill McGawley	TDR Training Ltd
John Lowther	Tees Valley Joint Strategy Unit
John Williams	TPUK North East
Susan Oliphant	Tyne & Wear Business Link
Chris Roberts	Tyne and Wear Learning and Skills Council
Gillian Miller	Tyne and Wear Learning and Skills Council
John Goddard	University of Newcastle upon Tyne
Ray Cowell	VONNE