

# City Relationships: Economic Linkages in Northern city regions Tyne & Wear City Region

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Moving Forward:  
The Northern Way



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## Summary



### This is one of seven reports published as part of the City Relationships research programme.

The research aimed to test a hypothesis derived from previous research that stronger and more complementary economic relationships between towns and cities in the North of England would generate higher levels of sustainable economic growth and development.

The project examined the economic relationships between the five most significant economic centres in the North – Leeds, Liverpool, Manchester, Newcastle and Sheffield – and selected cities and towns nearby, looking in particular at labour market linkages and the connections between businesses. It considered barriers to more complementary economic relationships and what public policy might do to foster them.

At a time when the public policy environment is focused on recovery from the current recession, and when there are emerging changes in the tools available to agencies and institutions at sub-national level working on economic development, the report aims to generate insights about how these tools could secure better economic outcomes for places across the North of England.

### The seven reports published through the research programme include:

- An overall synthesis report: City Relationships: Economic linkages in Northern city regions.
- Five reports detailing our findings and conclusions for each of the city regions in this study.
- A report on the Research Methodology.

In addition, there are five supplementary data annexes supporting the five city region reports.

These reports are available on The Northern Way website at [www.thenorthernway.co.uk/cityrelationships](http://www.thenorthernway.co.uk/cityrelationships)

## Key findings and policy conclusions

### Economic development in the Tyne & Wear City Region

- Within the Tyne and Wear City Region, Newcastle is a key centre of employment for neighbouring cities and towns and the main driver of city region growth. Our research shows that Newcastle is the economic centre within the city region which has the strongest agglomeration forces at work. This suggests that **enabling growth in the Newcastle economy has the potential to spread economic benefits more widely** to neighbouring towns and cities and that the Tyne and Wear City Region should work together to make the most of growth opportunities created by Newcastle's economic strength for the wider city region.
- **Across the Tyne and Wear City Region, cities and towns have different roles to play.** They need to recognise and play to these distinctive roles in order to maximise growth potential for the city region as a whole: for example, Sunderland is the city region's second economic centre. It has strengthened its links to Newcastle in recent years through transport investment and institutional collaboration and there is potential to further strengthen these links and ensure the two economies become more complementary, enhancing the economic weight of

Tyne and Wear. Gateshead should continue to concentrate on increasing the benefits from its economic interdependency with Newcastle by up-skilling its residents and creating a business environment attractive to higher value-added industries. In contrast, Easington, which is currently isolated from Newcastle, should strengthen its links with Durham and Sunderland.

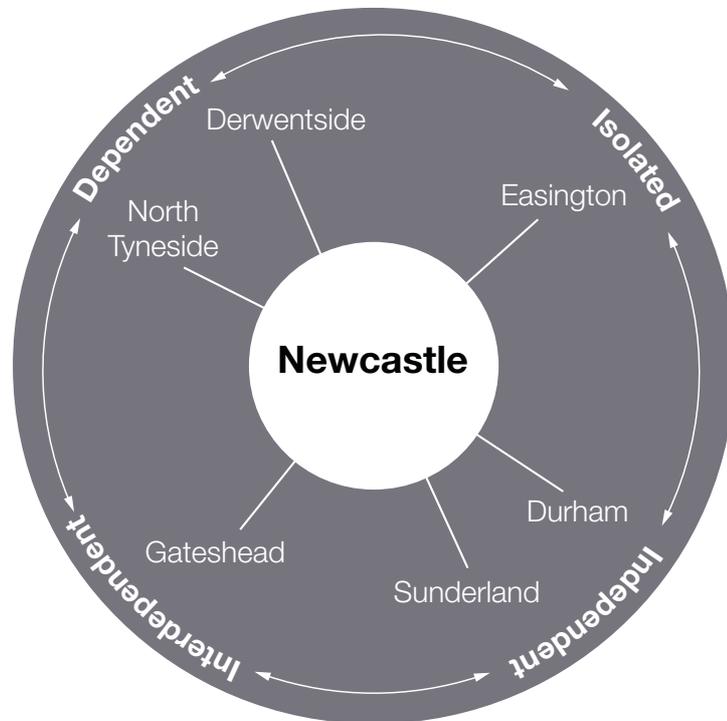
- Central to a strategy to maximise economic benefits is **enabling residents to access employment opportunities** in Newcastle through transport and skills policies and **pursuing a planning policy that complements Newcastle** rather than competes with it, for example, by providing good quality housing or cheaper business space.
- **Transport and skills policy are key to supporting the manufacturing and ICT and digital sectors.** Both the manufacturing and the ICT and digital sector can be supported by improving public transport links to out-of-town business parks and by gaining a better understanding of skills shortages in the sectors. Whilst existing ICT and digital networks in different parts of the city region have been valuable, one city region network could help gain critical scale as well as reduce costs.
- **Collaboration around these issues is happening in some parts of the city region.** In the ICT and digital sector, for example, Newcastle Science City and Sunderland Software City have started to link up to work better together. Gateshead and Newcastle are working together on the joint 1NG master plan coordinating planning across their areas.

### Draw of Economic Centre

- With earnings of £444 a week Newcastle, compared to the other city regions in this study, is **the economic core with the lowest workplace based median weekly earnings** in 2008. However, Newcastle's wages make it an attractive place to work in the context of the city region, where pay in some cases can be up to £80 less per week. This attractiveness as a centre of employment is demonstrated by Newcastle's large travel-to-work area, which extends up to 50 kilometres from the city.
- The Tyne and Wear City Region is a **bipolar city region**, containing two economic centres, Newcastle and Sunderland. However, Newcastle contains the strongest single concentration of economic activity. Economic relationships within the city region are shaped by history. This is illustrated by the fact that commuting movements between Local Authority areas within the former Tyne and Wear Metropolitan Council are much stronger than commuting between these Councils and the former Local Authority areas within the newly created Durham or Northumberland Unitary Authorities.

### Labour Market Relationships

- The **North Tyneside** Local Authority area depends upon Newcastle for employment opportunities for many of its residents, although commuting into Newcastle is somewhat lower in the North Tyneside wards of Chirton and Collingwood. In 2004, 35.9 percent of North Tyneside residents commuted to Newcastle, while only 4.7 percent commuted from Newcastle to North Tyneside. Over time analysis of trends suggests that North Tyneside residents will increasingly look to Newcastle for employment opportunities – a result of Newcastle's growth and the significant recent housing development in North Tyneside.



- The former Durham County District of **Derwentside** is also dependent on Newcastle in labour market terms – albeit to a lower extent than North Tyneside. In 2004, 12.1 percent of Derwentside residents worked in Newcastle, but virtually no Newcastle resident worked in Derwentside. Over time our analysis suggests that Derwentside residents are becoming more dependent on Newcastle for employment opportunities.
- **Easington** is relatively isolated from Newcastle in labour market terms, although the former Local Authority area has commuting links with Durham and Sunderland. In 2004, only 2.4 percent of Easington residents commuted into Newcastle, while virtually no Newcastle resident worked in Easington.
- **Durham City** functions as a small economic centre in its own right and is relatively independent from Newcastle in labour market terms. In 2004, only 6.1 percent of Durham residents worked in Newcastle – a relatively small figure compared to North Tyneside or Derwentside. Over time, whilst Durham will remain an independent economy, it also seems likely to become more dependent on Newcastle for employment opportunities, albeit from a relatively low level.
- **Sunderland**, the city region's second economic core, is relatively independent of Newcastle in labour market terms. In 2004, only 6.8 percent of Sunderland residents worked in Newcastle, while 2.1 percent of Newcastle residents worked in Sunderland. However, some areas within Sunderland Local Authority, such as Washington, have relatively strong two-way links with Newcastle. Over time, our analysis suggests that Sunderland residents may become more dependent on Newcastle for employment opportunities. This is in line with wider global trends for economic activity to concentrate in cities which already have larger economies.

- **Gateshead** is the only Local Authority area within the city region that is truly interdependent in labour market terms, with strong two-way flows of commuters. This is unsurprising given the proximity of the two cities across the Tyne. In 2004, 27.1 percent of Gateshead residents worked in Newcastle, while 8.1 percent of Newcastle residents worked in Gateshead. Over time our analysis suggests that Gateshead may be becoming more dependent on Newcastle.

### Firm Relationships

- Although total employment numbers are decreasing within the sector overall, the **manufacturing sector** remains vital to the productivity of the Tyne and Wear City Region. Different manufacturing sub-sectors operate in different areas of the city region. The sub-sea sector clusters around the River Tyne, the automotive industry is located around Washington, Easington and Derwentside and the pharmaceutical industry is located in Cramlington and Durham. Forward linkages to customers as well as backward linkages to suppliers within the sector are very much national and international – but the precise nature of these depends on business size, ownership and degree of specialisation. While most manufacturing employees live relatively locally, those at management level are likely to travel longer distances. Despite differences in wages at the lower end of the labour market between different Local Authority areas, career development does not seem to follow a certain spatial path.
- The **ICT and digital sector** is a relatively young industry within the Tyne and Wear City Region. While employment within the industry varies across Local Authority areas, the majority of businesses are located in out-of-town business parks. The ICT industry is a relatively footloose industry, as it does not have many suppliers in the traditional sense. Client links seem to depend on business size – the bigger a company, the more international its client base. Overall the industry is much less strongly embedded in local supply chains than in some of the other city regions (e.g. Manchester). As with the manufacturing industry, most ICT and digital employees, with the exception of managing directors or company owners, live relatively locally. Due to the size of the sector, career development opportunities within the city region are currently relatively limited. However, this may change in the future.

### Economic Relationships

- Transport, quality of life, skills, and the availability and quality of housing and business space shape labour market and firm relationships between Newcastle and its neighbours. Policymakers need to consider how these can help to maximise economic benefits from relationships between Newcastle and neighbouring towns and cities.
- There has been considerable investment in partnership work at a city region level and good progress in working together has been made over the past years. However, complementarities do not seem to have increased between Newcastle and its neighbouring towns and cities as yet. For example, there is a need for more alignment between housing and economic strategies within the city region to promote a more complementary offer, to reduce competition between areas within the city region for residents and jobs, and to support wider economic development objectives.
- Newcastle's productivity has increased since 1996 but there is an increasing productivity gap between Newcastle and its neighbours. This suggests that there is potential for neighbouring towns and cities to do more to take into account their economic relationships with the centre in order to fully reap the benefits of its economic success.

# 1: Introduction

For policymakers seeking to enhance the productivity of individual places it is vital to look beyond administrative boundaries. Local areas are open and dynamic. Their economies are shaped by economic relationships with other areas<sup>1</sup> – connections and flows of people to and from home, work and leisure, as well as firm relationships and supply chains.<sup>2</sup> These have the potential to generate benefits for both local areas, for example, in the Greater South East, London's success has benefitted nearby cities and towns such as Reading.<sup>3</sup>

When local areas have economic relationships that create advantages for both areas we have defined them as **complementary economic relationships**: labour market and firm links between two urban areas that generate mutual economic benefit.

However, not all economic relationships are complementary; some places appear to be less likely to benefit from their links with one another. In the North of England, for example, there is a desire to understand why the success of Manchester, Newcastle and Leeds has not spread to neighbouring areas in the same way that the success of London has benefitted surrounding areas.<sup>4</sup> This raises questions about the factors that contribute to more or less complementary economic relationships.

In response The Northern Way and CLG have been supporting a partnership of the Centre for Cities, SURF and The Work Foundation to investigate relationships between cities in more detail. Building on *City Links*<sup>5</sup> and our review of additional literature,<sup>6</sup> our hypothesis is:

*"Sustainable economic growth of places, a more highly skilled workforce, higher individual prosperity and reduced deprivation could be achieved in the North by strengthening the economic links between the economic centres of city regions and the towns and cities that surround them. These links could be supported through policies to improve integrated transport links, focus up-skilling of the working population, and foster innovation and investment in specific business clusters and their supply chains."*

To test this hypothesis, the partnership has investigated the relationships between the five most significant economic centres in the North – Leeds, Liverpool, Manchester, Newcastle and Sheffield – and selected cities and towns nearby, seeking to answer the following questions:

**What are the factors that contribute to complementary or non-complementary economic relationships between northern cities?**

**Can a focus on complementarity lead to higher and mutually beneficial economic spillovers within and around the city regions of the North?**

1 Overman, H. et al (2007) Economic Linkages Across Space, CEP Discussion Paper No 805, London School of Economics: London.

2 Harding, A, Marvin, S. and Robson, B. (2006) 'A framework for city regions', Office of the Deputy Prime Minister, London, available at: [www.communities.gov.uk/publications/citiesandregions/frameworkfull](http://www.communities.gov.uk/publications/citiesandregions/frameworkfull)

3 Hall, P. & Pain, K. (2006) The Polycentric Metropolis: Learning from Mega city regions in Europe: Earthscan

4 IPEG and CUPS, University of Manchester (2008) The Northern Connection: Assessing the comparative economic performance and prospects of Northern England: The Northern Way and Jones et al. (2007) How Can Cities Thrive in the Changing Economy?, The Work Foundation

5 Lucci, P and Hildreth, P (2008) City Links: integration and isolation, Centre for Cities, available at <http://www.centreforcities.org>

6 See scoping paper published in March 2009

7 Our focus is on economic growth of places but we note that Overman and Leunig's work suggests that there may be a tension between focusing on the prosperity of individuals and of places, as individuals may gain greatest individual benefit from moving to places offering the greatest economic opportunities. Our work hopes to contribute to insights about if and how prosperity of both individuals and places can be achieved.

### Supplementary questions:

1. What supports complementary economic relationships between cities?
2. What are the barriers to complementary economic relationships developing between cities?
3. What can public policy do to support and develop complementary economic relationships between cities? Are there transferrable lessons from other cities that have successfully developed and supported complementary economic relationships?

Our methodology is summarised in Box 1 and set out in more detail in a Methodology Paper.

#### Box 1: Summary of Methodology

We selected **two sectors** to focus on in each city region, enabling us to understand supply chains and business relationships in more detail.

We also selected **six towns and cities** in each city region, focusing on three local authorities that have strong commuting links with the economic centre, one 'boundary' local authority (a local authority at the edge of the city region), and two local authorities, each with a high concentration of employment in the selected sectors. These are set out in the table below. More details (including SIC codes) are available in the methodology paper.

The work started with *background data analysis* to help us test the hypothesis. This set out measures of economic performance, skills, individual prosperity, wages and deprivation for the economic centres of the city regions and selected towns and cities in the surrounding area.

We then *analysed secondary data* to review the relationships between the economic centre and the towns and cities which surround them, focusing on three main themes:

1. Economic scale and increasing returns;
2. Labour market links;
3. Transport links.

We also conducted a brief *literature review* and a series of *interviews with selected policymakers and businesses*. This was to help us understand more about two issues:

1. Business supply chains;
2. Other factors that might affect relationships between cities, for example the history of places and their relationships, cultural issues such as a preference for local working, and political and geographical challenges.



**Table 1: Overview of case study places and sectors**

City region	Top commuting LAs	Boundary LAs	Sector LAs
Leeds City Region	1. Wakefield 2. Bradford 3. Kirklees	4. York	5. Calderdale – Financial Services 6. Harrogate – Retail
Liverpool City Region	1. Sefton 2. Knowsley 3. Wirral	4. Chester	5. St Helens – Maritime ('Liverpool Super Port') 6. Halton – Digital and Creative Industries
Manchester City Region	1. Stockport 2. Trafford 3. Bury	4. Blackburn	5. Oldham – Advanced manufacturing 6. Warrington – ICT, Digital/Communications <sup>8</sup>
Sheffield City Region	1. Rotherham 2. North East Derbyshire <sup>9</sup> 3. Barnsley	4. Doncaster	5. Bolsover – Advanced manufacturing and metals 6. Manchester – ICT
Tyne & Wear City Region	1. North Tyneside 2. Gateshead 3. Sunderland	4. Durham	5. Easington – ICT/Digital 6. Derwentside – Manufacturing <sup>10</sup>

### 1.1 This paper

The work aims to inform the development of economic development strategy at a number of levels: The Northern Way's strategy, regional strategies, sub-regional and city regional development plans; and the work of CLG and other Government departments in the development of Multi-Area Agreements (MAAs), city region Economic Prosperity Board pilot schemes and prioritising infrastructure projects for the post 2014 budget. In addition this work aimed to provide insights to inform the way that city regions respond to recession, prepare for recovery and work together in the context of tough spending decisions that will be required to be made by Government over the next few years.

This analytical paper focuses on the results of our analysis for the **Tyne and Wear City Region**. It is accompanied by an overarching paper setting out our overall findings and papers on the other four city regions: Leeds, Liverpool, Manchester and Sheffield. These are all available at [www.thenorthernway.co.uk/cityrelationships](http://www.thenorthernway.co.uk/cityrelationships)

8 Warrington can look both east and west, to Manchester and to Liverpool, and we have considered this as part of our analysis.

9 Barnsley can look both south to Sheffield and north to Leeds, and we have considered this as part of our analysis

10 Data analysis conducted as part of the research was carried out prior to the 2009 local authority boundary changes. Local authorities affected as part of the 2009 Local Authority boundary changes include Easington and Sedgfield (part of Durham Unitary Authority), and Chester (part of Cheshire West and Chester Unitary Authority)

This paper on Tyne & Wear City Region sets out our findings in the following sections:

First, we provide a summary of the current position in the city region. It briefly sets out the context for, and the history of, relationships within the city region and then focuses on the characteristics of Newcastle as the economic centre – e.g. its economic performance and how this affects relationships within the city region.

Secondly, we review how these individual labour market relationships affect relationships at a city region level, focusing on ‘life choices’ (migration, jobs and homes), career development, and the relationships between housing, workplace, skills and transport.

Thirdly, we review firm links in the city region: presenting the findings about specific sectors within the city region, assessing how supply chains work and how relationships between different cities operate. In the Tyne and Wear City Region these sectors are manufacturing and ICT and digital.

In the fourth section, we draw together our findings about the linkages and relationships within the city region between places, using the analytical model which has been developed through this study, across the five city regions in which we have been working. Given our findings about the importance of labour market linkages to the economic relationships between places, the main focus for this model is on the labour market linkages. In this section, we apply our spectrum of different types of labour market relationships to the Tyne and Wear City Region, and explain why we characterise each place in the way that we do. This sets out information about commuting patterns, skills, earnings, economic performance, transport and house prices for each city or town we reviewed.

Finally we highlight the key findings and policy conclusions that this research raises for the current and future relationships between Newcastle and the neighbouring towns and cities.

## 2. Background

### Box 2: Literature

This report builds on and complements a variety of existing literature on the city region's economic geography. Rather than repeating their findings in detail here, these reports are referenced within the appropriate sections of this report – both for further reference or to benchmark our findings against existing research. Key background documents to this report, however, are: the Tyne and Wear City Region Multi Area Agreement (2008); Residential Futures: Tyne and Wear City Region by Tribal (2009); the OECD Territorial Review of Newcastle and the North East (2006); Centre for Cities' OECD Review of Newcastle in the North East: "One Year On" Report (2007); and NERIP's Spatial analysis of Economic Flows in North East England (2006) and its forthcoming follow-up work. These are examples of various existing and forthcoming work on the city region only - and should be seen as indicative rather than exhaustive. Further relevant literature on the city region can be found in this report's bibliography or can be obtained on request from the authors.

The Tyne and Wear City Region is located in the North East of England and is England's northernmost city region. The city region spans the former Tyne and Wear Metropolitan County and parts of the two new Unitary Authorities within the region, Northumberland and County Durham.

Figure 2.1: Tyne & Wear City Region Case Study Area



Over the past decades the region has gone through a major transition away from more traditional industries, such as mining and shipbuilding, towards services, although manufacturing still plays an important role within the region. The Tyne and Wear City Region economy also features a large public sector (32.5 percent in 2007).<sup>11</sup> Significant sub-sectors are car manufacturing and the marine and offshore industries, which are major drivers of the region's positive trade surplus.

With its beautiful coast and countryside, the city region is an attractive place to live. However, the North East region still struggles with its legacy of industrial decline and this is reflected in a variety of economic performance indicators. In comparison with our other case study city regions, Tyne and Wear is the city region with the highest level of multiple deprivation, the lowest gross value added per capita, and has low levels of economic activity and enterprise. The North East region also has the lowest average pay of any region in the United Kingdom.<sup>12</sup>

The towns and cities within the Tyne and Wear City Region are operating in an economy in which housing and labour markets coexist. Despite some recent overlaps, the majority of these markets still remain very local.<sup>13</sup> The city region contains two economic centres, Newcastle and Sunderland, but Newcastle is the strongest single concentration of economic activity. This aspect distinguishes the city region from other city regions within this study, which are monocentric (Manchester) or weakly polycentric (Leeds) rather than bipolar.

## 2.1 Partnership working in Tyne and Wear City Region

The Tyne and Wear City Region has made progress on working together in recent years and has invested in developing stronger working relationships and joint responses to shared issues. Compared to some of the other city regions, such as Manchester City Region, however, it has less formalised ways of working across Local Authority boundaries and less experience of working in partnership across the whole of the city region. There are challenges within the city region in agreeing a shared agenda that meets the needs of all partners, and some stakeholders commented that challenging discussions about priorities for the city region as a whole will be important to shape future strategy. However, most local stakeholders increasingly acknowledge the need to work together to gain critical mass. Joint working is further spurred by the success of increasing collaboration between Newcastle and Gateshead over the past five years.<sup>14</sup>

## 2.2 Current relationships are shaped by history

The Tyne and Wear City Region is an industrial area that grew rapidly from the 18th century onwards, later experiencing the challenges of restructuring as a result of the decline of coalmining and shipbuilding.

The city region developed from a variety of different towns and centres, each with distinctive identities and histories that have helped to shape their economies today. Newcastle developed during medieval times as a trading centre around the 'new' castle and later the port, serving as the capital of the region and 'the country town of Northumberland'. It later became a centre for engineering, shipbuilding and the export of coal. Gateshead, although just over the Tyne and so, in the 21st century, part of Newcastle's urban area, was historically part of County Durham and developed as a separate town. On the River Wear, Sunderland grew as a coal, shipbuilding and manufacturing centre. Coal mining was spread out across villages within the region – while cities along the city region's two Rivers, Tyne and Wear, specialised in ship building and coal transportation.<sup>15</sup>



11 Annual Business Inquiry, Employment in public administration, education and health

12 For the above see: Rowan, K. (2009) 'Manufacturing now', in: The future of the North East, pp. 54-61, the Smith Institute, London. And ABI, 1998 to 2007 data

13 When examining 2004 commuting data from the Annual Population Survey (see Figure 4.1), the multitude of labour markets identified by NERIP (2006) are still clearly visible. However, when comparing 2004 commuting data with 2001 Census data it becomes clear, that some of these areas are starting to overlap – for example Derwentside is starting to link more strongly into the Gateshead/Newcastle labour market.

14 Stakeholder interviews

15 For the above see: Organisation for Economic Co-operation and Development (OECD) (2006) OECD Territorial Reviews: Newcastle in the North East, The United Kingdom. OECD, Paris. Tomaney, J. (2006) North East England: a brief economic history. Centre for Urban and Regional Development Studies, Newcastle.

Many of the current city region relationships remain heavily influenced by these historic industrial specialisations and by past governance arrangements. For example, as Local Authorities of the former Tyne and Wear Metropolitan Council, Sunderland, North Tyneside and Gateshead traditionally have a stronger working relationship with Newcastle than the former Local Authorities of the newly established County Durham Unitary Authority (Durham, Easington and Derwentside).<sup>16</sup>

There have also been historic rivalries between the two largest economic centres in the city region, Newcastle and Sunderland, which stakeholders suggested have some influence on the way in which the two cities interact today. Traditionally Sunderland and Newcastle competed for coal transportation and as centres of shipbuilding and the OECD noted that rivalries between the two cities intensified several hundred years ago, when Newcastle port was granted tax raising powers by the crown. They strengthened when the two cities supported opposite sides in the Civil War.<sup>17</sup>

Stakeholders commented that both cities have very strong local identities and that a sense of competition between the two cities remains, exemplified by the rivalry between the two local football teams. Both cities have different strengths, with Sunderland having a bigger population than Newcastle, but Newcastle now acting as the city region's major administrative and commercial centre based on productivity measures, locations of headquarters and economic growth over time.<sup>18</sup> This sense of competition could potentially be hindering the development of closer economic links between the City of Sunderland and Newcastle, whereas it seems to be less of an issue for other areas (e.g. Washington).

The OECD also noted that importance of the city region's industrial legacy for current economic patterns, such as shorter commuting distances in many towns in the city region than the UK average,<sup>19</sup> showing smaller labour markets. Stakeholders also suggested that in some areas there was a continued expectation of a skilled job for life in a 'good' company nearby ('cradle to grave mentality').<sup>20</sup> One example cited in stakeholder interviews was Easington, where commuting has been relatively local since the pits closed down and aspirations are low.<sup>21</sup>

### 2.3 Is Newcastle a centre of employment for neighbouring towns and cities?

Despite recent competition for business investment from out-of-town business parks and nearby authorities, Newcastle is unarguably a major centre of employment for many of the neighbouring towns and cities. Labour market links are particularly strong with North Tyneside and Gateshead, which are part of Newcastle's urban area (see Figure 2.2 below).

Newcastle's 'draw' for commuters decreases with distance – so that while over 35 percent of North Tyneside's residents travelled to work in Newcastle in 2004, the percentage in Easington was significantly lower (2.4 percent). Newcastle itself is a relatively under-bounded core city, with only about 75 percent of Newcastle's residents also working in Newcastle in 2004.<sup>22</sup>

16 The wording of the Tyne and Wear Multi Area Agreement (2008) illustrates this well: "The city region encompasses the five Tyne and Wear local authorities [...] and spreads out into the neighbouring counties of Northumberland and Durham."

17 OECD (2006) And: [www.englandsnortheast.co.uk/Sunderland.html](http://www.englandsnortheast.co.uk/Sunderland.html)

18 Cooper, M. (2009) Sunderland: The Challenge of the Future. Centre for Cities, London.

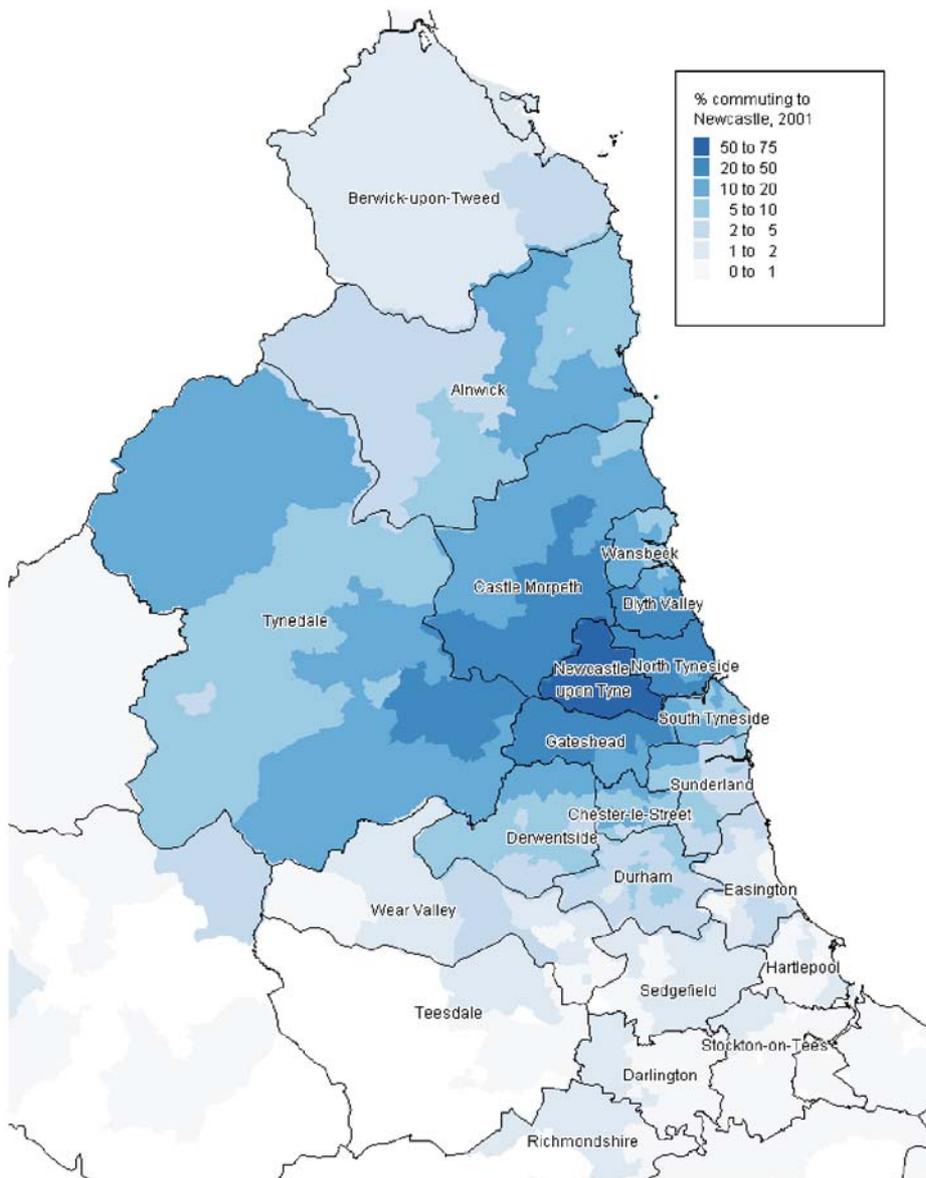
19 OECD (2006)

20 Stakeholder interviews and NERIP (2006)

21 Path dependency represents only one of a number of issues influencing commuting distances. Other factors are income levels (the higher the longer the commuting distances), transport connectivity and the availability of job opportunities nearby. The importance of the latter in particular is stressed frequently by local academics (e.g. M. Coombes).

22 Annual Population Survey, 2004 data

Figure 2.2: Newcastle's travel-to-work area



Source: 2001 Census, ONS

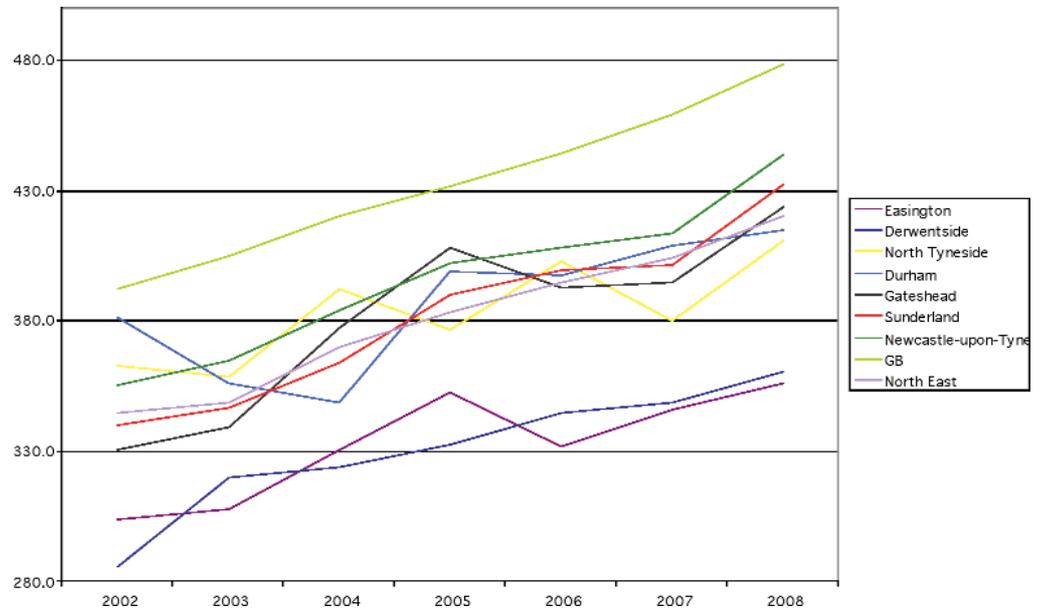
Compared to the other city region's cores, Newcastle has the lowest weekly earnings, as shown in Figure 2.3 below. With median workplace-based earnings at £444 per week in 2008, Newcastle employees earned an average of £35 less per week than the Great Britain average.<sup>23</sup> However, in the context of the city region, where median pay is even lower, these wages make Newcastle a highly attractive place to work. This is reflected by the fact that, with a radius of 50 kilometres, Newcastle's travel-to-work area is the third largest within this study. Yet, Newcastle could be stronger still. Over the past decades its predominance has arguably been weakened by several out-of-town developments and strong competition with neighbouring authorities such as North Tyneside or Gateshead.<sup>24</sup>

23 Annual Survey of Hours and Earnings, 2008 data

24 Stakeholder interviews



Figure 2.3: Change in median workplace earnings in Tyne &amp; Wear 2002-2008



Source: Annual Survey of Hours and Earnings, 2009

#### 2.4 Newcastle is the key economic driver of the city region

Within the city region Newcastle is the only Local Authority area that displays productivity that is above the GB average (see Figure 2.4 below).<sup>25</sup> As a university city, Newcastle also has a relatively good skills performance. In 2007, Newcastle had only around two percent more residents with no qualifications than the GB average, while the percentage of residents qualified to degree level was a good six percent above the GB average.<sup>26</sup>

However, with regards to many other indicators of economic performance Newcastle ranks below the GB average:

- Newcastle has a high degree of economic deprivation. In 2007 39.9 percent of Newcastle's lower super output areas (LSOAs) were amongst the top 20 most deprived LSOAs, while 10.4 percent were amongst the top 20 least deprived. Deprivation is mostly concentrated in the centre and South of the Local Authority area (e.g. Walker, Byker or Scotswood),<sup>27</sup> while other areas, such as Gosforth or Jesmond, have virtually no deprivation.
- The employment rate of Newcastle's working age population is 10 percent below the GB average. It is also low compared to the rest of the city region.<sup>28</sup>

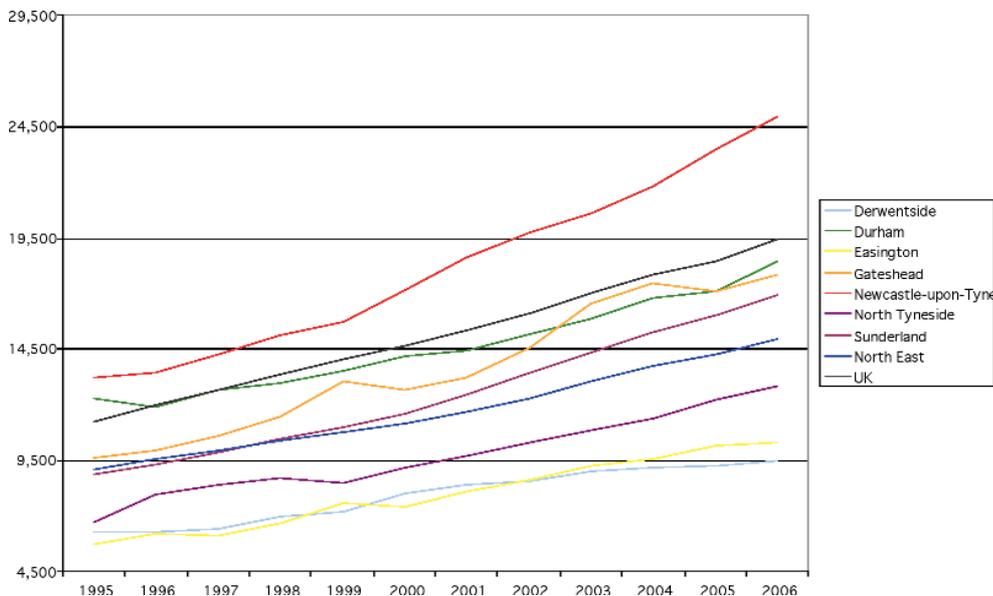
<sup>25</sup> Gross value added per capita – the only indicator of productivity – was recalculated on a Local Authority level. Because it is not the most reliable indicator at this level, we have complemented our analysis above with a variety of other indicators.

<sup>26</sup> Annual Population Survey, 2007 data

<sup>27</sup> Index of Multiple Deprivation, CLG

<sup>28</sup> Annual Population Survey, April 2007-March 2008 data

Figure 2.4: GVA per capita 1995-2006



Source: ONS, 2009

### 2.5 Newcastle's sectors and economic relationships

The Newcastle Local Authority area has several long standing (10 years) sectoral specialisations and these, together with more recent patterns of sectoral specialisation, create opportunities to facilitate or discourage firm relationships with its neighbours. Longer standing sectoral specialisations include higher education, newspaper publishing and machinery and equipment manufacture. More recent specialisations are legal and data processing activities and pharmaceuticals. Opportunities to form links with neighbouring local authorities are discussed in more detail in section five.

Most of the sectors Newcastle specialises in are 'agglomeration sensitive', meaning they derive above average benefits from being located in or near a big city. Newcastle's responsiveness to agglomeration is around 17.3 percent above the GB average because the sectors that comprise its economy are this much more responsive to being located in or near a big city than the sectors that comprise the average GB economy. In addition, Newcastle specialises around 20 percent less in sectors that do not derive positive benefits from agglomeration.<sup>29</sup>

Having over 65 four digit SIC code sectors with over 500 employees in 2007 means that Newcastle is slightly less diverse in its pattern of sectoral specialisation than other city region cores.<sup>30</sup> Nonetheless, business links with neighbouring cities and towns exist across industries, with Newcastle acting as a higher order centre for many of its neighbouring towns and cities by offering accountancy, business and legal services. Sunderland District and Durham City also partly fill this role in their area.<sup>31</sup> There are also links within the city region's marine and offshore industry, which clusters around the River Tyne and is one of two established clusters within the city region.<sup>32</sup> Links within the emerging ICT and digital cluster within the city region are currently relatively small, however. Business links are shaped, among other things, by the price of business space, which is above the GB average in

29 For more information on how this 'agglomeration sensitivity' was calculated and a summary of Newcastle's and its neighbouring cities' and towns' agglomeration sensitivity see Table 15 in the Annex.

30 For the above see ABI, 1998 to 2007 data or Table 8 in the Annex.

31 See tables 11 and 12 in the Annex.

32 The two existing clusters that have been identified within the literature are: the automotive cluster around Sunderland, which does not have any links into Newcastle, and the marine and offshore industry (OECD, 2006). A third cluster exists within the North East, the process industry cluster – however this is more focused around Teesside (Rowan, 2009).

Newcastle, and considerably less in North Tyneside or Gateshead.<sup>33</sup> Section 5 looks in more detail at business links within the manufacturing sector and the ICT and digital industry.

This overview of the evolution of Tyne and Wear City Region offers an insight into the history and spread of the functional economy and it suggests how the Local Authorities' administrative areas are economically inter-linked. The next three sections of this report aim to look more closely at these connections – looking in particular at the linkages between businesses within the two selected sectors, ICT and digital and manufacturing, and the movements of people to and from the six selected Local Authority areas, to understand more about the roles of different places in the functioning of the city region's economy and to help inform the future strategy of the city region.

<sup>33</sup> See also Table 20 in the Annex. 2008 data on business rateable values, Neighbourhood Statistics

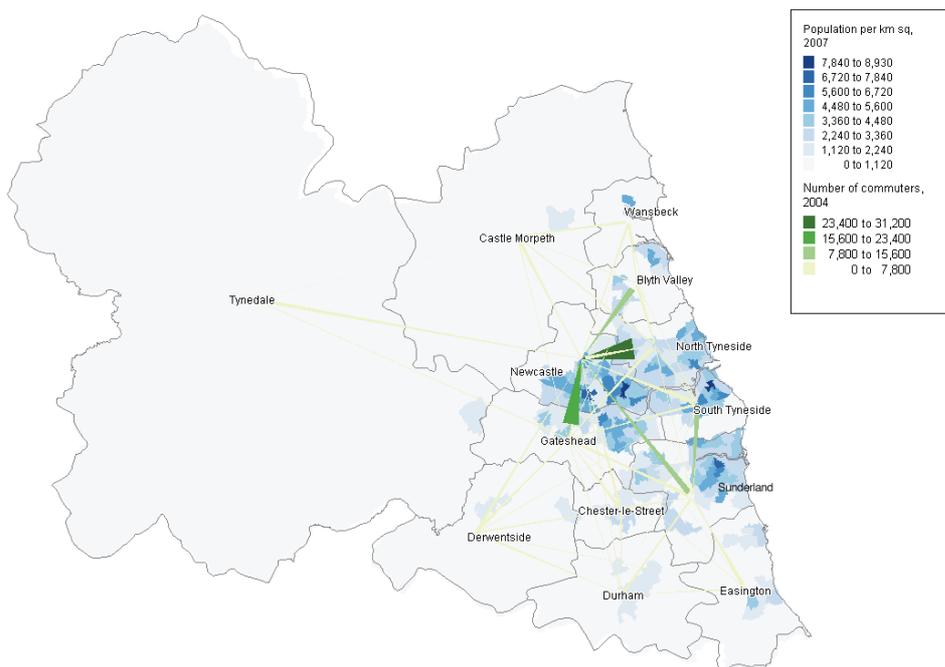
## 3. Labour market relationships within the city region

### 3.1 Wider Commuting Patterns

This paper set out to understand if stronger economic links between Newcastle and its neighbouring towns and cities could lead to mutual economic benefit. However, the Tyne and Wear City Region is not only characterised by the relationships Newcastle has with its neighbouring towns and cities, it is also shaped by the relationships these cities have with each other. The former Easington District, for example, might be relatively isolated with regards to Newcastle in labour market terms, but it has commuting relationships with both Sunderland and Durham.

The map below depicts these wider commuter movements within the Tyne and Wear City Region and confirms some of the points made earlier about historic relationships and their continued importance. 2004 commuting movements were much stronger within the former Tyne and Wear Metropolitan Council than commuting movements between Tyne and Wear and Northumberland or County Durham. Industrial legacy also still shapes labour markets in towns within the Tyne and Wear City Region – Easington and Derwentside,<sup>34</sup> both former coal mining hotspots, have very local commuting movements.<sup>35</sup>

Figure 3.1: Commuting Movements in the Tyne and Wear City Region in 2004<sup>35</sup>



Source: Annual Population Survey and Neighbourhood Statistics

The map illustrates that in labour market, but also in housing market terms, Tyne and Wear is a fragmented economy<sup>36</sup>, with two economic poles. However, the map also shows a city region that is interconnected, albeit on a relatively low level. Interconnectedness is strongest within the northern parts of the former Tyne and Wear Metropolitan District and decreases the further south you go on the map. While polycentricity has been identified as one of the key strengths of the Greater South East<sup>37</sup> and monocentricity has led to economic benefits in the Manchester City Region, it is less clear how bipolarity impacts on a city region's economic performance.



34 Industrial legacy matters in two ways in this respect: often there is a 'cradle-to-grave' mentality in these villages and residents are used to working locally. Perhaps more importantly, though, the decline of traditional industry has led to widespread unemployment and worklessness – and people at the lower end of the labour market tend to work more locally (stakeholder interview).

35 The latest ward level data is available for 2001 (Census), the latest reliable data on a local authority level is the 2004 data above (APS).

36 Stakeholder interviews. Coombes, M., Raybould, S. and Wymer, C. (2006) Housing Market Areas across the North East region. Draft Final Report. Centre for Urban and Regional Development Studies, Newcastle. And NERIP (2006)

37 Hall, P. and Pain, K. (2006)

Polycentricity means that secondary centres have labour market links of their own and often develop as secondary business centres benefitting from the economic core and complementing it. However, questions remain about whether this second round of investment for secondary centres in polycentric city regions can also be seen in a bipolar city region. Do neighbouring towns and cities benefit equally from both centres?

Evidence from this city region suggests that, although possible in principle, this is not the case here. Economic spillover effects from Sunderland to neighbouring towns and cities are limited. Newcastle is the stronger economic centre of the two. However, while neighbouring cities and towns benefit from Newcastle in labour market terms – i.e. through Newcastle providing employment opportunities for residents of neighbouring authorities - Newcastle does not seem to be a strong enough centre to spread economic benefits more widely in the form of increased investment or productivity for neighbouring towns and centres.

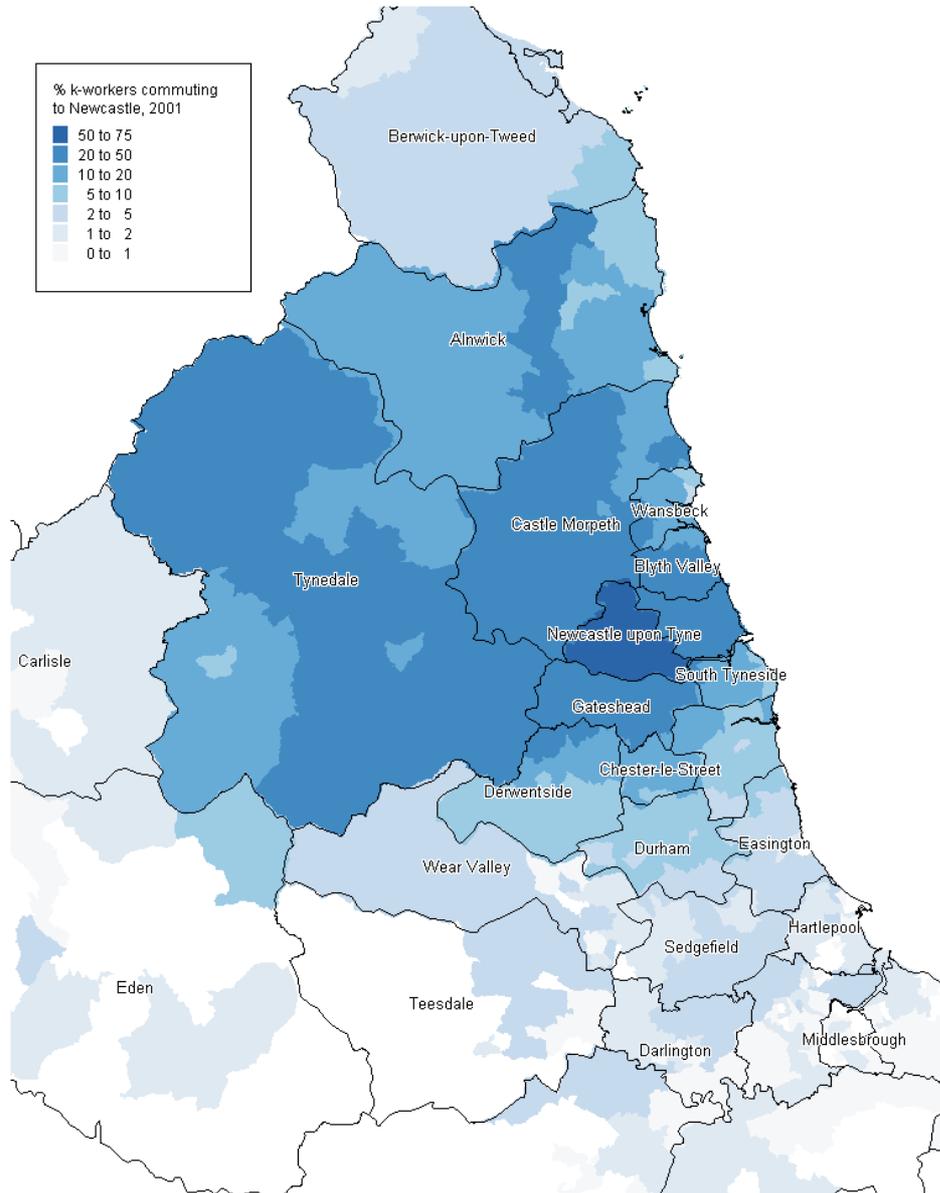
In fact, the recent success that some of its neighbouring towns and cities have enjoyed in attracting business investment might have come at the cost of Newcastle enhancing its competitiveness, rather than being positive ‘spillover’ effects from it.<sup>38</sup> Whilst these wins for neighbouring towns and cities can benefit those individual places, reducing the strength of an already relatively weak economic centre could potentially weaken the economic performance of the city region as a whole. This is because economic centres offer advantages to firms of access to consumers, specialist labour and opportunities to exchange ideas. If Newcastle is not strong enough to offer these then investment might not come to the Tyne and Wear City Region in the first place, as no other town or city within the city region has an economy strong enough to offer an alternative. A balance clearly has to be struck, between promoting growth in Newcastle and further developing other cities and towns within the city region.

### 3.2 House prices, quality of life and business rates

Labour market links are not only influenced by socio-economic characteristics but also by the characteristics of the built environment, the quality of life offer and the quality of transport links. Skilled workers themselves base their location decisions not only on job opportunities but also on the availability of adequate housing and amenities. Understanding local and regional imbalances in housing and the workplace, and their impact upon location decisions, is critical to understanding how cities and neighbouring places interact with each other. These place attributes will affect both commuting and migration patterns across the city region and need to be understood before assessing how to improve the economic links between centres and neighbouring towns and cities.

The map below depicts commuter inflows of knowledge workers into Newcastle in 2001 on a ward level basis. Compared to Figure 2.2 in section two, depicting the overall level of in-commuting into Newcastle, this map shows a much wider economic footprint of Newcastle, especially to the North into Northumberland’s former Districts Alnwick, Castle Morpeth and Tynedale. The map illustrates the fact that people on higher incomes tend to be willing to commute longer distances to access the housing and quality of life they desire, for example Northumberland’s very attractive countryside, proximity to Northumberland National Park or the coast.

Figure 3.2: Commuting of knowledge workers into Newcastle in 2001<sup>39</sup>



Source: Census 2001

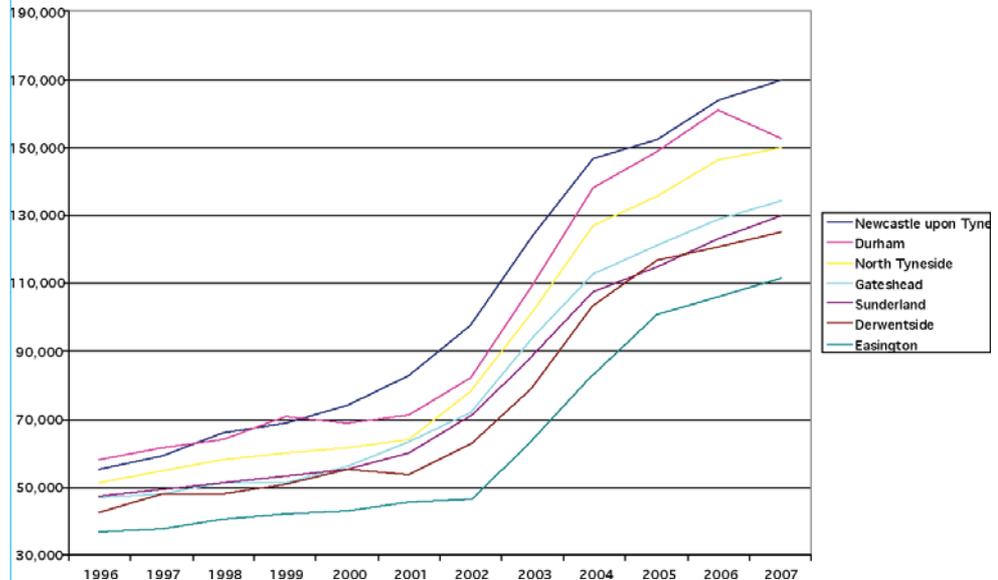
These life choices of knowledge workers have impacted on house prices in the city region, particularly in the former Northumberland Unitary Authority Districts of Alnwick, Castle Morpeth and Tynedale, where house prices have increased by an average of over 214 percent between 1996 and 2007<sup>40</sup>. Figure 3.3 on the following page displays the change in house prices in our selected towns and cities.

39 Knowledge workers defined as: managers and senior officials; professional occupations; associate prof and tech occupations

40 Data from CLG, 2009. In comparison, house prices in Newcastle over the same period increase by 207 percent. For further information on house price increases in different areas of Northumberland (e.g. City Commuter Core versus Former Minefield Core) and possible displacement effects, see: Northumberland Strategic Partnership (2005) Housing Market Assessment for Northumberland. Summary Report. DTZ Pinda Consulting, Newcastle.



Figure 3.3: Change in house prices, 1996-2007



Source: Land Registry, 2009

However, house prices and commuting linkages are only part of the picture. Transport linkages, job opportunities and the cost of business space also have an important role to play in shaping economic relationships between cities.

### Box 3 – Case Study: North Tyneside

North Tyneside has historically played a residential role for Newcastle employees within the city region.<sup>41</sup> Since the designation of its four enterprise zones, however, this has changed. North Tyneside is now actively competing with Newcastle for investment, rather than benefitting from second round investment. This has meant that while over time the relationship between the two Local Authorities has become more competitive, their industrial profiles are in fact becoming more complementary (see also Section five). However, economic benefits for North Tyneside and the city region as a whole could have been bigger still had these complementarities developed through linked development and spillovers rather than competition.<sup>42</sup>

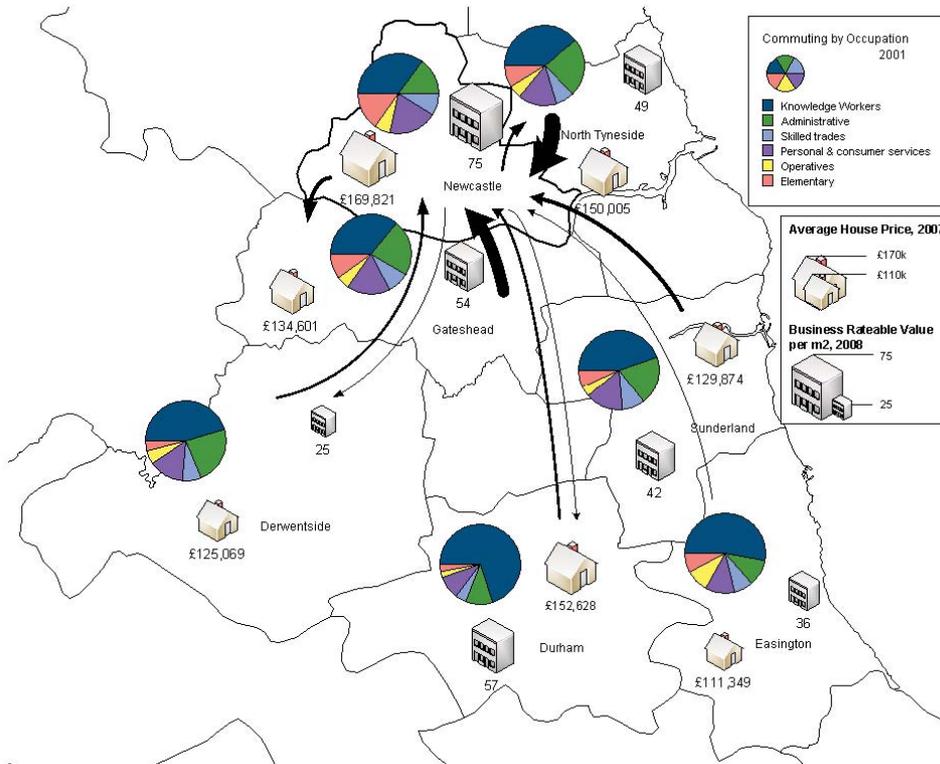
The map below highlights these interdependencies. Figure 3.4 depicts 2007 business rateable values per square metre, 2007 average house prices and 2004 commuting movements into and out of Newcastle, together with the 2001<sup>43</sup> occupational split of those commuting into Newcastle. This, together with our interviews and data analysis, highlights a series of key findings about how life choices impact on economic relationships within the Tyne and Wear City Region.

41 Stakeholder interview

42 This is based on the economic theory of increasing returns. For examples of where such beneficial spillovers have occurred see: Hall, P. and Pain, K. (2006).

43 The 2001 data comes from the last Census, the latest available data on the occupational split of commuters.

Figure 3.4: Life choices in the Newcastle City Region



Source: 2001 Census, Annual Population Survey, Land Registry 2009

### Labour markets vary across the city region

Whilst there are many interdependencies within the city region, it is clear that there are also pronounced differences, particularly within the South.<sup>44</sup> Commuter flows to Newcastle from Durham City, the former Derwentside Local Authority area and to a lesser extent Easington District tend to have a much higher proportion of knowledge workers than commuter flows from Gateshead or North Tyneside, where the percentage working in administrative and personal and consumer services activities is higher. This reflects the skills mix and the willingness of higher skilled workers to travel further to employment opportunities, providing their residence offers the quality of life to which they aspire.

The only two Local Authority areas that attract considerable commuter inflows from Newcastle in absolute numbers are Gateshead and to a lesser extent North Tyneside.



### Housing markets vary across the city region

As well as the city region's labour markets tending to exist separately to one another, housing markets are also extremely local,<sup>45</sup> particularly for those living in social housing or private rented accommodation.<sup>45</sup> The Strategic Housing Market Assessment for Tyne and Wear,<sup>46</sup> which considers the geographical scope of the city region, has identified four primary sub-areas to the largest strategic housing market in the North East. These are:

- Gateshead: covering all of the borough, this sub-area stretches into north County Durham, including Derwentside, Chester-le-Street and Durham city;
- North Tyne: this market includes Newcastle upon Tyne and North Tyneside and stretches across into southern Northumberland;
- South Tyneside: this covers the borough of South Tyneside and
- Sunderland: which covers the City and stretches into South Tyneside and Easington.

Each of these housing markets offers a mix of housing within its area, rather than an offer that is complementary to the others - tending to perpetuate the co-existence of a variety of housing markets.<sup>47</sup> Evidence from other city regions (e.g. Leeds) indicates that the integration of housing markets might lag behind the integration of labour markets, suggesting that for Tyne and Wear's housing markets to become more complementary, labour markets would need to overlap first.

### 3.3 Patterns of Migration

Patterns of migration are the observed outcome of residents 'voting with their feet' and reacting to differences between places in, for example, quality of life and housing offer.<sup>48</sup> Migration patterns help identify the role that different places within the city region play and help to identify ways in which these places can maximise the potential of their links with Newcastle.

The overall picture within the city region is clear. While both Newcastle and Sunderland lost population due to migration in 2006/07, all of the other selected towns and cities within the city region registered a net population gain.<sup>49</sup> Local evidence suggests that the majority of in-migration into the city region comes from within the North East itself. Over the past decade, when strong national economic growth led to improvement in the North East economy, there has also been a tendency for out-migration to decrease, as increased employment opportunities and a relatively low cost of living mean many young residents remain in or return to the city region.<sup>50</sup>

45 Stakeholder interview. See also: Coombes, M. (2006)

46 Tyne and Wear Housing Partnership (2009) Draft Tyne and Wear Sub-Region Housing Strategy.

47 Stakeholder interview

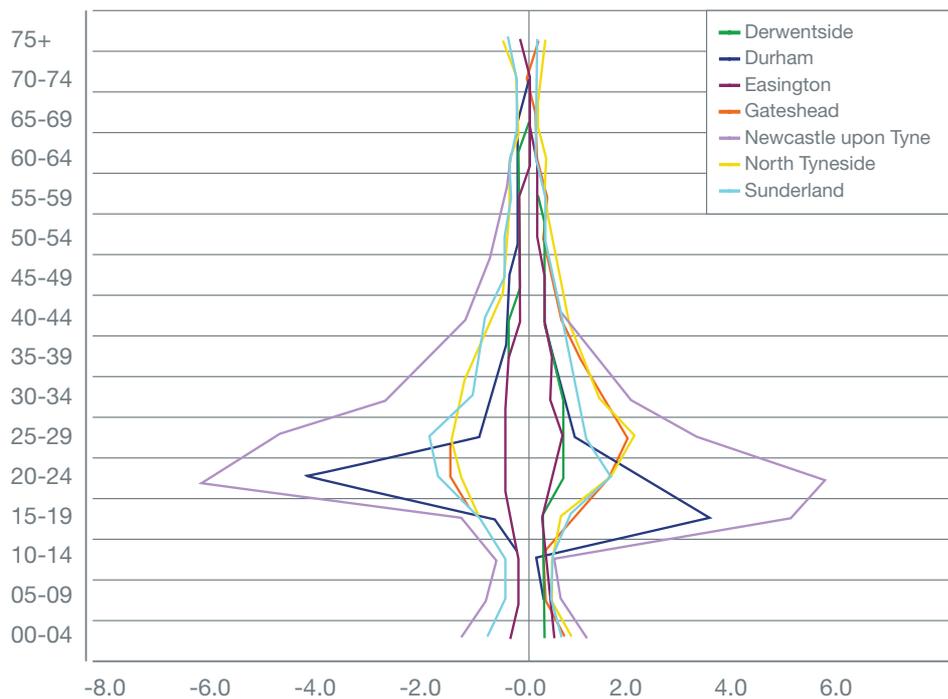
48 Tiebout, C. (1956) A Pure Theory of Local Expenditures. *Journal of Political Economy*, 64, pp. 416-424. Housing and quality of life are 'secondary drivers', determining residential location within a city region, rather than location choices between city regions, see: Tribal (2009a) Residential Futures. Volume I: Summary Report. Final Report. The Northern Way, Newcastle.

49 All of our economic cores lost population in 2006/07.

50 Stakeholder interview

Figure 3.5 below shows the in-and out-flows of different age groups at different life stages in more detail.

Figure 3.5: Migration in 2006/07



Source: NHSCR

#### Patterns of migration confirm Newcastle’s role as the major centre of employment

Despite a net population outflow, the volume of migration movements clearly confirms Newcastle’s attractiveness as a centre for employment within the region: Newcastle has a much higher turnover of people in their earlier career stages than any of its neighbouring towns or cities. As university cities, Newcastle and Durham also have a high net inflow of students. However, local evidence suggests that this inflow is primarily from outside the city region,<sup>51</sup> creating an opportunity for the city region to attract and retain highly skilled labour.

#### House prices and quality of life influence migration in Tyne and Wear City Region

Migration patterns and house prices are interlinked. Residential choices affect house prices, as can be seen in the North of the city region, an area highly attractive due to its quality of life. However, in many cases life choices are also influenced by house prices, which can serve as a tipping point for workers considering commuting further or relocating. This can be seen in North Tyneside and to a lesser extent in Derwentside, which are attractive areas for people with families, due to a combination of house prices being at least £20,000 cheaper than in Newcastle and a quality of life offer. Gateshead’s relatively low house prices<sup>52</sup> on the other hand, tend to attract people at the early stages of their careers<sup>52</sup> as it has a different and more urbanised quality of life offer.

51 Stakeholder interviews, and see also [www.durham.ac.uk](http://www.durham.ac.uk) and [www.newcastle.ac.uk](http://www.newcastle.ac.uk)

52 NHSCR and Land Registry

Newcastle's neighbouring cities and towns are therefore benefiting from Newcastle's attractiveness as a centre of employment and registering net migration inflows from within the city region. However, net in-migration into areas such as North Tyneside or Gateshead is also due to other factors, such as the accessibility to jobs (e.g. in the Team Valley or Cobalt business parks), schools, recreation and countryside.

These wider quality of life aspects vary in importance between different life stages. For example, stakeholder interviews suggest that there is a tendency for people from the city region to retire near the coast in areas like Cullercoats or Whitley Bay.

#### Could some places have stronger complementary relationships with Newcastle?

Considering how cheap average house prices in Easington and Derwentside are, it is interesting to note that these former Local Authority areas within the new Durham Unitary Authority only seem to play a minor role in the life choices of residents within the city region. In the case of Easington this could be due to a lack of good public transport connections to Newcastle and a low quality housing stock, as well as preconceptions about the area. This suggests that the focus for Easington should be on improving the quality of housing and transport. However, in the case of Derwentside, which is relatively well linked to Newcastle via the A692 and has housing with views of very beautiful countryside,<sup>53</sup> there could be potential for stronger complementarities with Newcastle and stronger commuting flows. Policymakers may instead need to focus on changing perceptions of the area to ensure people are aware of its distinctive 'offer'.

### 3.4 Career Development

Data on migration patterns helps us understand net population in- and out-flows, but it cannot give us information on the origin or destination of migration movements. Local knowledge as well as information obtained in interviews with local businesses on career development can help shed more light on some of the patterns we observe. The following examines career development opportunities within the city region in our two case study sectors, manufacturing and ICT and digital, focusing on the impact that career opportunities can have on life choices of individuals. Section five will then discuss firm links in more detail.

#### 3.4.1 Career Progression in the manufacturing sector

##### A productive industry – without many employment opportunities

Manufacturing is still an integral part of the Tyne and Wear economy in terms of its contribution to gross value added, although the statistics present a mixed picture. Even before the current recession employment numbers in the industry overall in the city region had decreased from over 20 percent in the 1980s to 12.8 percent in 2007. However, this masks the slight increase in the numbers employed within advanced manufacturing within some of our case study Local Authority areas.<sup>54</sup>

53 Tribal (2009c) Residential Futures: Tyne and Wear City Region. The Northern Way, Newcastle.

54 Annual Business Inquiry, 2009

### Low wages mean local job searches

The majority of employees within the manufacturing sector work on relatively low wages, with some notable exceptions in high value manufacturing or international companies. People below a threshold of annual earnings of £13,000 do not tend to look very far for jobs.<sup>55</sup> We can therefore assume, and interviews with local employers tend to confirm this, that most employees within the manufacturing sector tend to work locally and do not tend to move between different places within the city region as they advance their career. Wages are a key incentive to commute and if wages are low, there is less incentive for workers to travel longer distances to work.

### Are there opportunities for career development within the sector?

With a decreasing number of jobs available and a preference for short commuting distances, career opportunities within the manufacturing sector overall are relatively limited. Even before the current economic downturn, career development opportunities were still more restricted for those at the lower end of the skills spectrum, as many of the remaining jobs are increasingly specialised and in many cases filled by migrants. However, interviews suggest that the situation might be better for those that are better skilled, as the sector experiences skills shortages in specialised professions such as skilled metal finishers.<sup>56</sup>

In view of this, it might be more appropriate to speak about job retention at the lower-value end of the sector. Evidence from other areas with a strong manufacturing base suggests that when plants close down, those that do find re-employment often take up work in services activities such as retail or social care and have to face pay-cuts.<sup>57</sup> However, within certain manufacturing sub-sectors which have experienced recent growth, such as the sub-sea sector, the city region offers good opportunities for career development.<sup>58</sup>

### Career development in sectors unaffected by economic relationships

With the exception of the sub-sea sector, which clusters around the Tyne, the manufacturing sector is spread across the whole of the city region, but there is no clear spatial hierarchy within the sector. While Sunderland houses a major player with Nissan, even a relatively deprived Local Authority area such as Easington has succeeded in attracting a major international player, Caterpillar.

Differences in wages at the lower end of the labour market should represent a significant economic incentive for manufacturing workers to commute or re-locate – and strengthen the links between Newcastle and its neighbouring cities and towns. There are significant wage gaps at the lower end of the labour market between Local Authorities. In 2008, at £271 Durham had the highest average weekly workplace-based earnings at the lower end of the labour market (10<sup>th</sup> percentile)<sup>59</sup> in the city region. Wages in Derwentside were over £30 lower, at £240.7 – and Newcastle's were slightly below Durham's at £268.3.<sup>60</sup> Yet these differences in wages have not influenced local career development patterns across the city region, which could be due to differences in the total number of jobs between Local Authority areas.<sup>61</sup>

55 Stakeholder interviews

56 Stakeholder interview

57 Bailey, D. et al. (2008) *Life after Longbridge: Three Years on. Pathways to re-employment in a restructuring economy.* The Work Foundation, London.

58 Stakeholder interview

59 The 10 percentile workplace-based wage in a Local Authority is the wage below which the ten lowest paid percent of workers fall.

60 Annual Survey of Hours and Earnings, 2008 data

61 Annual Business Inquiry, 2007 data

Our analysis therefore suggests that the relative lack of opportunities for career development within the sector overall is less due to a lack of incentives in general, but perhaps more due to transport connectivity, a lack of information about possible opportunities or skills shortages within the local area. For example, up-skilling Easington's population could mean that more of those that do actively look for employment and cannot find it locally are able to access better paid jobs within Sunderland's automotive cluster.

### 3.4.2 Career Progression in the ICT and digital sector

#### A still relatively small sector

Career development opportunities within the ICT and digital sector are also relatively limited within the city region. The ICT and digital sector clusters across the whole city region, with major (>500) employment within Newcastle, and several of its neighbouring cities and towns such as North Tyneside, Gateshead and Durham.<sup>62</sup> Yet, the number of businesses within the sector is still relatively small, limiting the development of industry career paths across the city region for lower skilled software workers, but even more so for those in the industry at the higher income end as there are few jobs in the sector.<sup>63</sup> This may change in future as the sector grows.

#### Career development means leaving the city region

The fact that career development across the city region is relatively limited is not only due to a lack of local career opportunities. It is also due to the attractiveness of other locations specialising in the industry. Many of the companies we spoke to cited difficulty in finding the right levels of skills within the city region, simply because many of the highly skilled leave to London, or are emigrating to France or Canada, which provide financial incentives to the industry.<sup>64</sup>

Before the current economic downturn, career development also took place across industries, with many of the mathematically highly skilled employees moving into the financial service industry in London. Edinburgh may have played a similar role due to its proximity to the city region but was not mentioned in our interviews.<sup>65</sup>

#### Career development in the sector influenced by economic relationships?

Within the Tyne and Wear City Region, our analysis does not indicate a clear hierarchy within the ICT and digital sector. Career development patterns are more influenced by career opportunities elsewhere within the sector or other sectors. Career development, therefore, does not seem to be influenced by the economic relationship between Newcastle and its neighbouring towns and cities. This suggests that the priority for the sector should be growing employment opportunities as, if the sector were to grow further, career development opportunities could increase and these might start to retain more productive workers for the city region.

### 3.5 Transport

Transport is a key enabler of labour market movements and a potential facilitator of more complementary economic links between Newcastle and its neighbours. People at the lower end of the labour market commute mostly by bus and people at the higher end of the labour market commute to work by train or by car. This pattern also applies in the Tyne and Wear City Region, the city region with the lowest levels of car ownership within the overall City Relationships study.

62 Annual Business Inquiry, 2007 data

63 The above information is from stakeholder interviews

64 Stakeholder interviews

65 The above information is from stakeholder interviews

### Congestion and overcrowding impact on the higher end of labour market

At the higher end of the labour market many commuters face congestion in the morning and evening peak hours around the region's centres, the River Tyne crossings (Tyne Tunnel, Tyne Bridge) and the A1 Western Bypass.<sup>66</sup> Between 1999/2000 and 2006 both peak and off-peak like-for-like traffic speeds have decreased: peak traffic speeds by 4.9 percent and off-peak traffic speeds by 9.1 percent.<sup>67</sup> Rail commuters, on the other hand, have been facing increasingly overcrowded trains, in particular on morning peak hour trains from Durham and Sunderland into Newcastle.<sup>68</sup> Delays and overcrowded trains are often felt to be a barrier to more complementary links between Newcastle and the South of the city region.<sup>69</sup>

### Transport integration matters at the lower end of labour market

At the lower end of the labour market, transport integration is important. Having a ticket which covers different modes of transport and services that line up increases labour market flexibility. It also allows people from deprived communities to access job opportunities elsewhere within the city region.<sup>70</sup> With Nexus, the Tyne and Wear transport authority, offering tickets that cover not only buses, ferries, the Metro and selected train services in Tyne and Wear, but also the whole of the North East, the city region performs well on transport integration overall.<sup>71</sup> In addition, the city region houses the Metro, one of the most extensive local rail systems outside London.

As part of this research we developed a transport integration ranking for each of our Local Authorities and compared this with actual commuting flows in order to assess potential for stronger complementarities.<sup>72</sup> Table 26 within the Annex details how we derived the different integration scores, based on the existence of a joint transport ticket, joint transport planning and travel times.

The ranking illustrates cases where transport integration seems to matter less – over 12 percent of Derwentside's residents travelled to work in Newcastle in 2004<sup>73</sup> despite an integration score of only 2. Meanwhile, Durham had a similar percentage of resident travelling to work in Newcastle to Sunderland, although its integration score was lower.

### Transport underpins complementary relationships

Within the Tyne and Wear City Region, transport facilitates economic links in some cases, while not impeding them in others. Our research indicates that links between Sunderland, Easington, Derwentside and Newcastle could be more complementary if travel times were shorter. In the case of Easington and Derwentside better transport integration with Newcastle has the potential to lead to stronger labour market links, especially at the lower end of the labour market. However, it is recognised that progress towards improved transport links is being made through the investment into a second Tyne Tunnel.

Decent transport networks underpin complementary economic relationships but they are not the only condition on which complementary relationships depend. Complementary relationships are also affected by wage differentials, job offers or patterns of sectoral specialisation. More highly skilled workers, for example, often find a way to overcome transport barriers (e.g. Durham City) if they need to, while merely providing transport links will not necessarily improve the local economy. For transport improvements to be most effective, they should therefore go hand-in-hand with other policy initiatives strengthening local demand for labour or fostering local supply chains.<sup>74</sup>



66 Stakeholder interviews identified these as the region's congestion hotspots.

67 DfT (2007) Road Statistics Bulletin. Road Statistics 2006: Traffic, Speeds and Congestion.

68 Network Rail (2008) East Coast Main Line. Route Utilisation Strategy. Network Rail, London.

69 Stakeholder interviews

70 Preston, J., Marshall, A. and Tochtermann, L. (2008) On the Move: delivering integrated transport in Britain's cities. Centre for Cities, London.

71 See: [www.nexus.org.uk](http://www.nexus.org.uk)

72 Our measure of integration does not take into account actual routes. So while, Tyne and Wear overall performs well on transport integration, this does not mean that routes are necessarily in the right place. For example, our interviews indicated that out-of-town business parks could be better served by public transport.

73 Figures from the Annual Population Survey, 2004

74 Pike, A., Rodriguez-Pose, A. and Tomaney, J. (2006) Local and Regional Development. Routledge, London.

## 4. Firm links and supply chains

The other key feature of the economic relationships between Newcastle and its neighbouring towns and cities are the linkages developed by firms as they undertake their business activities – and businesses are not constrained by Local Authority boundaries as they develop their links to markets and suppliers.

One way of examining current complementarities is by examining how patterns of sectoral specialisation have changed over time and assessing progress that has been made.<sup>75</sup> This section examines patterns of sectoral specialisation and employment in our seven Local Authorities (Newcastle, Gateshead, North Tyneside, Sunderland, Easington, Derwentside and Durham) to assess where there is greater potential for complementary links. For example, if the economic core has a specialism in advanced financial services, and the other place has as a result developed a specialism in more general financial services, this suggests that it is highly likely there are supportive economic relationships between the two.

However, focusing only on sector specialisation does not capture firm relationships which may exist where a centre does not have a UK specialisation but is a specialist centre within the city region. Where our research has highlighted these city region specialisms we have noted it accordingly.

Even using analysis of sector specialisation and specialisms within the city region, we cannot definitively demonstrate that these links exist, which is why we have investigated two sectors in more detail through interviews. These sectors were chosen in consultation with the city regions and according to several criteria, such as potential future growth or importance in terms of employment (for a full description of our sector selection process please see Methodology Paper). In the Tyne and Wear City Region the two sectors are manufacturing and ICT/Digital.<sup>76</sup>

Understanding firm links and supply chains remains challenging because of the lack of data on these often intangible relationships. Nonetheless, our view is that the combination of sector specialisation analysis, highlighting any specialist roles within the city region, and more detailed interviews in these two sectors can enhance understanding of where city regions could focus their efforts to enhance complementary links between firms.

### 4.1 Sector specialisation

It is interesting to note that many of the sectors mentioned below were attracted to the city region as Foreign Direct Investment (FDI),<sup>77</sup> suggesting that the second round of FDI into the city region has been successful.

**Based on sector specialisation, North Tyneside, Sunderland and Easington have increased their potential for complementary relationships with Newcastle**  
*North Tyneside* has traditionally shared its specialisation in the manufacture of valves and tubes with Newcastle. Over the past decade, driven by North Tyneside's four enterprise zones,<sup>78</sup> sectoral complementarities with Newcastle have strengthened (e.g. credit granting, telecommunications and call centre activities).

The *Sunderland* Local Authority area lies at the heart of the Nissan automotive cluster and traditionally specialised in the manufacture of motor vehicles and related industries. Yet, the city also specialises in database activities and has more recently diversified into additional higher value service activities such as non-life insurance,

75 This section draws on Tables 8-14 in the Annex that detail 4-digit SIC code sectors in which each of the seven local authorities had over 500 employees at three distinct points in time. They also indicate if the local authorities were specialised (compared to the GB average) in that sector at that point in time.

76 Manufacturing was defined as SIC code D and the ICT and digital sector was defined as SIC codes 22, 30, 32, 64 and 72.

77 In the 1950s and 1960s there were a number of relocations of UK branch plants into the city region area. This was followed by the first round of FDI with the attraction of relatively medium-tech US, EU and then Asian firms in the 1970s to 1990s which came to an end with a number of high-profile plant closures. The city region has since seen its second round of FDI (more high tech and ICT based). For more information see: OECD (2006).

78 These were the Silverlink (North/Business Park), Middle Engine Lane, New York Industrial park and Balliol (Business Park West/East) Schemes. For further information, see: [www.opsi.gov.uk/si/si1996/Uksi\\_19961981\\_en\\_1.htm](http://www.opsi.gov.uk/si/si1996/Uksi_19961981_en_1.htm)

financial intermediation and call centres. Over time Sunderland's pattern of sectoral specialisation is therefore increasing the potential for complementary relationships with Newcastle.

The former coal mining area of *Easington* has traditionally specialised in activities related to Sunderland's automotive cluster and has therefore been relatively non-complementary to Newcastle. Over the past decade, however, Easington seems to have increased the potential for complementary relationships with Newcastle (e.g. telecommunications, data processing, call centre activities).

While it is clear that North Tyneside, Sunderland and Easington have increased their potential for complementary relationships with Newcastle over time it is unclear whether this is because of policy choices or sectoral shifts in the economy of the North East.

#### **Gateshead and Derwentside have not increased their potential for complementary relationships with Newcastle**

Despite major employment (>500) in several higher order service activities, and significant investment in cultural industries *Gateshead* still specialises in traditional industries. While some of them, such as the manufacture of metal structures, might link with Newcastle's manufacturing sector (e.g. manufacture of engines and turbines), overall *Gateshead's* pattern of sectoral specialisation means there is little potential for further complementary relationships with Newcastle.<sup>79</sup>

The former coal mining area of *Derwentside* has traditionally been non-complementary in its pattern of sectoral specialisation to Newcastle – and over the past decade the potential for complementary economic relationships has changed little.

#### **Durham has retained, but not strengthened its potential for complementary economic relationships with Newcastle**

As a smaller functional centre in its own right, *Durham's* pattern of sectoral specialisation is similar to Newcastle's in many respects. Both specialise in legal and justice activities, general public service activities and higher education. Over time this potential for complementarities has remained.

Figure 4 in the Annex gives a further overview of current patterns of sectoral specialisation in Newcastle and its neighbouring cities and towns, indicating possible linkages within and between sectors.

As in all our case study city regions, we have chosen two sectors that we examined in further detail: manufacturing and ICT and digital. Within each of these sectors we have held several business interviews with the aim of understanding current business linkages better and gaining a more detailed understanding of the external business environment.



79 The fact that *Gateshead's* pattern of sectoral specialisation has remained non-complementary to Newcastle's does not contradict our classification of *Gateshead* as interdependent in Section 3 based on labour market movements.

## 4.2 The Manufacturing Sector in the Tyne and Wear City Region

Manufacturing has been an integral part of the North East economy since the Industrial Revolution and, although employment numbers in the industry have halved between the 1980s and 2007, manufacturing still contributes around one fifth of the region's gross value added.<sup>80</sup> Areas such as microelectronics, the oil and gas industries, biotechnology and automotives have seen growth in recent years and are driving the positive trade balance of the region<sup>81</sup> as well as increasing productivity across the sector as a whole.

Within the city region's manufacturing industry three clusters have been identified: the automotives industry, the emerging marine and offshore cluster<sup>82</sup> and the North East Process Industry Cluster.<sup>83</sup>

### Importance of sector varies

In terms of employment, manufacturing varies in importance in each of our case study Local Authority areas. In 2007 employment varied from highs of 25.7 percent in Derwentside to lows of 5.1 percent in Durham City. Employment is primarily concentrated in companies employing either over 400 employees or less than 50.<sup>84</sup>

### An even economic geography?

The manufacturing sector overall spreads across the whole of the Tyne and Wear City Region, for example Sunderland houses a major player (Nissan) whilst a relatively deprived Local Authority area such as Easington has succeeded in attracting a major international player, Caterpillar. This suggests that there is no spatial hierarchy within the sector as such.

Nonetheless, different manufacturing sub-sectors use the city region in different ways:

- The sub-sea sector clusters around the River Tyne.
- Engineering companies are primarily located within the South of the city region and not much further North than Newcastle or North Tyneside.
- The automotive industry clusters around the Washington area, but also links into Easington and Derwentside (see Figure 4 in the Annex).
- The focal points of the pharmaceutical industry within the city region are in Cramlington in Northumberland and in Durham with GlaxoSmithKline.<sup>85</sup>

Looking across the manufacturing sector as a whole, there therefore seems to be an emerging pattern of sectoral complementarity between different areas within the city region.

### Only a relatively small percentage of suppliers are sourced locally

Research by NERIP<sup>86</sup> shows that in 2002 the North East's manufacturing industry sourced approximately 10 percent of its supplies locally, with another 48 percent coming from elsewhere in the UK and the remaining 42 percent supplied from overseas. These percentages varied depending on the manufacturing sub-sector.<sup>87</sup>

This research broadly confirms these estimates, indicating also that the percentage sourced locally depends on size and ownership of a company and its degree of specialisation. Bigger or foreign owned companies often source more nationally or internationally. Specialised companies can source locally (e.g. automotive cluster) or internationally (e.g. sub-sea cluster).<sup>88</sup> In addition, the interviews indicate that the amount businesses source locally has been shrinking over time, while supply chains are becoming increasingly global. This finding is in line with increasingly global supply chains within the sector nationally.

80 Annual Business Inquiry and ONS

81 Rowan (2009)

82 OECD (2006), and Whitehurst, F., Siedlok, F. and Race, J. (2008): 'Reach-in and Reach-out, The Story of the MSc in Pipeline Engineering at Newcastle University', in: International Small Business Journal, 26, pp. 709-733.

83 Rowan (2009)

84 Annual Business Inquiry, 2007 data and stakeholder interview

85 The above information comes from stakeholder interviews

86 North East Regional Information Partnership (NERIP) (2008) Exports from the region and supplies to the region. NERIP, Newcastle.

87 See NERIP (2008) pp. 16-28 for more details

88 Stakeholder interviews

#### **Client links are national or international**

Forward linkages to clients are very much national or global. A construction equipment manufacturer subsidiary we spoke to, for example, serves primarily the European market, while a manufacturer of retail equipment serves primarily the UK market, but also has some global clients. The sub-sea industry, on the other hand, has virtually no client links within the region. Again, size as well as ownership seem to determine the degree of worldwide links, with smaller and locally owned businesses having stronger local supply chains and complementarities within the region.

#### **Most manufacturing employees live locally**

Most of those employed in manufacturing activities live locally and do not travel too far to work. This is in part due to low wages. However, those at management level are likely to travel longer distances. Barriers to more complementary links could be a lack of information about possible job opportunities further afield and transport connectivity (for further information see section 3.4).

#### **City regional networks are weak**

All of the companies interviewed had major competitors located in the area, but only some had direct contact with these. Most companies interviewed were part of the local Chamber of Commerce and national trade associations but not networks spanning the whole city region. According to the Manufacturing Advisory Service, this is a typical feature of the industry, which tends to be characterised by disjointed and localised business networks. The exception, however, is highly specialised industries, which have networks with a wider geographical reach (e.g. the North East Process Industry Cluster or the Offshore Federation).<sup>89</sup> Lack of local networks could be a barrier to building stronger links within the sector across the whole city region, and if they could be established they could help develop complementarities within the sector further.

#### **Box 4: Case Study: Washington Display**

Washington Display is a designer and manufacturer of retail, leisure, automotive and construction industry equipment, in business since 1989. The company started up behind a scrap yard in Scotswood, Newcastle, where business space was cheap and later moved into bigger premises in the Blaydon area in Gateshead. Here they expanded further, occupying three different premises, to remain close to its trained and skilled workforce – but in the end they had to move into bigger premises, which they found in the Washington area of Sunderland. Public transport links at the new premises are sub-optimal and in order to retain its workforce the company agreed to pay for travel expenses within the first year after its move.

The company still employs many of its former Scotswood and Blaydon employees but, before the recession, had also increasingly been recruiting people from the Washington area. This example highlights well how the availability of business space influences the economic links between Newcastle and its neighbouring towns and cities – and how poor transport links can act as a barrier to more complementary economic relationships.<sup>90</sup>

88 Stakeholder interviews

89 All of the above information is from stakeholder interviews

The interviews also identified a variety of other factors shaping business linkages: the availability of skills, business space and links with local universities.<sup>91</sup> The above case study is an example of how these can affect local manufacturing businesses.

#### Transport impacts on local manufacturers' employees strongly

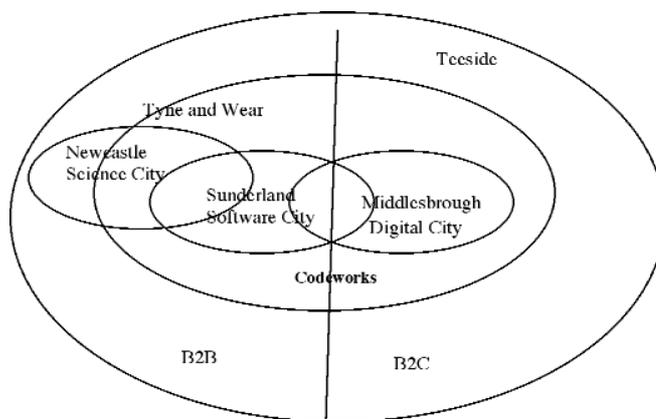
Transport has a major impact on the manufacturing sector's employees, while impacts on the supply chain will depend on the type of business and its exact location, but are generally less noticeable.<sup>92</sup>

Manufacturing is a sector that naturally tends to locate outside urban areas that are less accessible by public transport. However, many of those employed in manufacturing are employed at the lower end of the income ladder and often have less access to private means of transport. In addition, congestion on transport links across the River Tyne currently discourages commuting linkages between the North and South of the city region – the completion of the second Tyne Tunnel might redress this. Transport therefore currently represents a major barrier to more complementary economic relationships between cities and towns within the city region.

#### 4.3 The ICT and Digital Industry in the Tyne and Wear City Region

The ICT and digital industry is a relatively young industry in the North East and has been promoted by a variety of public sector initiatives, such as Newcastle Science City, Middlesbrough Digital City, Codeworks and Sunderland Software City.<sup>93</sup> Some of these focus more on business to business linkages (B2B), while others focus more on business to customer relationships (B2C) (see below). The industry has not been identified as a cluster in the recent OECD territorial review, and disagreement exists between local actors as to whether or not a cluster is emerging in the industry.<sup>94</sup>

Figure 4.1: Initiatives in the ICT and digital sector



Source: Stakeholder interview

While the attraction and strengthening of the ICT and digital sector in the North East has obvious advantages for a relatively isolated region, the footloose nature of the industry also has its downsides, meaning the industry is less embedded in the local economy and can easily move.

90 Stakeholder interview

91 For an example of the latter, see: Whitehurst, F., Siedlok, F. and Race, J. (2008)

92 Stakeholder interviews

93 For further information on these see:  
[www.newcastlesciencecity.com](http://www.newcastlesciencecity.com),  
[www.sunderlandsoftwarecity.com](http://www.sunderlandsoftwarecity.com)  
or [www.codeworks.net](http://www.codeworks.net)

94 While some companies speak of an existing cluster in the city region, the majority of the companies interviewed said that although there were other companies specialising in similar activities, there was no formal relationship with these. This hints to a concentration of businesses across a wider area (Newcastle, Sunderland, Gateshead and Durham) rather than an industrial agglomeration or clustering and might be explained by the fact that many businesses in the industry are micro businesses lacking the capacity to network. Another important explanation might be the fact that much of the ICT and digital sector within the city region is public sector related.

### Importance of sector varies

In the towns and cities in this study the ICT and digital industry does not yet play a major role, although employment – the sector’s major input - is growing. In 2007 employment in the industry varied from 1.7 percent in Derwentside to 7.7 percent in North Tyneside.<sup>95</sup>

### An out-of-town industry?

Compared to some of the other city regions, it is perhaps surprising that the ICT and digital industry does not cluster in city centre locations but instead is in most cases located in out-of-town business parks (e.g. Doxford in Sunderland or the Team Valley in Gateshead). This reflects the region’s history of dispersed development as well as competition between Local Authorities over business space.<sup>96</sup> In many cases a lack of car parking space in central locations was identified as a reason to move out of the city centre.

Given the findings in other city regions, such as Liverpool, about the importance of networking to ICT and digital firms – at least at the early stages of development – it could be that the industry could increase its economic potential were it more clustered in central locations facilitating ‘more natural ways of networking’.

### The footloose industry?

The ICT and digital industry has very few suppliers in the traditional sense. Inputs for the industry are, amongst others, hardware, data hosting or software development. In addition, the industry sources legal and business services. The main input into the ‘production process’ of the industry is, however, skilled labour, and this critically determines business location in the industry.

Research by NERIP<sup>97</sup> on input-output linkages has focussed on two sub-sectors, computer services and telecommunications. According to the research, computer services in the North East sourced around 55 percent of supplies regionally in 2002, with a further 40 percent coming from the rest of the UK. Telecommunications have a similar local content – 42 percent were sourced regionally and a further 42 percent came from the rest of the UK (for further sub-sectors please see NERIP (2008), pp.31-35). This high percentage in both sub-sectors is very likely to be driven by labour costs.

Most of the companies we spoke to sourced the sector’s more traditional inputs, such as computer and business services globally or within the UK. And while Newcastle played an important role as a centre for higher order services, such as legal and business services, for the industry about ten years ago – today in the digital age these services are sourced nationally rather than locally.<sup>98</sup> There might however be an opportunity to strengthen these complementarities with Newcastle again, should this make economic sense for the industry.

### Client links depend on company size and competitiveness

According to Sunderland Software City most major ICT and digital companies within the city region sell internationally rather than into the region or nationally. There are also a large number of one and two person businesses within the industry that primarily trade locally.<sup>99</sup>

This was confirmed in our conversations with businesses. One organisation with around 50 employees, has around 30-40 percent of its customers in Tyne and Wear, while another, with around 120 employees, has only around 10 percent of its

95 Annual Business Inquiry, 2007 data

96 Stakeholder interviews. It is also notable that much of the employment within the sector is public sector related or induced.

97 NERIP (2008)

98 Stakeholder interviews

99 Stakeholder interview

customers in the North East.<sup>100</sup> Companies with very few employees have mostly local customers and seem to obtain a relatively high proportion of their business through Business Link (e.g. website development).<sup>101</sup>

### Many ICT and digital employees live relatively locally

Most ICT and digital industry employees live relatively locally, similar in certain respects to in the manufacturing industry, with managing directors or company owners living in more dispersed areas such as County Durham, Morpeth or Hexham. Location in the ICT and digital industry is often driven by the availability of skilled employees, its input – especially as there are skills shortages within the sector in particular the analytical skills required for programming and computing, multimedia art and design. This applied equally to all of the companies we spoke to, but will apply less to call centres. The Leighton Group, for example, chose to locate within commuting distance of five universities, capturing employees from Newcastle, Teeside and North Yorkshire.<sup>102</sup> Up-skilling could therefore potentially help more local residents access employment opportunities in other parts of the city region and might over the longer run lead to stronger labour market links between Newcastle and its neighbouring cities and towns.

### Sector plugged into local networks

All of the businesses interviewed were part of several networking associations – with national trade associations, Chambers of Commerce and the Codeworks Centre for Digital Innovation featuring highly, followed by more local initiatives such as non-sector specific local Entrepreneurs Forum or Sunderland Software City (see also Figure 4.1 on page 33). There was only one company that had strategic partnerships – and these were global.<sup>103</sup> It is noteworthy that most of the more local initiatives within the sector are public sector funded and sometimes led. This lack of private led local initiatives within the sector suggests that there might be a concentration of businesses across a wider area within the sector, rather than industrial agglomeration or clustering within the sector.<sup>104</sup> None of these associations covers the city region as a whole.

### Transport does not play a crucial role for the ICT and digital sector

The ICT and digital industry does not have a supply chain in the traditional sense and therefore depends much less on transport in this respect. Nevertheless, transport connectivity matters for the industry's employees as the industry is very much located in out-of-town business parks.

However, compared to employees in the manufacturing industry, employees in the ICT industry tend to be better paid and many of them commute into work by car.<sup>105</sup> And although they might face congestion in some of the region's hotspots, travel times by car within the region, are relatively good (see Table 4.1 below).

100 Stakeholder interviews

101 Business Link has a programme that sponsors websites for companies and this can be a major source of income for less globally competitive and smaller ICT businesses.

102 The above draws on stakeholder interviews

103 For a comparison of these, see: Gordon, I.R. and McCann, P. (2000) 'Industrial Clusters: Complexes, Agglomeration and/or Social Networks?', in: *Urban Studies*, 37(3), pp. 517-532.

104 Stakeholder interviews

105 Note: Range of travel times of five morning peak hour trains. This can refer to several train stations where appropriate.

**Table 4.1: Travel times in the Tyne and Wear City Region**

Local Authority	Travel Time by Train or Metro to Newcastle <sup>106</sup>	Travel Time by Car to Newcastle <sup>107</sup>	Distance to Newcastle
Gateshead	5 min	3 min	2.7 km
North Tyneside	15-25 min <sup>108</sup>	14 min	13.2 km
Sunderland	26-38 min	22 min	20.4 km
Durham	13-23 min	24 min	30.6 km
Easington <sup>109</sup>	N/A <sup>110</sup>	34 min	34.8 km
Derwentside <sup>111</sup>	N/A <sup>112</sup>	25 min	24.8 km

Source: AA Route Planner; www.nationalrail.co.uk; www.traveline.org.uk

#### The manufacturing and ICT and digital sectors have similar economic links

Despite being very different industries the manufacturing and digital sectors are similar in many respects:

- Both sectors source more nationally and internationally than locally.
- Both sectors face skills shortages and the majority of their employees do not tend to commute long distances.
- Both serve a mix of markets – with smaller, locally owned companies serving a predominantly local market, while foreign owned and larger companies serve a more national and international market.

Policies to strengthen complementarities between Newcastle and its neighbouring cities and towns will be similar for the two sectors. In both sectors policy initiatives might want to focus on up-skilling and increasing labour mobility and public transport connectivity for those at the lower end of the income ladder and to build stronger relationships between businesses.

106 Calculated with the AA Route Planner.

107 It takes 15 minutes to get from Wallsend Metro Station and 25 minutes to get from North Shields Metro Station to Newcastle Central Station.

108 It takes 15 minutes to get from Wallsend Metro Station and 25 minutes to get from North Shields Metro Station to Newcastle Central Station.

109 Car travel times refer to the travel time from Easington Colliery Peterlee.

110 The nearest station is Seaham. Travel times from Seaham into Newcastle Central vary between 34 and 35 minutes.

111 Car travel times refer to the travel time from Templeton.

112 Derwentside lies in between Stockfied Station (28-37 minutes to Newcastle) and Durham Station (13-23 minutes to Newcastle).

## 5. Characterising links between Newcastle and neighbouring towns and cities

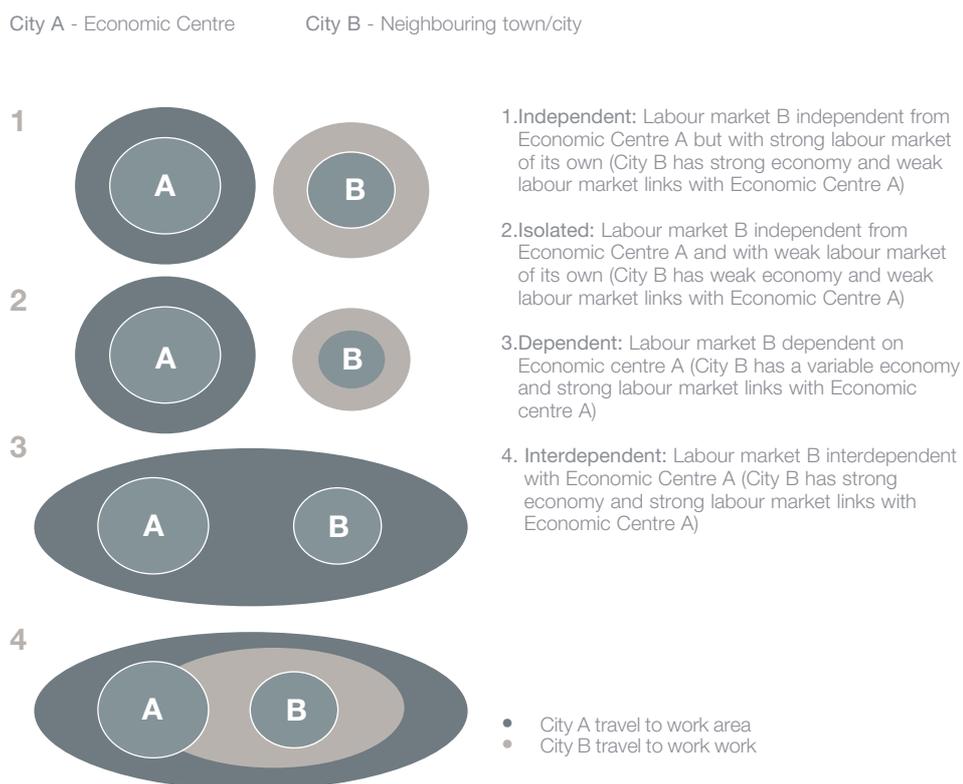
### 5.1 Overview of city typologies

Across this research programme, our analysis of economic relationships within the five city regions has identified four typologies of places within a city region, based in particular on their labour market relationships with the economic centre.

These typologies are helpful in understanding how places currently relate to each other economically within a city region context and what some of the factors are which influence the nature of these relationships. This analysis helps to shape thinking about how future economic development strategy could build more effective and complementary economic relationships between places.

The broad typologies are illustrated in the diagram below.

Figure 5.1: Roles of Cities: Labour Markets and “City Typologies”



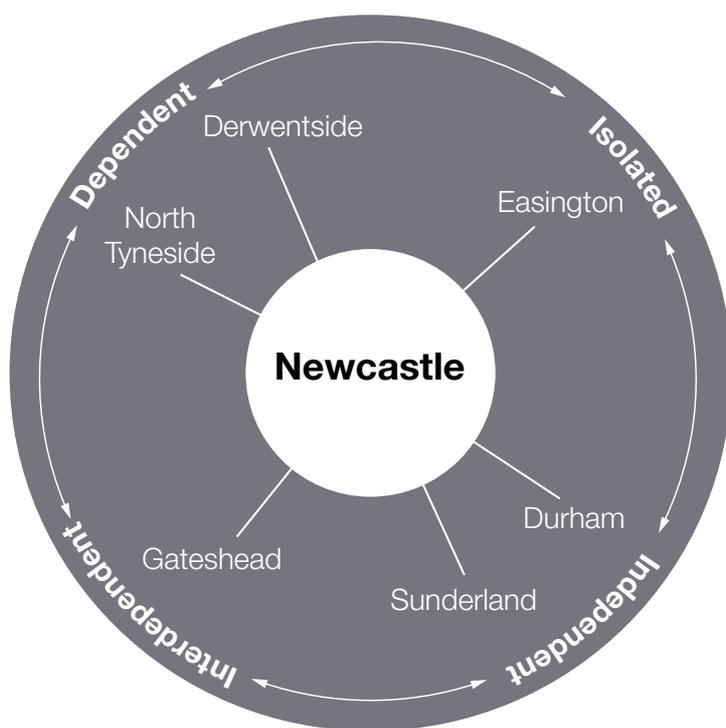
These typologies, which focus particularly on labour market relationships, enable us to capture two characteristics of places. First, the roles which places play in a city region based on their relationship with the economic centre. Places are described as being in one of the four typologies based on: commuting patterns; skills; earnings (resident and workplace); sectoral mix; and house prices.

Second, the typologies provide a way of assessing the extent to which places benefit from their economic relationships by identifying different categories within the four typologies. For example, areas such as North Tyneside, with higher levels of skills, are likely to have more mutually beneficial economic links with their economic centres than lower skilled areas such as Derwentside because individuals' mobility (both geographic and occupational) is influenced by their skills and qualifications.

The typologies are based upon Local Authority areas, despite the arbitrary nature of administrative boundaries, because this is the level at which policy is often developed. We recognise, however, that typologies based on local authorities are by necessity a simplification: characteristics often differ within, as well as between, Local Authority areas. The fact that places are constantly evolving further compounds this complexity. Nonetheless, consultation with stakeholders suggests that, despite these caveats, understanding the roles of different Local Authority areas can provide valuable insights to support the development of city region strategies.

The wheel below positions the case study cities and towns selected by stakeholders within the Tyne and Wear City Region according to the four typologies.

## 5.2 Tyne & Wear City Region – City Typologies



### Newcastle is not the only centre of employment in the city region

Newcastle is a centre of employment for residents of its neighbouring towns and cities, but it is not the only centre of employment within the city region. This can be seen in the wheel by the relatively even distribution of Local Authority areas across the four quadrants. The wheel classifies Gateshead as interdependent, North Tyneside and Derwentside as dependent, Easington as isolated, Durham as independent and Sunderland as independent.

The following section explains why cities and towns are positioned where they are, looking beyond labour market patterns at other characteristics that lie behind the typologies.<sup>113</sup>

113 The data used in these explanations is summarised in Tables 2-18 and Figures 1-3 and Map 1 in the Annex. Data on sectoral specialisations refers to sectors employing 500 employees or more and a location quotient higher than 2. This identifies sectors in which a Local Authority area specialises in compared to the English and Welsh average – rather than sectors with a large number of employees per se. Tables 8 to 14 in the Annex detail 4 digit sectors with 500 or more employees in each of the Local Authority areas.

### 5.3 Why did we characterise each place the way we did?

#### North Tyneside

In labour market terms *North Tyneside*, a coastal District with a population of 196,000 is dependent on Newcastle for employment opportunities for many of its residents. Within our sample it is the Local Authority area with the highest percentage of residents commuting into Newcastle in 2004 (35.9 percent). Only 4.7 percent travelled from Newcastle to North Tyneside.<sup>114</sup> North Tyneside was therefore positioned in the middle of the 'dependent quadrant' in the wheel. Comparing 2001 and 2004 commuter data suggests that North Tyneside residents are increasingly looking to Newcastle for employment opportunities a result of Newcastle's growth and the significant recent housing development in North Tyneside.

The North Tyneside Local Authority area comprises a series of towns, such as North Shields or Whitley Bay, some of which are relatively affluent (e.g. Monkseaton, Tynemouth or parts of Whitley Bay). The area has good links into Newcastle via the Metro but also with Sunderland and South Tyneside via the A19. These links will be improved further with the opening of the second Tyne Tunnel, expected in 2010. Commuting into Newcastle was high in all wards within the Local Authority in 2001, but somewhat lower in Chirton and Collingwood (see Figure 2.2 in section two).

#### Box 5: Dependent places

Our research found three types of 'dependent place' depending on an area's level of skills and earnings, its sectoral composition, average house prices and levels of deprivation.

1. Places with *traditional industries* are often characterised by low levels of skills and earnings, house prices and poor deprivation scores. They benefit less from their relationship with the centre than other dependent areas.
2. Places with a *mix of industries* often have medium levels of skills and earnings, medium house prices and mixed deprivation scores. They benefit to some degree from their dependent relationship with the centre.
3. Places with a *more complementary pattern of sectoral specialisation* have higher levels of skills, resident earnings and house prices. Their deprivation scores tend to be good and their workplace based earnings medium level. They are the dependent places that benefit most from their relationship with the economic centre.

#### North Tyneside falls into the second category of a dependent area

- *Skills levels are medium in North Tyneside*: in 2007 the percentage of North Tyneside residents with no qualifications was only slightly above the GB average, while the percentage of residents qualified to degree level was more than four percent below the GB average.
- *Median weekly earnings levels in 2008 were around 15 percent below the GB average*, with resident-based earnings slightly above workplace-based earnings.
- *North Tyneside specialises in a mix of industries*, such as telecommunications, other business services (e.g. other credit granting or advertising) and construction activities.<sup>115</sup>
- *2007 average house prices in North Tyneside were only around two thirds of the English average*.
- *North Tyneside's deprivation performance is mixed*: while a relatively large

<sup>114</sup> All of the typologies are based on 2004 commuting data from the Annual Population Survey.

<sup>115</sup> For further information on Newcastle's sector specialisations as well as sectors with major employment see Table 9 in the Annex.

percentage of its LSOAs was amongst the top 20 most deprived LSOAs in 2007 (24.8 percent), 15.5 percent were within the top 20 least deprived. Deprivation is concentrated in the North West and South of the Local Authority area (e.g. Valley or Riverside), while wards on the coast are characterised by lower levels of deprivation (e.g. St. Marys or Monkseaton North).

### Derwentside

The former *Derwentside* Local Authority area spans the two towns of Consett and Stanley and a number of pit villages dating from the time it specialised in steel and coal mining. The district has a population of 87,200 and has good links to Newcastle via the A692, on which it depends in labour market terms, albeit to a lesser extent than North Tyneside.

In 2004, 12.1 percent of Derwentside residents travelled to work in Newcastle, while 0.4 percent commuted from Newcastle to Derwentside. However, Derwentside is relatively rural and in certain respects relatively isolated from Newcastle's labour market, from which it is separated by the River Tyne. Derwentside was therefore positioned towards the isolated side of the 'dependent quadrant'. Comparing 2001 and 2004 commuting data suggests Derwentside might be becoming more dependent on Newcastle over time.

Within the former district of County Durham, differences in the number of commuters travelling into Newcastle exist (see Figure 2.2 in Section 2.3). Labour market links with Newcastle are much stronger in the North of the former Local Authority area (Burnopfield, Stanley, Consett) than in the South (e.g. Esh Winning), which borders onto Durham City.

### Derwentside falls into the first category of a dependent area but performs slightly better on skills

- *Skills levels are mixed in Derwentside:* in 2007 the percentage of Derwentside residents with no qualifications was about the GB average, while the percentage of residents qualified to degree level was over eight percent below the GB average.
- *Median weekly earning levels were below the GB average* in 2008 and low within the city region context.
- *Derwentside specialises in traditional industries*, such as the production of meat and poultry meat products.
- *In 2007 the average house in Derwentside cost over 40 percent less than the average house in England* which is low even within the city region context.
- *Derwentside has a high degree of deprivation:* in 2007 25.5 percent of its LSOAs were amongst the top 20 most deprived LSOAs, while only 3.6 percent of its LSOAs were amongst the top 20 least deprived. Deprivation is concentrated in areas like Leadgate or South Moor, while Lanchester is characterised by virtually no deprivation.

### Easington

The former *Easington* District has been part of the new County Durham Unitary Authority since 2009. The area was a former coal mining hotspot and, especially since the closure of the last mine in 1993, is now struggling with high unemployment. Only a tiny proportion of the 94,700 residents of the former District travelled to work in Newcastle in 2004 (2.4 percent) and virtually no Newcastle resident travelled to work in Easington. Newcastle does not represent a major centre of employment for Easington's residents, which are more closely linked with



Sunderland via the A19. Sunderland receives 6.5 times as many commuters from Easington as Newcastle. Easington was therefore characterised as isolated with relation to Newcastle, the largest economic centre in the city region, but it is less isolated from Sunderland.

As minor commuting links to Newcastle do exist, in particular from places like Seaham or Murton, Easington was placed on the dependent side of the 'isolated quadrant'. Over time however, analysis of commuting patterns suggests that commuting from Easington to Newcastle is increasing. Easington may therefore become more dependent on the economic centre over time although its focus on Sunderland will remain significant.

#### Easington is an isolated area

- *Easington's skills levels are very low:* in 2007 the percentage of residents with no qualifications was over 60 percent higher than the GB average, while the proportion of residents qualified to degree level was over 34 percent lower than the GB average.
- *Easington's median weekly earnings levels are much lower than the GB average,* with resident-based average weekly earnings at 77.8 (GB=100) slightly above workplace-based average weekly earnings in 2008.
- *Easington specialises mostly in traditional industries such as car manufacture.* However, a recent specialisation is evident in the ICT and digital industry.
- In 2007 house prices in Easington were only half of the English average.
- *Easington has extremely poor deprivation scores* across the whole of the former Local Authority area: 65.1 percent of LSOAs were within the top 20 most deprived LSOAs in 2007, while none was amongst the top 20 least deprived. Although still relatively high, deprivation levels were lowest in the Western parts of Seaham North.

#### Durham City

*Durham City* with its population of 94,300 houses one of the country's leading universities and has also made the headlines through its transport innovations.<sup>116</sup> The city houses major UNESCO world heritage sites and since 2009 is part of the new County Durham Unitary Authority.

Durham City functions as a small economic centre in its own right and draws in commuters from the districts that surround it. Its links with Newcastle are not strong and are mostly at the higher end of the labour market – in 2004 only 6.1 percent of Durham's residents commuted to Newcastle and over 60 percent of them were knowledge workers. Durham was therefore characterised as mostly independent of Newcastle. Over time, whilst Durham will remain an independent economy, analysis of changing commuting patterns suggests that Durham is becoming more dependent on Newcastle – albeit from a relatively low level. Durham also has an increasing number of residents commuting into Sunderland each morning.

<sup>116</sup> With its small scale congestion charging system the city is so far one of only two UK cities that have introduced a scheme.

### Box 6: Independent places

Our research found two types of 'independent place' depending on an area's level of skills and earnings, its sectoral composition, average house prices and levels of deprivation.

1. Places with *diverse industries*<sup>117</sup> are often characterised by a high level of skills, earnings, house prices and good deprivation scores. These are the areas with the strongest economic performance and with the most opportunities for residents.
2. Places with a *mix of industries* are often characterised by a medium level of skills, earnings, house prices and mixed deprivation scores. These areas are slightly less economically successful than their more diverse 'independent' counterparts.

Durham resembles the first type of independent city, but performs less well on sectors:

- *Durham has good skills levels:* in 2007 the proportion of Durham's residents qualified to degree level was 33 percent above the GB average, while the proportion of residents with no qualifications was about the GB average.
- *Median weekly earnings in Durham were below the GB average* in 2008, but were relatively high within the city region context. Median average weekly workplace-based earnings were at 86.6 percent of the GB average, slightly above the city regional median average weekly resident-based earnings (85.3%).
- *Durham specialises in a variety of sectors including service functions ranging from justice and law activities to water purification services.* The mix of sectors means that its economy is neither highly diverse, nor dominated by traditional manufacturing.
- *House prices in Durham in 2007 were only about 30 percent below the English average* (68.6 with GB=100).
- *Durham has relatively good deprivation scores:* in 2007 13 percent of its LSOAs were amongst the top 20 most deprived LSOAs, while 41.5 percent were amongst the top 20 least deprived. Deprivation is highest in the Northern part of Pitlington and West Rainton, while it is lower in Gilesgate Moor.

### Sunderland

*Sunderland* is the second economic centre in the Tyne and Wear City Region. The city on the River Wear was a historic shipbuilding and coal mining centre and now houses the car manufacturer Nissan.

The Sunderland Local Authority area has a population of 280,300 and attracts commuters from Easington, South Tyneside, Gateshead and Durham. Sunderland's labour market is relatively local and between 1991 and 2001 the number of people leaving the Local Authority area each morning to work elsewhere within the city region has decreased.<sup>118</sup>

Sunderland's overall links with Newcastle are relatively low – in 2004 6.8 percent of Sunderland's residents travelled to work in Newcastle, while 2.1 percent of Newcastle residents travelled to work in the Sunderland Local Authority area. However, some areas within the Local Authority area, such as Washington, have relatively strong two-way links with Newcastle.<sup>119</sup> Sunderland was therefore

117 A city with diverse industries can be distinguished from a city with a mix of industries according to two criteria: a diverse city specialises in a wider breadth of industries and has a smaller percentage of employment in traditional industries than a city with a mix of industries.

118 NERIP (2006) Spatial Analysis of Economic Flows in North East England. NERIP, Newcastle.

119 This is partly due to Washington's road links to Newcastle, but might also be due to the fact that Washington housed a large part of Newcastle's overspill population. See: Hall, P. (2002) Urban and Regional Planning. Routledge, London and New York.

characterised as mostly independent of Newcastle but, given the links between some of its northern areas and Newcastle, it was positioned as being closer to interdependent.

Since 2001 and 2004 commuting flows<sup>120</sup> from Sunderland to Newcastle have increased by over 20 percent, suggesting that labour market relationships are becoming stronger. However, commuter flows from Newcastle to Sunderland have also decreased by a similar percentage, albeit from a lower level. This suggests that Sunderland's residents may be becoming more reliant on employment opportunities created by Newcastle's economy, which in time could change the nature of the dual centre city region. This could be an economic opportunity for Sunderland's residents but is likely to require both Newcastle and Sunderland to work together in different ways in order to develop more complementary labour market and firm links and to enable Sunderland to develop a more clearly defined economic role.

**The Sunderland area resembles a type two independent area, but faces some challenges:**

- *Sunderland has mixed skills levels:* in 2007 Sunderland had a lower proportion of residents with no qualifications than the GB average (95.4 with GB=100), but also a lower percentage of residents qualified to degree level than the GB average (77.3 with GB=100).
- *Sunderland performs relatively well on median weekly earnings:* in 2008 both resident-based and workplace-based median earnings were below the GB average. Yet, they were almost as high as median average wages in Newcastle.
- *Sunderland specialises in a mix of industries* – from the manufacture of motor vehicles, to non-life insurance and data-based activities.
- *In 2007 the average house in Sunderland was over 40 percent cheaper than the average house in England.*
- *Sunderland has poor deprivation scores:* in 2007 43.6 percent of Sunderland's LSOAs were amongst the top 20 most deprived LSOAs, while only 0.5 percent were amongst the top 20 least deprived. Deprivation is high across the whole Local Authority area, but it is relatively low in Washington East and Fulwell.

### Gateshead

*Gateshead*, on the Southside of the River Tyne is part of the Tyneside urban area and has seen major regeneration over the past decades. Well known examples are the MetroCentre shopping centre, the Baltic Centre for Contemporary Art and the Sage. The Local Authority has a population of 190,500 and has a joint labour market with Newcastle. Gateshead is therefore increasingly working jointly with Newcastle, on a joint housing market renewal pathfinder (Bridging Newcastle Gateshead) and joint place marketing. The two Local Authorities have now also established a City Development Company and are working on a joint master plan (1NG Master Plan).

<sup>120</sup> The Metro extension to Sunderland was opened in 2002.

In 2004 27.1 percent of Gateshead's residents commuted to work in Newcastle, while a smaller but still quite significant percentage commuted to work in Gateshead from Newcastle (8.1 percent). Over time analysis of commuting patterns suggests that Gateshead is becoming more dependent on Newcastle. This might be due to more of Newcastle's workers choosing to locate in Gateshead, where house prices are on average £35,000 cheaper.

### Box 7: Interdependent places

Our research found two types of 'interdependent city', which can be distinguished according to an area's level of skills and earnings, its sectoral composition, average house prices and levels of deprivation. These two types look very similar to the two types of 'independent places':

1. Places with *complementary industries* are often characterised by a high level of skills, earnings, house prices and good deprivation scores. These areas benefit significantly from interdependent relationships with the economic centre.
2. Places with a *mix of industries* are often characterised by a medium level of skills, earnings, house prices and mixed deprivation scores. These areas benefit to some degree from interdependent relationships with the economic centre.

Gateshead is a type two interdependent city, but performs poorly on skills and deprivation:

- *Gateshead has very low skills levels:* in 2007 its percentage of residents with no qualifications was over 30 percent above the GB average, while its percentage of residents qualified to degree level was over 26 percent below the GB average.
- *Median average earnings in 2008 were below the GB average,* but high within the city region context and very close to Newcastle. Median weekly resident-based earnings were 90.1 (GB=100) and median weekly workplace-based earnings were 88.4 (GB=100).
- *Gateshead still specialises primarily in traditional industries,* however it also has over 500 employees in several higher order service activities, such as monetary intermediation or software consultancy.
- *Gateshead's average house prices in 2007 were below the English average (60.5 with GB=100).* The average house was therefore cheaper in Gateshead than in Newcastle or Durham, but marginally more expensive than in Sunderland.
- *Gateshead performs poorly on indicators of deprivation:* in 2007 34.9 percent of its LSOAs were amongst the top 20 most deprived LSOAs, while only 4.8 percent were amongst the top 20 least deprived. Deprivation is concentrated in particular in the Eastern part of the Local Authority area, while it is less of an issue in areas like Crawcrook and Greenside.

These individual relationships have an impact on the dynamics across the city region as a whole, and are affected by the characteristics of the built environment, the quality of life offer and the quality of transport links.



## 6. Key findings and policy conclusions

### 6.1 The economic geography of the Tyne and Wear City Region has clear characteristics that impact on the development of complementary economic relationships between places

The Tyne and Wear City Region is a bipolar city region with two cores of different economic strength surrounded by a variety of neighbouring towns and cities. There are some labour and firm links between the different towns and cities in the city region. However, many of the labour and housing markets are local rather than operating at a city region level, creating a more fragmented economy than in some other city regions.

Newcastle is a key driver of economic growth within the city region and has over the past decades diversified its economy to expand its knowledge intensive employment. Areas surrounding Newcastle have made a slower transition towards a more service based economy and the North East as a whole continues to have high levels of employment in manufacturing as well as public sector employment.

Although several neighbouring cities and towns benefit from Newcastle as a centre of employment, our analysis suggests that for Newcastle to spread economic benefits more widely, it needs to become a stronger economic centre.

### 6.2 How have the existing complementarities impacted on economic growth and individual prosperity?

A useful way of assessing if neighbouring cities and towns have benefited from Newcastle is to look at gross value added over time (see also Figure 2.4 in Section two). Over the last decade productivity has increased in all of our sample Local Authorities, but it has increased most strongly in Newcastle.

Instead of narrowing, the productivity gap between Newcastle and its neighbouring cities and towns has widened between 1996 and 2006 – with the smallest increase in Sunderland (94.7 percent) and the biggest increase in Durham (325.1 percent). The productivity gap between the economic core and neighbouring cities and towns has not only widened in the Tyne and Wear City Region but in most of our case study city regions, indicating that either there are no spillover effects or that without spillovers productivity gaps could be bigger still.

The latter seems to be confirmed by the fact that whilst between 2002 and 2008 the gap in workplace-based earnings has been increasing between Newcastle and Easington and Derwentside, it has narrowed between Newcastle and Gateshead and Sunderland, where we have classified relationships as ‘interdependent’ or ‘independent close to interdependent’. Workplace based earnings in North Tyneside (dependent) and Durham (independent) on the other hand, started to converge to Newcastle, but then fell behind.<sup>121</sup> This indicates that although there are some spillovers, not all of Newcastle’s neighbouring cities and towns are yet fully reaping the benefits of their economic centre.

### 6.3 How can the city region benefit more from complementary relationships in the future?

Despite the progress in partnership working made in the Tyne and Wear City Region, on balance past decisions by people and firms do not yet seem to have increased complementarities between Newcastle and its neighbouring towns and cities.<sup>122</sup> Economic relationships do not stand still, however, but are constantly evolving. In many areas there could be opportunities to influence city relationships to help ensure neighbouring cities and towns derive the maximum economic benefit from the economic centre. Our research suggests a variety of areas where future

<sup>121</sup> Survey of Hours and Earnings, 2002-2008 data

<sup>122</sup> See Sections 2-5. For example, housing markets are still not complementing each other, there is a lack of spatial complementarities within the ICT and digital sector and competition for residents and jobs has reduced the development of spillovers, or the evolution of more ‘natural’ complementarities.

improvement could be possible – through strengthening the economic core, neighbouring cities' and towns' links to it and specific actions to improve complementarities within our two case study sectors.

### **Supporting Newcastle's economic growth**

The Tyne and Wear City Region is a bipolar city region and in this respect differs from the other city regions within this study. Bipolarity in itself is not necessarily a disadvantage, and with two strong economic centres complementing each other it could potentially lead to high spillovers overall.

In the Tyne and Wear City Region, however, our research suggests that bipolarity does not currently lead to such spillovers and that decisions made in different parts of the city region have tended to weaken the economic strength of Newcastle, the stronger economic centre, thus lessening its ability to impact upon the strength of the city region as a whole. However, there are opportunities to increase the benefits of Newcastle for the rest of the city region.

**Across Tyne and Wear City Region, cities and towns have different roles to play. They need to recognise and play to these distinctive roles in order to maximise growth potential for the city region as a whole.**

Newcastle is the key centre of employment but cannot thrive without its neighbours providing good quality housing and a ready supply of labour. Within the city region different places play different roles based on their key strengths. For example, Sunderland is the city region's second economic centre and North Tyneside is a residential area with increasing employment opportunities.

Understanding these different roles, and how they can complement one another, will be crucial for the Tyne and Wear City Region in working together and strengthening its working arrangements with County Durham and Northumberland.

The major question for policymakers going forward will therefore be how to balance the need for a strong Newcastle – the most likely way to generate economic growth for the city region as a whole – with the goal to improve the performance of other cities and towns. Our agglomeration index shows that within the city region Newcastle is the economic centre with the strongest agglomeration forces at work – indicating that investing in growth in Newcastle would help the city region as a whole gain critical mass. It would also help maximise benefits for the city region as a whole in a time of fiscal constraint. And, as can be seen in Leeds and Manchester, this can have the effect of benefitting neighbours through second-round investment, as well as strengthening Newcastle to attract more investment. However, this will require Newcastle and the surrounding towns and cities to work together to build on their distinctive assets in order to maximise economic growth.

Our research suggests that future improvements in the links between Newcastle and surrounding areas could be possible through investment in **skills, planning and transport**. The section below sets out some more general recommendations of possible actions within these areas at city region level before looking at actions in specific places.

### **Skills Policy Levers**

Looking across city regions this research identified skills as the most important policy lever in facilitating complementary links between cities. Within the Tyne and Wear City Region skills policy is particularly important, as many of the Local



Authority areas within the city region struggle with low levels of skills. While the economy of the city region has undergone a sectoral shift and the manufacturing sector is increasingly high-tech workforce development seems to be lagging behind. In the sub-sea and offshore cluster, for example, jobs are often filled by people from outside the region – although closer collaboration between the sector and Local Universities might help better equip local people for a career within the industry.<sup>123</sup> The city region has established an Employment and Skills Board (ESB) to tackle skills issues at the bottom end of the labour market. However, interviews conducted as part of this research highlighted further areas where improvement could be possible. These include working across the city region on an approach to recognising skills development and engaging with employers and sector organisations, such as Codeworks, to tackle skills shortages in different sectors. This will enable more city region residents to take up higher skilled jobs and help to increase labour market flexibility.

#### Transport Policy Levers

Transport is a potential facilitator of complementary links between places and plays a particularly important role at the lower end of the labour market. In a city region like Tyne and Wear, transport is therefore a key policy lever.

With its integrated tickets and the Metro system the Tyne and Wear City Region has a better integrated public transport system than many other city regions. However, several of the selected neighbouring towns and cities in this study are less well linked to Newcastle by public transport than they could be, and travel times could also be improved. In addition, much of the employment within Tyne and Wear is located in dispersed out-of-town business parks that do not have strong public transport links.

In this context, stronger collaboration between Nexus and the city region's Local Authorities should aim to align transport and economic development strategies and this should be translated into work with the region's bus operators to improve public transport links between centres of employment and residential areas. This could be complemented by work with local employers on work-based schemes such as car sharing.

The River Tyne still represents a major barrier to commuting movements within the city region. There is ongoing work on a second Tyne Tunnel, but alongside this, improved transport links across the River Tyne should remain a priority of city regional transport policy.

#### Planning Policy Levers

For individual Local Authority areas, planning can help strengthen an area's economic role within the city region and enable it to shape or reinforce its economic relationships. In the context of this study, it is a tool to help address an area's position within our typology wheel (interdependent, dependent, independent, isolated) in a way that maximises economic potential. In the past, however, planning policy within the Tyne and Wear City Region has often been competitive and not coordinated across the city region as a whole, especially with regard to planning for housing and business space. This needs to be addressed, to improve planning alignment across the whole of the functional economic area to underpin city region growth.

The analysis within this research programme offers the potential for a clearer understanding of the different roles different areas within the city region currently play. This can help inform planning policy in each of the Local Authority areas, enable the

<sup>123</sup> See: Whitehurst, F., Siedlok, F. and Race, J. (2008)

coordination of planning across Local Authority areas and help with the alignment of transport and planning policy. The city region should consider including planning in its Multi Area Agreement – in addition to joint working through the current Regional Spatial Strategy.

The Tyne and Wear City Region should consider if prioritising city centre development could potentially lead to economic agglomeration benefits, as well as environmental benefits by capitalising on the strength of public transport to city-centre locations.

**Policy intervention should be informed by an area's role within city region**

Transport, planning and skills should be the key priority areas for the city region overall. However, building on the roles that different Local Authority areas play within the city region, there are clear policy messages for Local Authorities aiming to maximise spillovers from Newcastle.

Data indicates that commuting from **North Tyneside** to Newcastle is increasing over time. However, with its good transport links to Newcastle and its sectoral complementarities the Local Authority area is **well placed to develop a more interdependent relationship** with Newcastle. In the meantime, the Local Authority should concentrate on embedding the companies that have located in the areas four enterprise zones.

**Gateshead** needs to make the most of its interdependent relationship with Newcastle. It has new powers over 14-19 education to up-skill residents to enable them to access job opportunities in Newcastle. It is also about continuing to create the right business environment for higher value-added activities.

As the second economic centre within the city region **Sunderland** has a **key role to play**. Whether dependent upon or interdependent with Newcastle over the longer run, Sunderland should concentrate on developing a pattern of sectoral specialisation that complements Newcastle rather than that competes with it.<sup>124</sup> Because of its diversity, Sunderland needs to adapt different strategies in different areas of the Local Authority area.

**Derwentside** and **Easington** both need to focus on up-skilling their residents, but also on improving their existing housing offer. Over time **Derwentside** could follow a path similar to that of North Tyneside, developing from a residential location to a secondary centre of employment, whilst still focusing on linking to faster growing Newcastle. Improving the housing offer should also be a priority.

In the short term **Easington** is unlikely to develop a strong economic relationship with Newcastle and move away from its isolated position. Easington should therefore concentrate on up-skilling its residents and prioritise its links with Durham and Sunderland, which provide closer economic opportunities. Over the longer term improving public transport links to Newcastle should be an aim.

**Durham**, although largely independent of Newcastle, is **one of the preferred places of residence** for Newcastle's knowledge workers. The new Unitary Authority should therefore focus on alleviating the pressures on its housing market that this creates. There is also potential for ongoing independent growth for Durham, given its assets and characteristics.

<sup>124</sup> Key levers for this are a targeted planning policy and an inward investment strategy that is aligned with Newcastle's

**Newcastle** should improve its ability to compete for high value knowledge intensive investment, and neighbouring areas should support this. Newcastle should recognise its longer term role as a higher value centre in the city region. This means Newcastle should aim to work with neighbouring centres to help them attract complementary employment opportunities in less high value sectors by promoting the distinctive assets and their proximity to Newcastle.

Tyne and Wear can also make the most of sector policy levers. **The ICT and digital industry** is still a relatively young industry in the Tyne and Wear City Region. This means that there are currently limited career development opportunities in the sector within the city region itself, although this may change in future. Opportunities for further development include:

- One North East working to link the ICT and digital networks in different parts of the city region into one city regional initiative to help gain critical scale as well as reduce costs.
- Due to the relatively small size of the sector a city regional organisation should link up with ICT clusters elsewhere in the country to tap into existing expertise and to support business growth.

Within the relatively international **manufacturing sector** there is less rationale and scope for direct policy intervention. However, a focus on effective public transport links to out-of-town business parks could help increase labour mobility and flexibility and a better understanding of skills shortages could help the sector remain competitive internationally.

#### **Tyne and Wear City Region should develop an Economic Strategy that reflects this analysis**

The current economic environment is a challenging context for economic development policy-making, and this is particularly the case for a city region like Tyne and Wear given its economic structure.

Working in partnership on the long term strategy for the city region implies challenging decisions about where and when to prioritise resources. This will require strong leadership and a high quality economic evidence base. The duty to prepare a Local Economic Assessment<sup>125</sup> will provide a formal opportunity to exercise this leadership and to bring a unified evidence base together across the city region.

The city region has made progress in preparing itself for these challenges and this research has offered an analysis which seeks to make a contribution to this thinking. It has suggested that there is further agglomeration potential in Newcastle, and an opportunity for strengthening complementary linkages with other cities and towns based on their economic roles.

By identifying the economic roles played by a selection of different places within the city region, and by looking in detail at two key sectors, it offers a broad analysis of economic relationships within the city region. It is intended that this approach will support and prompt reflection on the role of others places within the city region.

A strategy built around this type of analysis<sup>126</sup> could help to shape thinking about the prioritisation of approaches and investments to overcome long term economic challenges and maximise economic benefits for the places within the functional economy and for the city region as a whole.

<sup>125</sup> DCLG (2009) Prosperous Places: Taking Forward the Review of Sub National Economic Development and Regeneration

<sup>126</sup> This could be part of the proposed Tyne and Wear Independent Economic Review or build on it

## Annex A – Interviewees

Our thanks go to the following interviewees for their time and insights:

Name	Title	Organisation
Peter O'Brien	Director	Tyne and Wear City Region
Vince Taylor	Head of Strategic Economic Development	Sunderland City Council
Lindsay Kirkley	Director of Policy and Improvement	Gateshead Council
Paul Rubinstein	Deputy Chief Executive and Director of Policy	Newcastle City Council
Richard Prisk	Head of Economy and Employment	North Tyneside Council
Rick O'Farrell	Head of Economic Development	South Tyneside Council
Matthew Ebbatson	Senior Policy Analyst	Tyne and Wear City Region
Claire Rogers	Policy Officer	Sunderland City Council
John Howard	Senior Research and Information Officer	Sunderland City Council
Anne Britton	Head of Economic Development	Gateshead Council
Steve Arnett	Economic Adviser	Tyne and Wear City Region
James Davies	Policy Analyst	Tyne and Wear City Region
Richard Hibbert	Head of Transport Strategy	Newcastle City Council
Rob Hamilton	Head of Economic and Urban Policy	Newcastle City Council
Martin Gray	Head of Service Improvement	Gateshead Council
John Banks	Economic Policy Team Leader	Durham County Council
Paul Gee	Director of Development and Regeneration	Northumberland County Council
David Tuck	Managing Partner	Genecon
Neil Cole	Manager of Planning Policy	Sunderland City Council
Sarah Reed	Head of Policy and Performance Improvement	Sunderland City Council
Ian Thompson	Corporate Director for Economic Development and Regeneration	Durham Unitary Authority
Richard Robson	Executive Director	Northumberland Unitary Authority
Paul McEldon	Chief Executive	North East Business and Innovation Centre
David Howell	Director of Operations	North East Business and Innovation Centre
David Dunn	Chief Operating Officer	Sunderland Software City
Shaun Allen	Managing Director	Washington Display Ltd.
Tom Sterling	Director	Durham Associates
Steve Walmsley	Managing Director	Mere Mortals
Chris Braithwaite	Managing Director	Wellstream
Peter Howe	Managing Director	Komatsu UK Ltd.
Paul Callaghan	Director	Leighton Group
Paul Dobson	Principal Consultant	Manufacturing Advisory Service
Rachel Ford	Business Intelligence Manager	Business and Enterprise North East
Paul Craney	Business Intelligence Manager	Nexus
Glyn Drury	Director	Tyne and Wear Housing Partnership
Peter O'Brien	Programme Manager	Tribal
Martin Crookston	Director	Tribal
John Goddard	Professor of Regional Development Studies	CURDS, University of Newcastle
Mike Coombes	Professor of Geographic Information	CURDS, University of Newcastle
Jon Carling	Head of NERIP	One North East/NERIP
John Mooney	NERIP Executive Team	One North East/NERIP

