Birney Hill Farm

Support for Appeal: Economic Case

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Executive Summary

Background and context

Lugano proposed the Birney Hill Farm (BHF) development in January 2013, but planning permission was refused in October 2013. Volterra were commissioned by Lugano to produce an economic report in support of the appeal. The BHF development proposes 280 homes, which have been carefully designed to fit within the surrounding landscape and 92 acres of the land would be retained as open space and managed by a community trust – 62% of the scheme would be set over to recreation and open space. The proposed development is on green belt land.

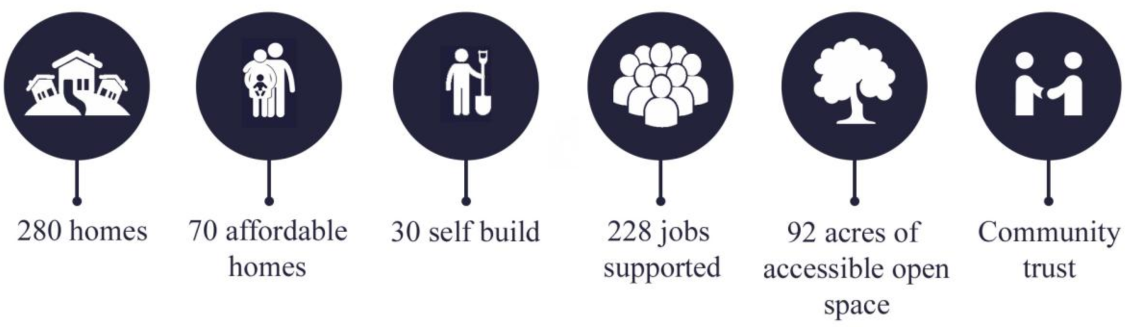
This report sets out the economic case for this development. The argument is a nuanced one – unlike an investment in a commercial scheme from a new employer to an area, which directly and tangibly creates new employment opportunities and investment for the area, the economic benefits of any housing development are harder to quantify. Furthermore this is a scheme where the quality of the housing is also particularly important, which is again difficult to pinpoint. This report concludes that in order to grow, the North East needs to attract higher skilled people who can create jobs and attract investment, and that high quality housing, whilst not the only factor needed, is a crucial piece of the jigsaw.

This study describes the challenges faced by the North East economy, the opportunities it has, the goals for growth in the region, and the ways in which the proposal at Birney Hill Farm can contribute towards these goals.

The direct benefits of the scheme at Birney Hill Farm

BHF proposes 280 high quality homes, of which 70 will be affordable and 30 will be self-build. The incomes of the residents will support an estimated 228 full time equivalent (FTE) jobs. The Community Trust will manage a new hub, incorporating commercial business space which will directly employ at least 3 people. Lugano is committed to producing a high quality development which will fit within and enhance its surroundings. The open space will be improved and will be publically accessible wherever possible.

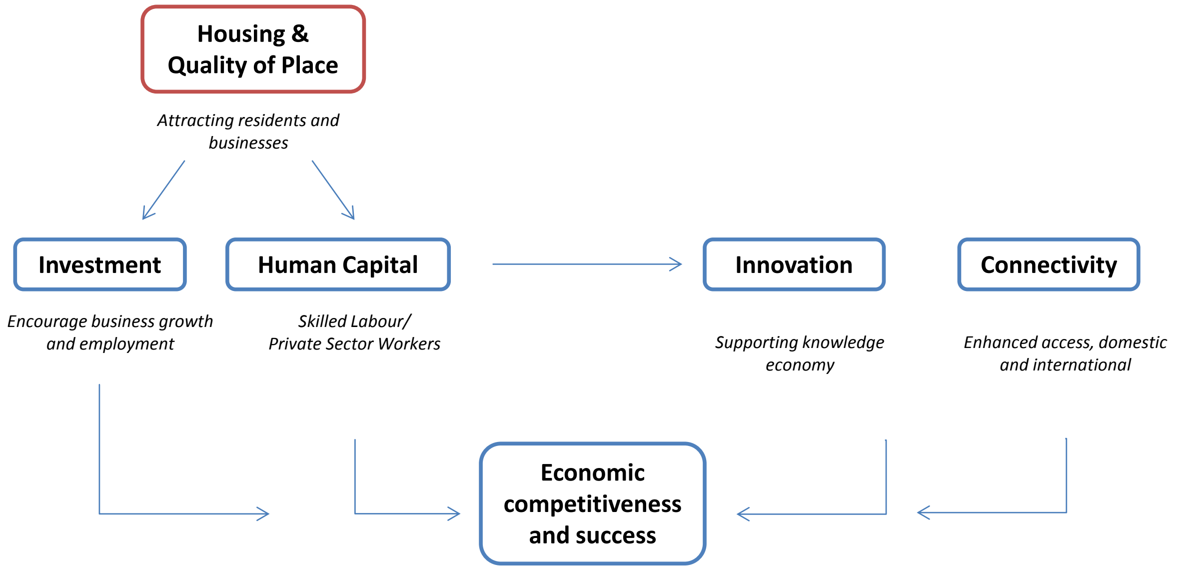
Figure 1: Direct benefits of Birney Hill Farm



Why is good housing important?

The direct impacts are positive benefits in their own right, but crucially the scheme is intended to facilitate a wider set of indirect benefits. Many studies have concluded that good housing is a crucial factor in the quality of a place and attracting people to live there, which in turn attracts businesses to locate and invest. Attracting skilled workers and business to an areas is an important factor in achieving economic growth. These factors are summarised in the flow diagram below.

Figure 2: Contribution of Housing to Economic Success



High earners working in senior occupations are more likely to be living in good quality housing. Chapter 5 of this report shows the strong, positive link between the stock of high quality housing in an area and the earnings, skills and occupations levels of its residents. Put simply, good housing can attract these people, can encourage them to stay in the area once they have established their careers. Greater innovation will then create more growth which provides job opportunities for others who then go on to progress and succeed themselves – creating what is called a virtuous circle. Whilst housing is not the only factor in attracting and retaining a skilled workforce, it is certainly one of the factors, and an important one. These people are crucial to the performance of the economy and attractiveness of the region as one of the key decision factors for companies when choosing where to locate is whether they have access to a good workforce. In addition, these people are able to spend more and therefore support more jobs, strengthening the local and regional economy.

The economy and the factors that make a successful economy are difficult to specify. Employers want access to their markets and to a good workforce, and people want to live somewhere that maximises their quality of life, given the resources available to them. Housing provision and economic growth are therefore intricately linked, and yet it is impossible to explicitly define the exact impact that good quality housing has on economic growth.

The evidence on the importance of housing in contributing towards economic growth is not as detailed as one might expect, although some very useful research does exist, and supports the conclusion that quality of housing is a very important factor in people's decision making processes.

The Barker Review of Housing Supply in 2004 detailed the need for a continued supply of new homes. More specifically, it found that a lack of housing supply could constrain economic growth, and identified that the delivery of new homes needs to recognise the range of types of properties demanded. It Identified that preferences change depending on income - higher earners desire more space.

The Institute for Public Policy Research (IPPR) recently published a paper on the role of housing in rebalancing the economy. Among other things, this study found evidence that "***in the north east, some employers have complained that a lack of high-end housing has made it difficult to attract the most senior staff***." More generally it finds that housing can have a long term impact on the perceived competitiveness of areas. Housing can have an important role in relation to the attractiveness of an area - both for workers but also for investment more widely.

Whilst studies have struggled to clearly quantify the explicit impact of housing, DTZ found that "***while high quality housing alone may not be enough to attract significant inward investment, a lack of high quality housing may preclude it***." Northern Way research arrived at a similar conclusion, that although housing only operated as a 'second tier driver', the residential and quality of life offer in northern city regions would be a significant factor in enabling or inhibiting future economic opportunities for the north of England.

Both the theoretical evidence and the data analysis shows that it is important to provide a sufficient stock of high end housing in order to attract people with the skills necessary to work in high value occupations. The development at Birney Hill provides a natural extension to Darras Hall, whose residents already make a strong contribution towards economic growth.

The opportunities of the North East

There are many challenging facing the North East economic but it also possesses many opportunities on which it could build. The North East Local Enterprise Partnership (NELEP) has set ambitious targets for growth. The figure below summarises the main opportunities we have identified for the North East economy.

Figure 3: Opportunities in the North East economy

Export levels are high, and the North East is the only region of the UK with a significant balance of trade surplus – i.e. it is exporting more goods than it imports. It also does well in attracting foreign direct investment, which contributes to a higher proportion of employment than other regions. Recent policies designed to strengthen ties with China should further increase the business base. Newcastle International Airport is no doubt linked to this stronger performance, and has an important role to play in ensuring that the region continues to perform well in these areas. A new link between Newcastle and Dubai that opened in 2007 has proved very successful which has been linked to significant increases in exports. A direct flight to New York has been agreed, with flights commencing next year. This will certainly bring additional benefits similar to that of the Dubai flight.

The North East Independent Economic Review (NEIER) identified that the region is home to some innovative and highly productive sectors, including advanced manufacturing, pharmaceuticals, energy and sustainability, as well as tourism and higher technology. The universities play a significant role, in that they are able to offer courses which educate people for these specific industry sectors. However at present graduate retention is low.

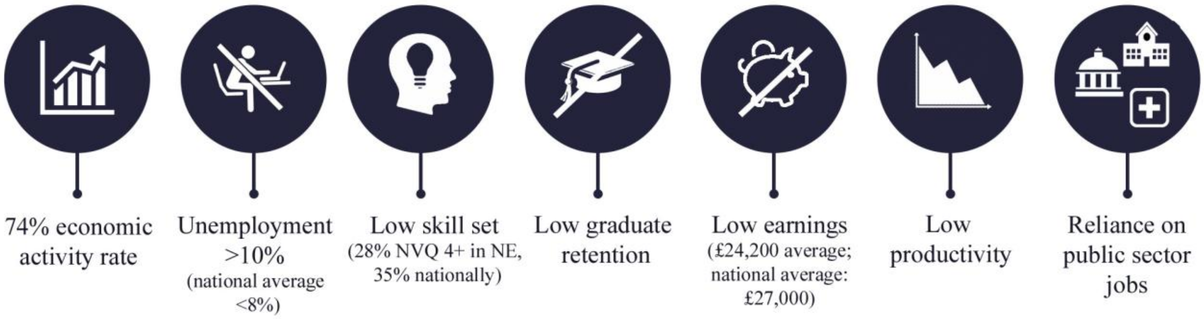
There is therefore the opportunity for the region to prosper if it can encourage an expansion of the private sector and attract and retain people with the type of skills that match with the requirements of high value jobs. These people and businesses could be particularly valuable to the economy and could enable the region to meet its challenging objectives for growth in the future.

Part of this is about having the right housing to attract those people – there is clear evidence that higher skilled people are more productive and more valuable to the economy, and that they are more likely to live in good quality housing. Ponteland is an example of a success story in Northumberland, and the proposed scheme at Birney Hill is a rare example of a suitable location for high quality development which would be able to attract the type of workers which have the capacity to drive the North East economy.

The challenges in the North East and the need for change

The North East generally underperforms relative to other regions in the United Kingdom – it ranks as the worst or 2nd poorest region on many measures of economic performance. With an economic activity rate of 74%, it is 6 percentage points below the best performing region of the East with 80% and 3 percentage points behind the national average. Since the recession the gap between the national unemployment rate and that of the North East has risen, with the region's unemployment currently at just above 10%. The figure below summarises the challenges facing the North East's economy.

Figure 4: Challenges in the North East economy



There are key weaknesses in relation to the skill level of the workforce, which results in low earnings and productivity. Across England, the North East has the lowest proportion of highly skilled workers. Graduate retention is also an area of weakness that needs to be improved, with evidence suggesting that many graduates of universities such as Newcastle tend to move away after completing their studies.

Another issue is that the level of private sector employment is low relative to the public sector, which also holds back the economy as it results in fewer workers in high value industries such as business services. The NELEP identified that the region would need to create 58,900 private service sector jobs in order to hit the national average, or up to 72,000 to match better performing LEP areas. This is a significant challenge and the region has a considerable way to go to achieve this. Furthermore, the region also has the highest proportion of most deprived areas across the UK.

Why Ponteland and Birney Hill Farm?

Northumberland was recently ranked as the 4th best place to live in the whole of England and Wales[1]. It is a beautiful part of the world with many natural attractions. Ponteland specifically is one of the most successful parts of Northumberland. Heavy reliance on the public sector, low skill levels and lower prevalence of people in senior occupations is seen as a problem for the North East. In contrast, Ponteland has a much higher ratio of private sector workers, and residents working in senior, skilled, occupations. Darras Hall is an example of a successful garden suburb, and the proposed development at Birney Hill can build on this. The figure below summarises the strengths of Ponteland.

[1] Telegraph index of best places to live in England and Wales, 2014

Figure 5: Why Ponteland

The proposals seek to build on an already successful place, attract more innovative people to stay in the area, and live in Ponteland, and contribute to the wider North Eastern economy. This is achieved through the businesses they run, the people they employ, and the money they spend. The proposal at Birney Hill Farm can make the existing place better through sensitive design and by creating a place that fits with and enhances the existing area. The geographical location of Ponteland with its close proximity to both Newcastle International Airport and the city of Newcastle itself means that it is an ideal location for the right type of expansion.

Ponteland already accommodates a much higher than average proportion of people working in senior positions and is seen as an attractive location – as such, it is one of the North East's success stories. There is strong demand in the housing market within Ponteland and, coupled with a history of undersupply that is currently set to continue in the future, this suggests that it is an area that should be prioritised for additional housing. Ensuring that further high quality housing is provided will attract residents with the necessary qualifications to fill high-skilled roles, due to the economic links outlined above.

It is increasingly clear that green belt is required to deliver new housing. This is evident not just in Northumberland but countrywide. The importance being, that where green belt is released, it should be used to create the best possible economic growth – not just the largest numbers of houses. In doing so a greater proportion of the open space can be maintained and development can be designed to fit with its surroundings and the immediate needs of the local community. This is beneficial not only to the local community but also to the North East more generally

Conclusion

The NE economy has many challenges facing it and it has historically underperformed. However it also has significant opportunities for growth, with the airport playing a key role in attracting these opportunities. The LEP has targets for growth. In order to achieve this, the city region will need to successfully compete with other cities in attracting both human capital and inward investment – entrepreneurs, businesses and residents. Higher skilled people in more senior occupations are crucial for delivering this growth, both to the North East region and to the local areas where they live.

However at present the region lacks housing in which these people want to live – Ponteland is an attractive location which already attracts these types of people. The buoyant nature of the housing market in Ponteland demonstrates the significant demand from people to locate here, but there are not enough high quality homes for the levels of people that the region needs to attract and retain in order to be competitive. The region as a whole has had a continued under-delivery of housing of all types and evidence suggests that Green Belt land will need to be released on which to build these homes. Of Green Belt options, this is one of the most sustainable sites due to it accessibility to potential future drivers of economic growth.

Land released from Green Belt should be used in order to deliver the best economic growth and largest value possible for the area. This does not always mean a larger quantum of housing – it should instead mean housing of the type that is required to retain the workforce that will deliver much needed economic growth for the area. Higher quality housing for highly skilled senior workers in Ponteland would facilitate this.

1 Introduction

1.1 Volterra was commissioned by Lugano Developments Ltd to produce a report supporting the economic case for a development on Green Belt land that they own at Birney Hill Farm.

1.2 Birney Hill Farm is located in Ponteland, Northumberland. The proposed development would involve the construction of up to 280 dwellings and provision of around 1,400 square metres of commercial space[2], a community farm and associated buildings, landscaping and open space.

1.3 A planning application was submitted in January 2013, with the application refused on 31 October 2013. This document supports the appeal against that decision.

1.4 This report outlines the economic case for the proposed development:

- Section 2 sets out the background and context to the proposals at Birney Hill Farm, and summarises its direct impacts in terms of homes provided and jobs accommodated, as well as detailing the community benefits;
- The North East generally underperforms relative to other regions in the United Kingdom, although there are real opportunities for improvement with the right conditions in place. The region has a particular need to improve its ability to attract and retain highly skilled workers in the area, who are crucial to retaining and generating economic growth. Section 3 of this report describes the opportunities that the North East needs to better exploit, and section 4 explains the economic challenges facing the region, and why there is such a need for change;
- There is clear evidence that high earners working in senior occupations are more likely to be living in high quality housing. These people are crucial to increasing productivity and creating economic growth and in turn, they spend more and therefore support more local jobs through the supply chain. Section 5 of this report demonstrates the relationship between high quality housing and the economy;
- Ponteland already accommodates a much higher than average proportion of people working in senior positions and is seen as an attractive location. Strong demand in Ponteland's housing market, coupled with a history of undersupply that is currently set to continue in the future, suggests that it is an area that should be prioritised for additional housing. Furthermore, this needs to be housing of the type that will attract residents with the necessary qualifications to fill high-skilled roles. Section 6 examines the key economic and housing characteristics of Ponteland, including current property demand, the continued undersupply of housing in the area, and the need to build on Green Belt land due to the unavailability or unsuitability of brown field sites.
- Section 7 concludes the economic case for development at Birney Hill.

[2] This would be made up of 250sqm of retail, café, restaurant, 500 sqm for the visitor centre, and 650 sqm of business space.

1.5 Sections 3-6 begin with a summary box, highlighting the key issues and recommendations of each chapter.

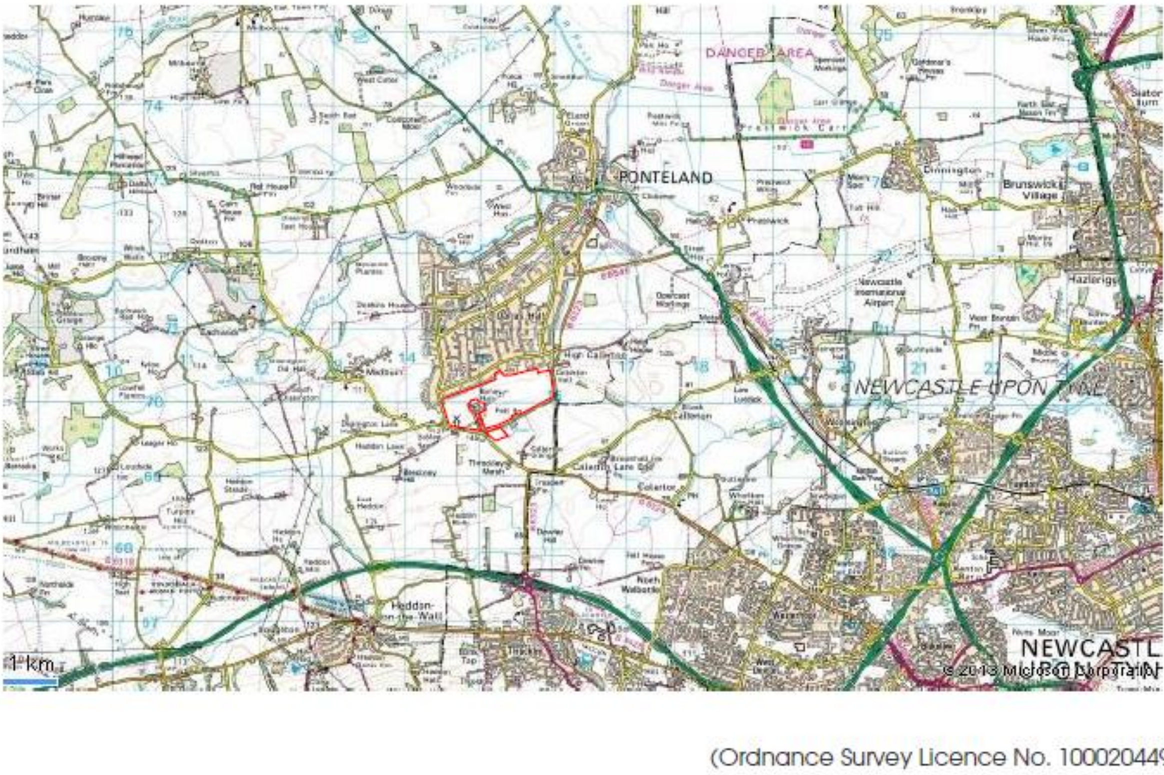
2 Background to Birney Hill and Lugano's proposal

Background

2.1 The site of the development at Birney Hill is shown on the map below. It is located on the southern periphery of the Darras Hall Estate, an affluent area of Ponteland which is situated 1.8 miles to the north; Newcastle lies approximately 3.5 miles to the south and south-east, with Newcastle City Centre being 8 miles from the site and Newcastle Airport 2.5 miles away.

2.2 Ponteland lies within the former district of Castle Morpeth, which became part of the Northumberland Unitary Authority in 2009.

Figure 2.1 Site location



Source: Lugano Developments Ltd (January 2013), Land at Birney Hill – Planning Statement

Proposals

2.3 The development will create three clusters of houses at Ponteland, providing a total of 280 additional dwellings. There is envisaged to be a mix of dwelling types ranging from two bed semis to five bed detached, with 30 plots available for self-build houses.

2.4 The development has been designed using generous landscaping and green values as a guiding principle. It will create attractive new green spaces, growing areas, environmental education, outdoor recreation and play areas. Over 62% of the site would be set over to recreation and open space.

2.5 A community trust will manage the 92 acres of land; this will include £3m of funding for a community farm with kitchen garden, urban allotments and a visitor centre. The community farm will also include shops and business space.

2.6 The development includes 70 affordable homes, as well as provision for an additional 24 affordable homes off-site.

Direct Quantifiable Impacts of the development

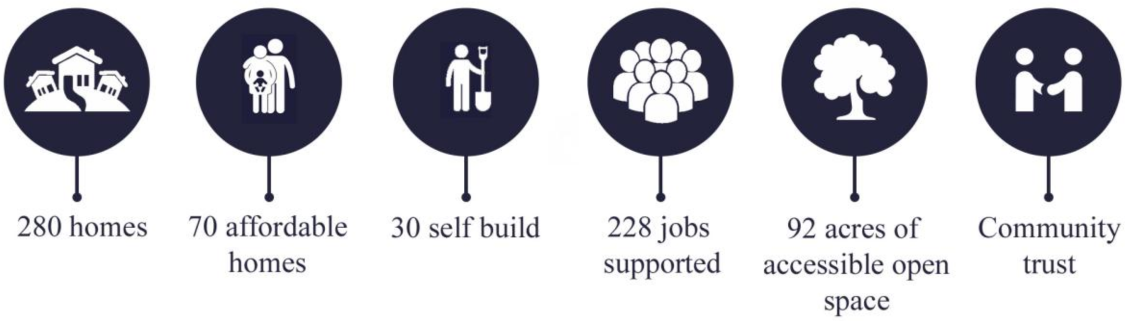
2.7 The construction phase of the scheme has been estimated to support 673 full time equivalent (FTE) jobs.

2.8 The scheme will provide 280 new homes, with 30 available for self-build. This will contribute towards the housing targets for the area. There is a significant need for new homes within the local and wider areas - both Castle Morpeth and Northumberland have consistently under-delivered on new homes relative to targets for the past ten years. Not only is there evidence of an historic shortfall, this trend is also set to continue into the future.

2.9 The scheme will provide a mixture of homes ranging from 2 bedroom semi-detached homes to 5 bedroom detached homes. This range will attract a range of potential occupiers and household income brackets. Based upon population estimates and income profiles, it has been estimated that the development would support 228 jobs as a result of the spending patterns of the new residents.

2.10 The development includes 70 affordable homes, as well as provision for a further 24 off site. A proportion of these will be directly marketed to downsizers, which can have associated benefits through releasing larger homes for other occupiers.

Figure 2.2: Direct benefits of Birney Hill Farm



Community Benefits of the development

Community Trust

2.11 Birney Hill Farm currently consists of approximately 210 acres of farmland, a farm cottage and farm steading. Of this, 160 acres is arable land and 50 acres is permanent pasture.

2.12 Following the development, the total land take from farming is likely to be approximately 117 acres. The proposal is that the remaining farm land will be managed by the Community Trust to provide public benefit.

2.13 In addition, a Community Trust will be set up as part of the development. This will manage the remaining 92 acres of land and will include £3m of funding for a community farm with kitchen gardens, urban allotments and a visitor centre. The community farm will also include shops and business space.

2.14 As well as the upfront funds that will be contributed towards it, the aim is for the Trust to become self-sustainable, generating income through several means. The Trust would then manage the site and control how money would be invested in the local community.

2.15 A number of benefits associated with the Community Farm have been identified. It will:

- Establish a viable farm business
- Increase trade for local suppliers and businesses
- Provide possible income to the Community Trust
- Provide employment opportunities for farmers and new entrants
- Provide educational resources to local educational facilities
- Maintain and improve environmental conditions on the farm

Open space

2.16 The development has generous landscaping and green values. It will create new green spaces, growing areas, environmental education, outdoor recreation and play areas. Over 62% of the site would be set over to recreation and open space which would be accessible to the public wherever possible. A landscape assessment has concluded that the loss of green belt land here will not result in harm to the landscape character of the open countryside.

2.17 Another key benefit associated with the development is that it will provide and maintain public open space and green space around the development.

2.18 At present the land at Birney Hill is in private ownership and not publicly accessible. However, the proposals will open up land to public access as amenity green space, some of it on a controlled basis, providing significant areas of open space available to both residents of the new development and those existing residents in the Darras Hall Estate.

2.19 The provision of 17.9 hectares of quality public open space and planting will be well designed, planned and managed by the Community Trust. It is therefore considered that the proposed space will make a valuable contribution to the local area and ensure that local people can enjoy a new source of public open space.

2.20 A 2007 report entitled "Green space, urbanity and health: relationship in England", suggested that a higher proportion of green space in an area both in terms of quantity and quality, was associated with better population health. The relationship identified in this report, although more 'psychological' than economic, is certainly evidence to suggest that living within green open land is beneficial to the quality of life of the residents.

2.21 In summary, whilst the proposal suggests that it is necessary to build on green belt land, the way the proposed scheme is designed will mean that it will in fact increase the amount of open space available to the public.

3 North East Economy: the Opportunities

Chapter Summary

Figure 3.1: Opportunities in the North East economy

3.1 The North East is one of the **leading regions in the UK in terms of exports**, and in 2013 was the only region apart from the East Midlands to achieve a balance of trade surplus – this means that it is exporting more goods than it imports.

3.2 The region is home to some **innovative and highly productive sectors** which could be drivers of future growth, along with tourism and higher technology industries. The North East Exporters Awards in the past two years included an explosion-proof electrical equipment manufacturer, revolutionary systems for detecting chemical contamination in fuel, and thermal imaging cameras. This indicates that the region is performing well in some innovative and creative industries, which are likely to be increasingly important as the economy grows.

3.3 **Universities also play a significant role** in providing courses for people for these sectors. Research is a key strength of Newcastle University – it is ranked 8th in the UK for medical research power, and in the top 12 in the UK for Science and Engineering research power. However graduate retention has been low. Over the last 5 years figures suggest that graduate retention for all universities in the North East has improved, although it remains low. A key objective it to retain more of its highly skilled graduates.

3.4 The region also **does well at attracting Foreign Direct Investment** (FDI), which contributes to a higher proportion of employment than other regions (whilst the region is home to only 4% of jobs nationally, it attracts 8% of the UK's total FDI).

3.5 In recent years Newcastle has **established ties with China** both from a business and a cultural perspective. In 2011 Newcastle University signed an agreement with Xiamen University to create a Confucius Institute based at Newcastle University, the aim of which was to build closer ties with China. The North East LEP attracts proportionally more Chinese immigrants than the rest of the country. As trading links only increase between these two nations, this could be a positive basis on which to build future growth of the region.

3.6 Linked to this, **Newcastle International Airport (NIA) has an important role to play** in the region's future competitiveness and attractiveness. A new link from NIA to Dubai that opened in 2007 has been very successful, and has been linked to an increase in exports. A direct flight to New York is due to commence in summer 2015.

3.7 The **NIA Business Park will be located just 3 miles from Ponteland** and is an area identified for future growth – the aim is to attract high skilled offshore businesses in these innovative sectors and **create 7,000 local jobs over the next 20 years**. This points towards the potential importance of Ponteland in attracting and housing skilled workers who can work at, or interact with, the businesses at the NIA Business Park.

3.8 There is the opportunity for the region to prosper if it can encourage an expansion of the private sector and attract and retain the right people with the types of skills that match with the requirements of high value jobs. **Growth in the right kind of housing in Ponteland, as proposed at Birney Hill Farm, could play a vital role in achieving this.**

Introduction

3.9 North East England is home to just over 2.6m people, with employment at around 1.1m as of 2013. There are also two-subsets of the overall region that are relevant and used within this report:

- The area covered by the North East Local Enterprise Partnership (NELEP area)[3], which includes seven of the North East's twelve local authorities and has a population of 1.95m with employment of 850,000. The geography of the NELEP is the same as that of the North East Combined Authority (NECA);
- Northumberland, which is one of the local authorities within the NELEP area and has population of 316,000 and employment of 141,000.

3.10 The city of Newcastle is a key focal point for the North East economy, and acts as the main employment centre. This is demonstrated by the table below, which shows net flows of commuter trips to Newcastle from each of the other local authorities in the North East (based on the 2011 Census, the most recent data source currently available). Northumberland has the second highest number of net flows to Newcastle out of all the local authorities in the North East, showing that it is a key part of the 'commuter belt' around Newcastle city.

[3] This consists of the following local authorities: County Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland. Compared to the overall North East region, it therefore excludes Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton-on-Tees.

Table 3.1: Net commute trips to Newcastle from the rest of the North East

Local authority	Inward commuter trips to Newcastle (2011)	Outward commuter trips from Newcastle (2011)	Net commute trips to Newcastle (2011)
North Tyneside	24,930	10,850	14,080
Northumberland	19,290	6,280	13,010
Gateshead	19,940	9,940	10,000
County Durham	8,680	2,310	6,370
South Tyneside	6,480	1,550	4,930
Sunderland	6,160	3,220	2,940
Stockton-on-Tees	560	290	270
Hartlepool	310	140	170
Darlington	420	260	160
Redcar and Cleveland	170	70	100
Middlesbrough	200	210	(10)
Elsewhere	2,990	3,610	(610)
Total	90,140	38,720	51,420

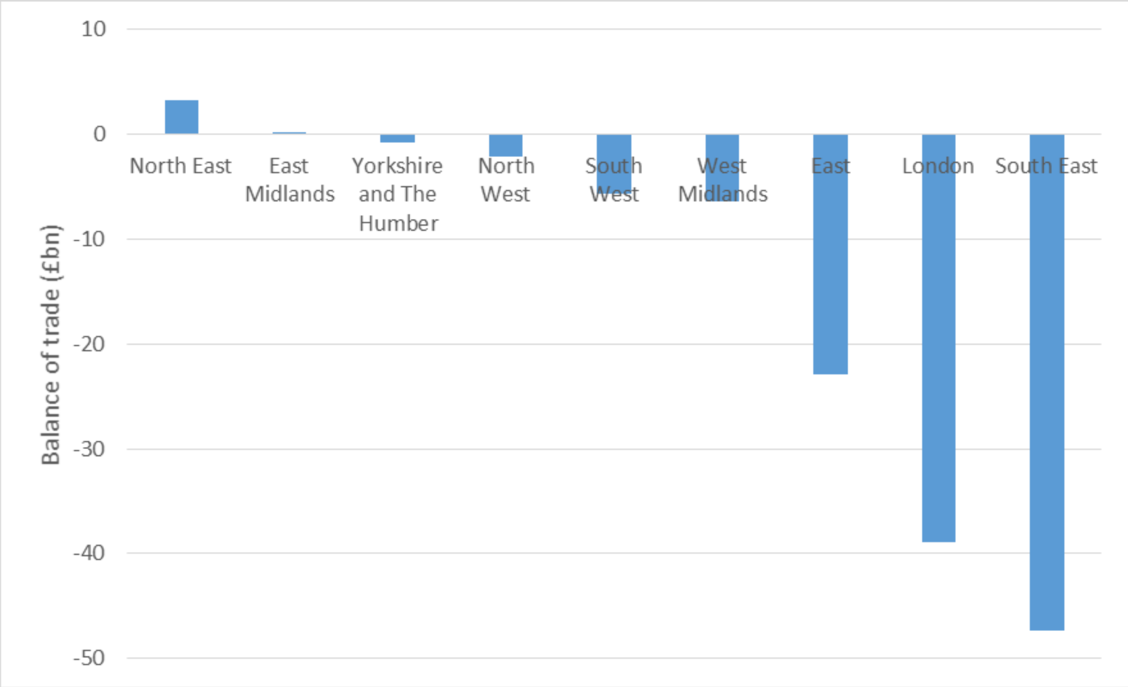
Source: Census 2011

3.11 The North East economy has generally displayed a picture of underperformance relative to other regions of the UK in a number of areas, as is described in detail in chapter 4. However, there are also clear signs that it is an area with strong opportunity, and high levels of potential if the right measures are taken to harness it – this is what we focus on in this chapter.

The North East is a leading region for Exports, with a Balance of Trade Surplus

3.12 A key strength of the North East economy is its balance of trade, i.e. the difference between the monetary value of its exports and imports. It is one of the leading regions in the UK in terms of exports, and in 2013 was the only region apart from the East Midlands to achieve a positive balance of trade in goods. The figure below shows the North East's position in 2013 relative to other UK regions.

Figure 3.2: Balance of trade (2013*), international goods trade surplus by region



*Source: HMRC *2013, figures are provisional*

3.13 The table below shows the North East's exports by sector. Over half (52%) of the North East's export value in 2013 was from machinery and transport, with a further 28% attributed to chemicals.

Table 3.2: North East Export Value by Sector, 2013

Sector	£m	%
Machinery/Transport	5,993	51.8%
Chemicals	3,206	27.7%
Manufactured Goods	1,743	15.0%
Miscellaneous manufactures	476	4.1%
Other	59	0.5%
Other commodities	44	0.4%
Crude Materials	39	0.3%
Mineral Fuels	21	0.2%
Total exports	**11,581**	**100.0%**

Source: HMRC

3.14 Over half of exports go to the European Union, but North America, Asia and Western Europe all account for over 8% of exports too. The table below shows the split of North East exports by destination.

Table 3.3: North East Export Destinations, 2013

Destination	£m	%
European Union	6,101	52.7%
Asia & Oceania	1,693	14.6%
North America	1,033	8.9%
Western Europe (excl EU)	936	8.1%
Eastern Europe (excl EU)	878	7.6%
Middle East and North Africa	428	3.7%
Sub-Saharan Africa	270	2.3%
Latin America/Caribbean	243	2.1%
Total exports	**11,581**	**100.0%**

Source: HMRC

The North East is home to some Innovative and Highly Productive Sectors

3.15 Although the NELEP area generally lags behind in terms of productivity, skill level and earnings (see section 4), a Review of Evidence carried out as part of the NEIER suggests that it does still have sectors that are innovative and highly productive. These include:

- Advanced manufacturing: many producers in the North East supply specialist parts and components as part of an extended supply chain. In the automotive industry, Nissan Motor Manufacturing Plant is based in Sunderland and has been the largest car plant in the UK for over a decade. In March 2014 the Government announced that it is investing in an International Advanced Manufacturing Park just north of the Nissan site, to help further expand the region's auto-related manufacturing industry;
- Pharmaceuticals: this is part of a wider life sciences sector, which in the NELEP area has 3,700 employees, the second highest of the core city LEPs both in absolute and percentage terms;
- Energy / low carbon & environmental: Newcastle is one of six UK Science Cities, and the Newcastle Institute for Research on Sustainability is located on the university's main campus.

3.16 The results of the North East Exporters Awards in the past two years gives an idea for the North East's strength in exporting manufactured goods, with winners including:

- A-Belco, an explosion-proof electrical equipment manufacturer;
- Guardian Marine Testing Ltd, which offers fuel testing systems to the shipping industry and has pioneered a revolutionary system for detecting chemical contamination in fuel; and
- SOLO Thermal Imaging, which designs and manufactures the smallest, lightest thermal imaging cameras in the world.

3.17 The North East's manufacturing sectors and export base is integral to the region's economy, this is reflected in its balance of payments surplus. Encouraging the progress of the North east's export services is important in helping it to become a more attractive place with a competitive economy.

3.18 Two further sectors that are seen as an area to capitalise on are as follows:

- Tourism: as of 2012, this supported 78,000 jobs in the NELEP area, equivalent to around 10% of total employment which is the highest proportion of total jobs compared to the other core city LEPs;
- New Economy (digital, media, telecoms and software): this is another area where the universities play a role. Newcastle University is a centre of research excellence in Computing Sciences and offers a Masters course in cloud computing, and around 100 students a year graduate in Animation and Special Effects from Northumbria University. Retaining these graduates working within firms in the North East would be beneficial to the future productivity of the economy.

3.19 The NEIER sees the NELEP area creating 65,000 private sector jobs over the next ten years, of which 15,000 are envisaged to be in the New Economy sector and a further 8,000 in tourism. It is therefore essential for the economic progression of the North East to encourage growth in these sectors which means directing greater numbers of skilled workers into these sectors.

The North East is home to Strong Universities but has low Graduate Retention

3.20 The North East region is home to three universities, of which Newcastle University is the most prominent, frequently performing highly in published rankings. For instance, it was number 18 in the UK in the Times/Sunday Times Good University Guide 2014. It also features in the top 200 of most global rankings. Whilst many universities are important to the cities in which they are located in, this is particularly true of Newcastle University.

3.21 Research is a key strength of the university; it is ranked 8th in the UK for medical research power, and in the top 12 in the UK for Science and Engineering research power.

3.22 Nonetheless, the North East faces similar problems to other regions outside of London and the South East in its inability to retain graduates that attend its universities. The graphic below, from the Centre for Cities' *City Outlook 2014*[4], shows that there is a strong outflow of 22-30 year olds from Newcastle to London, suggesting a poor graduate retention rate.

[4] Centre for cities, (January 2014), cities outlook paper.

Figure 3.3: Net migration to London by 22-30 year olds, 2009-12

Source: Centre for Cities

3.23 Using the same data source as the figure above, the net flow of young adults to/from the NELEP area and other city regions can be compared. This is shown in the table below. It suggests that the NELEP area loses around 1,500 people aged 22-30 (a proxy for graduates) each year to London alone, and a further 3,200 to other parts of the country. This makes it the third highest city region in terms of outflow of young people. Although all city regions lose graduates to London, some (such as Greater Manchester and West of England, which includes Bristol) also manage to attract them from elsewhere.

Table 3.4: Migration of people aged 22-30, 2013

	Net inflow relative to London	Net inflow relative to everywhere except London	Overall net inflow
Greater London	0	30,400	30,400
Greater Manchester LEP	-1,770	1,420	-350
West of England LEP	-1,700	890	-800
Greater Birmingham and Solihull LEP	-1,480	-690	-2,170
Liverpool City Region LEP	-790	-1,690	-2,480
Sheffield City Region LEP	-900	-2,910	-3,810
Rest of country	-17,170	12,810	-4,360
North East LEP	-1,550	-3,240	-4,790
Nottingham City Region	-2,020	-3,130	-5,150
Leeds City Region LEP	-3,020	-3,460	-6,480

Source: ONS

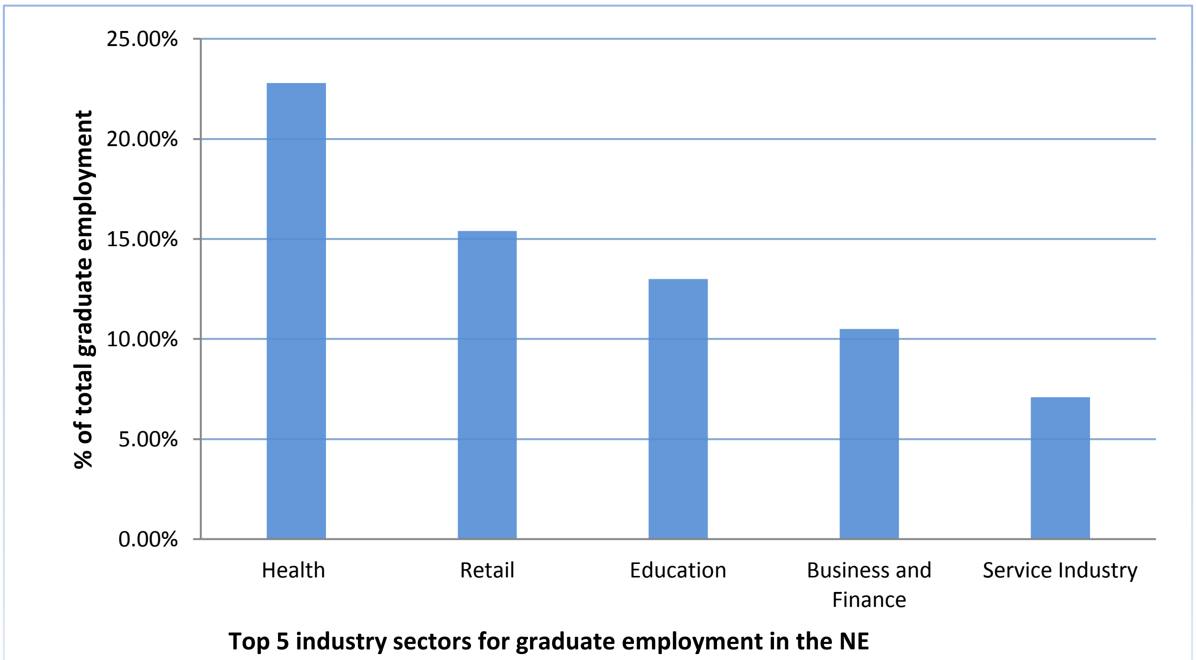
3.24 A note by a recent graduate of Newcastle University is appended to this report, summarising some of the issues regarding graduates and the choices that they make. In contrast to the ability of Newcastle University to attract high quality students for their courses, it is clear that, once they graduate, many young people perceive the North East as an area where there are poor job prospects and where they are less likely to be able to earn a salary which is commensurate with their skills levels.

3.25 Whilst the data suggests that there is a likely perception amongst graduates where they feel that the North East is not a suitable place to build a career, a 2011 report into gradate retention suggests that in fact the number of graduates known to be working in the North East 6 months after graduating has increased[5]. The report shows that that over a 5 year period the number of graduates working in the North East has increased by about 11% between 2010/11 and 2005/06 after falling during the recession. The challenge is to continue to improve the graduate retention rates and continue to keep these graduates throughout their career and lifetime.

3.26 Figure 3.4 below shows the top 5 industry sectors that graduates in the North East move into 6 months after graduating. All of these top 5 sectors can be classified as 'skilled' industries, which naturally leads to the assumption that by improving graduate retention in Newcastle, skilled industry sectors such as the ones in figure 3.12 could grow. This in turn would provide a greater productivity benefit to the North East.

[5] An examination of the graduate jobs market in the North East of England: higher education careers services unit, 2011/12 report.

Fig 3.4: Top 5 highest industry sectors in the NE for graduate employment, 6 months after graduating 2010/11.



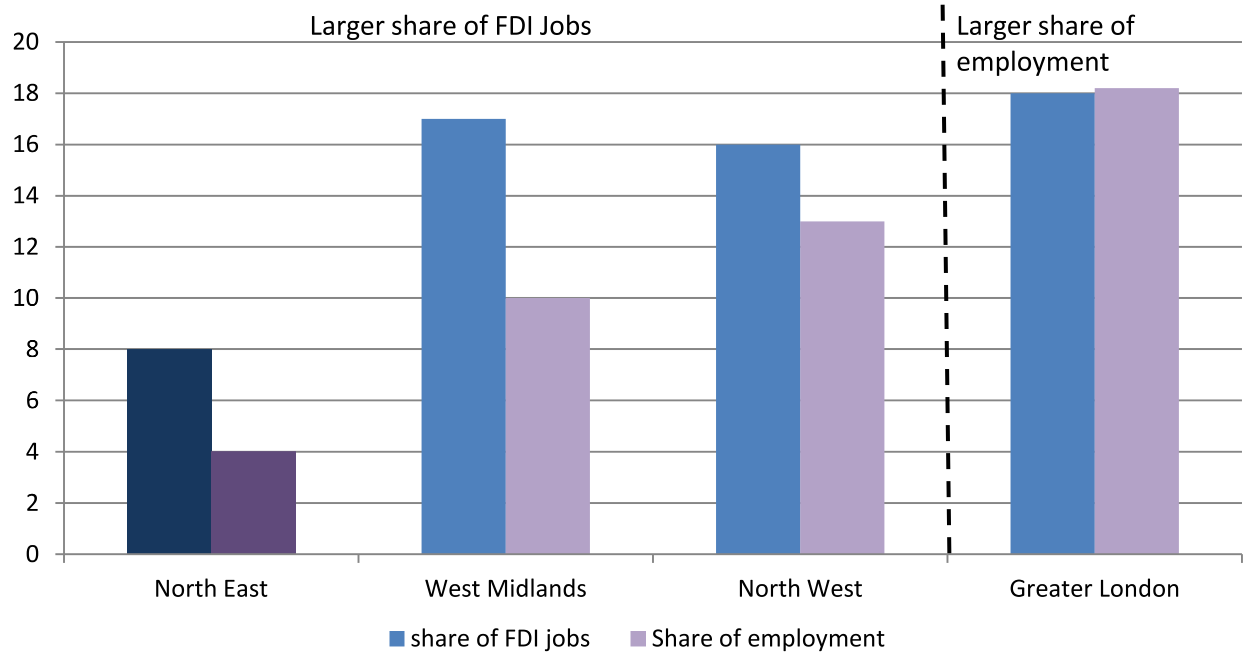
Source: An examination of the graduate jobs market in the North East of England/

3.27 As shown in table 3.4, the North East region has an extremely high net outflow of university graduates who are heading away from the region back down to the South East. This accentuates the below average level of skills in the region. The analysis from the report into the gradate jobs market in the North East does suggest that a slightly greater proportion of graduates are working in the North East compared to a few years ago. However in order to encourage greater gradate retention it is vital that the region becomes an attractive place for graduates to begin their careers both in terms of job opportunities and the correct housing.

FDI

3.28 Within the business sector, the North East also has a strong track record when it comes to Foreign Direct Investment (FDI). Between 2005 and 2012 the region created over 42,000 jobs through FDI. It is one of only three regions that have a disproportionately high share of FDI jobs relative to its share of total employment. This is represented in the chart below. For each region, the chart shows two bars – on the left, the region's share of national FDI related employment and on the right, the region's share of total employment. Thus the North East, West Midlands and North West are the regions that are shown to have a higher than average share of FDI employment given their proportion of overall jobs.

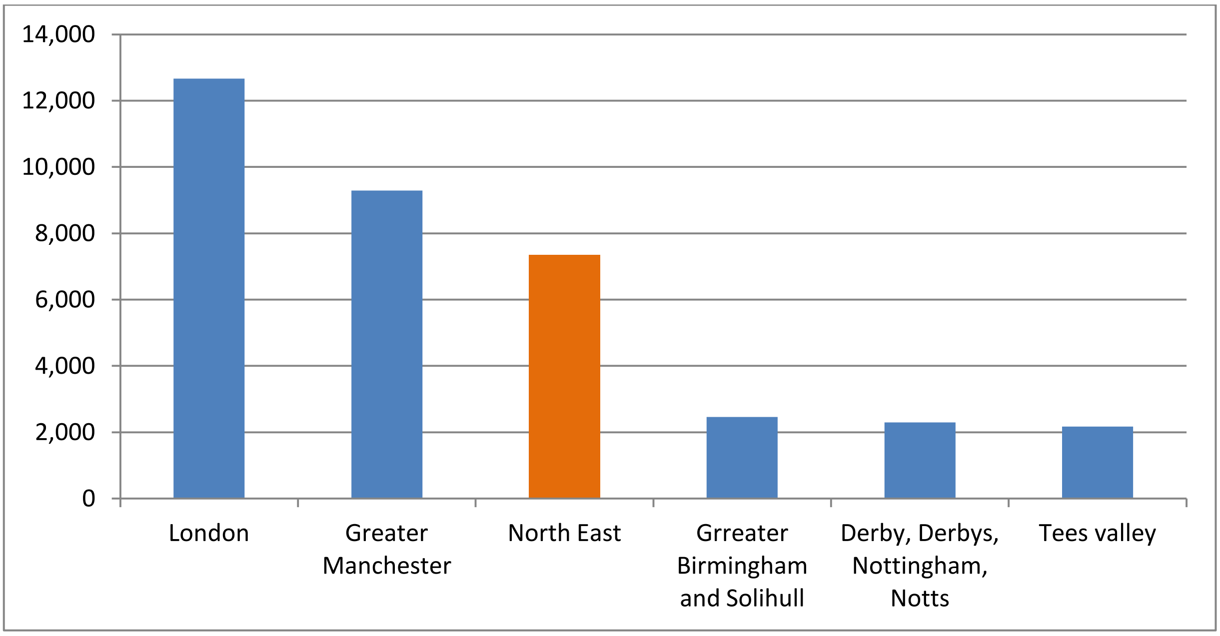
Figure 3.5: Share of FDI jobs relative to share of total employment



Source: UKTI, reported in NE Independent Economic Review

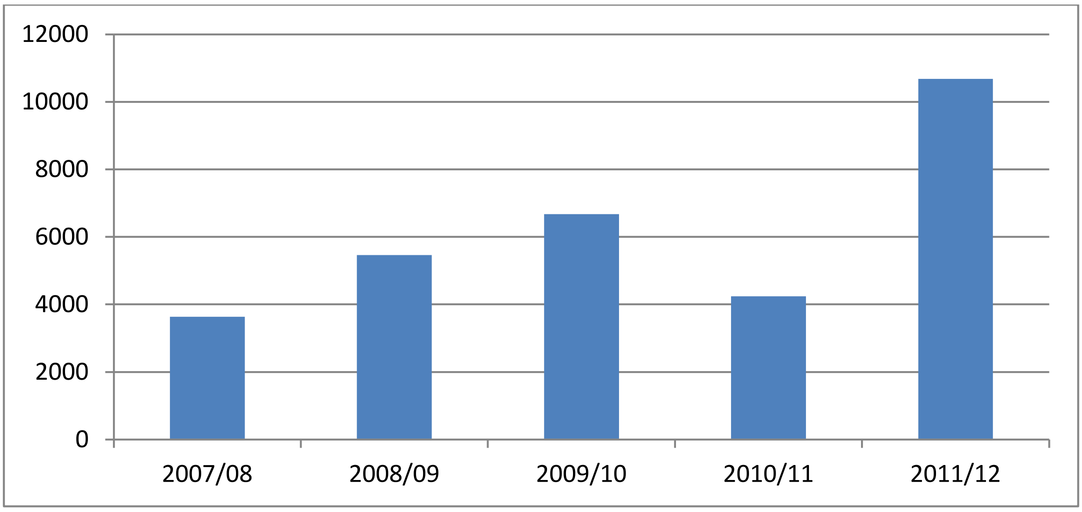
3.29 Figure 3.6 shows the number of jobs created through FDI in 2011/12 broken down by local enterprise partnerships. As shown, the North East had the third highest number of new jobs created through FDI. Figure 3.7 shows the significant recent increase in the number of jobs created in the North East through FDI over the last few years. Between 2007 and 2012 the number of new jobs created has increased by nearly 200%.

Figure 3.6: Number of Jobs created through FDI in 2011/12



Source: North East Independent Economic Review Report

Figure 3.7: Number of Jobs created in the North East through FDI projects



Source: North East Independent Economic Review Report

3.30 The North East Economic Review published by the North East Local Partnership in 2013 reports that, "*over the next five and ten years FDI and investment in UK company's is likely to be one of the most important source of job creation in the NELEP area. It is also likely to be a source of knowledge intensive and high skilled jobs*"[6].

3.31 FDI is a very important source of economic stimulus to the North East and in recent years has increased significantly, particularly in terms of job creation, which bodes well for the future. However the economic review of the North East has also cited the lack of a commercial centre in the city of Newcastle unlike Manchester or Birmingham could possibly limit FDI from expanding beyond a certain point in years to come.

Newcastle International Airport

3.32 International connectivity is vital in order for a region to make the most of trading and exporting opportunities. There is therefore an opportunity for the region to build on the potential that comes from Newcastle International Airport (NIA).

3.33 As outlined in a report[7] by the Confederation of Business and Industry (CBI):

"*In a changing and challenging global environment, it is imperative that the UK remains both open for business and new opportunities. With global growth continuing to be driven by expansion in high-growth markets, we see more than ever, the importance of re-orientating our trade. Businesses need ambition and confidence to venture beyond domestic markets, and government must do all it can to facilitate this expansion. We need the right infrastructure to forge these new links, and our aviation networks are a key part of the puzzle.*"

3.34 Being only 2.5 miles from Ponteland, NIA offers significant employment and productivity benefits to the surrounding area. In 2013, NIA supported 7,800 jobs. The airports 'masterplan' outlining growth forecasts, estimates this figure will grow to nearly 10,000 by 2021. A study into

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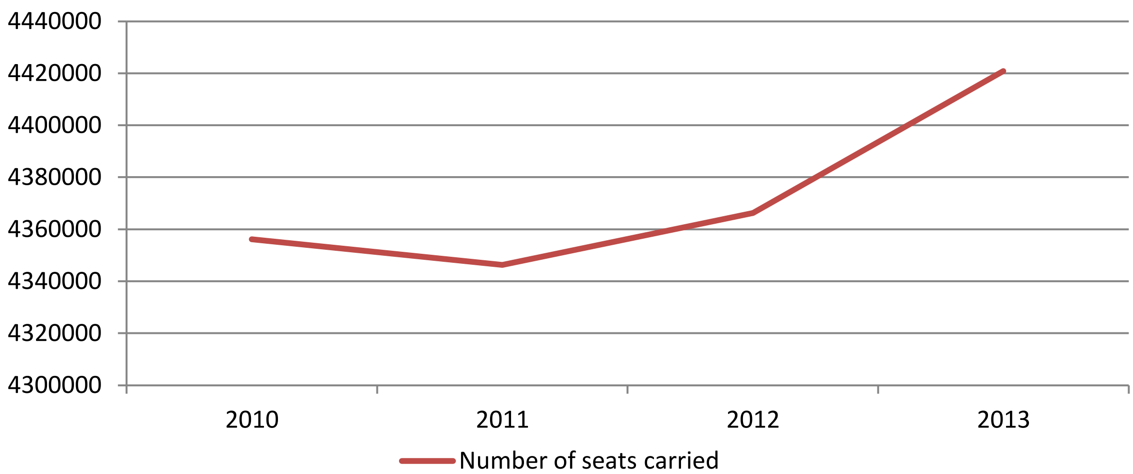
[6] North East Independent Economic Review Report, (2013), North East Local Enterprise Partnership.
[7] CBI (February 2013), *Trading Places: Unlocking export opportunities through better air links to new markets*

the economic contribution of UK regional airports stated that 93% of the people working at the airport reside within 30 minutes of the city. Meaning that a development at Birney Hill will certainly benefit employment growth at the airport.

3.35 A study by York Aviation[8] estimated that the overall economic benefit to the region from the airport is valued at £645.7m. This is divided into GVA and employment benefits summing £402.4m and time savings valued at £243.2m. The airports 'masterplan' forecasts the economic benefit rising to £1.3 billion by 2030. Both the productivity and employment growth forecasts are based on the increased annual passenger figures, the airports 'Southside development project' and the airports growing partnerships with major international airlines such as Emirates.

3.36 The number of seats carried, is the typical measuring gauge in terms of assessing the size of an airport and the extent to which it has grown recently. As figure 3.8 shows, the number of seats carried out of Newcastle has increased quite significantly by about 60,000 between 2010 and 2013 according to CAA statistics[9]. This shows very positive growth for the region's airport. Secondly, the relative size of the airport shows its importance within the region's economy. According to CAPA data, Newcastle is the 11th largest airport measured in terms of the number of passengers travelled in 2012. Conversely, Newcastle Upon Tyne is the 18th largest city measured in terms of population size[10]. Both the relative size of the airport and the passenger growth numbers outlines the airports role in the regional economy and its growing significance.

Figure 3.8: Number of passengers carried out of Newcastle International Airport, 2010-2013



Source: CAPA centre for aviation, Airports data

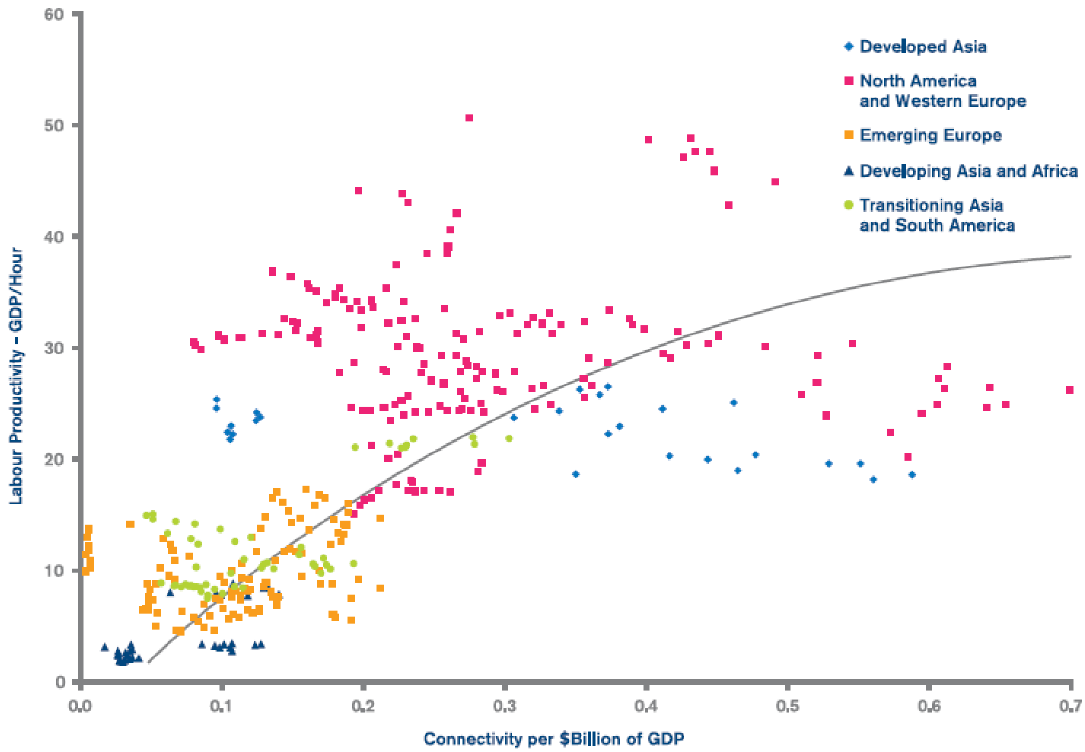
3.37 One of the unique aspects of NIA and a possible link to increasing demand is its unusually large catchment area. NIA is the only major airport in the North East of the country and serves areas such as Tyne and Wear, Northumberland, Cumbria, Teesside, county Durham, North Yorkshire and Southern Scotland.

[8] Newcastle International Airport annual review, 2012.
[9] CAPA, Centre for Aviation.
[10] NOMIS, population survey

3.38 In 2007 Emirates airline agreed to fly the first long-haul direct route out of Newcastle to Dubai, the benefits as a result of this flight have been extremely important to the airport and the area. Of the £173.6m worth of exports shipped out of Newcastle per year, £150m is transported on the Emirates flight and trade between the North east and Australia is up 300% since 2007. Furthermore, it is estimated by the CAA that inbound passengers on the Dubai service will spend on average around £16 million per year supporting about 230 jobs[11]. As well as the benefits in trade, the emirates Dubai flight is an example of the connectivity impacts one extra flight can have to a region. By having a direct service out of Newcastle to Dubai, passengers can travel out of Newcastle to 152 countries, these connectivity benefits have certainly been utilised with only 25% of passengers on the Emirates flight out of Newcastle, ending their journey in Dubai.

3.39 In 2007 the International Air Transport Association (IATA) published a study to consider the economic benefits of aviation. The report analyses the extent to which air connectivity improves productivity through better access to markets, enhancing links between businesses. The study compares 48 countries over a period of nine years and concludes that there is a strong positive relationship between better global connectivity and higher labour productivity. This relationship is shown in the graph below.

Figure 3.9: IATA study, relationship between connectivity and GDP



Source: IATA report

[11] Routes online, (September 2012)

3.40 The IATA report estimates an economic model and although applicable on a country level rather than regional, the result specifies that a 10% rise in connectivity relative to GDP raises the productivity of a country by 0.07%.

3.41 What the relationship also exhibits though, is diminishing marginal returns, meaning that the better connected the country already is, a slight improvement in connectivity will have a smaller impact on productivity than if the country was poorly connected. If we think of this in the regional context for Newcastle, then this could have significant economic impacts. Using the number of seats carried out of NIA as a proxy for connectivity, we can conclude that NIA is fairly poorly connected in terms of other international airports around the world, and yet there are already clear benefits of the airport, and specifically the Dubai link. This suggests that by adding another long haul direct flight, this could have significant productivity benefits for the region, potentially more so than adding another direct flight to a region which is already very well connected.

3.42 In terms of the potential to add another long haul direct flight out of Newcastle, plans to add a transatlantic flight out the US were halted in 2004 but as of a few weeks ago, United Airlines have announced they will introduce a new direct route from NIA to Newark, New York, which is their main hub airport in the US. The service will run five times weekly and will commence in May 2015. In addition to this, Emirates recently published a report into their growing market influence in India[12], suggesting that India is becoming their fastest growing sector, adding around £600m to the Indian economy and supporting around 72,323 jobs. There is certainly scope for further growth of the airport in the future, serving wider international destinations.

3.43 To summarise, although a relatively small airport, NIA has grown in recent years, becoming increasingly important to the North East economy and neighbouring the area of Ponteland (which is just 3 miles away). The 2007 IATA report indicates that there is a body of literature which suggests that an increase in connectivity increases the area's productivity. The Emirates flight from Newcastle to Dubai makes a very strong case to support this evidence. We therefore conclude that the airport is a strong economic asset for the NELEP. There is strong evidence in London that businesses and workers value living within close proximity of an international airport, particularly if they work in the types of sectors which require regular travel. Increasing the quantity of executive homes in Ponteland, as is proposed at Birney Hill Farm, could clearly be attractive to these sorts of people and support the success of both the airport and its new business park.

Newcastle International Airport Business Park

3.44 Earlier this year, plans went ahead for the development of Newcastle International Airport Business Park. The business park area, where construction has not yet taken place is located adjacent to Newcastle International Airport and 3 miles from Ponteland. "*Newcastle International Business Park will be one of the North east's leading global business locations*"[13] according to UK land estates.

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[12] Emirates in India- assessment of impact and regional economic benefits.
[13] UK Land Estates

Figure 3.10: Newcastle International Airport Business Park plans

Source: UK Land Estates

3.45 As well as allocating 450,000 sq ft of air freight and hanger distribution space, one of the business park's main objectives is to attract high skilled, offshore business such as IT, technology, Oil and Gas firms that will provide investment and employment to the local area[14]. The development comprises of 4 stages estimated to generate £300m worth of benefits and 7,000 jobs over the next 20 years. Although the project shall only represent a very small proportion of employment growth in the next few years, it will certainly have an impact on future 'overall' business growth in the region.

3.46 Of course, the main selling point of the new business park development is its location, adjacent to the North East's largest airport, with 7 flights a day to London and several International direct flights, with this accessibility intended to continue to improve. However, it is also strategically important in terms of other business parks in the region. Currently, two of the North East's largest business parks, Quorum and Cobalt business parks are about 6 miles to the North and North East of the city centre. Similarly Newcastle International Airport Business Park will be approximately 6 miles to the North West of the city. It is therefore fair to say that the Business Park in Pontleand is exceptionally well located in relation to other business parks, the region's main airport, and Newcastle city centre.

3.47 Whilst the region has suffered from low business density in recent years, business creation has been very positive. The decision to prioritise attracting high skilled business to Newcastle International Airport Business Park shows the positive outlook for the area in years to come.

[14] Newcastle International Airport: news, (February 2014), Aviation minister launches Newcastle International Airport Business Park.

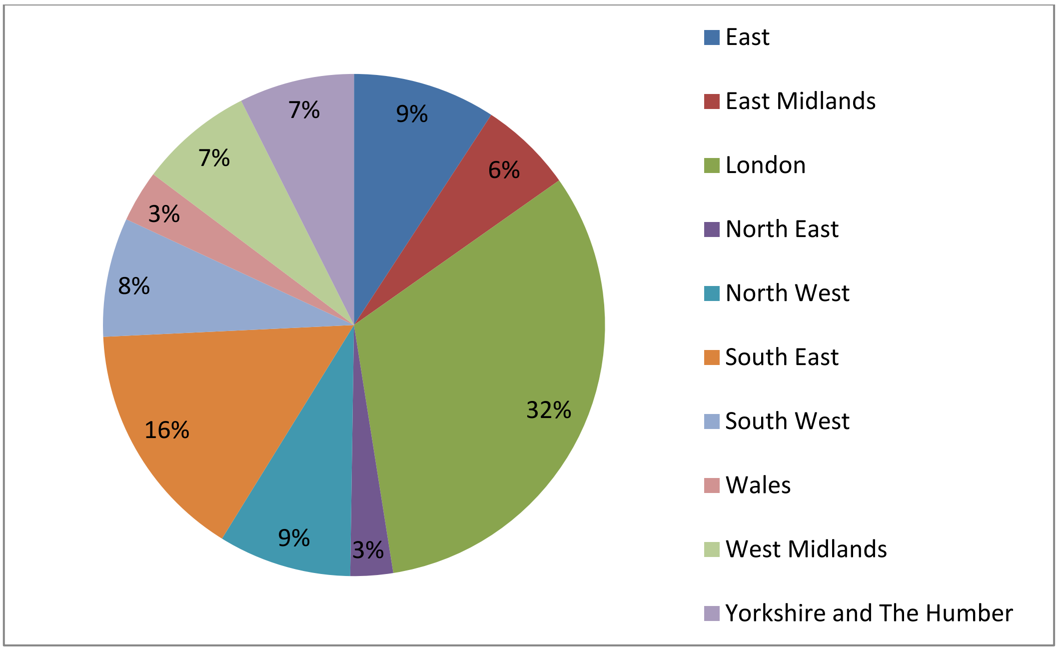
Furthermore, it shows the importance of Ponteland, with its proximity to the Airport and new business park, in being able to accommodate high skilled workers in the correct type of housing. In order for the success of the policy to be maximised, Ponteland must remain an attractive place to live.

New links with Asia

3.48 The previous sections have summarised the positive outlook for the North East in terms of exports, growth in innovative sectors and the continued flow of foreign investment into the region. In this section we specifically look at the region's links with China and how these have developed in recent years.

3.49 Immigration to a region and attracting workers from abroad is often associated with supply side growth in the UK. Unfortunately for the North East, the region has the lowest proportion of migration into the region from abroad across the whole of the UK as shown in figure 3.11. Unsurprisingly, the vast majority of international migration to the UK resides in London and the South East.

Figure 3.11: Immigration into the UK by region 2011



Source: Nomis, 2011 census destination to Origin data

3.50 However, analysis into the breakdown of the country of origin of new immigrants to the North East and the UK shows that a very high proportion of Chinese are moving to the North East compared to the rest of the UK. Table 3.5 shows that 13% of the total number of immigrants to the NELEP originated from China, compared to just 4.6% in England and Wales. As we can see in the table, whilst immigration figures broken down by country of origin show primarily the same patterns between the NELEP and England Wales, China appears to be an exception.

Table 3.5: % of immigrants into the NELEP and England and Wales by country of origin

NE LEP country of origin	NE LEP % from country in 2011	England and Wales country of origin	E&W % from country in 2011
China	13	India	6.7
India	5.5	USA	6.2
USA	4.6	Poland	5.6
Spain	4.6	Australia	5.3
Germany	4.5	Spain	5
Australia	4.4	China	4.6
France	3.7	France	4.6
Poland	3.7	Germany	4.2
Nigeria	3.3	Pakistan	3
Pakistan	2.5	Ireland	2.7

Source: NOMIS, origin destination data, 2011 census

3.51 In recent years, Newcastle has established ties with China both from a business and cultural point of view. In 2011 Newcastle University signed an agreement with Xiamen University in China to create a Confucius institute based at Newcastle University, the aim of the institute which opened in 2013, is designed to "build closer academic, cultural, economic and social ties between our region and China"[15]. The aim of creating these partnerships has been summarised by the director of the Confucius institute (Rhys Palmer), stating that, "China is our largest trading partner, our most valuable tourist market, our greatest source of university students and an increasingly important source of investment and resource collaboration". Furthermore, Newcastle has recently introduced an inaugural Newcastle China festival, a 3 day event held in the city each September, designed to showcase the business and cultural relationship.

3.52 A report into the gender and employment of local labour markets identifies the importance of Chinese immigrants to the Newcastle economy[16]. Newcastle has a high proportion of Chinese adults employed in high skilled and high earning jobs. 15% of the Chinese population in Newcastle work as managers and senior officials compared to an 11% average for the population as a whole. Similarly, Newcastle's Chinese population also contains a higher percentage of workers in high skilled trades, 29% of men and 17% of women compared to an average of 11% and 2% for the population.

3.53 Secondly, table 3.6 shows the breakdown of international students studying at UK universities. In 2012, more than two and a half times as many UK students came from China compared to the next highest number originating from India. Furthermore, five times as many Chinese

[15] Confucius Institute, (2013), Newcastle University.
[16] Gender Profile of Newcastle's labour markets, centre for social inclusion

students studied in the UK in 2012, than the highest number from Europe which was Germany. Newcastle is at an advantageous position compared to other city regions in terms of benefiting from the large proportion of Chinese students studying in the UK. Newcastle has a very high proportion of students to residents compared to the national average.

Table 3.6: International students studying at UK universities in 2012

Country	Number of Students studying in the UK 2012
China	78,715
India	39,090
Nigeria	17,585
US	16335
Germany	15,985
Ireland	15,075
Malaysia	14,545

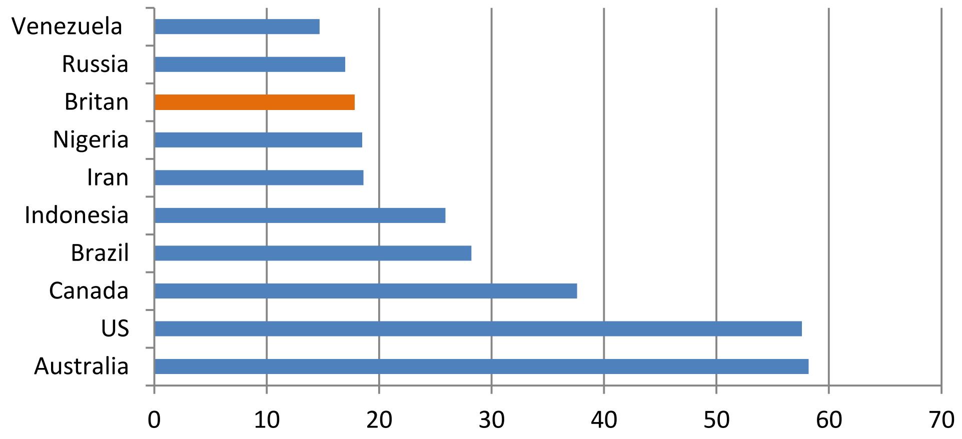
Source: UKCISA[17]

3.54 With China becoming one of the major drivers of global economic growth, Newcastle's established ties with the country will be extremely valuable to the region's economic performance.

3.55 According to the UN conference on trade and development (UNCATD), the UK is one of the most attractive destinations for Chinese investment. China is currently the largest provider of investment into Europe of all four of the BRIC economies and in 2012 the UK was the destination for 22% of total Chinese foreign investment, an increase from 2011[18]. Figures 3.12 and 3.13 show the breakdown of Chinese investment within Europe and on a global context between 2005 to present. The Heritage foundation[19] provides a global tracker on Chinese investments and shows that the majority of Chinese investment in the UK is located in real estate, energy and finance.

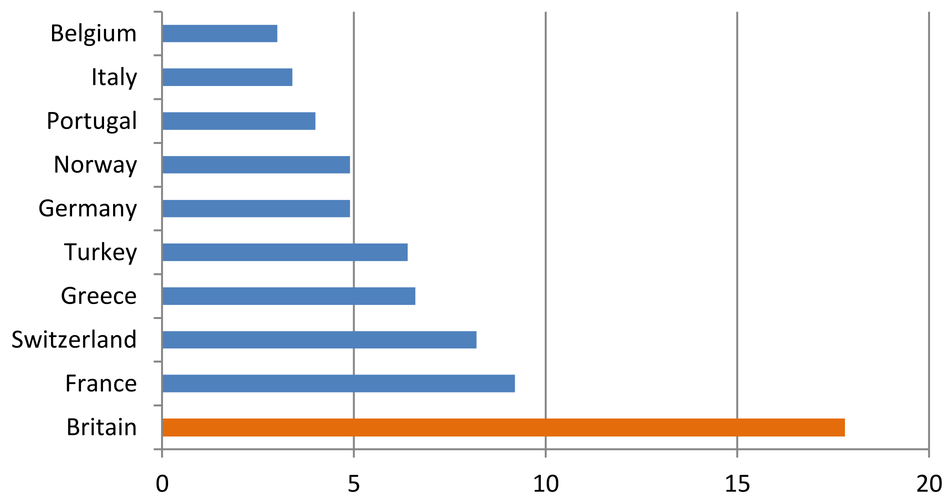
[17] UK council for International Student Affairs
[18] UK attractiveness survey, (2012), Ernst and Young.
[19] The Heritage Foundation, China Global Investment Tracker

Figure 3.12: Top Destinations worldwide for Chinese investment in Europe, 2005- present US$bn's



Source: Heritage Foundation

Figure 3.13: Top destinations for Chinese investment in Europe, 2005 – present US$bn's



Source: Heritage Foundation

3.56 The strengthened ties between China and the North East in recent years are reflective of both the North East's commitment to business sector growth and China's emphasis placed on developing technological and high skilled manufacturing services. The North East is able to offer specific industry specialism in this sector.

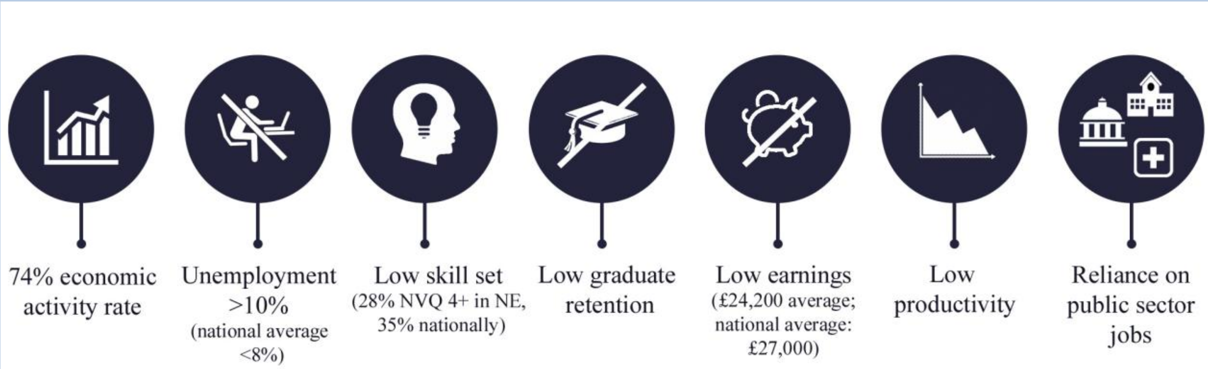
3.57 China is forecast to continue to grow in importance on the global economic stage, and the North East's strong and improving relationship with China could therefore be a very positive element of the region's future growth prospects.

4 North East: Challenges and the Need for Change

Chapter Summary

4.1 The North East is the **worst or 2nd poorest performing region in the UK on many measures of economic** growth. Economic activity is low, and since the recession the gap with the national unemployment rate has risen. Figure 4.1 summarises the region's main economic challenges.

Figure 4.1: Challenges in the North East economy



4.2 The North East's workforce has low skill levels. Over the last ten years, the proportion of skilled workers has remained roughly constant whilst in many other areas it has increased. A report by the OECD indicates that the **North East certainly needs to prioritise attracting skilled workers** to the area and subsequently the number of high level occupations. The NELEP area is under-represented in terms of the highest three occupation levels relative to the average in England, with disproportionally high number of workers in low skilled occupations. The low skill levels result in **low earnings and low productivity**.

4.3 Newcastle University is the North East's most prominent university and frequently performs highly in published rankings. However **graduate retention is low**.

4.4 It is **one of the most deprived areas in the country**. It has experienced some improvement recently, but this challenge remains.

4.5 The region is **over-reliant on the private sector** – private sector employment is low relative to the public sector. Public sector jobs density is similar to the national average, but private sector density is much lower.

4.6 The NEIER identified that **in order to fill the gap with the core city LEP average, it would need to generate an additional 40,000 private sector jobs**. In order to hit the national average it would need to create 58,900 jobs, and in order to match better performing LEP areas, it would need to create up to 72,000 private service sector jobs. This would represent growth of 15%-28%.

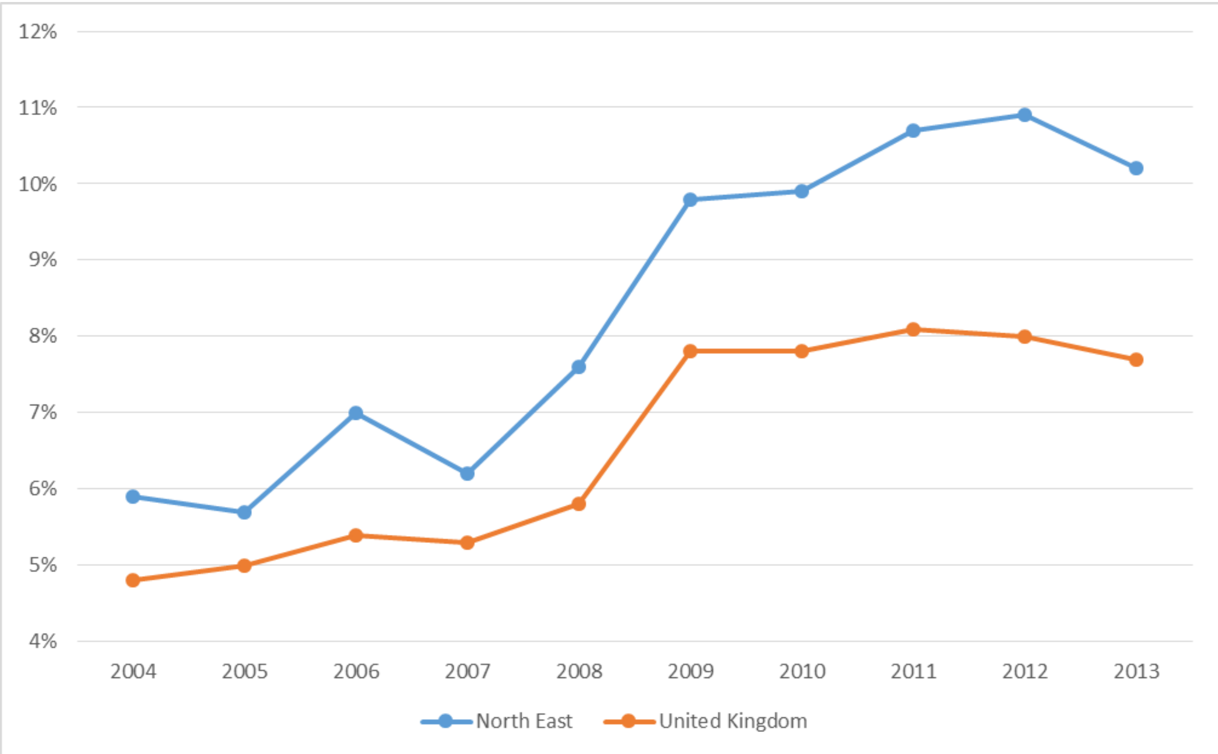
4.7 Comparison with other LEPs shows that the **NELEP falls behind many of the other city regions in its provision of larger and detached housing**.

4.8 The economic review indicates that the North East has some way to go to achieve its economic potential. In order to do this, **it needs to attract and retain higher skilled individuals**, and more productive businesses to locate here. High quality housing is an important factor in enabling this to occur, and **a lack of larger and detached housing has been identified as an issue in this area**.

Unemployment

4.9 The North East has the highest unemployment rate of all regions within the UK, with the rate at 10.2% as of 2013, compared with the national average of 7.7%. The figure below shows that the issue of higher than average unemployment has persisted over time but the gap has widened since the recession.

Figure 4.2: Unemployment rate in the North East & UK



Source: Nomis

4.10 The North East also performs poorly in terms of overall economic activity rates. The table below shows that of the 13 regions within the UK, economic activity in the North East is second lowest at 74%. This means that the North East has a gap of up to six percentage points relative to other regions in terms of economic activity, and is three percentage points behind the UK average.

Table 4.1: Economic activity rate by region, 2013

Region	Economic activity rate
East	80%
South East	80%
South West	79%
East Midlands	78%
United Kingdom	77%
Scotland	77%
Yorkshire & The Humber	77%
London	77%
West Midlands	76%
North West	75%
Wales	75%
North East	74%
Northern Ireland	73%

Source: Nomis

Job creation

4.11 This does, however, mask the fact that in the last growth cycle (1998 – 2008), the economy of the NELEP area added a similar or larger proportion of jobs relative to many other core city LEP areas. This is shown in the table below. Compared to many of the other city LEPs the North East was relatively resilient during the economic downturn that followed, with employment[20] between 2009 and 2012 declining by less than the city LEPs that had previously had faster growth levels.

[20] NB due to data availability, a different source is used for the two time periods (1998-2008 and 2009-12).

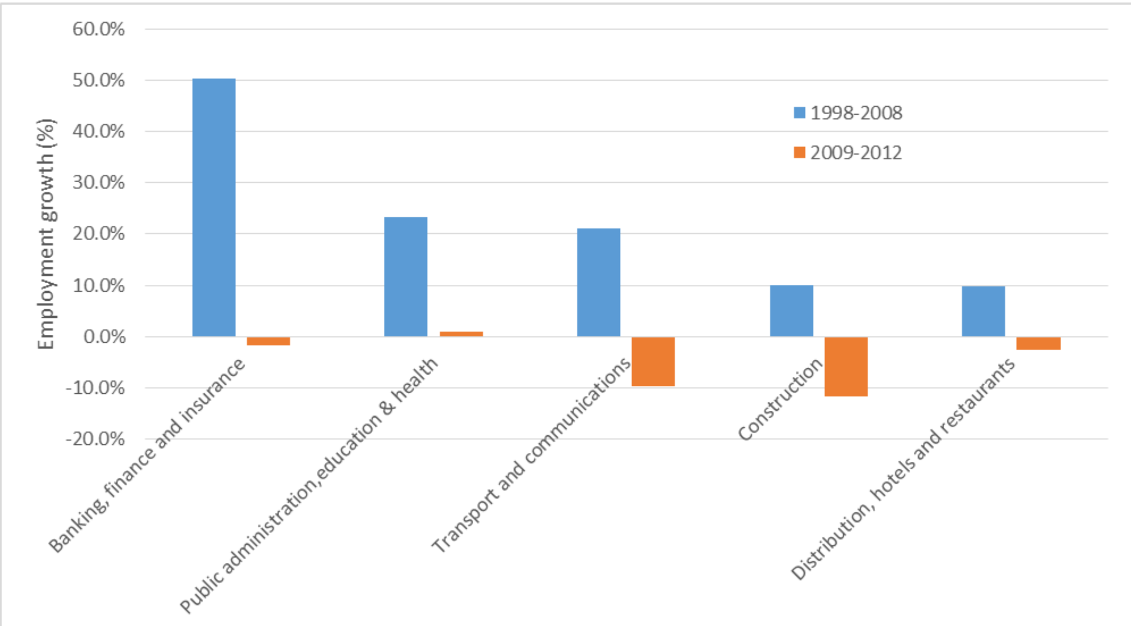
Table 4.2: Employment change in LEP areas, 1998 – 2008 and 2009-12

	Employment % change	
	1998 - 2008	2009-12
West of England[21]	16%	-4%
Leeds City Region	9%	-3%
Sheffield City Region	9%	-3%
North Eastern	9%	-1%
Greater Manchester	8%	-1%
Liverpool City Region	6%	0%
Greater Birmingham and Solihull	3%	2%

Source: Annual Business Inquiry (1998 – 2008) / BRES (2009 – 12)

4.12 As shown in the figure below, a number of sectors performed particularly strongly between 1998 and 2008 in terms of jobs growth including banking, finance and insurance, public administration and transport and communications. Whilst there was a decline in employment in these sectors between 2009 and 2012, with the exception of Construction, this did not negate the growth that has previously been created.

Figure 4.3: NELEP sectors with net employment growth 1998-2008, and comparison with 2009-12 growth rate



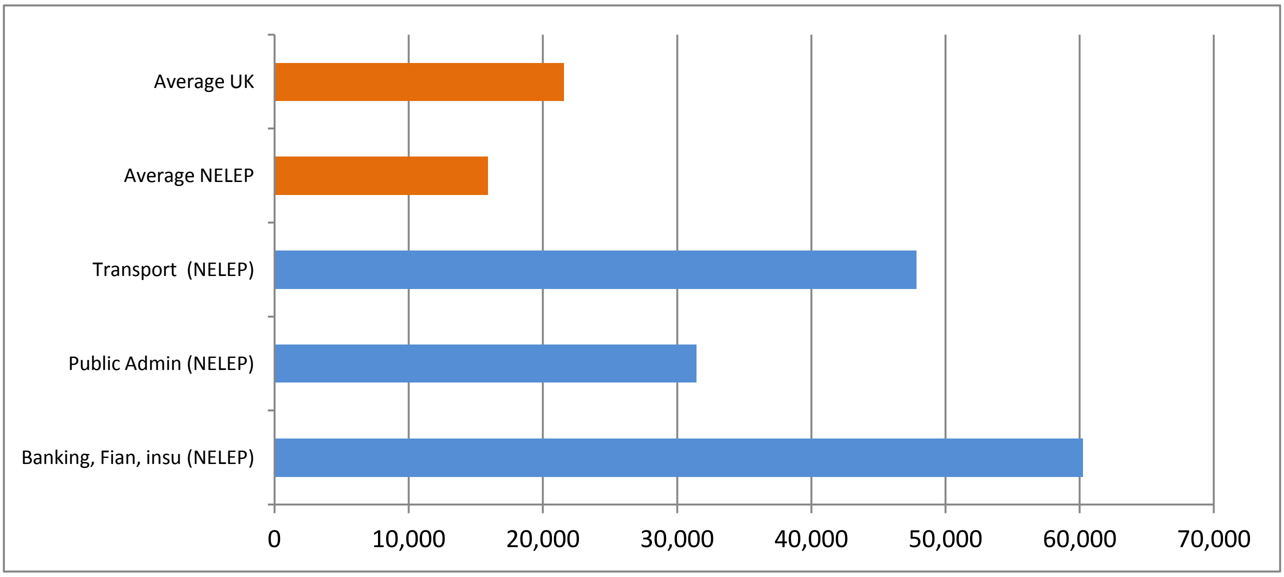
Source: ABI (1998-2008); BRES (2009-12)

21 The West of England LEP includes the Local Authorities of Bristol, Bath & North East Somerset, North Somerset and South Gloucestershire.

4.13 Employment growth in the NELEP area in a number of key sectors such as banking, finance and insurance exceeded the other core city LEPs between 1998 and 2008, although most of the other city LEPs continued to grow this sector between 2009 and 2012 whilst the NE declined by 2%. Also, the NE started from a much lower base and hence has scope to increase further in absolute terms.

4.14 In addition, the sectors where the NELEP has shown particularly strong growth also generate particularly high GVA per worker compared to other sectors (see figure 4.4). By encouraging growth in these high value sectors, it will likely result in a positive effect on general productivity levels in the NELEP.

Figure 4.4: Average GVA per worker by sector in 2011



Source: NOMIS (BREZ data)

Active Businesses

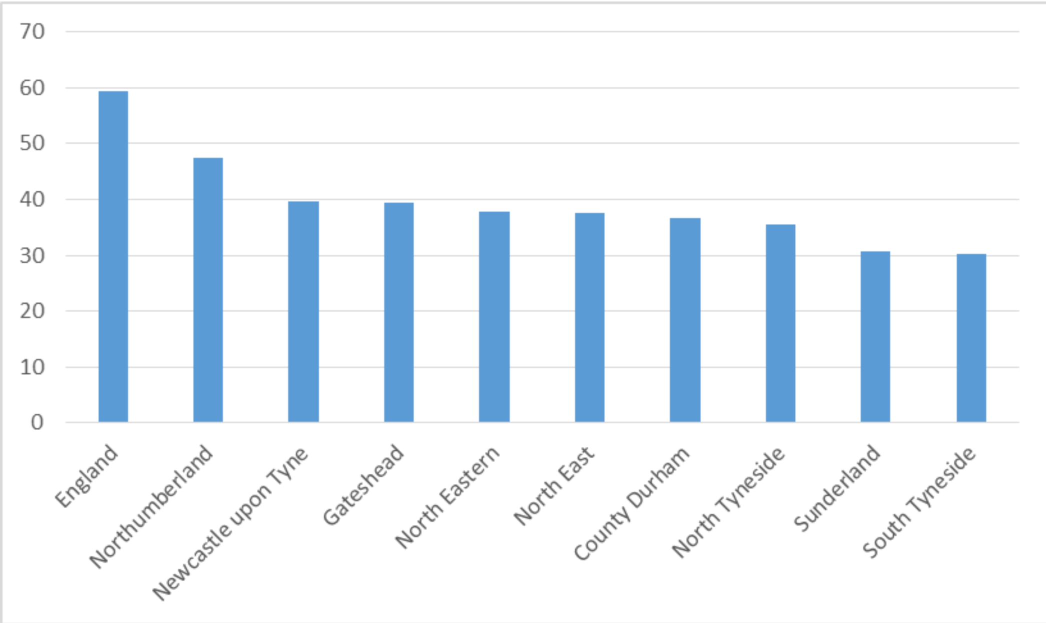
4.15 In terms of its business base, there is a mixed picture for the North East. At the time of the NEIER[22], the NELEP area had 47,400 active businesses, an increase of 4,000 compared to 2004 albeit below its 2009 peak. Annual business start-up rates in the NELEP area, as a proportion of the total active business base, have been very similar to that for England overall since 2004.

4.16 As of 2011 there were, however, only 38 businesses per 1,000 working age residents in the NELEP area, compared with a national average of 60 – to get nearer to the national average, the business start-up rate of the NELEP area would need to increase by about 50% on average. This figure varies by local authority, as shown in the figure below, with Northumberland in particular having a higher average business density than the rest of the area. This supports a finding we go on to discuss further in section 5 – that wealthier residents support more local economic opportunities as they spend more in the local area.

[22] North East Independent Economic Review, (2013), North East Local Partnership

4.17 In order to get closer to the national average business density level, the region requires a significant number of additional businesses – around 27,000 according to the NEIER[23].

Figure 4.5: Business density 2011, businesses per 1,000 working-age residents



Source: Business Demography / mid-year population estimates, ONS

4.18 Business creation is very important to a regional economy on several counts. Firstly, it generates employment in the region, 99.9% of total private sector businesses in the UK are SMEs employing around 60% of total private sector workers[24]. Whilst accounting for many new firms going out of business each year, the number of new businesses being generated is very important to a region's employment. This is particularly true in the North East where attempts are being made to increase the proportion of private sector workers. Secondly, in most cases, each new business only employs a very small number of workers; invariably these are high skilled workers with above average level of qualifications and highly productive. The third benefit, which is relevant to the North East economy is that business creation can aid in increasing private sector job density.

Deprivation

4.19 Levels of deprivation are measured using Communities and Local Government's Indices of Multiple Deprivation (IMD). This divides England into 32,482 'Lower Layer Super Output Areas' (LSOAs), a detailed level of geographic split. Each LSOA is then scored on a number of categories of deprivation and an overall ranking produced.

4.20 The table below shows how many LSOAs there are in total in each region, and the number that were in the most deprived 20% of LSOAs in 2007 and 2010, the two most recent years for which data is available.

[23] It is acknowledged in the NEIER that many of these new starts would be relatively small in terms of employment numbers.
[24] Business Population estimates, (2013), Department for Business Innovation and Skills

4.21 It shows that the North East has a disproportionately high number of areas that are in the most deprived nationally. Around one third of the North East's LSOAs are in the 20% most deprived, the highest of any region. The absolute number did however decrease slightly between 2007 and 2010, indicating a slight improvement during that time period.

Table 4.3: Deprivation by English region

Region	2007		2010	
	Number of LSOAs in 20% most deprived	As a proportion of total regional LSOAs	Number of LSOAs in 20% most deprived	As a proportion of total regional LSOAs
North East	566	34%	541	33%
North West	1,420	32%	1,425	32%
West Midlands	951	27%	971	28%
Yorkshire and The Humber	907	28%	916	28%
London	1,351	28%	1,250	26%
East Midlands	460	17%	458	17%
South West	300	9%	291	9%
East of England	223	6%	267	8%
South East	318	6%	377	7%

Source: Communities and Local Government

Skill level

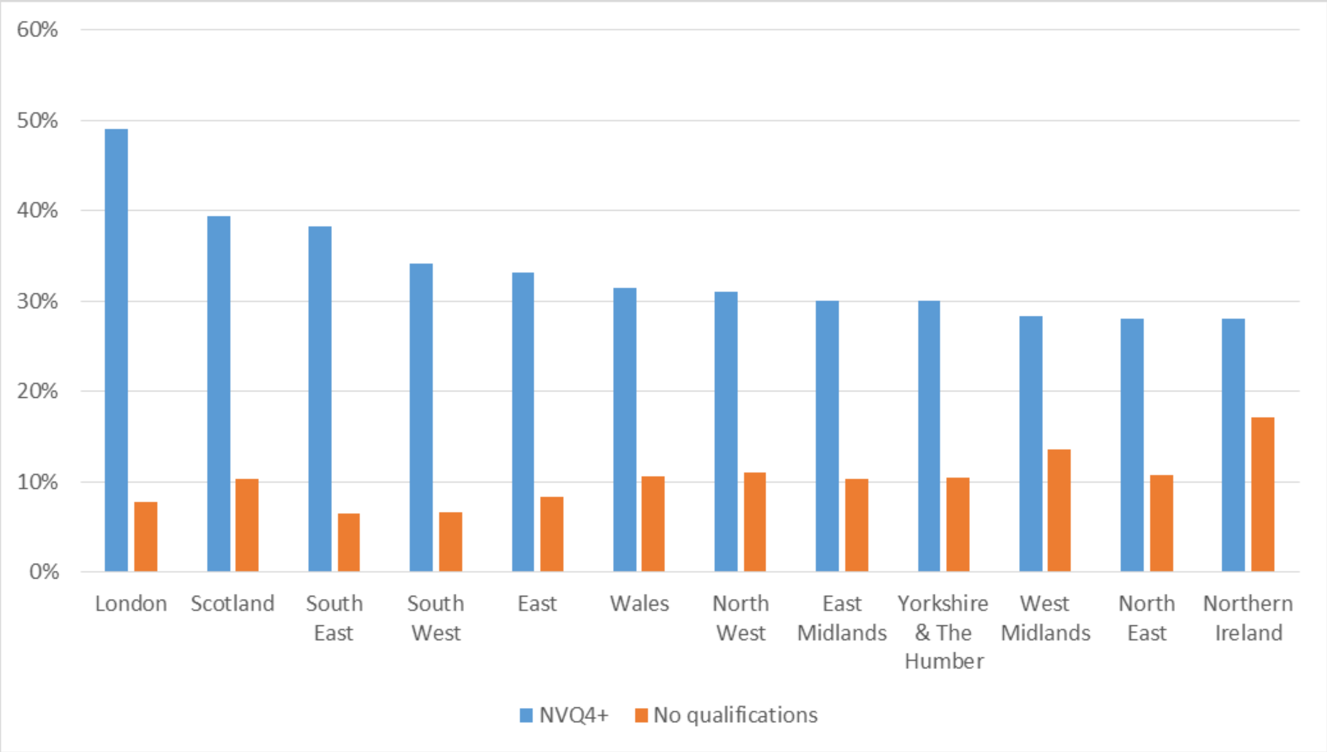
4.22 The region's inability to attract and retain skilled workers also appears to be an issue. The review[25] of Newcastle and the North East that was undertaken by the OECD stated that:

"Ensuring that the region has a work force with adaptable and necessary skills for business is key to facilitating structural adjustment in the economy and, in the longer run, will support growth in productivity and real earnings"

4.23 At present, the region appears to perform poorly in terms of having a skilled workforce. As shown in the chart below, the North East is the joint lowest region in terms of the proportion of residents with qualification levels at NVQ4 or higher (this qualification category includes degree level qualifications and above, which includes professional qualifications such as nursing and accounting). The North East region also has a relatively high proportion of residents with no qualifications.

[25] OECD (2006), *OECD Territorial Reviews: Newcastle in the North East, the United Kingdom*

Figure 4.6: Proportion of residents with high qualification level[26] / no qualifications, 2013



Source: Nomis

4.24 Over the last ten years, the proportion of skilled workers has remained roughly constant whilst in many other areas, the number of skilled workers has increased. Our analysis and the report issued by the OECD, indicates that the North East certainly needs to prioritise attracting skilled workers to the area and subsequently increasing the number of high level occupations. Several relationships between the level of skilled workers and earnings/output are made later in the report, showing the impact that this occupation group have to the economy, but from the

[26] The highest level of qualification are defined as follows:

- None = no qualifications;
- Level 1 = 1-4 O Levels / CSE / GCSE (any grades), Entry Level, Foundation Diploma, NVQ Level 1, Foundation GNVQ, Basic/Essential Skills;
- Level 2 = 5+ O Level (Passes) / CSEs (Grade 1) / GCSEs (Grades A*-C), School Certificate, 1 A Level / 2-3 AS Levels / VCEs, Intermediate / Higher Diploma, Welsh Baccalaureate Intermediate Diploma, NVQ Level 2, Intermediate GNVQ, City & Guilds Craft, BTEC First / General Diploma, RSA Diploma;
- Apprenticeship;
- Level 3 = 2+ A Levels / VCEs, 4+ AS Levels, High School Certificate, Progression / Advanced Diploma, Welsh Baccalaureate Advanced Diploma, NVQ Level 3, Advanced GNVQ, City & Guilds Advanced Craft, ONC, OND, BTEC National, RSA Advanced Diploma
- Level 4 & above: Degree (for example BA, BSc), High Degree (for example MA, PhD, PGCE), NVQ Level 4-5, HNC, HND, RSA Higher Diploma, BTEC Higher level, Foundation degree (NI), Professional qualifications (for example teaching, nursing, accountancy);
- Other qualifications: Vocational / Work-related Qualifications, Foreign Qualifications (not stated / level unknown).

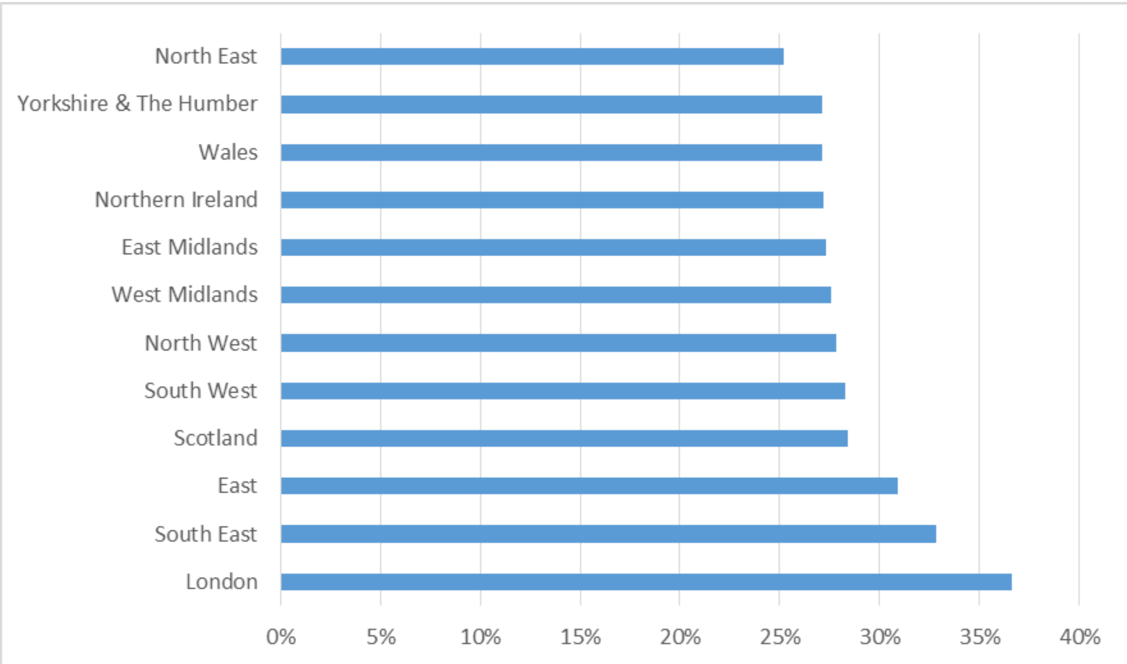
analysis above, there is certainly a need to encourage a greater proportion of private sector workers in the NELEP .

Occupation Profile

4.25 The low proportion of skilled workers feeds through into the occupation profile in the region. The chart below shows the proportion of residents within each region that work in either a managerial/directorial or professional occupation. These are the two highest of the nine occupation levels in the Nomis dataset that covers all employment by occupation.

4.26 The chart shows that the North East has the lowest proportion of workers in high level occupations of all regions across the UK, with only 25%; more prosperous regions in the East and South East of England have at least 30%. This feature of the economy has persisted over time, with the proportion of North East residents in high level occupations remaining broadly constant over the past ten years.

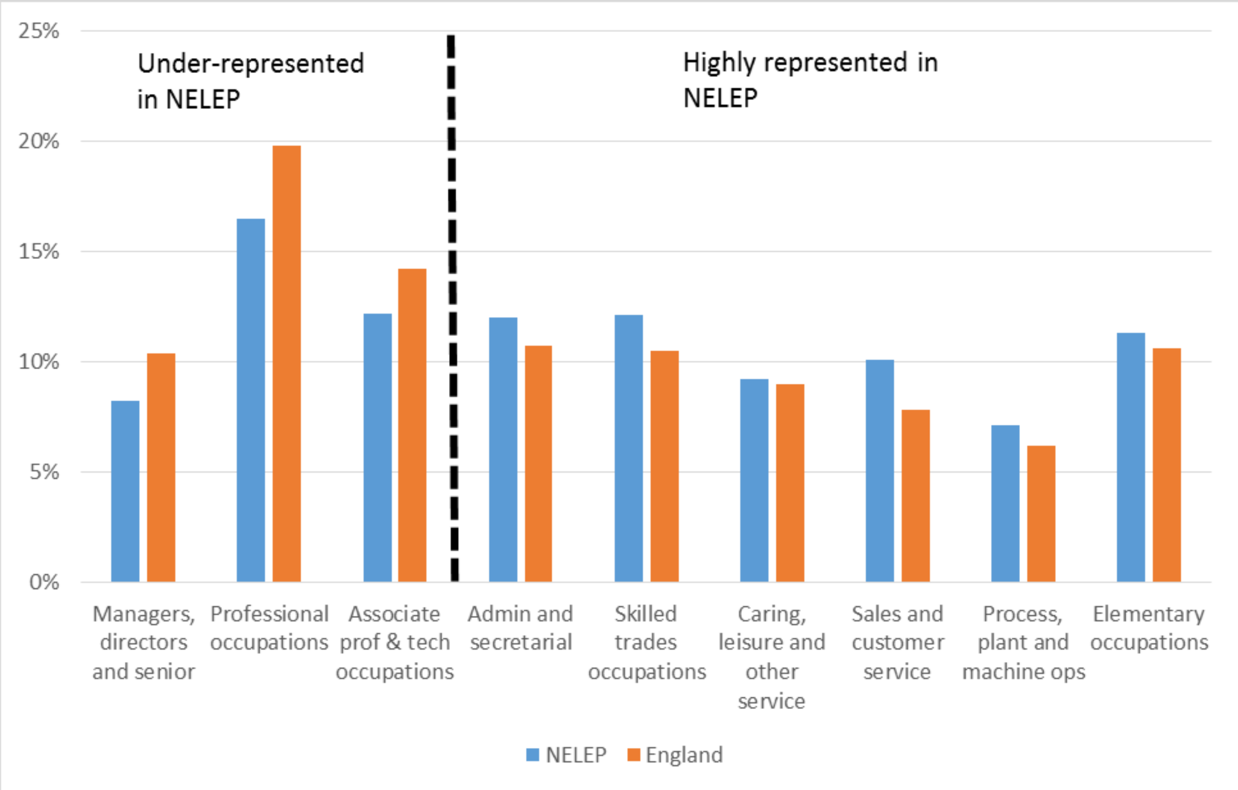
Figure 4.7: Proportion of employed residents in managerial and professional occupations, 2013



Source: Nomis

4.27 A further analysis of all occupation levels highlights the same problem. The figure below shows that the NELEP area is under-represented in terms of the highest three occupation levels relative to the average in England, with a disproportionately high number of workers in lower skilled occupations.

Figure 4.8: Occupational profile of the NELEP area, 2013



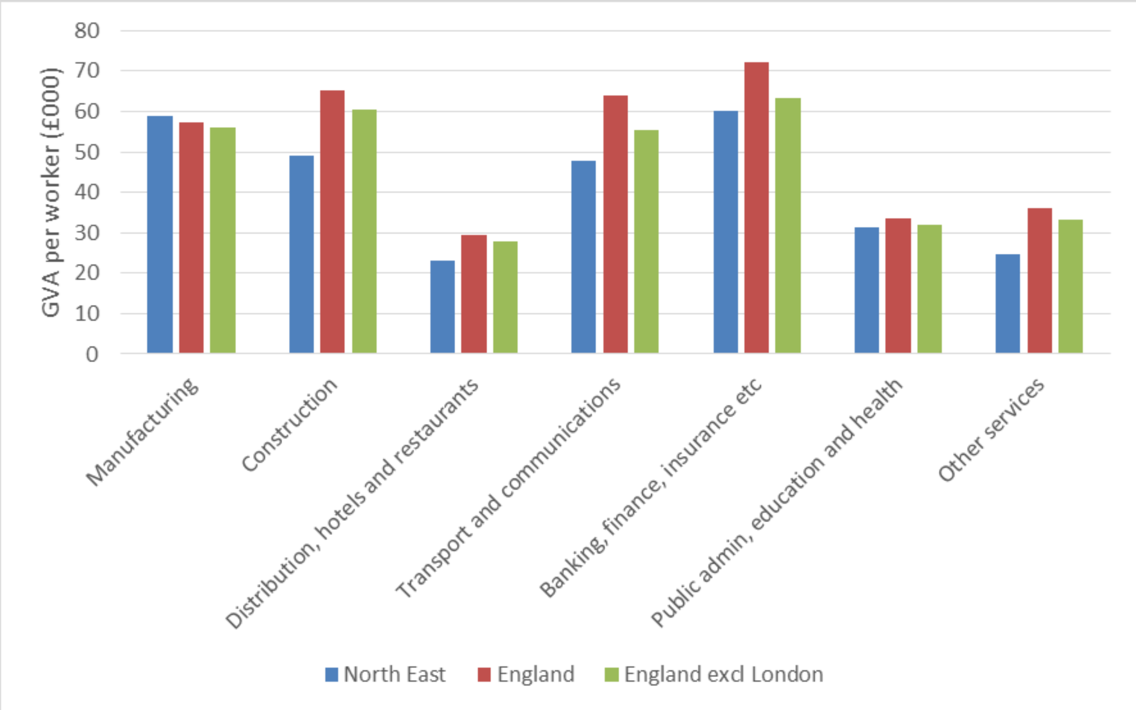
Source: APS; Nomis

Productivity

4.28 A consequence of the low skills levels and low representation of senior occupations within the region is that average productivity is also relatively low. The figure below shows the level of productivity for different sectors within the North East, compared with the national average. It shows that the North East performs well in manufacturing, but few other sectors are particularly close to the national average, and for high value sectors such as financial services the North East lags well behind (albeit to a lesser extent if London is excluded).

4.29 Another reason for overall productivity being low is the high public sector jobs density relative to the private sector, as discussed above. This accentuates the need for private sector-led growth in the future, figure 4.9 highlighting the most productive job sectors in terms of GVA per head.

Figure 4.9: GVA per worker, 2011



Source: Regional Accounts and Business Register and Employment Survey

Earnings

4.30 Income earnings in the North East are relatively low, which can be seen as being a direct consequence of low average skill levels and productivity. The table below shows the median level of earnings for full time workers. Median earnings in the North East are around 10% below the UK average, and below all regions except for Northern Ireland.

Table 4.4: Median full-time earnings by region, 2013

Region	Annual gross earnings (£)
London	32,800
South East	29,732
East	28,323
UK average	27,017
Scotland	26,456
South West	25,632
East Midlands	25,399
West Midlands	25,359
North West	25,300
Yorkshire and the Humber	24,982
Wales	24,482
North East	24,229
Northern Ireland	24,000

Source: Annual Survey of Hourly Earnings

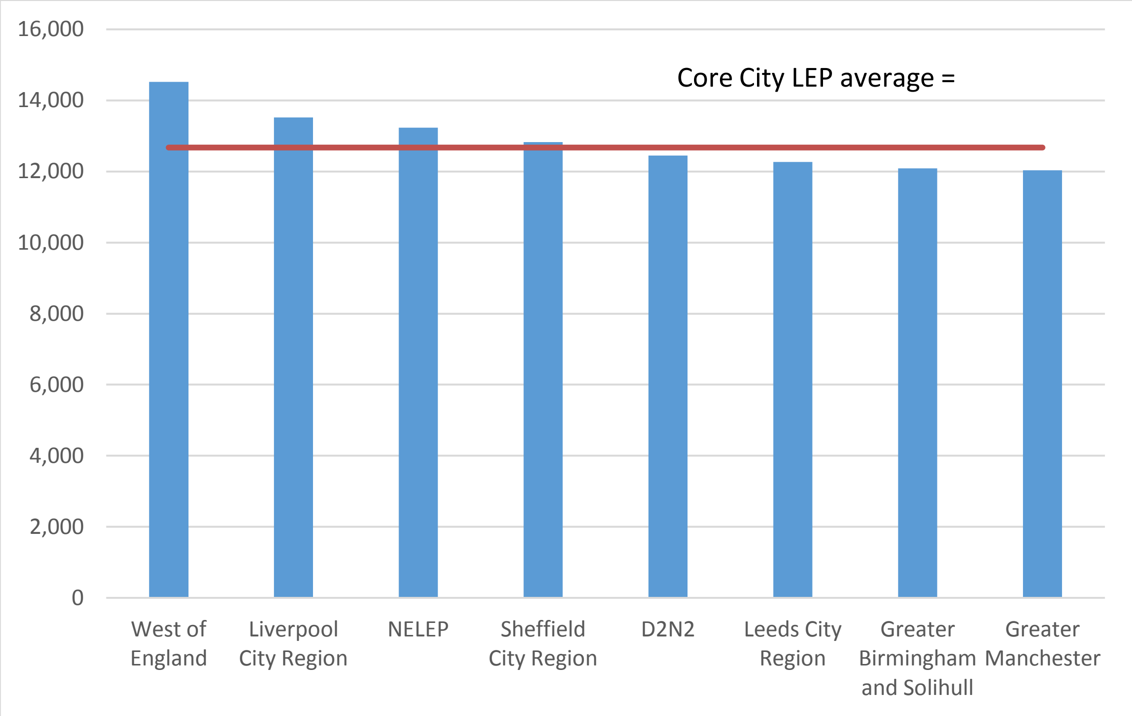
4.31 Although earnings growth in the North East has improved slightly recently, there is still much ground for the region to make up, this is again linked to the proportion of skilled workers and people in high level occupations. These relationships create a running theme throughout the economic review of the North East economy that addressing the current lack of skills and productivity of the work force is vital in order to boost the North East's level of prosperity.

Public/private sector balance

4.32 A key area of weakness for the NE economy lies in the balance between public and private sector employment, with too much reliance on the former. The two figures below show the jobs density for Ponteland and LEP areas for public and private sector jobs respectively – that is, the number of jobs per 100,000 residents. The NELEP area is not dissimilar from the core city LEP average, with the 3rd highest public sector jobs density out of the areas we have looked at. The figure for Ponteland is measured in terms of the people that live in the area rather than the composition that work in Ponteland. Comparatively, it has the lowest public sector job density, considerably lower than the core city average. Figure 4.11 shows the private sector job density for core city regions and Ponteland. Whilst Ponteland is marginally below the average, the NELEP has one of the lowest private sector job density figures of all of the core city regions.

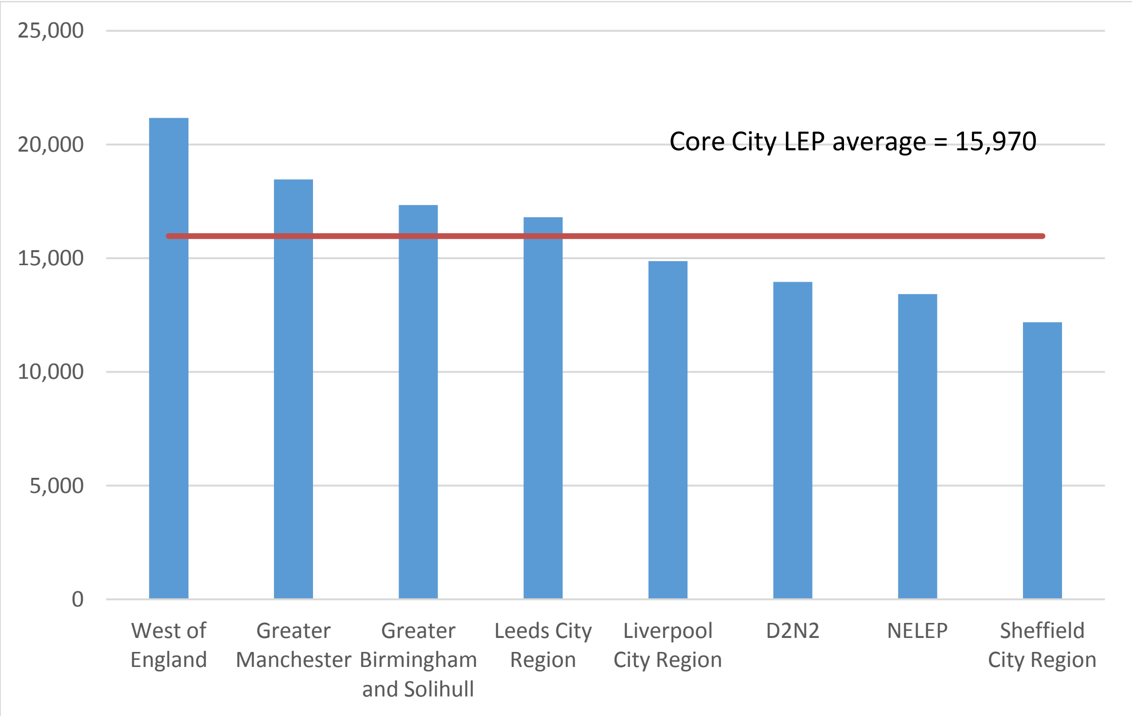
4.33 Firstly, these two graphs show the disproportionate number of public sector workers in the NELEP but secondly, shows that Ponteland is an exception to the general pattern for the NELEP, in that it has low level of public sector job density.

Figure 4.10: Public service sector job density of core city LEP areas and Ponteland, 2012



Source: Nomis (Mid-year population survey / BRES)

Figure 4.11: Private Service sector job density of core city LEP areas and Ponteland, 2012



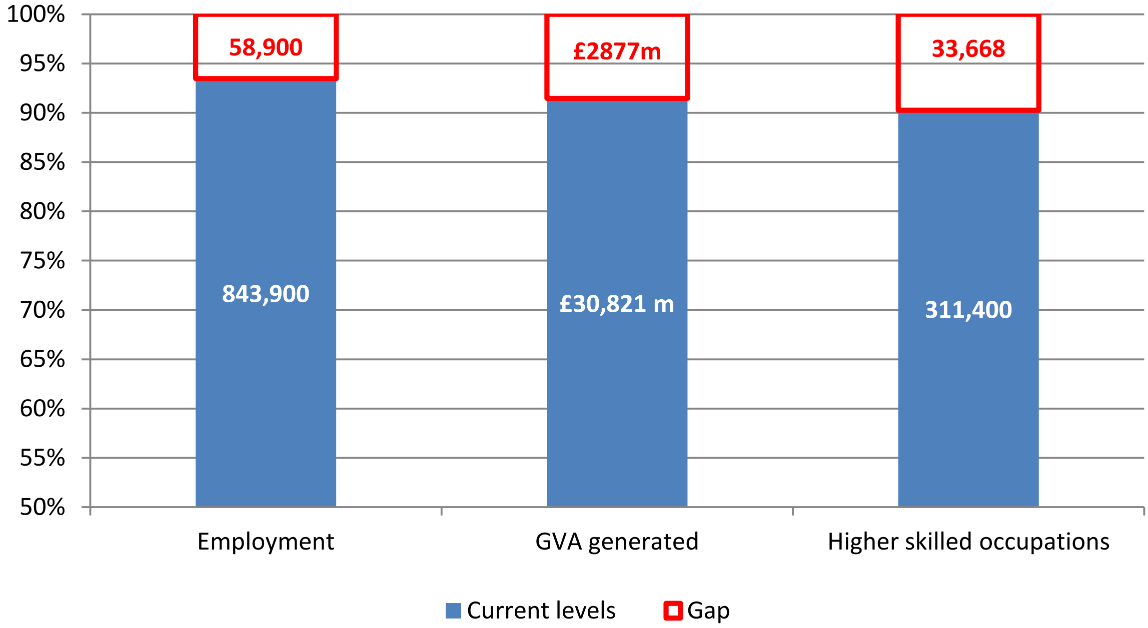
Source: Nomis (Mid-year population survey / BRES

The need to close the gap

4.34 The North East Independent Economic Review[27] (NEIER) of April 2013 analysed the growth that would be required for the North East in order to close the gap with the core city LEP average. This indicated that an additional 40,000 private service sector jobs would be required in the NELEP area in order to match the core city LEP average. To match the national average, an additional 58,900 private service sector jobs would be required. In order to match the likes of the Greater Manchester, Greater Birmingham and Leeds City Region LEPs, which are some of the better performing LEP areas, an additional 58-72,000 private service sector jobs would be required in the NELEP area. This would represent growth in the private service sector economy of 15%-28%.

4.35 This indicates that the North East in general still has some way to go in order to reach its economic potential. The figure below shows the size of the gap estimated by the NEIER for employment, GVA and high skilled jobs relative to the national average.

Figure 4.12: NELEP area: gap with the national average*



**excl London, source: North East Independent Economic Review*

4.36 Compared to other parts of the country, the North east region suffers from very high unemployment. However whilst this is the case, Northumberland and other NELEP areas are extremely important to the city of Newcastle and to the North East in general in terms of supplying jobs. We have also established that currently there is an over reliance in the region on the public sector and it is therefore important to encourage the correct type of employment that would be most beneficial to the economy.

[27] Adonis, A. et al (April 2013), *North East Independent Economic Review Report*, commissioned by the North East Local Enterprise Partnership

The need for more detached housing stock

4.37 The table below shows the proportion of the housing stock that is made up of detached houses, for eight core city regions. This shows that the North East LEP area falls behind many of the other city regions in its provision of this type of housing.

Table 4.5: Detached houses as proportion of total housing stock, 2011

City region	Proportion of detached houses
Nottingham City Region	28.5%
Sheffield City Region LEP	22.6%
Greater Birmingham and Solihull LEP	20.3%
Leeds City Region LEP	19.2%
West of England LEP	18.8%
Average	**18.0%**
North East LEP	14.9%
Greater Manchester LEP	13.6%
Liverpool City Region LEP	13.2%

Source: Census 2011

4.38 The next table presents data showing the proportion of houses with five or more bedrooms. Again, this shows that the North East LEP area lags behind other city regions in its provision of the type of high quality housing stock that is demonstrably needed to attract skilled workers.

Table 4.6: Houses with 5 or more bedrooms as proportion of total housing stock, 2011

City region	Proportion of 5+ bedroom houses
West of England LEP	5.1%
Greater Birmingham and Solihull LEP	4.3%
Nottingham City Region	4.2%
Leeds City Region LEP	4.2%
Average	**3.8%**
Liverpool City Region LEP	3.5%
North East LEP	3.4%
Sheffield City Region LEP	3.3%
Greater Manchester LEP	3.1%

Source: Census 2011

5 The economic case for high quality homes

Chapter Summary

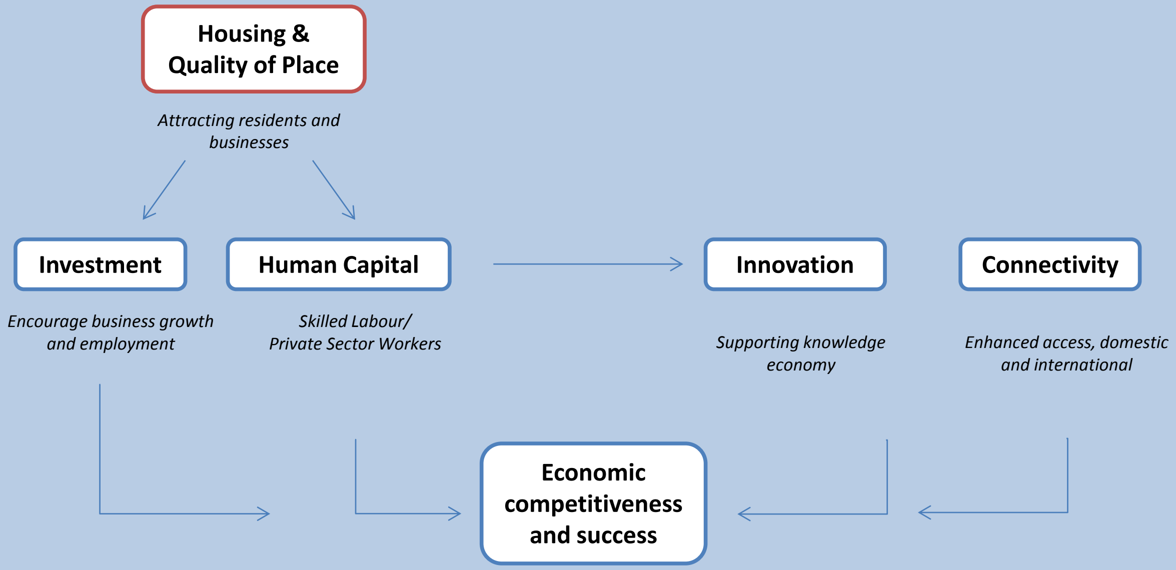
5.1 In order to achieve the kinds of economic growth discussed and to narrow the gap with the national average and better performing LEPs, **the region needs to attract innovative industries and innovative people who are beneficial to the economy**, to locate here.

5.2 Higher skilled workers are crucial to a region's productivity and growth – there is **clear evidence of a strong positive link between stock of high quality housing and economic performance**.

5.3 In addition, these people spend more and therefore support more local jobs and regional jobs.

5.4 **A significant factor in attracting these people is about having the right housing and quality of life**. Good quality housing is therefore crucial. The flow diagram below summarises these relationships and the importance of housing in facilitating economic growth.

Figure 5.1: Contribution of Housing to Economic Success



5.5 A recent IPPR paper on the role of housing in rebalancing the economy found evidence that "***in the north east, some employers have complained that a lack of high-end housing has made it difficult to attract the most senior staff.***" More generally it finds that housing can have a long term impact on the perceived competitiveness of areas. **Housing can have an important role in relation to the attractiveness of an area** - both for workers but also for investment more widely.

5.6 Whilst studies have struggled to clearly quantify the explicit impact of housing, DTZ found that "***while high quality housing alone may not be enough to attract significant inward investment, a lack of high quality housing may preclude it.***" Northern Way research arrived at a similar conclusion, that although housing only operated as a 'second tier driver', the residential and quality of life offer in northern city regions would be a significant factor in enabling or inhibiting future economic opportunities for the north of England.

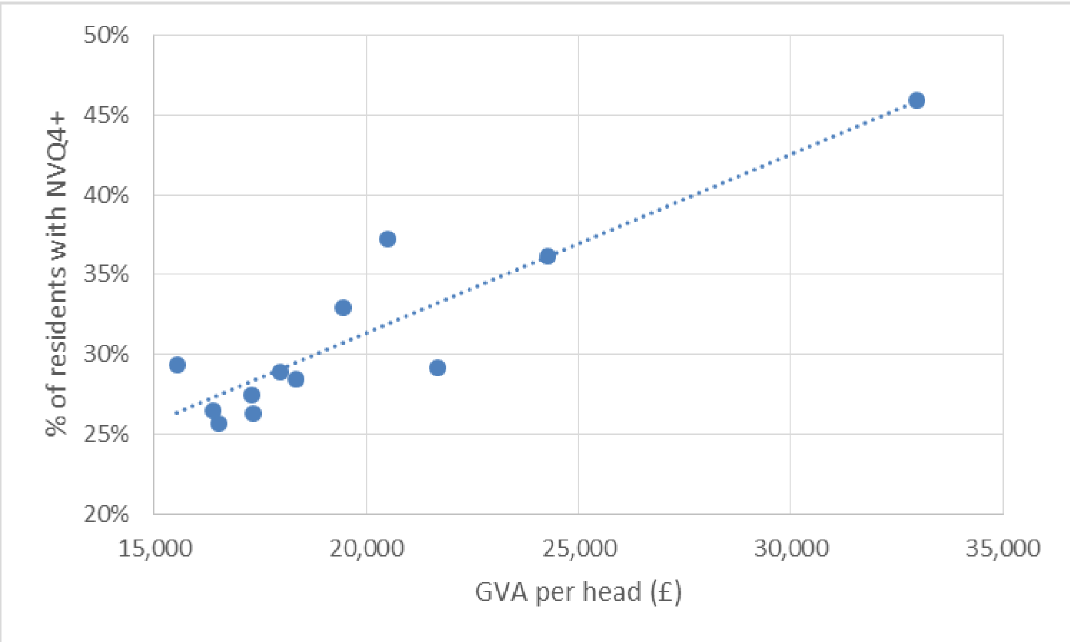
5.7 Both the theoretical evidence and the data analysis shows that **it is important to provide a sufficient stock of high end housing in order to attract people with the skills necessary** to work in high value occupations.

5.8 The development at BHF provides a natural extension to Darras Hall, whose residents already make a strong contribution towards economic growth. **BHF can therefore play an important role in the region, providing good quality homes, of exemplar design quality, where people want to live, and attracting people to stay in the area** and run their businesses in Newcastle, employing others and supporting economic growth.

Higher skilled workers increase a region's productivity

5.9 It is vital for an area to have highly skilled workers in order to maximise its economic potential. The more skilled workers an area has, the higher the level of output per head. This is represented in figure 5.2 below, which plots the proportion of highly skilled residents (those with NVQ4 or higher) against residence-based Gross Value Added per head. This uses regional data as it is the only geographic level at which residence-based GVA per head is published.

Figure 5.2: Relationship between skills and GVA per head, 2011

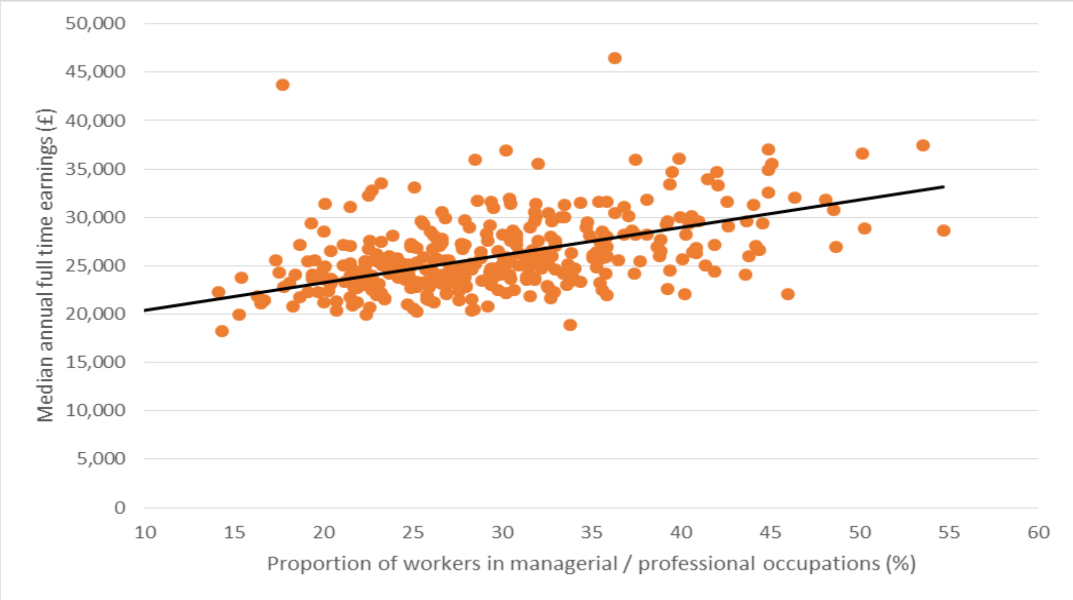


Source: ONS

5.10 The figure below shows the relationship between occupation and earnings at a district level throughout the UK. It uses data from the Office for National Statistics (ONS) on the proportion of workers who are in managerial or professional occupations – the two highest of the nine job levels that are used in the data set. This is compared with median full time earnings from the Annual Survey of Hours and Earnings (ASHE).

5.11 The chart shows that there is a positive relationship between the proportion of workers in senior, high-skilled roles and the median level of earnings. This also indicates that attracting highly skilled workers will increase the prosperity of an area.

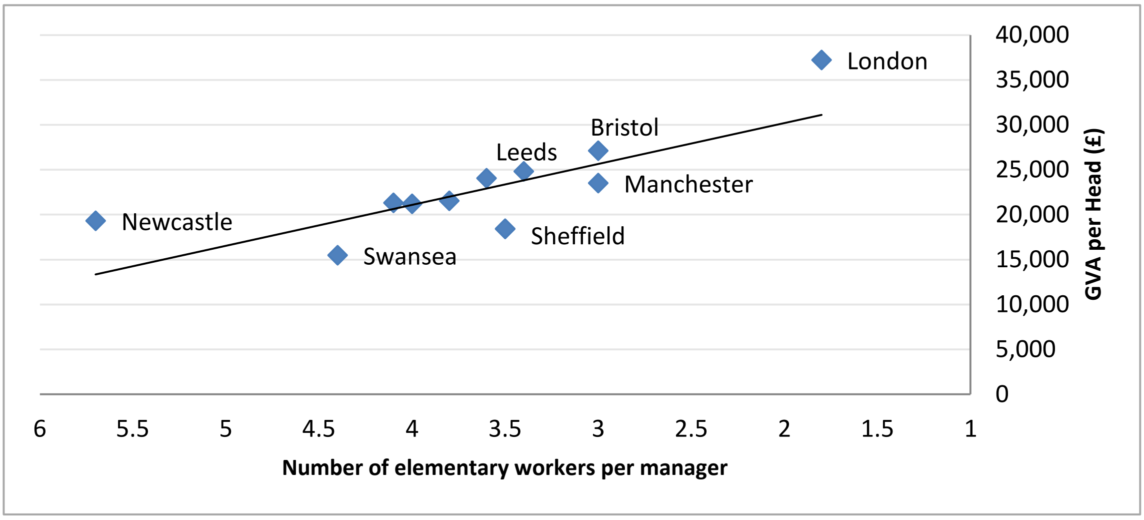
Figure 5.3: Relationship between earnings and proportion of workers in senior positions, 2013



Source: NOMIS / ASHE

5.12 Further analysis also shows that areas with a higher proportion of managers and managerial staff have a higher GVA per head in that particular area. This relationship is graphed in figure 5.4 which plots the ratio of elementary staff to managers against GVA per head in that district. The relationship shows that as the ratio becomes smaller i.e. fewer elementary staff per manager, GVA per head becomes larger. Newcastle has the highest ratio of elementary staff per manager of all of the districts analysed and consequently has one of the lowest GVA per head figures.

Figure 5.4: Relationship between the ratio of elementary workers per manager against GVA



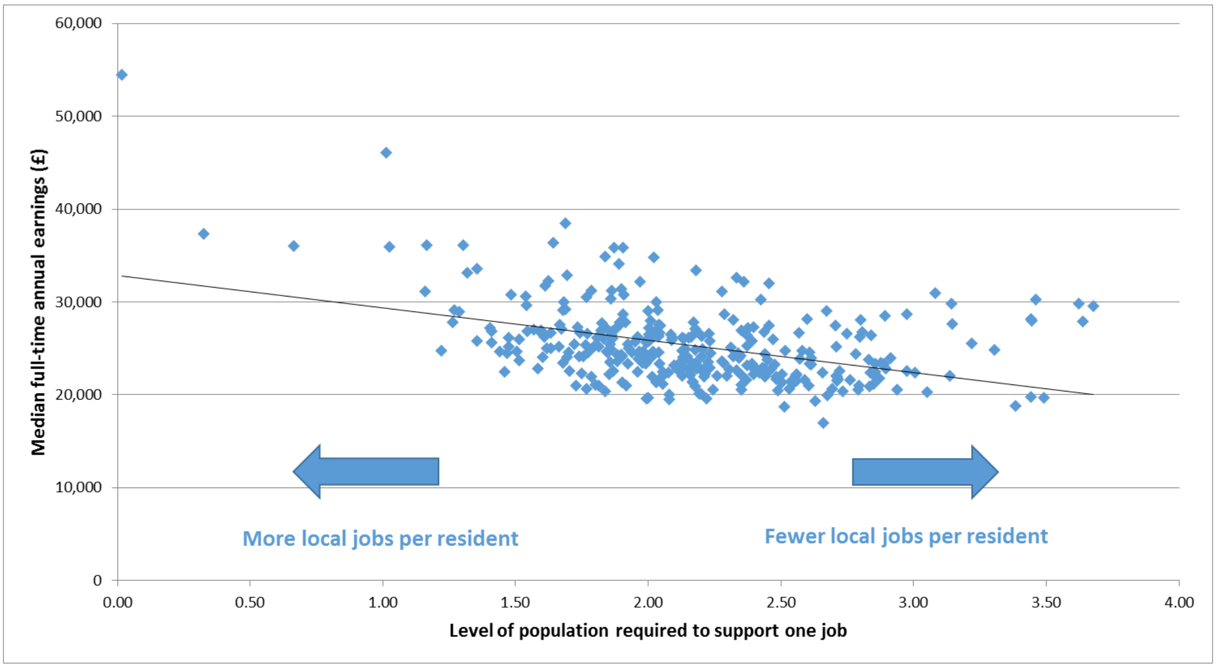
Source: NOMIS/Annual population survey/Labour Force Survey

5.13 Following from this, a further benefit that arises from having residents with a high level of earnings is the number of additional jobs that they support.

5.14 The chart below, using data at a district level for England and Wales, uses the ratio between population and employment – that is, the number of residents required to support one job – and plots it against median full-time earnings. The interpretation is that a lower value on the x axis means that there is a higher number of jobs per resident in that district.

5.15 As can be seen from the chart, there is a negative relationship between earnings and the population: employment ratio. In other words, at higher levels of earnings each resident supports a higher number of jobs.

Figure 5.5: Relationship between median earnings and number of jobs supported per resident



Source: Nomis / ASHE

5.16 It is intuitive that this relationship should exist, since people with higher earnings are likely to spend more, in turn supporting more economic activity which leads to a higher level of employment.

5.17 The relationship between earnings and expenditure can be shown more formally using data from the ONS' Living Costs and Food Survey. This is presented in the table below. It shows, at an average UK point, the level of spending on different expenditure categories for the top two income deciles[28] as well as the median level for all households.

5.18 This shows that the top earners spend substantially more than the average household, particularly on Education and Health (which are likely to reflect costs of private tuition and care), Transport, Restaurants & Hotels and Recreation & Culture.

[28] The top income decile contains the households who earn the highest 10% across the country.

Table 5.1: Expenditure by category for median and highest two deciles

Category of Expenditure	Average weekly household expenditure (£)		
	Second highest decile	Top decile	All households
Food & non-alcoholic drinks	71.90	90.60	56.80
Alcoholic drinks, tobacco & narcotics	15.70	21.20	12.60
Clothing & footwear	38.20	55.80	23.40
Housing(net), fuel & power	73.90	95.70	68.00
Household goods & services	38.80	58.20	28.50
Health	9.40	15.20	6.40
Transport	108.10	152.30	64.10
Communication	18.80	22.40	13.80
Recreation & culture	95.00	141.60	61.50
Education	8.80	32.50	6.80
Restaurants & hotels	64.80	103.40	40.50
Miscellaneous goods & services	56.40	90.00	38.40
Other expenditure items	110.90	179.10	68.30
Total expenditure	**710.70**	**1,058.00**	**489.00**
Gross income	**1,167**	**2,062**	**733**

Source: Living Costs and Food Survey, 2012

Summary – the importance of higher skilled workers to the economy

5.19 The first section of this chapter evaluates the economic benefits of having higher skilled workers in the economy. We have drawn several conclusions. Firstly, there is a positive relationship between the proportion of high skilled roles and median earnings. Secondly, the analysis into the ratio of high skilled workers in certain regions shows that the lower the ratio of elementary workers per manager in the region the higher the GVA. Thirdly, it is true to say that, from Figure 5.5, workers in higher income brackets support a greater number of jobs, evidence to support this from the ONS Expenditure Survey displays how significant higher income earners are to the economy. We can therefore conclude from this analysis that higher skilled workers increase prosperity, increase a region's productivity and create more employment across the country. It is intuitive therefore, to suggest that an area is likely to perform better if it is able to attract these types of workers and this means having the type of housing stock where they want to live.

Attracting Higher Quality Workers to the Region

5.20 Based on the findings so far, the question is, how can the North East attract the type of people in roles that are high in value to the economy? We now move to analyse the relationship between higher skilled workers and higher quality homes.

5.21 Evidence suggests that the quality of housing is a very important factor in people's decision making process.

5.22 The Barker Review of Housing Supply in 2004 detailed the need for continued supply of new homes, finding that lack of housing supply could constrain economic growth, and identifying that the delivery of new homes needs to recognise the range of types of properties demanded, specifically identifying that preferences change and that higher earners desire more space.

5.23 The Institute for Public Policy Research (IPPR) recently published a paper on the role of housing in rebalancing the economy[29]. Among other things, this study found evidence that "*in the north east, some employers have complained that a lack of high-end housing has made it difficult to attract the most senior staff."* More generally it finds that housing can have a long term impact on the perceived competitiveness of areas. Housing can have an important role in relation to the attractiveness of an area – both for workers but also for investment more widely.

5.24 Whilst studies have struggled to clearly quantify the explicit impact of housing, DTZ[30] found that "*while high quality housing alone may not be enough to attract significant inward investment, a lack of high quality housing may preclude it.*" Northern Way research[31] arrived at a similar conclusion, that although housing only operated as a 'second tier driver', the residential and quality of life offer in northern city regions would be a significant factor in enabling or inhibiting future economic opportunities for the north of England.

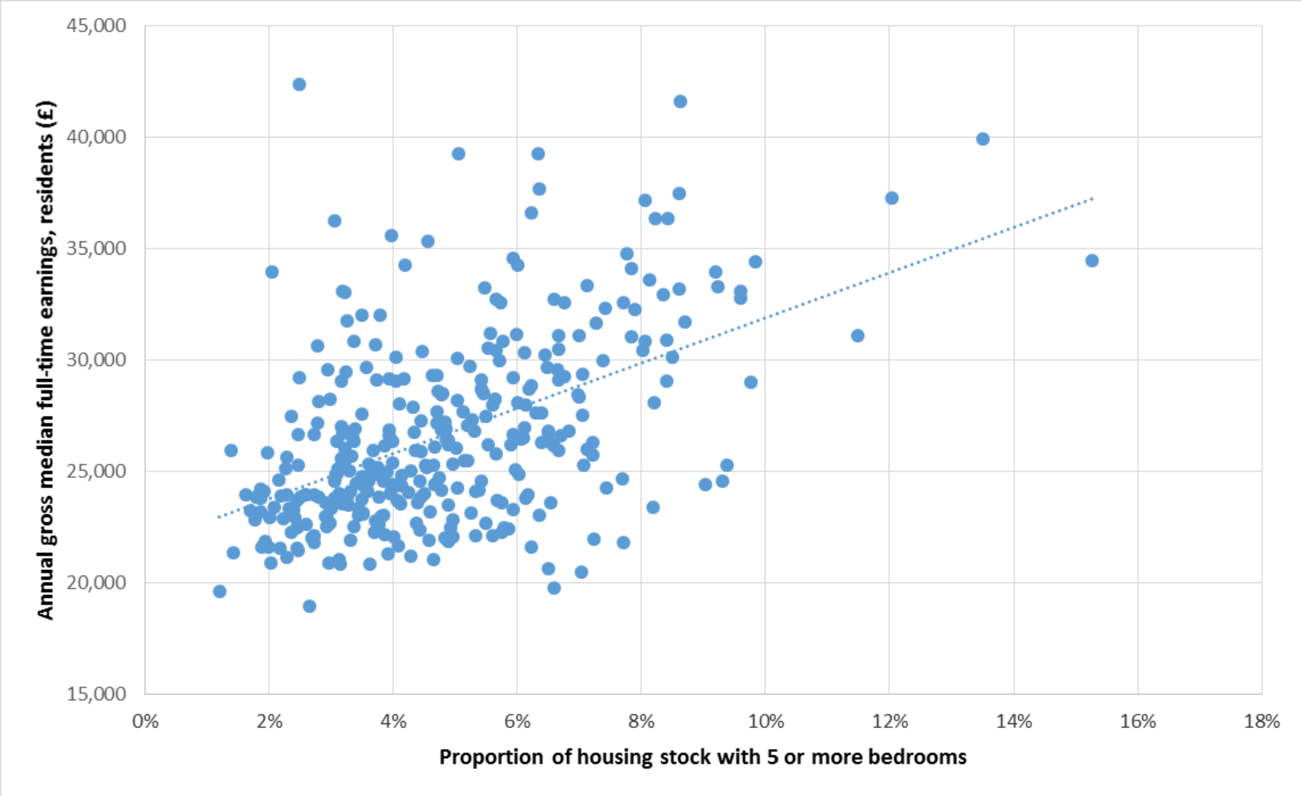
5.25 Furthermore, in December 2014 the North East Chamber of Commerce (NECC) published a report "Solving the Housing Conundrum", which clearly sets out the importance that the NECC places on housing and its contribution towards achieving economic growth. It also details the historic under-delivery of housing in the North East and the constraint this has placed on growth. The report finds that "*our housing offer is intrinsically linked to the North East's ability to attract and retain a skilled workforce, as well as strengthening local communities. Housing supports the delivery of new infrastructure, improves services such as public transport, boosts the funding available for local schools and supports a strong consumer market.*" This study specifically calls for a review of greenbelt policy, and recommends that planning policy must emphasise the importance of and enable the delivery of the full amount of housing sites needed to deliver the housing growth targets.

5.26 The chart below, based on district level data in England and Wales, plots median earnings against the proportion of housing stock that has five or more bedrooms. This is used as a proxy for larger, high value properties.

5.27 It shows that there is a clear, positive relationship between earnings and high end housing. This shows that places with a higher proportion of large properties typically also have higher average earnings.

[29] IPPR: (Ju;ly 2014) Home Economics: The role of housing in rebalancing the economy. The role of housing in economic performance in cities and regions.
[30] DTZ Consulting & Research, (2006): Housing, Economic Development and Productivity: Literature Review, Reading
[31] Llewelyn Davies Yeang, 2006: Quality of Place: The North's Residential Offer Phase IIb: Assessing the North's Current Residential Offer, Tyne and Wear City Region

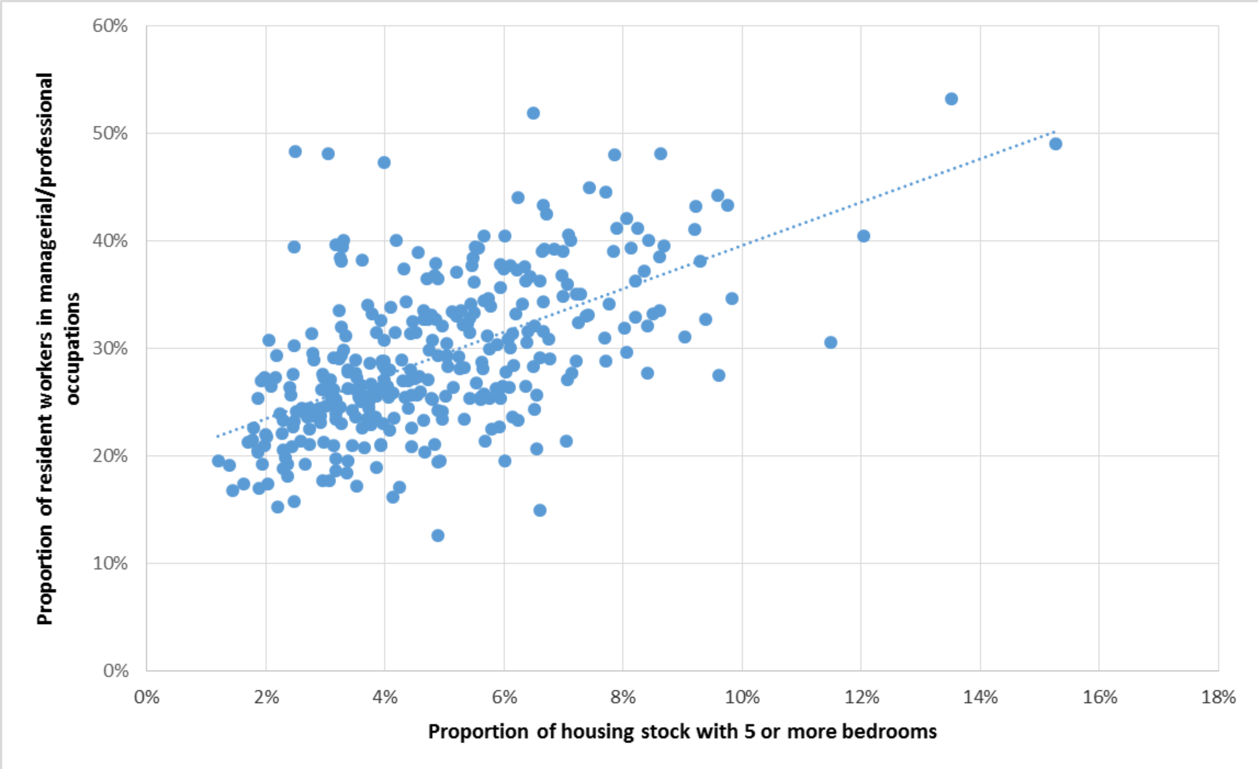
Figure 5.6: Relationship between median earnings and proportion of 5+ bedroom homes



Source: Census 2011 / Annual survey of hourly earnings

5.28 The next chart takes the proportion of 5+ bedroom homes again, and plots it against the proportion of residents in managerial or professional occupations, i.e. higher value jobs. Again, there is a clear positive relationship. This shows that places with higher stocks of large homes typically have more people in higher skilled occupations living there.

Figure 5.7: Relationship between high occupation level of residents and proportion of 5+ bedroom homes

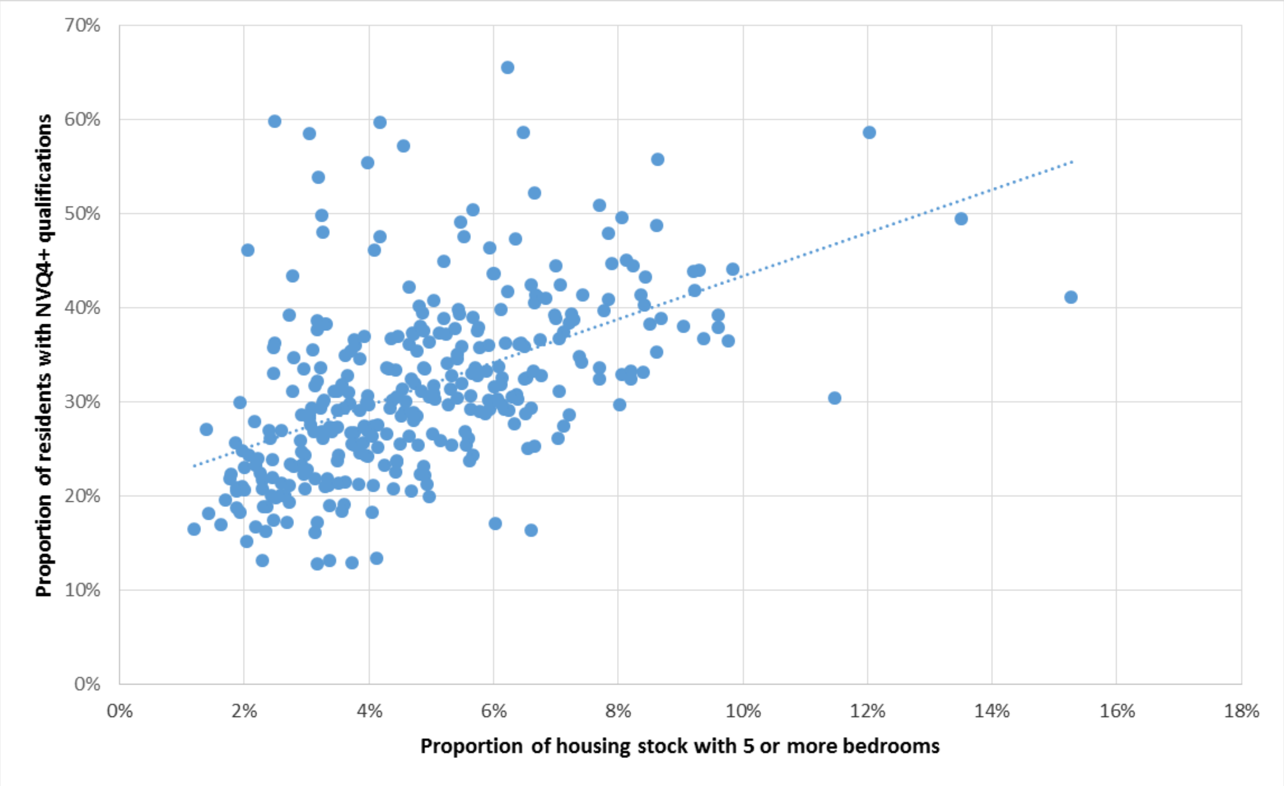


Source: Census 2011 / Nomis

5.29 Finally, the next chart shows the relationship between proportion of 5+ bedroom housing stock and the proportion of residents with the highest skills levels.

5.30 Once again, the chart shows that there is a strong positive relationship between the two sets of data – thus the more high end housing there is, the higher the skills level of the workers who live there.

Figure 5.8: Relationship between high skills level of residents and proportion of 5+ bedroom homes



Source: Census 2011 / Nomis

Summary – the importance of housing in attracting higher skilled workers

5.31 Both the theoretical evidence and the data collection and analysis outlined above shows that it is important to provide a sufficient stock of high end housing in order to attract people with the skills necessary to work in high value occupations. As a result these people have higher earnings and are capable of supporting a much higher number of local jobs, thus boosting the economy further. Whilst this chapter comments on several economic relationships including the skill level of workers, expenditure in the economy, productivity of the area and the demand for high quality homes, more generally, it shows the economic value to the North East from increasing the number of skilled workers, and highlights the importance of good quality housing in achieving this.

6 Why Ponteland?

6.1 This section examines some of the key economic and housing characteristics of Ponteland, Castle Morpeth and the surrounding area, using these to explain why Ponteland is important to the North East from an economic viewpoint and why building on Ponteland with residential development at Birney Hill could be beneficial.

Chapter Summary

6.2 Ponteland is a popular and attractive place to live. The existing garden suburb of Darras Hall is very successful, and is one of the most sought after locations to live within the North East. The development at **Birney Hill offers the potential to expand the already successful town**, with more homes to attract more people, local spending, and in turn support more local infrastructure.

Figure 6.1: Characteristics of Ponteland

6.3 The figure above shows the principle characteristics that make Ponteland's residents a valuable economic asset. Ponteland already accommodates a much **higher proportion of people working in senior positions** and its **residents are more highly skilled**.

6.4 Importantly residents of Ponteland are also **much more likely to work in the private sector** than the rest of the North East, the NELEP or Northumberland. A high public sector density in less productive sectors is viewed as a key restraint on growth in the region. With its higher ratio of private to public sector employment, Ponteland is therefore an attractive location and as such, it is one of the North East's success stories.

6.5 A much **higher proportion of homes in Ponteland are larger detached homes**, and residents earn more than the wider regional average. There is evidence of a very strong demand for housing in Ponteland, which has not been met by historic supply.

6.6 Ponteland is an ideal location for residential growth, given its close proximity to the airport and Newcastle city centre, which makes it a **very sustainable location**.

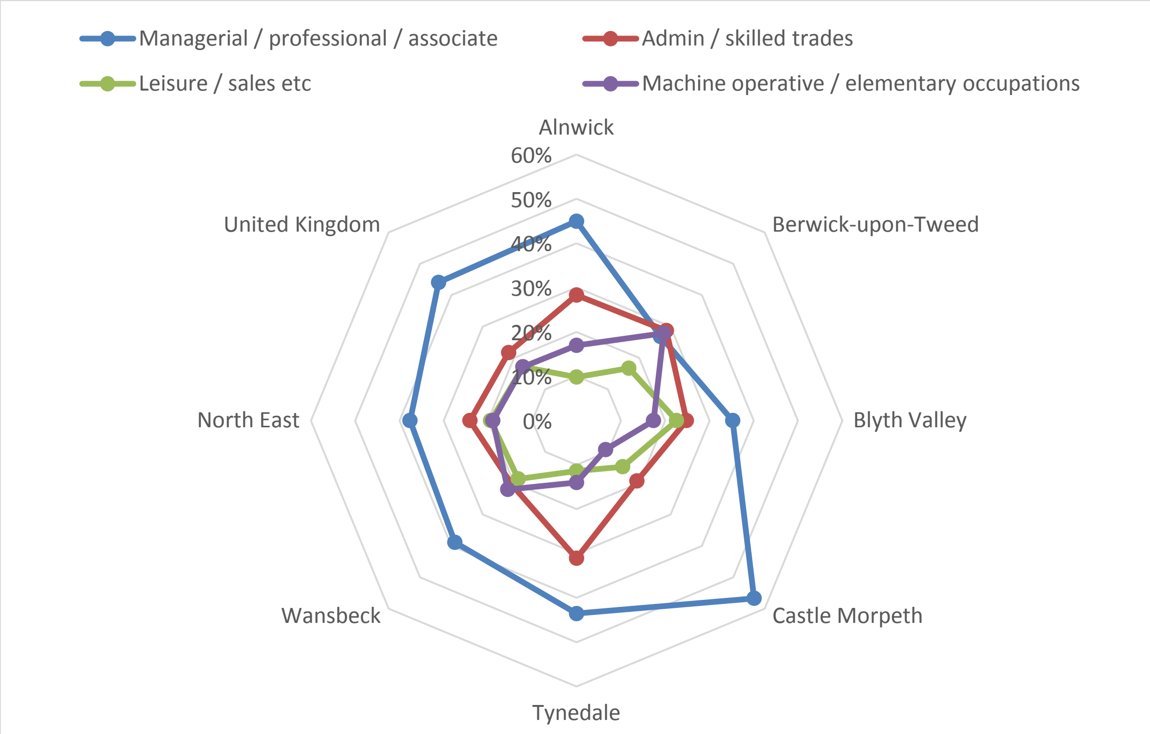
6.7 **BHF can add more attractive homes to an already attractive location. It can therefore create a community for more skilled and economically important people to be retained within the region**.

Economic characteristics

6.8 The figure below shows the proportion of residents in different occupation types for the six former districts that now form the Northumberland unitary authority, as well as the for North East overall and the UK.

6.9 It shows that Castle Morpeth has a far higher proportion of residents in senior managerial / professional roles (57%) than any other part of Northumberland, the next highest being Alnwick (with 45%) and less than 10% of residents are in elementary occupations.

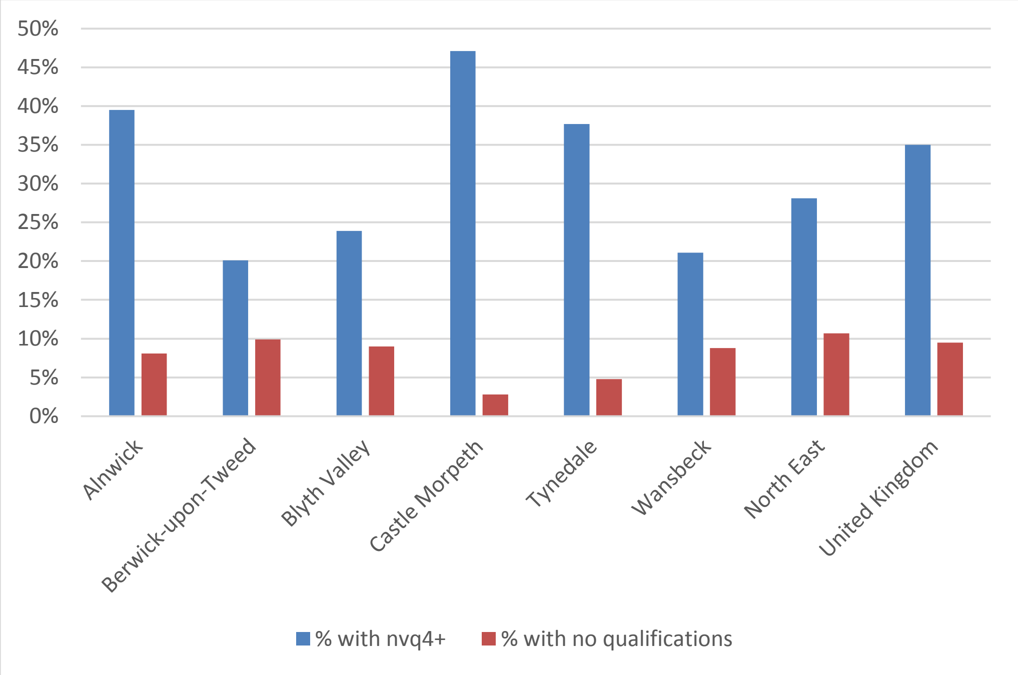
Figure 6.2: Proportion of residents by job type, 2013



Source: Nomis

6.10 This is reinforced by looking at the skills levels of residents within the same geographic areas. This is shown in the figure below. In Castle Morpeth, 47% of residents are at the high-skilled level of NVQ4 or higher, well above anywhere else in Northumberland or the average for the North East and United Kingdom. Only 3% of Castle Morpeth residents have no qualifications, compared with 11% in the North East and 10% in the UK.

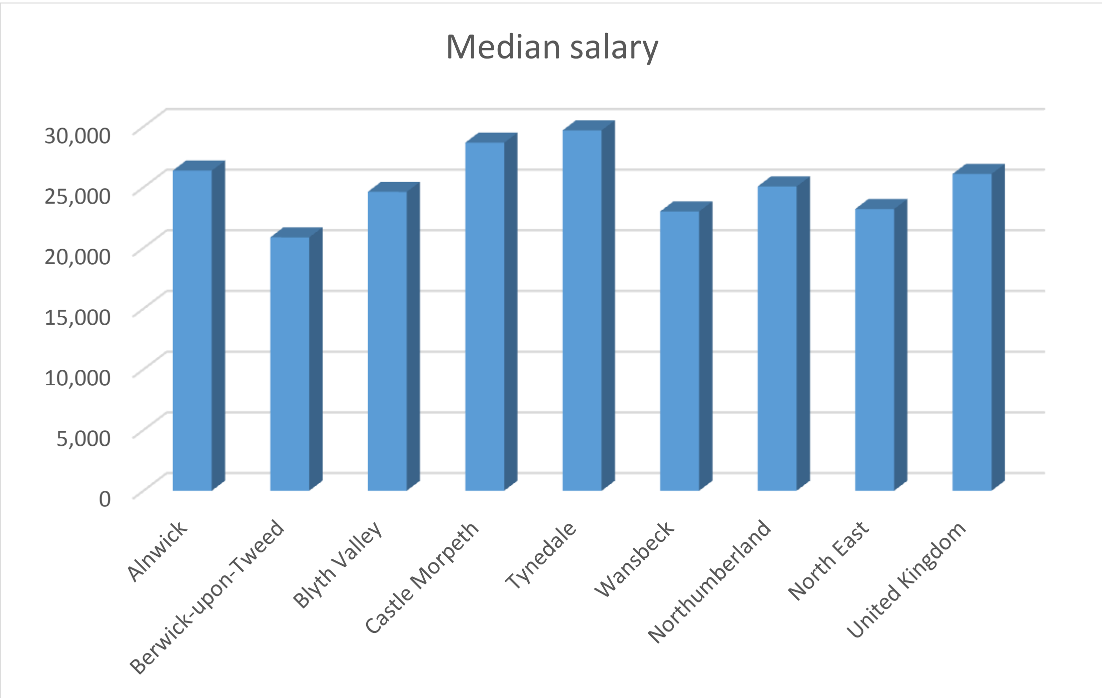
Figure 6.3: Proportion of residents at high / low qualification level, 2013



Source: Nomis

6.11 Analysis of earnings data indicates that the median annual salary in Castle Morpeth is just over £28,600 (based on 2011 data), second only to Tynedale within Northumberland. Again, this figure is higher than the North East and UK median salaries (£23,200 and £26,100 respectively).

Figure 6.4: Median salary, 2011

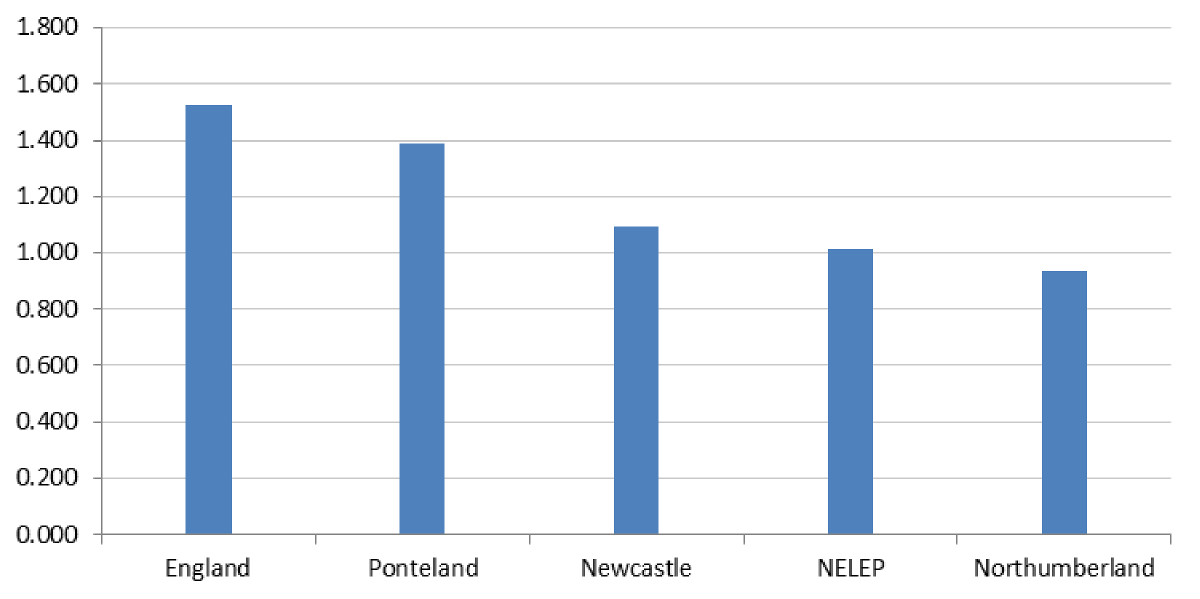


Source: Annual Survey of Hourly Earnings (Office for National Statistics)

6.12 Average earnings in Ponteland are much higher than in Castle Morpeth overall. According to the Ponteland Locality Profile, Ponteland earnings were £45,435 in 2009. This is 49% higher than the median earnings that year for Castle Morpeth. If it is assumed that this ratio remains constant, it suggests that average annual earnings in Ponteland in 2011 were £42,804. If this figure is then increased in line with the annual growth rate for Northumberland overall in 2012 and 2013, it suggests that the average annual earnings in Ponteland for 2013 were £43,019. This lies between the highest and second highest deciles for the UK overall (£53,720 and £41,444 respectively).

6.13 Ponteland has a lower than average reliance on public sector employment, and a much higher ratio of private to public sector jobs, which is shown in the chart below. This is positive for the economy, since private sector investment and job creation is crucial for economic growth. The NEIER identified the need for the region to create significantly more private sector jobs in order to narrow the gap with other LEPs and the national average.

Figure 6.5: Private to public sector job ratio, 2012



Source: Nomis (Mid-year population survey / BRES)

6.14 To summarise this analysis, Castle Morpeth, the borough which Ponteland is situated in, has the highest proportion of managerial workers in Northumberland and the lowest proportion of residents with no qualifications. Secondly Ponteland has a very high median salary, 98% higher than the average salary in the North East and 64% higher than the average salary in England. Linking these findings back to the principles outlined in section 5, it is fair to conclude that given the high prosperity of Ponteland, it is an extremely important place in terms of housing skilled workers who contribute significantly towards economic growth. However the housing in Ponteland is limited and therefore a scheme which creates more executive homes in Ponteland would be beneficial for the economy.

Housing stock

6.15 The Office for National Statistics (ONS) presents data on housing characteristics at 'merged ward' level; there are 67 merged wards within Northumberland. Four of these cover Ponteland: Ponteland North, Ponteland East, Ponteland West and Ponteland South with Heddon. The two tables below show housing characteristics for these four merged wards, as well as averages for Northumberland, the North East and England overall.

Table 6.1: Proportion of total dwellings by number of bedrooms

	Number of bedrooms				
	1	2	3	4	5
Ponteland North	0.6%	9.3%	37.2%	32.1%	20.9%
Ponteland East	0.3%	10.4%	25.1%	38.2%	26.0%
Ponteland West	0.4%	5.1%	23.7%	39.9%	30.8%
Ponteland South with Heddon	0.1%	4.5%	22.3%	40.8%	32.2%
Northumberland	0.8%	15.7%	50.5%	23.9%	9.1%
North East England	1.0%	17.7%	54.3%	20.2%	6.8%
England	2.0%	18.0%	48.6%	22.6%	8.7%

Source: Census 2011 (ONS)

Table 6.2: Proportion of total dwellings by property type

	Property type			
	House (detached)	**House (semi detached)**	**House (terraced)**	**Other (flat, maisonette etc)**
Ponteland North	40.9%	44.4%	12.3%	2.5%
Ponteland East	53.8%	36.1%	9.0%	1.2%
Ponteland West	66.7%	21.3%	11.2%	0.8%
Ponteland South with Heddon	73.4%	19.2%	5.8%	1.6%
Northumberland	27.0%	40.5%	29.3%	3.2%
North East England	18.4%	43.4%	33.4%	4.7%
England	23.4%	36.5%	28.7%	11.4%

Source: Census 2011 (ONS)

6.16 The data in Tables 6.1 and 6.2 suggest that there is an appetite for large, high quality dwellings in Ponteland. The majority of homes in Ponteland are either 4 or 5 bedroom properties – in the case of Ponteland South, where Birney Hill is located, 73% of properties are within this category. This compares with 33% in Northumberland, 27% in the North East and 31% in England.

6.17 Similarly, Table 6.2 shows that over 92% of properties in Ponteland South are either detached or semi-detached houses. In Northumberland overall, the equivalent figure is 67% and for the North East and England it is 62% and 60% respectively.

6.18 Ponteland is therefore well above the average in terms of the proportion of properties that are at the higher end of the market. This is in keeping with the sizeable proportion of high earning residents in senior managerial positions that live within the area. It is also backed up by findings from a report[32] that was commissioned as part of the Northern Way study, which stated that "*property agents argued that there was a limited supply of high quality locations distributed across the city region in terms of* Residential Offer, *with little in terms of attractive high quality places to live. Ponteland and Darras Hall in Castle Morpeth…were generally felt to be the few places that could offer the top range of housing quality: large detached homes with a very rural feel*".

Housing supply

6.19 Housing provision in Castle Morpeth, and Northumberland more generally, has fallen below target in recent years. The target for housing delivery in Castle Morpeth has consistently stood at a minimum of 140 dwellings per annum over a sustained period of time. However, according to a GVA report for Northumberland County Council, the total housing stock in Castle Morpeth only increased by 95 per year from 2001 to 2011 which is significantly below target. Further analysis suggests that the actual completion rates could be even lower than this. On any measure, delivery of housing in Castle Morpeth has fallen significantly below target historically.

6.20 At a more local level, the under supply of housing also applies to Ponteland itself. Whereas the existing number of dwellings in Ponteland appear to represent around 16% of all homes in Castle Morpeth, the number of housing completions in Ponteland have accounted for just 8% of the total in Castle Morpeth since 2004, with another 10% in the town of Morpeth. Furthermore, the draft preferred options Core Strategy published by Castle Morpeth in 2008 advised that nearly 50% of all completions would be expected in these two towns, which demonstrates the extent to which there has been a shortfall of housing supply in the Ponteland area.

6.21 There are several important economic affects which result from a housing undersupply which could be damaging to the North East economy. Aside from the lack of affordability and high prices which arise from a shortage of supply and excess demand, there are also several other consequences, many of which affect businesses. In terms of its geographic location, Ponteland is very important as a supplier of employment both to the city of Newcastle, the airport and other important commercial areas. Businesses in these locations will struggle to both retain current employees and recruit additional staff in the future. Secondly, a shortage of homes may cause employees to locate further afield resulting in lower productivity due to lost time whilst travelling to work.

6.22 In addition to the historic undersupply of housing, evidence suggests that there is also likely to be a future undersupply as well. Clearly there is a degree of subjectivity to the analysis, but it should also be noted that the Committee Report that NCC produced at the time of the Birney Hill planning application stated that:

"Information submitted by the applicant on the five year housing land supply position generally concurs with the Council's position as set out above and it is therefore considered that their findings, which conclude that there is currently only a 3.78 year supply of housing land in the former Castle Morpeth area, are appropriate and reasonable ... Based on the evidence available to the Council at this time, and also on the information presented with this application, it is accepted that a five year supply of deliverable housing land cannot be demonstrated at the present time"

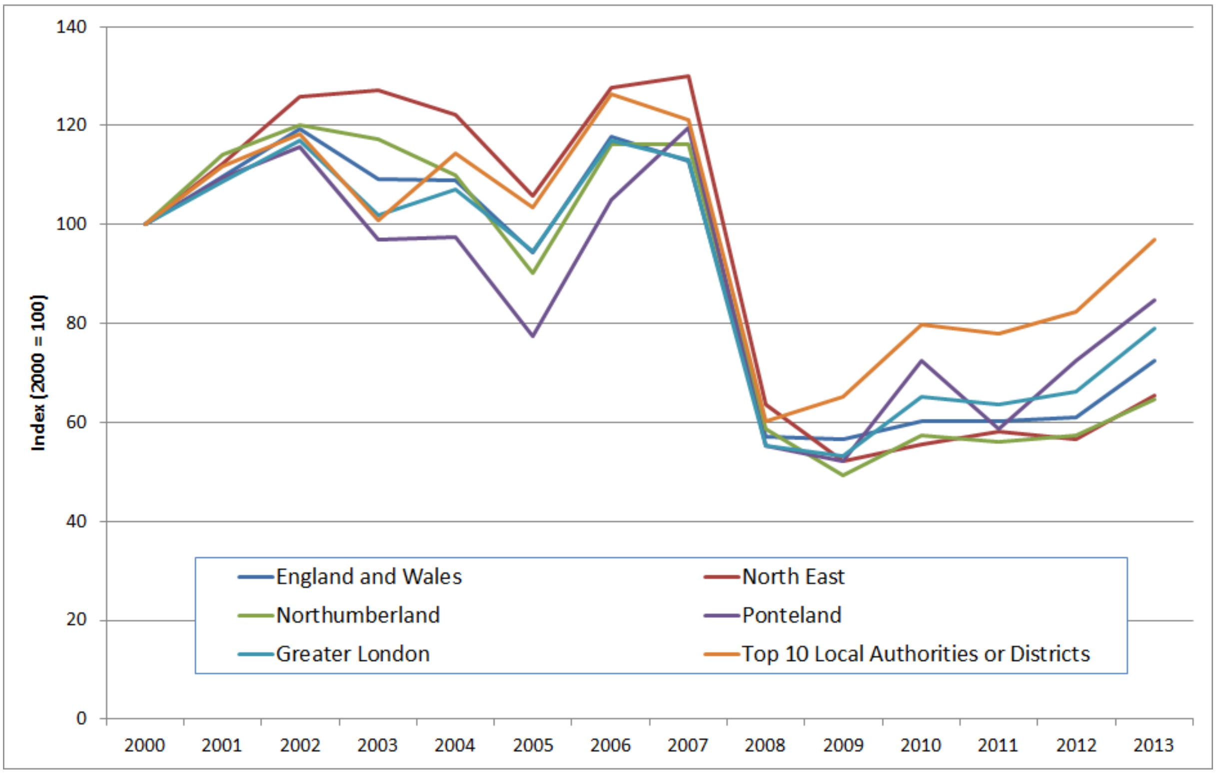
[32] Llewelyn Davis Yeang (2007), *Quality of Place: The North's Residential Offer*, Tyne & Wear City Region Final Report.

Housing demand

6.23 As well as the supply side issues outlined above, there is also evidence of continued strong housing demand in Ponteland.

6.24 The figure below shows an index of property sales numbers since 2000, for a number of different areas. Between 2007 and 2008 there was a large decrease in sales across the country as the economic downturn hit. Since then, the extent of the recovery has varied. The chart shows the rate of change in the ten local authorities with the highest increase in sales; in the past 3 years the rate of increase of sales in Ponteland has only been slightly lower than this. For Northumberland overall, the rate of increase has been much lower, and the index was only at 65 in 2013 (compared with 85 for Ponteland and 97 for the top ten local authorities). This shows that the property market in Ponteland has recovered from the recession at a similar rate to some of the best performing parts of the country – i.e. more transactions are taking place here. This is evidence of high demand for property here.

Figure 6.6: Property sales for selected districts



Source: Land Registry

6.25 In November 2013, GVA undertook analysis of average sold house prices in 131 settlements within the six former districts in Northumberland. The table below shows the ten settlements with the highest average price.

Table 6.3: Ten settlements in Northumberland with highest average property price

Settlement	District	Average sold price
Medburn	Castle Morpeth	£601,322
Newton	Tynedale	£560,531
Darras Hall	Castle Morpeth	£500,000
Hepscott	Castle Morpeth	£464,268
Whalton	Castle Morpeth	£453,601
Fairmoor	Castle Morpeth	£445,803
Great Whittington	Tynedale	£429,646
Hebron	Castle Morpeth	£421,866
Ponteland	Castle Morpeth	£412,365
Broomley	Tynedale	£394,036

Source: GVA

6.26 Table 6.3 shows that settlements within Castle Morpeth and Tynedale are at the highest end of the market in Northumberland. Darras Hall has the third highest property prices, with Ponteland ninth out of the 131 settlements that were assessed. The average[33] property price in Ponteland of £412,000 is over 70% higher than the average for all the settlements of £240,000.

6.27 Volterra have undertaken a separate analysis of sale prices using www.ourproperty.co.uk. Using data from 1 January 2012 up to 30 September 2014, Table 6.4 shows the number of sales and average price, by property type.

[33] A simple average of the 131 settlements; a weighted average is not possible as the corresponding number of sales in each settlement is unknown.

Table 6.4: Average property sale prices in Ponteland

Property type	Freehold or Leasehold	Number of sales	Average sale price (£)
Detached house	Freehold	251	456,800
Detached house	Leasehold	2	387,500
Semi-detached house	Freehold	69	241,700
Semi-detached house	Leasehold	2	175,000
Terraced house	Freehold	19	199,900
Terraced house	Leasehold	2	80,000
Flat	Leasehold	53	200,300
All	Freehold and Leasehold	402	361,900
All	Freehold	343	368,200

Source: www.ourproperty.co.uk, accessed on 5 December 2014

6.28 Table 6.4 shows that there were 402 property sales in the space of around 2.75 years in Ponteland. The average property price was over £360,000, or over £395,000 for houses.

6.29 We have also spoken to a local estate agent, who gave an indication that the market has been much more buoyant in the last twelve months. Their view was that in general, demand outweighs supply in the Ponteland area.

6.30 The NELEP as mentioned lags behind other core city regions in the provision of high quality housing. However despite Castle Morpeth having some of the most expensive house price in Northumberland, property demand is currently strong as shown in Figure 6.6. This is perhaps one of the most important aspects when analysing the profile of the housing market in Ponteland as it shows that people want to move in to the area. This is further compounded by the buoyancy of the housing market at present, as interpreted by local estate agents.

Ponteland and the need for affordable housing

6.31 In September 2010, the Northumberland county council put together a report which measured the viability of affordable housing in the district.

6.32 The council agreed to a 30% quota of affordable housing in Northumberland, on the basis of current and future housing demand in the area. The report categorises areas within Northumberland according to their current land values, Ponteland falls into 'the highest' land value category in Northumberland.

6.33 To account for a fall in land values, the government has a grant system to supplement the decline in value. However a 60% cut in the affordable housing budget means that there is increased pressure on the grant system, which is required in certain areas to support the provision of affordable housing.

6.34 Despite this variation in land values, Ponteland is classified as being in the highest land value category and therefore the 30% affordable housing quota is viable without the grant. This means that Ponteland is essential in being able to provide a sufficient level of affordable housing in Northumberland as it is able to satisfy the quota without the use of the grant system which can be used in another area where land values are not as high.

6.35 The Birney Hill proposal includes the provision of 280 homes, 70 of which will be affordable homes with a further 24 affordable homes offsite. Of the total number of homes this equates to 33% being affordable, above the recommended quota in Ponteland. The proposed scheme at Birney Hill Farm together with the Northumberland community council report suggests that the proposal is very important in terms of the future provision of affordable homes in the area and meeting the agreed quota set out by the county council.

Local infrastructure

6.36 Enabling more people to live in the Ponteland area would not only support more local jobs, it would also offer the opportunity to make the most of the local infrastructure that is already in place.

6.37 There are three schools within a mile and a half of the development: Ponteland Under 5 Nursery, Darras Hall First School and Ponteland Community High School. The high school has a high level of academic attainment; the percentage of pupils gaining at least 5 A*-C grades at GCSE level was 70% in 2013, compared with a Northumberland average of 55% and a national average of just 59%. This suggests that it will be beneficial to afford more pupils the opportunity to attend the High School, which would be the result of adding housing at Birney Hill.

6.38 The highway network will also be positively affected by the scheme. The Birney Hill development will see the introduction of a number of vehicular access points to specific areas of the site itself. However, it will also see the delivery of improvements to off-site junctions within the village, designed to add additional capacity to relieve traffic congestion. The A696 / B6323 Callerton / North Road Lane junction will be upgraded to full signalisation and a demand responsive control system introduced.

6.39 For several years there have been plans in place for a proposed £20m scheme in Ponteland town centre, which would include new shops, cafes, restaurants and flats. However, this was recently put on hold. The Birney Hill development would encourage more economic activity in Ponteland, which could act as the spur needed to bring forward this type of scheme and make it more viable. The Community Trust could also play a strong role in securing local improvements.

Sustainability

6.40 Ponteland is also a very sustainable location. Its geographical location, in such close proximity to the NIA, its new business park, and Newcastle city centre, make it a very accessible location.

7 Conclusion

7.1 The proposal at Birney Hill will directly deliver 280 high quality homes, of which 70 will be affordable and 30 will be self-build. The incomes of the residents will support an estimated 228 jobs. The Community Land Trust will manage a new hub, incorporating commercial business space which will directly employ at least 3 people.

7.2 These direct benefits are significant. However the majority of this report has focused on the indirect impacts that the scheme could facilitate, through attracting skilled workers to the area who can in turn contribute towards achieving the economic growth that this region desperately needs.

7.3 The North East economy has many challenges facing it and it has historically underperformed. However it also has significant opportunities for growth, with the airport playing a key role in attracting these opportunities. The NELEP has targets for growth and businesses in the area want to narrow the gap with other LEPs, and the national average. A key factor in this is attracting more private sector jobs.

7.4 In order to achieve this, the city region will need to successfully compete with other cities in attracting both human capital and inward investment – entrepreneurs, businesses and residents. Higher skilled people in more senior occupations are crucial for delivering this growth, both to the North East region and to the local areas where they live.

7.5 However at present the region lacks housing in which these people want to live – Ponteland is an attractive location which already attracts these types of people. Ponteland's residents have one of the highest rates of private sector working, significantly higher skill levels and contribute significantly to the NE economy.

7.6 The buoyant nature of the housing market in Ponteland demonstrates the significant demand from people to locate here, but there are not enough high quality homes for the levels of people that the region needs to attract and retain in order to be competitive.

7.7 Several studies highlight the importance of housing in attracting and retaining skilled workers and in turn in achieving economic growth:

- *"our housing offer is intrinsically linked to the North East's ability to attract and retain a skilled workforce, as well as strengthening local communities. Housing supports the delivery of new infrastructure, improves services such as public transport, boosts the funding available for local schools and supports a strong consumer market."*

  (North East Chamber of Commerce, 2014)

- *"in the north east, some employers have complained that a lack of high-end housing has made it difficult to attract the most senior staff."*

  (Institute for Public Policy Research, 2014)

- "*property agents argued that there was a limited supply of high quality locations distributed across the city region in terms of Residential Offer, with little in terms of attractive high quality places to live. Ponteland*

and Darras Hall in Castle Morpeth…were generally felt to be the few places that could offer the top range of housing quality: large detached homes with a very rural feel'.

Llewelyn Davis Yeang (2007)

- *"while high quality housing alone may not be enough to attract significant inward investment, a lack of high quality housing may preclude it."*

  (DTZ, 2006)

7.8 The region as a whole has had a continued under-delivery of housing of all types, failing to meet its targets for housing supply repeatedly. Furthermore, the available land allocations suggest that this under-supply will continue into the future and so the area will not be able to meet its future housing supply targets either. Evidence suggests that Green Belt land will need to be released on which to build these homes. Of Green Belt options, Birney Hill is one of the most sustainable sites due to it accessibility to potential future drivers of economic growth.

7.9 Land released from Green Belt should be used in order to deliver the best economic growth and largest value possible for the area. This does not always mean a larger quantum of housing – it should instead mean housing of the type that is required to attract and retain the workforce that will deliver much needed economic growth for the area. Higher quality housing for highly skilled senior workers in Ponteland would facilitate this.

Appendix – note on graduate retention

The text below is a note prepared by a recent graduate of Newcastle University who is from southern England. It summarises some of the issues facing university towns and cities, such as Newcastle, in retaining graduates.

"Aside from the academic superiority of some universities in contrast to others, higher education choices are poorly explained to students still studying at school. When choosing a university most will go for a particular one based on what they have heard through friends or family as to which universities are the popular ones in terms of an all-round enjoyable experience. Universities in the north are particularly popular with the middle class from the south of England and this is for a few reasons. The north offers a more cost effective university experience than southern universities (with a real university lifestyle as opposed to just going to university in London, for example), and also is an almost guarantee of what sort of people you will be surrounded by, thanks to the trend of previous students paving the path for future students. One could speculate that close to 80% of students in Castle Leazes (the largest first year halls) went either to public school or lived in the south of England, easily distinguishable by clothes and accent. By contrast, London's Kings College and UCL have an influx of foreign students from all over the world and people from all backgrounds going to them, which for the less adventurous can prove a more stressful experience.

When deciding between the northern universities that are equal more or less in terms of academic proficiency, Newcastle stands out as being an excellent choice given that the entire city has been built and catered for around the students in it. Both Northumbria and Newcastle University are integral parts of the city's feel, and the shops, cafes, clubs and restaurants have deals and offers specially designed with the students in mind and no one else. All the nightlife in the clubs in Newcastle is specifically aimed at the students and gets shared with the locals in the towns. The way they segregate student and non-student nightlife is having popular student nights run from Monday to Friday. In order to avoid the Newcastle locals most students won't go out on a weekend, which is mostly when you find the locals out. Despite different days "allocated", the non-students will still have to go to the student clubs if they want a night out because there is nothing else for them.

The feel of Newcastle is also an all-encompassing student city wherever you go including Jesmond, the place you live in your remaining university years after halls. Majority of student accommodation is based in Jesmond and its surrounding roads, given that there are excellent bars and restaurants in the vicinity, all with student prices, along with supermarkets and cafes and situated only a short walk from university. There are also non-student residents that live in Jesmond but they are mostly older couples that have lived there for a long time or have families. Jesmond is a student area and one of the few nice places to live that is close to campus and the city centre but it is unattractive for a graduate as somewhere to live because of the student to resident ratio. If you were to stay on after university in Newcastle you'd have to live in Jesmond because there is a real lack of other smart, affordable areas with good facilities close by. However, in doing this you'd be forced to share the same location as current students. This coupled with no segregation between students and residents in bars, restaurants and even supermarkets is not attractive as a future living prospect. Moreover, given that Jesmond is an incredibly compact and dense an area; there is no escaping late night noise either.

Another fundamental reason that graduates don't choose to stay in Newcastle is because there is a distinct lack of job opportunities. Across all sectors, there are no appealing graduate schemes or jobs in the city and additionally, the career advice for soon to be graduates given from the university tends also to be focused on London and its surrounding areas. But this isn't exclusively the case with Newcastle. Many of the other red brick Universities outside of London such as Leeds, York, and Manchester also have fewer graduate opportunities than the capital; therefore their students tend to make the move down south too. This seems to be a natural progression after graduation, and it unlikely that anybody would break the trend when not only university friends are making the same change, but also old friends from school that attend other northern universities. Newcastle is a smaller city than both Leeds and Manchester so it does seem even less likely that people would want to stay, as the chances are they have grown bored of the city and are ready for something bigger and more exciting. Furthermore, the other proportion of students that make up Newcastle and Northumbria University are those who are born and bred in Newcastle and who continue to live at home with their parents. This trend continues after university and they are the people who choose to stay in Newcastle long term and stay near their families. This also is a contributing factor as to why you don't see more southerners staying because Newcastle feels like a place that you visit and leave as opposed to a diverse and inclusive city where you can settle and stay.

In addition, the North East is widely perceived as a poor region with very few job opportunities and the ones that they do have would be poorly paid in comparison to jobs in the rich city of London and other more southern cities. The impression amongst the students is the Newcastle is a city funded by its richer, southern students and is not somewhere adequate to earn a good living after having moved from there. The fact that Newcastle is viewed as a city that is in itself entirely dependable on the students' expenditure, doesn't create the reassurance necessary that it is somewhere to stay afterwards where you can earn a substantial salary."