



**Community
Foundation**
Tyne & Wear and Northumberland

Tees Valley's Vital Issues 2017

Local economy

10. Local economy

1.1 Overview

When Lord Heseltine visited the Tees Valley following the announcement of the closure of the SSI steelworks in 2015, he recognised that the issues around the Redcar plant closure could not be addressed in isolation. His report said: *'The site itself is only a part of a much bigger picture. Four miles of the south bank of the Tees is a scene of desolation, a memory of industrial activity now gone. Yes, there are some conspicuous examples of recent investment particularly with PD Ports and Northumbrian Water facilities but the contrast with the north bank is stark.'*

His report was wide-reaching, recognising the need for a strong social and economic infrastructure as the foundation for growth, and covered regeneration, growth, education, employment and skills, the energy economy, housing, transport and leisure, environment and tourismⁱ.

The Tees Valley Combined Authority took this report as the springboard for development of their Strategic Economic Plan, which has six priorities:

- Business growth
- Research, development, innovation and energy
- Education, employment and skills
- Place
- Culture
- Transport and infrastructure

Most of these areas are covered elsewhere in this report, this chapter therefore focuses on business growth.

1.2 Productivity

The usual measure of business productivity is the Gross Value Added, which is the measure of the value of goods and services produced in an area, industry or sector of an economy.

Table 61 - Regional gross value added (income approach) at current basic prices, 2015ⁱⁱ

Area	Gross Value Added (£m)	GVA per head (£)	GVA per head index (UK = 100)	Growth in GVA on year (%)	Growth in GVA per head on year (%)	Share of national GVA
Darlington	2,591	24,585	97.0	5.8	5.7	0.2%
Hartlepool	1,459	15,777	62.2	-0.4	-0.3	0.1%
Middlesbrough	2,587	18,540	73.1	3.6	3.3	0.2%
Redcar and Cleveland	2,055	15,188	59.9	0.4	0.3	0.1%
Stockton-on-Tees	3,946	20,257	79.9	-0.4	-0.8	0.2%
North East	49,677	18,927	74.7	3.0	2.8	3.1%
England	1,433,164	26,159	103.2	3.0	2.1	88.7%
Great Britain	1,616,212	25,549	100.8	2.9	2.1	100.0%

Table 61 gives the GVA figures for the Tees Valley for 2015. It shows that the NE region contributed £49,677m to the UK economy in 2015, which was 3.1% of the

national total. However, the Tees Valley was responsible for only just over 25% of this, (0.8% out of 3.1%).

The figures per head of population give a clearer indication for how much each area contributed. There is a large variation, with Darlington outperforming other areas by achieving 97% of the national average, whereas Redcar and Cleveland created less than 60% of the average.

The growth figures are even more telling, with Darlington achieving twice the national average growth rate, while Hartlepool and Stockton-on-Tees saw their GVA shrink in the year to 2015 and growth in Redcar & Cleveland was only 0.3%. The closure of major employers such as SSI will have contributed to this. Although the government put in place a £80m package of support for the 3,000 made redundant when SSI closed, reports suggested that one year later many of the people previously employed there had not yet managed to secure employment at all, or if they had for over 60% it was of a lower skill / salary than they had previously enjoyedⁱⁱⁱ.

1.3 Employer types

The sector they are in, and hours worked can have a big influence on the terms and conditions an employee receives. Table 62 shows the split of public / private and full-time / part-time workers in the Tees Valley.

Table 62 - Employees by public / private sector^{iv}

	Full time employees			Part time employees			Total employees		
	Public	Private	All	Public	Private	All	Public	Private	All
Darlington	15%	52%	67%	9%	24%	33%	24%	76%	100%
Hartlepool	15%	49%	64%	10%	26%	36%	25%	75%	100%
Middlesbrough	20%	42%	62%	13%	25%	38%	33%	67%	100%
Redcar and Cleveland	11%	57%	69%	6%	26%	31%	17%	83%	100%
Stockton-on-Tees	10%	59%	70%	7%	24%	30%	17%	83%	100%
North East	14%	54%	68%	8%	24%	32%	22%	78%	100%
UK	11%	58%	69%	7%	24%	31%	18%	82%	100%

More people work in the public sector in the NE region than the UK average. In the Tees Valley this is concentrated in Darlington, Hartlepool and Middlesbrough, where up to one in three of the population are public sector employees.

In Middlesbrough there are nearly twice the national average of part-time public sector employees. In the recent period of austerity this has big implications for job security and wage rates for those in the public sector, with many posts being cut (especially at local authorities) and those who stay in work facing pay caps and pay freezes.

In most parts of the UK, the proportion of people working in the public sector fell between 2010 and 2015, but this was not true for all areas in the Tees Valley. Public sector employment grew as a proportion of all employment between 2010 and 2015 in Darlington, Hartlepool and Middlesbrough. This many mean that the continuing

austerity cuts have a disproportionately high impact on these areas in the future, as unemployment may increase, further curbing local spending power.

Table 63 – change in size of public sector employment^v

	2010	2015	change
Darlington	28.6%	33.1%	4.5%
Hartlepool	35.6%	36.8%	1.2%
Middlesbrough	45.8%	48.1%	2.4%
Redcar and Cleveland	32.8%	28.9%	-3.9%
Stockton on Tees	28.5%	27.1%	-1.4%
North East	34.3%	33.0%	-1.3%

The increase in public sector employment opportunities in Hartlepool and Middlesbrough is borne out by analysis of the changes to the number of employers – table 64. In the period 2012-16 there were increases in the number of micro, small and medium-sized public sector employers in various parts of the Tees Valley, reflecting a regional and national move to disaggregate larger organisations and set up smaller units.

Meanwhile in the private sector, the number of micro-businesses, small and medium-sized businesses grew in almost all parts of the Tees Valley, but there was no growth in large businesses, and Middlesbrough saw the closure or shrinking of 1/3 of its larger employers.

Table 64 - No of businesses by size (number of employees), 2012-16^{vi}

		Private sector				Public sector			
		Micro (0-9)	Small (10-49)	Medium (50-249)	Large (250+)	Micro (0-9)	Small (10-49)	Medium (50-249)	Large (250+)
Darlington	2012	2,240	305	40	15	5	5	10	5
	2016	2,715	300	45	15	5	5	10	5
	diff	21%	-2%	13%	0%	0%	0%	0%	0%
Hartlepool	2012	1,575	200	35	-	0	0	0	5
	2016	2,090	195	35	-	0	0	5	5
	diff	33%	-3%	0%					0%
Middlesbro'	2012	2,000	305	50	15	0	0	5	5
	2016	2,695	330	55	10	0	10	15	5
	diff	35%	8%	10%	-33%			200%	0%
Redcar & Cleveland	2012	2,180	270	45	10	5	0	10	0
	2016	2,730	295	50	10	5	5	10	0
	diff	25%	9%	11%	0%	0%		0%	0%
Stockton-on-Tees	2012	3,685	440	90	20	5	0	5	5
	2016	4,795	495	120	20	15	0	5	0
	diff	30%	13%	33%	0%	200%		0%	-100%
North East	2012	48,635	6,265	1,060	220	100	15	55	65
	2016	58,960	7,005	1,185	240	190	55	110	55
	diff	21%	12%	12%	9%	90%	267%	100%	-15%
England	2012	1,630,820	169,590	28,460	6,320	3,625	845	1,675	1,330
	2016	1,969,960	192,990	31,925	7,390	5,985	1,510	2,780	1,110
	diff	21%	14%	12%	17%	65%	79%	66%	-17%

Hartlepool stands out as having the lowest rates of business growth, with this limited to micro-businesses only, a 3% reduction in the number of small businesses, no

change in medium-sized and no larger employers recorded. This underlines the weakness of the economy in Hartlepool. Micro-businesses are by their nature vulnerable and generally have a lower level of investment (and therefore financial stability) than larger enterprises. It will be important to Hartlepool's long-term revival that sufficient support is in place to nurture the development of micro and smaller businesses into larger concerns.

1.4 Industrial sectors

Table 65 shows the split of employment in the Tees Valley by industrial sector and how this changed between 2011 and 2015. The area has a long heritage of heavy industry and a strong manufacturing base, which is reflected in the higher than average levels of employment in these in most parts of the Tees Valley, though there have been steep reductions in Darlington and Hartlepool.

Table 65 - Employees by industrial sector, 2011-15^{vii}

Industry	D'ton	H'pool	M'bro	R&C	S'ton-on-Tees	North East	England
Agriculture, forestry & fishing (A)	10%	18%	-33%	4%	0%	8%	8%
Mining, quarrying & utilities (B,D and E)	50%	100%	100%	100%	40%	16%	42%
Manufacturing (C)	31%	21%	23%	19%	16%	13%	7%
Construction (F)	11%	25%	25%	18%	30%	20%	16%
Motor trades (Part G)	0%	17%	24%	32%	13%	11%	9%
Wholesale (Part G)	-10%	25%	5%	17%	-3%	0%	1%
Retail (Part G)	6%	8%	0%	-7%	7%	0%	3%
Transport & storage (inc postal) (H)	69%	23%	15%	14%	32%	18%	43%
Accommodation & food services (I)	8%	10%	26%	29%	17%	19%	14%
Information & communication (J)	40%	9%	33%	0%	13%	29%	31%
Financial & insurance (K)	22%	-25%	11%	-20%	21%	12%	15%
Property (L)	13%	10%	70%	0%	29%	21%	18%
Professional, scientific & technical (M)	19%	67%	47%	45%	39%	34%	30%
Business admin & support services (N)	34%	65%	61%	69%	76%	51%	47%
Public administration & defence (O)	0%	100%	100%	0%	50%	87%	63%
Education (P)	30%	17%	56%	44%	7%	27%	26%
Health (Q)	24%	-5%	45%	4%	41%	17%	32%
Arts, entertainment, recreation & other services (R,S,T and U)	28%	20%	24%	29%	30%	27%	12%

Reductions have also been felt in construction, retail and the arts/recreation services.

At the same time, the big growth areas seem to be in business, admin and support services, public administration and defence, education and health.

The area that stands out as very different other parts of the sub-region is Middlesbrough. Middlesbrough has far less manufacturing than other parts of the Tees Valley and a far greater proportion of its employment is in health care (26% in 2015). Health and social care is a growing sector across the UK, with increasing need for elderly and dementia care in particular, however this is also a sector under stress with many local authorities unable to fund residential and domiciliary care adequately, meaning many private and charitable providers are being forced to leave the sector.

1.5 Business start-ups and survival

The NE region has a reputation as being not as entrepreneurial as the rest of the country, and Table 66 bears this out, with a lower rate of new business formation than elsewhere in the country, however this is not the case in the Tees Valley.

Small businesses can often be the lifeblood of a community, meeting local needs, providing opportunities for local employment, and supporting other businesses and organisations. This is particularly true of social enterprises, which are often founded to meet a specific local need, addressing market failure where the private sector has withdrawn from a section of the market because it is not profitable enough.

Table 66 – business start-ups and success^{viii}

Area Name	Bus & enterprise: score (2015)	Business closure rate (2015)	Business formation rate (2015)	Business survival rate: 12 mths (2015)	Business survival rate: 24 mths (2015)	Business survival rate: 36 mths (2015)	Business no: per 000 pop (2016)
Darlington	93.38	10.2	12.79	93.83	77.78	61.43	45.83
Hartlepool	110.12	10.1	15.45	92.59	74.65	59.62	38.49
Middlesbrough	109.43	9.24	15.40	92.59	75.47	54.29	37.07
Redcar and Cleveland	98.76	9.47	13.59	93.62	80.21	68.12	35.02
Stockton on Tees	108.28	10.46	15.40	93.37	78.82	62.22	43.60
North East	96.18	9.65	13.57	92.28	74.7	60.43	39.55
Great Britain	100	9.48	14.44	92.25	75.15	59.39	56.58

The overall business 'score' given in table 66 gives an indication of success of new and existing business in the area. It takes into consideration an areas business formation rate, number of enterprises, number of failing businesses, and change in total number of businesses. On this basis, most parts of the Tees Valley score very highly, with Hartlepool, Middlesbrough and Stockton on Tees all scoring higher than the national average.

It is worth looking at the business formation and survival rates to explore why Darlington and Redcar and Cleveland do not score as well. It is clear that the business formation rate in these areas is lower than elsewhere. Where people do have an idea for a business, one of the key barriers to taking this step is access to finance. The new Enterprise Allowance scheme includes access to loan finance, but the eligibility criteria are strict, and anyone with a poor credit history will not be able to use this, or other mainstream lenders, to access the finance needed to cover set-up and working capital costs. Philanthropy could provide this kind of support.

Once business have been created, their survival rate at 12, 24 and 36 months appears to be in line with the national average (except Redcar, where more businesses fail at 36 months than elsewhere).

However, the sub-region still has substantially fewer businesses per head of population than elsewhere in the country. The reason appears to be historic, as the area had relatively more large employers in the past, so there was less need for local people to start their own businesses. Given the high rates of business success in the sub-region now, it is likely to lead on business growth in the NE region, and will begin to catch up to the national average.

The TVCA has identified the need to diversify the economy, and support more business start-ups in its Economic Strategy, so is putting in place measures to encourage development of new businesses across the Tees Valley, particularly through its 'Growth Compass' comprising Tees Valley Business Compass - Start-Up; Tees Valley Business Compass – Growth (already active); and Tees Valley Business Fund (a fund of funds drawing on different elements of European Funding). These resources are available to social enterprises as well as traditional companies, so it will be important that relevant sector development agencies are linked in to them and aware of the resources available.

There may be a role for philanthropy in encouraging the start-up of new businesses, including social enterprises, and in providing grant or loan finance to support new businesses.

Potential roles for philanthropy

- The continued austerity measures and pay caps / freezes will hit those areas with the highest levels of public sector employment hardest. These will include Middlesbrough in particular, but also Hartlepool and Darlington. If larger employers close or make significant redundancies there may need to be swift action to provide job clubs, retraining opportunities, and foodbanks to meet immediate needs.
- Similarly, businesses and third sector providers in the social care market are likely to be hard hit by cuts in the funds available to local authorities to fund provision, and may be forced to close or withdraw from contracts/ markets.
- Business start-ups can provide local employment and services and meet community needs. Social enterprises often set up in areas where commercial

businesses will not or cannot. Rates of start-up are lower in Darlington and Redcar & Cleveland than elsewhere in the Tees Valley, so additional support could be provided to encourage their development in these areas.

- All social enterprises in the Tees Valley can be encouraged to tap into the resources available through the TVCA's Compass programme.
- Would-be entrepreneurs (including social entrepreneurs) often find it difficult to secure the finance for set-up costs to establish a new business. Philanthropy could provide loan or grant schemes to address this.

ⁱ **Heseltine, M (2015)** *Tees Valley: opportunity unlimited – an independent report*, Crown Copyright, London.

ⁱⁱ **NOMIS (2016)** *Regional Gross Value Added 2015*, ONS, downloaded from: <https://www.nomisweb.co.uk/query/construct/submit.asp?forward=yes&menuopt=201&subcomp=26/6/17> 17:23

ⁱⁱⁱ **Financial Times (2016)** *Redcar struggles to recover one year after steel plant closure*, downloaded from: <https://www.ft.com/content/8c02c6b2-8e77-11e6-8df8-d3778b55a923?mhq5j=e1> 13/6/17, 13:55

^{iv} **Office for National Statistics (2016)** *Business Register and Employment Survey, 2015*, downloaded from: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/businessregisterandemploymentsurveybresprovisionalresults/2014revisedand2015provisional> 18/5/17 14:40

^v **Office for National Statistics (2016)** *Business Register and Employment Survey*, generated from: [http://gt-placeanalytics.org/placeanalytics/\(S\(mj0ftoeqlwgmlq55dmp00fyb\)\)/paweb/ShowIndicator.aspx?spatialLevel=18&indicatorValue=294](http://gt-placeanalytics.org/placeanalytics/(S(mj0ftoeqlwgmlq55dmp00fyb))/paweb/ShowIndicator.aspx?spatialLevel=18&indicatorValue=294) 15/6/17 12:33

^{vi} **Office of National Statistics (2016)**, *UK Business Counts - Enterprises*, generated from: <https://www.nomisweb.co.uk> 19/6/17 08:38

^{vii} **Office of National Statistics (2016)**, *Business Register and Employment Survey*, generated from: <https://www.nomisweb.co.uk> 19/6/17 08:33

^{viii} **GTA Analytics (2017)** *Business and Enterprise score*, created at: [http://gt-placeanalytics.org/placeanalytics/\(S\(mj0ftoeqlwgmlq55dmp00fyb\)\)/paweb/ShowAllIndicators.aspx?spatialLevel=18&indicators=42,41,215,217,218,219,46](http://gt-placeanalytics.org/placeanalytics/(S(mj0ftoeqlwgmlq55dmp00fyb))/paweb/ShowAllIndicators.aspx?spatialLevel=18&indicators=42,41,215,217,218,219,46), 4/7/17 10:09