



The North in Numbers

A strategic audit of the northern English economies

Paper 1 from the Northern Economic Agenda project

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Challenging ideas – Changing policy

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About ippr north

ippr north, the Newcastle-based office of the Institute for Public Policy Research, produces far-reaching policy ideas, stimulating solutions that work nationally as well as locally. These are shaped from our research, which spans the northern economic agenda, public services, Anglo-Scottish relations, food policy and rural issues, as well as a strong democratic engagement strand which involves a wide range of audiences in political debates.

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List of abbreviations

CPA	Comprehensive Performance Assessment
CLG	Communities and Local Government
DBERR	Department for Business, Enterprise and Regulatory Reform
DEFRA	Department for Environment, Food and Rural Affairs
DfES	Department for Education and Skills
DTI	Department of Trade and Industry
DWP	Department for Work and Pensions
EA	Environment Agency
GDP	gross domestic product
GSE	Greater South East
GVA	Gross Value Added
HMT	Her Majesty's Treasury
HO	Home Office
ICT	information and communication technology
JSA	Jobseeker's Allowance
LFS	Labour Force Survey
NAO	National Audit Office
NWRA	North West Regional Assembly
ODPM	Office of the Deputy Prime Minister
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
PSA	Public Service Agreement
RA	Regional Assembly
RDA	Regional Development Agency
RES	Regional Economic Strategy
RSS	Regional Spatial Strategy
SFI(E)	Selective Finance for Investment (in England)
SIC	Standard Industrial Classification
SOA	Super Output Area
TTWA	travel-to-work area

Executive summary

This paper provides background to ippr north's Northern Economic Agenda project. The project aims to take a detailed, penetrating look at the economic performance of the three northern regions of England – the North East, North West, and Yorkshire and the Humber. On the basis of the available evidence across a range of different policy areas, the project seeks to formulate policy solutions that will enable the northern regions to combine strong economic growth with a socially just distribution of the benefits from growth, in a manner that is consistent with environmental sustainability, particularly the need to avert dangerous climate change.

The North's performance on 'narrow' economic measures

We begin with an assessment of the North's performance on 'narrow' economic indicators, such as Gross Value Added (GVA), structure of output, incomes and expenditures, and employment rates.

Over the last two decades, the growth rate of GVA per head in the northern regions has been poor compared with the UK average, although it is important to stress that the regions' performance measured against jobs filled and hours worked is a lot closer to the UK average. This is partly due to the fact that the North East, North West and Yorkshire and the Humber have employment rates below the UK average. The last three years have seen them catch up to some extent, with the North experiencing faster-than-average growth, but the latest economic forecasts suggest that this is unlikely to be maintained, and the regional gap in GVA will widen again over the next few years.

Like the rest of the country, over the last twenty years the northern regions have experienced a decline in the size of the manufacturing sector and an expansion in private and public service industries. However, the North has been more severely affected by such structural changes as it started with a much larger share of manufacturing in total output. The North continues today to have a share of manufacturing that is above the UK average.

Yet despite the structural differences between the Northern economies and the UK average, most of the productivity gap between the North and the UK average is accounted for by differences in productivity within industries. This means that Northern manufacturers and service providers are less productive than their counterparts in the Greater South East. Only one-sixth of the productivity gap can be attributed to compositional differences between the North and the rest of the UK (that is, the North having a greater proportion of low-productivity industries than the UK average). Differences in productivity between the North and the Greater South East must therefore be explained by differences in the characteristics of Northern firms or workers compared with their Southern counterparts. For example, productivity is affected by lower average skill levels in the Northern workforce than in the South. The gap in investment between the North and other regions is not as big as the gap in productivity.

The northern regions, along with Wales, Northern Ireland and

Scotland, have the lowest household incomes in the UK. The North East is the poorest of the three Northern regions, with an especially low proportion of people on high incomes. There are large differences in hourly earnings between English regions, with people living in London having by far the highest average wages, followed by those living in the South East and East of England. Wage levels in the North are roughly equivalent to those in the Midlands and the South West. Most of the regional disparity in wages cannot be accounted for by differences in the age or skills of workers in different regions, or differences in the industries they work in.

It might be possible to assume that the lower cost of living would cancel out some of the effect of the gap in earnings. Indeed, this analysis does identify some distinctive differences in the cost of living and price levels for goods and services in different regions of the UK. In particular, the North East, Wales and Scotland have the lowest price levels, and in London they are by far the highest. However, these differences do not level out the entire earnings gap between different regions.

All three northern regions have a working-age employment rate below the UK average. In spring 2007, the North East had the lowest employment rate of the three northern regions at around 71 per cent, which is 3 percentage points below the UK average. Much of the northern regions' employment deficit is accounted for by lower rates of employment among people aged between 50 and the state pension age. All three northern regions have a higher proportion of their respective populations claiming sickness and disability benefits than the average for Great Britain.

The level of the labour force's skills and qualifications remains a key challenge for the three northern regions. Among people of working age, the North has a lower proportion of people holding Level 4 skills or above (university graduates or equivalent) than the average for England. The North also has higher-than-average proportions of working-age people with no qualifications at all. Again, the North East is the worst performer of the three northern regions.

Intra-regional disparities also present substantial barriers to improving the North's economic performance and social cohesion. At the sub-regional level there are substantial differences in the level and growth of GVA per head, income per head, and economic activity rates. There are also large variations in the performance of urban and rural areas. In the period 2000 to 2004, more of the North's cities grew at above-average rates than between 1995 and 1999. However, the Office for National Statistics admits that GVA estimates at the sub-regional level, on which this analysis is based, are unreliable and should thus be treated with caution.

Wider measures of well-being

If the 'well-being' of the North is assessed against indicators such as output, employment and earnings, it performs relatively badly compared to the UK average, and very badly compared to the Greater South East in particular. However, when considering well-being it is imperative to move beyond a narrow definition of economic performance and to factor in the North's performance in

the areas of health, education and criminal justice, and also demographic and environmental indicators.

The demographic situation in the North is one of the worst in the country in terms of population growth. The North East and the North West, as well as Scotland, are the only UK regions that experienced falls in population between 1991 and 2004. Yorkshire and the Humber's population grew over this period; however, it was still below the average population growth rate for the UK.

The performance of the police service and criminal justice system in the North is mixed. In all three regions, people have lower-than-average confidence in the criminal justice system. Residents in the North West and Yorkshire and the Humber also have lower-than-average confidence in their police service. On this measure there is more optimism in the North East, where residents have higher-than-average confidence.

On education, the proportion of pupils achieving five or more GCSEs at A* to C including English and Maths is below average in all three Northern regions, despite a better-than-average performance by the North East on GCSE passes overall. According to recent data, all three regions have lower-than-average participation in adult learning. Health outcomes are relatively poor in the North. Life expectancy rates are lower, and mortality rates from heart disease and cancer are higher than in any other English regions.

More positively, the northern regions have several distinctive natural and environmental characteristics that give them a higher quality of life. For example, all three northern regions have a higher-than-average proportion of land dedicated to National Parks and Areas of Outstanding Natural Beauty. The river quality in the North East is excellent, while in the other two regions it is around the English average. The North East is also the most 'tranquil' English region (based on a 'tranquillity index' compiled by the Council for the Protection of Rural England), while the other two northern regions also have higher-than-average 'tranquillity' levels.

The quality of public services provided to the resident population is an important factor in assessing the quality of life. In this respect, the three northern regions perform relatively well. According to the Comprehensive Assessment, local authority performance is better than average for county councils, unitary authorities and metropolitan authorities in the North East and North West, and around average for Yorkshire and the Humber. However, district council performance is more mixed for all three Northern regions.

Governance in regional economic policy

The institutional milieu for delivering regional economic policy in England includes the following key elements:

- The Government Offices in the Regions, which represent central Government departments in the regions.
- The Regional Development Agencies (RDAs). In the northern regions, One NorthEast (the RDA for the North East) has the highest spending allocation per head, followed by Yorkshire Forward and the North West Development Agency.
- The Regional Assemblies (RAs), made up of representatives from local councils, regional business and the voluntary sector (however, they will be disbanded by 2010).

In the northern regions, there is another significant, pan-regional strategy, the Northern Way, of which the core aim is to close the '£30 billion output gap' with the rest of the UK. This gap was calculated based on an assumption of what the increase in the North's GVA would be if GVA per head in the Northern regions were equal to the average in the other UK regions. The current policy priorities of the Northern Way are: (i) identifying transport innovations which will deliver the greatest productivity gains to the region over the next 20 to 30 years; (ii) working with universities and industry to strengthen the North's research and innovation capacity; (iii) working with the private sector to lever in more private sector investment, particularly for pan-regional infrastructure projects and housing.

City regions are central for economic activity and growth and useful for analysing the main drivers of economic performance in the regions. There are eight city regions in the North: Tyne and Wear and Tees Valley in the North East; Central Lancashire, Liverpool/Merseyside and Manchester in the North West; and Leeds, Sheffield and the Hull and Humber Ports in Yorkshire and the Humber. While it is important that future economic strategies for the North do not focus exclusively on these city regions at the expense of areas (and people) outside them, there should be more recognition of the key role that the city regions can play in improving the North's economic performance.

Nine regional minister posts were created in June 2007 (one for each English region) in order to enhance the coordination of the work of government bodies and policies involved in regional development. The Green Paper *The Governance of Britain* also announced a plan to create parliamentary regional select committees to improve the direct accountability of regional quasi-governmental institutions and to scrutinise their activities. However, central Government will continue to play a key role in steering the direction of the regions' development, as approval for the RDAs' new Integrated Regional Strategies will remain with the Secretaries of State for Business, Enterprise and Regulatory Reform and for Communities and Local Government.

The Government's attention to sub-regional coordination mechanisms is continuing to grow and the recent Sub-national Review of Economic Development and Regeneration is forthright about the need to introduce them in areas in which a joined-up approach is required. New Multi-Area Agreements are on the agenda, combined with a greater role for city regions, as a way of strengthening sub-regional economic performance. However, the degree of independence that regional and local authorities have in setting local priorities will remain lopsided unless there is greater fiscal decentralisation, especially in a situation where future public spending settlements are tighter (as set out in the October 2007 Comprehensive Spending Review).

Financial instruments of regional policy: European Union and domestic support

The North of England is traditionally one of the biggest recipients of state support and also of money from EU Structural funds in England. The three northern regions benefit from Selective Finance for Investment in England – the main industrial assistance programme in UK. This mostly supports high-quality knowledge-

based projects in both manufacturing and service industries (with the share of the latter growing steadily).

Financial support from EU Structural Funds has helped to finance major regeneration, infrastructure and cultural projects in Northern England. However, the three regions will have to look for new sources of EU funding, including loans and collaborative projects, as well as private sector finance, since EU funding in the period 2007 to 2013 is reduced dramatically, as a result of the 2004 enlargement of the Union. The northern regions will, though, continue to receive more EU funding per head than any other English region.

Recommendations

As a background audit of the current situation in the Northern economies, it is not intended for this paper to make substantial policy recommendations. However, after analysing various types of performance data, one area urgently requiring improvement has become very clear: the current Public Service Agreement (PSA) target.

Recognising the growing disparities in regional performance, the Government designed a specific PSA target in 2004 to bridge that gap. Despite a dramatic reduction in the overall number of PSAs announced in the Comprehensive Spending Review of 2007, this target remains, only slightly reformulated. It is the measurement that was expanded, adding several indicators that would be used to assess the regional performance (that is, the employment rate). The Government also aims to measure the regional performance of English regions against the European average.

However, the results of this research revealed three key problems with the current regional PSA target:

1) The target still only aims to reduce the gap in growth rates between 'leading' and 'lagging' regions – not for a reduction in absolute levels of GVA between the two sets of regions. It would

be perfectly possible for the PSA target to be met if the gap in growth rates between the Greater South East and the rest of the English regions were reduced slightly – even though the Greater South East would still be growing faster than the rest of England. Hence regional disparities could continue to widen even if the target were being met – which means, in our view, that the target is too weak.

- 2) Both 'leading' and 'lagging' regions are taken as a group, not individually (the three northern regions are in the 'lagging' group while the six other regions are in the 'leading' group). This means that as long as the gap in average growth rates is reduced, the target is met. But a single 'lagging' region could do exceptionally badly relative to all the others and this underperformance would still not be picked up by the target, because on average the lagging regions were reducing the gap with the leading regions.
- 3) The target measurement was extended from just GVA to include employment and level of skills in the 2007 Comprehensive Spending Review. However, it should also embrace more key indicators of well-being – such as public service outcomes or environmental factors.

We therefore recommend revision of the PSA target. In particular:

- The PSA target should be designed to reduce the absolute gap in levels of GVA between regions, not just the gap between growth rates.
- The PSA target should apply to individual regions, not groups of regions.
- The economic performance PSA target should be extended to include social and human dimensions of well-being. It should be aimed at closing the regional gap that also exists in terms of quality of life measured beyond 'narrow' economic indicators.

Introduction

This paper provides background to ippr north's Northern Economic Agenda project. The project aims to take a detailed, penetrating look at the economic performance of the three northern regions of England – the North East, North West, and Yorkshire and the Humber. On the basis of the available evidence across a range of different policy areas, the project seeks to formulate policy solutions that will enable the northern regions to combine strong economic growth with a socially just distribution of the benefits from growth, in a manner that is consistent with environmental sustainability, particularly the need to avert dangerous climate change.

The northern regions of England are rarely viewed these days as the economic powerhouse of the UK, and yet that is precisely what they once were, during the Industrial Revolution of the late 18th century and the period of British pre-eminence in the global economy in the Victorian era. A long process of decline of the North's traditional manufacturing strengths from the turn of the 20th century onwards culminated in the destruction of huge numbers of industrial jobs during the recessions of the early 1980s and early 1990s. The northern regions were not alone in the UK in suffering during those difficult years – the Midlands, Scotland, Wales and Northern Ireland all experienced severe economic problems too, and even the South did not escape unscathed.

However, more worrying for today's policymakers is that while, since around 1994, the whole of the UK has experienced a period of economic expansion of a kind not seen for decades, the North's expansion has been considerably slower than the UK average. Looking at the growth in Gross Value Added (GVA) per head – a commonly used measure of economic output – for each region between 1990 and 2005, only Wales grew more slowly than the three northern regions. This pattern of poor performance on headline indicators of prosperity is echoed when we examine data on incomes, earnings, business start-ups, skill levels in the labour force, and many key public service outcomes in areas like health and criminal justice. In short, on most of the indicators of prosperity that we can measure reliably, the North falls short, while London and the Greater South East are out in front¹.

And yet, the raw economic figures do not quite correlate with the reality observed by a visitor to any of the three northern regions. Major conurbations including Manchester, Leeds and Newcastle are thriving, having seen extensive redevelopment over the last decade. The regions' ports and airports are busier than ever. The northern universities are hotbeds of research excellence, forming fruitful links with business as readily as any of their southern counterparts. And the North is home to perhaps the finest environmental endowment of any part of England, with four National Parks, seven Areas of Outstanding Natural Beauty, terrain ranging from the hilliest to some of the flattest parts of the country, and hundreds of kilometres of coastline. There appears to be a mismatch between the richness of the North's social, cultural and environmental assets

– which should allow it to be a place where the quality of living can be as good as anywhere in the UK – and the harshness of the statistical verdict on its performance relative to the rest of the country.

The 'Northern Economic Agenda' project aims to show how the North can realise its full economic potential without abandoning the strengths it already has. We start from the assumption that there is no *a priori* reason why the North cannot achieve and sustain economic growth rates that are at, or above, the UK average. (Indeed, over the past two years, it has already managed to grow at above-average rates – which shows the need for a careful examination of the statistical evidence before jumping to conclusions.) But economic growth is not the be-all and end-all. Environmental sustainability and an egalitarian notion of social justice are just as important. Growth is a means to an end rather than an end in itself. This mixture of priorities infuses the whole of our project.

Before discussing economic policy prescriptions for the northern economies it is essential to build up a clear picture of how the North is doing economically at the moment, relative to other regions in England and the other nations of the United Kingdom.

Structure of this report

This report gives a detailed account of the economic performance of the North of England on a range of economic, social and environmental indicators. We begin, in Section 1, by looking at the 'headline' economic measures which are often used in economic comparisons across regions and countries – output, investment, income, earnings, deprivation, employment and skills among the population. Section 2 widens this focus to look at measures that are more attuned to 'quality of life' – in particular, key public service outcomes such as criminal justice, health, education and environmental measures. We end this section with a discussion of how the Government's inter-departmental Public Service Agreement (PSA) target on regional economic performance might be reformed for better effectiveness. Section 3 gives an overview of the regional economic policy apparatus which the Government has put in place since Labour took office in 1997. We focus particularly on the role of Regional Development Agencies (RDAs), the Northern Way (a collaboration between the three northern RDAs), and the Regional Ministers introduced in July 2007 after Gordon Brown replaced Tony Blair as Prime Minister.

The role of this paper is to provide a broad overview of key indicators and material that supplements the other reports in the series (see below). An 'audit' of this nature helps us to identify the challenges facing the northern economies in seeking to improve economic performance while delivering a socially just and environmentally sustainable future. But it is only a first step towards the formulation of policies to meet those challenges. For one thing,

1. Although, as shown later in this report, London also suffers from higher-than-average rates of worklessness and deprivation.

the audit is only as good as the data it is based on, and in compiling this paper we have experienced substantial limitations in the quality and timeliness of regional statistics – particularly with regard to data on economic outputs, price levels and environmental indicators.

The three main publications from this project – on the size and role of the public sector, transport and entrepreneurship, and innovation policy – contain detailed policy analysis which draws on the evidence base from this paper, as well as supplementing that evidence base with statistics on transport, enterprise and the public

sector in the North. They each explore their particular areas of policy focus in more detail and provide additional statistics to this paper. Together, this paper and the policy papers form the evidence base for the final report from this project, which formulates an overarching progressive strategy for the revitalisation of the northern economies over the next decade and beyond.

For all the other Northern Economic Agenda project papers, please visit www.ippr.org/ipprnorth/publicationsandreports.

1. 'Narrow' economic measures

Summary of the North's performance on 'narrow' economic indicators

- The rate of growth of Gross Value Added (GVA) per head has been poor over the last two decades compared with the UK average, although northern performance in terms of GVA per filled job and GVA per hour worked is a lot closer to the UK average. This is partly because the northern regions have lower than average employment rates. The last three years have seen some catch-up, with the North's GVA growing faster than average, but the latest economic forecasts suggest that this is unlikely to be maintained, and the regional gap in GVA will widen again over the next few years.
- The northern regions have experienced similar changes in industrial structure to the rest of the UK over the last 20 years, with a decline in the size of the manufacturing sector, and an expansion in the private and public service industries. But this restructuring has affected the North more greatly than most of the other UK regions because the northern regions had a particularly large share of manufacturing to begin with, and still have a larger share of manufacturing than the current UK average.
- Despite the structural differences between the northern economies and the UK average, most of the productivity gap between the North and the UK average is accounted for by differences in productivity within industries. That is to say, northern manufacturers are less productive than manufacturers in, for example, the Greater South East, and northern service providers are less productive than service providers in the Greater South East. Only one-sixth of the productivity gap is due to compositional differences between the North and the rest of the UK (the North has a greater proportion of low-productivity industries than the UK average).
- The gap in investment between the North and other regions is not as big as the gap in productivity between the regions.
- The northern regions, along with Wales, Northern Ireland and Scotland, are the poorest regions in the UK in terms of household incomes. The North East is the poorest of the three northern regions, with an especially low proportion of people on high incomes. The North East also has the largest proportion of deprived areas of any region.
- There are large differences in hourly earnings between English regions, with people living in London having by far the highest average wages, followed by those living in the South East and the East of England. Wage levels in the North are roughly equivalent to those in the Midlands and the South West of England. Most of the regional disparity in wages cannot be accounted for by differences in the age or skills of workers in different regions, or differences in the industries they work in.
- There are clear differences in the cost of living and the level of prices in different regions. The North East, Wales and Scotland have the lowest price levels, and London by far the highest. The differences in living costs cancel out some – but not all – of the gap in earnings between different regions.
- The working-age employment rate is below the UK average in all three northern regions. In Spring 2007 the North East had the lowest employment rate of the three northern regions at around 71 per cent, 3 percentage points below the UK average. Much of the northern regions' employment deficit is accounted for by lower rates of employment among people aged over 50 but below state pension age. All three northern regions have a higher proportion of their respective populations claiming sickness and disability benefits than the average for Great Britain.
- Among people of working age the North has a lower proportion of people holding level 4 skills or higher (university graduates or equivalent) than the average for England. The North also has higher than average proportions of working-age people with no qualifications. Again, the North East is the worst performer of the three northern regions on these measures.
- There are substantial differences in the level and growth over time of GVA per head, income per head, and economic activity rates at the sub-regional level (NUTS3 level). There are also large variations in the performance of urban areas. More of the North's cities grew at above-average rates between 2000 and 2004 than between 1995 and 1999. However, this analysis is based on data on GVA per head which the Office for National Statistics admits are unreliable at the sub-regional level, and thus should be treated with caution.

Gross Value Added

Gross Value Added (GVA) is a standard output measure used by the Government to analyse economic performance over time and across regions and industries.² GVA has limitations in that it includes only goods and services sold in the market sector of the economy, or goods not sold on the market whose value is imputed by the Office for National Statistics (ONS) for the purpose of compiling the statistics (for example, many public services such as health and state education). It misses out household production³, and includes no measure for many of the things that people value in life – the environment, community cohesion, relationships with friends and family, arts and culture, and so on. Hence it is a highly imperfect

2. GVA is used in the 'production' approach to measuring Gross Domestic Product (GDP), the headline measure of economic performance. GDP can be measured using a 'production', 'income' or 'expenditure' method. In the national income accounting framework, these should all be equal, subject to measurement error. But GVA is the only measure that can be disaggregated into industrial sectors. The relation between the two measures is: $GVA + (\text{taxes on products}) - (\text{subsidies on products}) = GDP$. For more detail on this see www.statistics.gov.uk/CCI/nugget.asp?ID=254&Pos=5&ColRank=1&Rank=224

3. For example, adults in the household staying home to look after children, the value of DIY done in the home.

measure of the ‘well-being’ of the North. Nonetheless, GVA is readily measurable to an internationally agreed standard, and hence it makes a good starting point – though only a starting point – for statistical comparisons between the North and other regions. We examine broader performance measures – insofar as suitable data on them exists – in Section 2⁴.

GVA per head

Significant regional differences in GVA per head first began to emerge in the 1920s as the industrial economies of the North and Midlands, which had been the economic powerhouse of the UK during the 19th century, began to lose dynamism (Crafts 2007). These differences persisted during the period after the Second World War as traditional manufacturing industries continued to falter. In the 1980s the decline of the North in particular accelerated, while the Greater South East (London, the South East and the East of England) benefited from a boom in financial services and related activities focused around London, which consolidated its status as one of the world’s key financial centres during this period.

Table 1.1 shows what has happened to GVA in each region since 1990. In 1990, the three northern regions already had significantly lower GVA per head⁵ than the UK average: the North East’s GVA per head was only 82 per cent of the UK average, and the North West’s and Yorkshire and the Humber’s both 89 per cent. It is worth noting that even at this stage, the Greater South East (GSE) was clearly more prosperous than any other part of the country – only the three GSE regions had higher GVA per head than the UK average.

By 2005, all three northern regions had fallen further behind the UK

average, as a result of lower than UK-average growth in the North over the 15 year period. The North East’s GVA per head was now only 78 per cent of the UK average, the North West’s 86 per cent, and Yorkshire and the Humber’s 85 per cent. In fact, all the northern and Midlands regions fell further behind the average, as did Scotland and Wales (but not Northern Ireland, which grew particularly quickly between 1990 and 2000). UK average GVA was driven upwards by a very strong performance on growth by London and the South East. The North East’s performance on growth was particularly weak, meaning that it fell further behind the other two northern regions.

Columns five to seven of Table 1.1 break down the overall increase in GVA into annual averages over five-year periods to give a more detailed perspective. The period 1990–95 incorporates the early 1990s recession and the beginning of the recovery period; GVA grew slowly in most regions during this time, but the growth rates of the North West and of Yorkshire and the Humber were still slightly lower than the UK average of 1.4 per cent per year, while the North East’s rate was only marginally higher than the UK average. The period 1995–2000 saw much stronger average growth across the UK, with the northern regions lagging further behind the UK average. In particular, the North East’s growth rate of 1.5 per cent was lower than any other region except Wales, and was only just over one-third of the South East’s growth rate of 4 per cent.

The most recent period, 2000–05, saw an improvement in the North’s performance relative to other regions. The North East grew at 2.4 per cent per year, which was above the UK average. The North West matched the UK average, while Yorkshire and the Humber was slightly above it. The northern regions made up ground

Table 1.1. Real growth rates in GVA, by region, 1990–2005

Region	GVA per head, 1990	GVA per head, 2005	Overall GVA growth 1990–2005, %	Annual growth rate, 1990–95	Annual growth rate, 1995–2000	Annual growth rate, 2000–05	Annual growth rate, 2003–05
North East	£10,814	£14,084	30.2	1.5	1.5	2.4	3.0
North West	£11,862	£15,545	31.0	1.2	2.1	2.1	2.3
Yorks and Humber	£11,773	£15,423	31.0	1.1	2.2	2.2	1.8
East Midlands	£12,405	£16,643	34.2	1.1	1.8	3.1	2.7
West Midlands	£12,063	£15,793	30.9	1.6	2.3	1.6	1.9
East	£14,340	£18,854	31.5	1.0	2.8	1.8	1.1
London	£16,803	£24,130	43.6	1.1	3.8	2.4	2.4
South East	£14,281	£20,110	40.8	1.4	4.0	1.6	0.6
South West	£12,077	£16,765	38.8	1.3	2.6	2.8	2.4
Scotland	£12,846	£16,942	31.9	1.9	1.0	2.7	2.3
Wales	£10,938	£13,925	27.3	1.4	0.9	2.5	3.0
N Ireland	£9,614	£14,386	49.6	3.3	3.0	1.9	2.6
UK average	£13,260	£18,051	36.1	1.4	2.8	2.1	2.0

Note: GVA figures are on a residence basis and are expressed in 2005 price levels. 1990 and 1995 GVA are updated using the Treasury’s (national) GVA deflator⁶.

Sources: GVA data – ONS December 2006 Regional GVA release, Table 1.5. GVA deflator – HM Treasury’s website.

4. For a completely different – though controversial – approach to comparing well-being between people and countries, see Layard 2005.

5. The GVA figures here are presented per head rather than in aggregate as the populations of the regions are very different, and this provides an easier basis for comparison.

6. All regional GVA figures use the *national* deflator series, as the ONS does not currently produce regional deflators for output. The Allsopp Review of statistics for economic policymaking (HM Treasury 2004b) recommended that regional deflator series be developed; the ONS is currently still investigating the possibility.

Table 1.2. Regional GVA growth forecasts by Experian Business Strategies

Region	Growth rate estimates/forecasts (%)			
	2006 (estimate)	2007 (forecast)	2008 (forecast)	2009 (forecast)
North East	3.4	1.6	1.5	1.9
North West	2.3	2.2	2.0	2.2
Yorkshire and Humber	2.7	2.5	2.2	2.5
East Midlands	2.4	3.1	2.5	2.8
West Midlands	3.3	3.3	2.7	2.9
East	3.8	3.9	3.2	3.5
London	3.1	2.7	2.4	2.7
South East	2.9	2.3	2.2	2.4
South West	1.2	1.9	2.0	1.9
Scotland	4.2	1.8	2.1	2.4
Wales	2.6	2.1	2.3	2.4
N Ireland	2.6	2.7	2.4	2.4
UK average	2.7	2.7	2.4	2.6

Source: Experian Business Strategies 2007

on the East and South East over this period, though not on London, which continued to grow very strongly.

Although the performance of the northern regions relative to the UK average has improved from 2003 onwards, recent forecasts from Experian Business Strategies (EBS) cast doubt on whether this catch-up can be maintained. EBS produces regular forecasts of output growth at the regional level derived using econometric models of the UK economy⁷.

Table 1.2 shows EBS's estimate of regional output growth for 2006 and its forecasts of growth for the years 2007 to 2009. The first column shows estimated growth in the regional economies for 2006 (official statistics for regional GVA growth for 2006 will not be released until December 2007). If these estimates are correct, the North East and Yorkshire and the Humber will have continued to grow faster than the UK average in 2006, although growth in the North West will be slower than average. The growth forecasts for 2007 to 2009 show a very different pattern for the North East – it is projected to grow more slowly than any other UK region over this three-year period. Growth in the North West is also forecast to be relatively slow at between 2 and 2.2 per cent each year. Yorkshire and the Humber is projected to be the fastest growing northern region in each of the next three years but its growth will still be below the UK average in each year if these forecasts turn out to be correct. The regions that EBS predicts to grow fastest up to 2009 are the East of England and the East and West Midlands.

If these forecasts turn out to be correct then the strong relative performance of the northern regions since 2003 will eventually turn out to be nothing more than a temporary pause in the trend of increasing regional disparities that has shown up in output data for

the past 20 years. However, accurately forecasting regional growth even a few years ahead is an extremely difficult task as there are so many factors that can affect growth rates. For example, the press release that accompanies the set of EBS growth forecasts states that 'the recent recovery appears to have been strongly influenced by booming global demand in London's financial and business services, which has then spilt out to the neighbouring regions' (EBS 2007). Yet in August 2007 some economic commentators were predicting that problems in the US mortgage market could prompt a crisis in the global financial sector, with credit becoming much more expensive. If this were to happen it could have serious short-to-medium term repercussions for growth in the financial sector – and hence for the Greater South East's economic performance over the next few years compared with the rest of the UK. That could completely change the pattern of regional growth forecasts.

Nonetheless, the general pattern of these forecasts makes worrying reading for policymakers in the North and in Whitehall and suggests that additional policy action will be necessary to address regional disparities. This is one of the central issues we address in this report.

The regional performance PSA target

Concern over widening regional disparities in GVA per head led the Government to introduce a Public Service Agreement (PSA) target to 'make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006' (HM Treasury 2002). The final column of Table 1.1 has been included to enable us to assess performance against this target, showing annual growth rates from 2003 (the first year in which the PSA target was operational) to 2005 (the most recent year for which we have data⁸).

7. For details of the Experian models used for regional output growth estimates see www.business-strategies.co.uk/sitecore/content/Products%20and%20services/Economic%20forecasting/Regional%20Planning%20Service.aspx (accessed October 2007)

8. Data for 2005 is provisional at the time of writing, so these estimates may change if we were to revisit them when the finalised data for 2005 is released (at the end of 2007). See HM Treasury/Department for Trade and Industry/Communities and Local Government 2006.

The recent joint departmental report assessing progress to date on regional economic performance measures the gap in growth rates between the regions by comparing the average growth rate of regions that had above-average GVA per head in 2002 with the average growth rate of regions that had below-average GVA per head in 2002 (HM Treasury/Department for Trade and Industry/Communities and Local Government 2006). As only the three Greater South East (GSE) regions had above-average GVA per head at any time between 1990 and 2005, this implies comparing the average for the GSE regions with the average for the other six English regions (the PSA target does not apply to Wales, Scotland or Northern Ireland). Taking unweighted averages of the last column in Table 1.1, average growth for the GSE regions is 1.37 per cent. Average growth for the other English regions is 2.35 per cent. Therefore, based on the data we have so far, the PSA target for reducing growth rates between regions is being met comfortably – although if the EBS regional growth forecasts shown in Table 1.2 turn out to be accurate, the target certainly will not be met over 2007 to 2009. We return to a discussion of how the PSA target might be improved at the end of this paper, after a full examination of the data on regional performance.

Alternative measures of GVA

GVA *per head* is a useful measure of relative economic performance but it is certainly not the only measure of interest. We might also be interested in GVA *per job*, which shows relative productivity among those in work. As Figure 1.1 shows, employment rates for the working-age population vary quite substantially, from less than 70 per cent for London up to almost 80 per cent for the East, South East and South West. This means that it is likely that GVA per filled job shows a rather different pattern to GVA per head of population.

Figure 1.2 confirms that this is indeed the case. Three different measures of GVA are shown here for 2004, indexed against a UK average of 100:

- GVA per head of the population (as in Table 1.1)
- GVA per *filled job* (i.e. per person in work). This is a basic measure of labour productivity, looking just at those in work in the region.
- GVA per *hour worked*. This controls for any differences in GVA arising from differences in the hours worked by the population.

The overall picture that emerges from Figure 1.2 is that the GVA gap between the northern (and Midlands) regions and the Greater South East narrows substantially when they are compared on either GVA per filled job or GVA per hour worked⁹. For example the North East has only 80 per cent of UK average GVA per head, but 93 per cent of UK average GVA per filled job and 95 per cent of GVA per hour worked. Conversely, the East and South East are much closer to the UK average on the GVA per filled job and GVA per hour worked measures, and the gap between London and the other regions also narrows substantially (although it does not disappear).

The GVA gap narrows when the focus is restricted just to those in work because GVA per head is affected by differences in the working-age employment rates and the age structure of the regional populations. For example, the North East has a lower than average employment rate which means that GVA per filled job is likely to be higher, relative to the UK average, than GVA per head of the population. A possible conclusion we could draw from this is that if the North East could increase its working-age employment rate from the current level of around 71 per cent to the UK average of 75 per cent, it would succeed in reaching UK average GVA per head. However, this would not necessarily be the case because it would be dependent on the productivity of the extra people entering work relative to the average. If the extra workers were mainly low-skilled, they would pull down average GVA per filled job and a gap in GVA per head might still exist, even if the employment rate increased to the UK average.

Section 2 of this paper gives more details of the skill distribution among people in and out of the labour market in the northern regions.

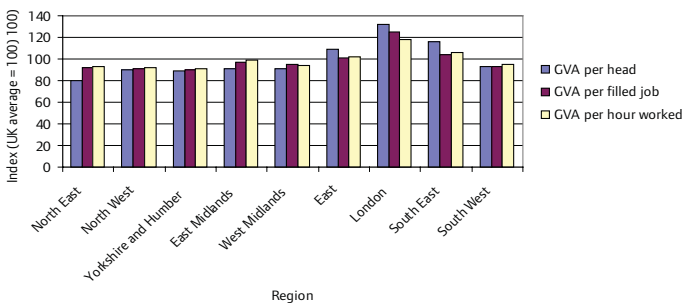
Likewise, the age structure of the population (shown in Figure 1.3) will affect the difference between GVA per head and GVA per filled job. A region like London, where people of working age make up an exceptionally high proportion of the population (that is, where there are fewer children and/or pensioners relative to other regions) will

Figure 1.1. Regional employment rates, March to May 2007



Source: ONS Annual Population Survey, available at www.nomisweb.co.uk (accessed 20.6.07)

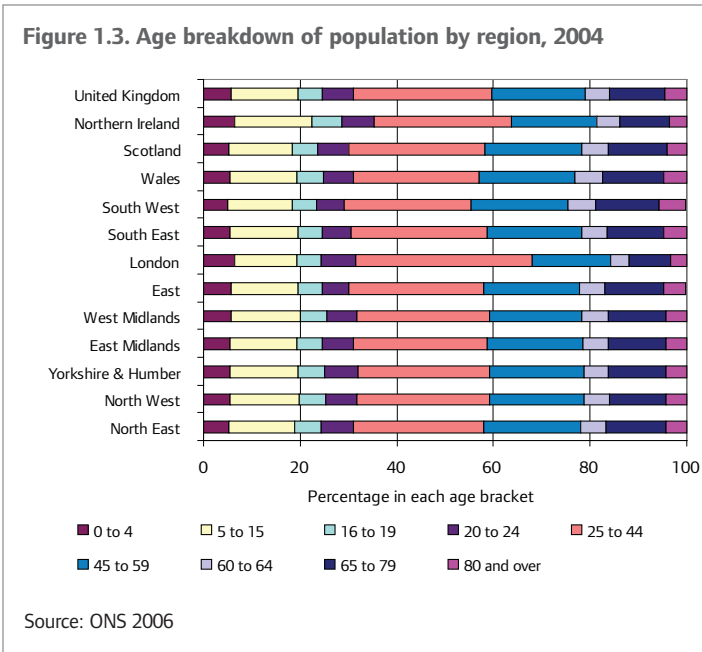
Figure 1.2. Regional GVA comparisons with different denominators, 2004



Source: ONS 2006a, Chapters 5 and 12

9. For a detailed treatment of this issue with some interesting additional analysis see New and Virdee 2006.

Figure 1.3. Age breakdown of population by region, 2004



have a smaller gap between GVA per head and GVA per filled job than a region like the South West where the working-age proportion of the population is relatively small. This explains why GVA per filled job in London is lower, *relative to the UK average*, than GVA per head despite the fact that London has the lowest working-age employment rate of any region; the larger working-age population offsets the lower employment rate within that population. This shows that demographic factors, as well as economic factors, can affect progress towards the PSA target.

Sectoral composition of GVA

One of the advantages of focusing on GVA as a measure of economic performance is that it can be decomposed by industrial sector. The ONS’s SIC92 industrial classification allocates industrial output to one of sixteen primary sectors. Figure 1.4 (pp14–15) presents ten pie charts which look at the sectoral composition of GVA in 1989, and again in 2004¹⁰, for the three northern regions, London (for comparison), and the UK average.

In 1989, all three northern regions had a reasonably similar industrial composition. Manufacturing made up about 30 per cent of total output. Construction accounted for around 7 per cent. Wholesale and retail trade, transport, storage and communications, and hotels and restaurants made up a total of about 20 per cent in each case. Financial services accounted for about 16 per cent. The main (predominantly) public sector categories – education, health and public administration – made up about 17 per cent.

By 2004 there had been similar changes in all three northern regions. Manufacturing output now made up less than 20 per cent of total GVA in each case. In other words, the non-manufacturing part of the economy expanded a lot more quickly than the manufacturing part. In the North West and Yorkshire and the Humber, trade, hotels/restaurants and transport expanded to around 25 per cent of total output. Financial services and real estate expanded to 22 per cent of GVA in the North East and around 25

per cent in the other two regions. The public sector categories now made up around 20 per cent of GVA in the North West and Yorkshire and the Humber, and 23 per cent in the North East. Hence there has been a major shift in the sectoral composition of the northern economies since the end of the 1980s, with various service industries (both private and public) expanding at the expense of manufacturing. This continues a long-term decline in the UK’s manufacturing base which started as far back as the 1920s.

How does the North’s industrial experience compare with the UK average? On average the UK experienced a decline of 10 percentage points in the proportion of output accounted for by manufacturing (as did the North), but from a smaller starting base – manufacturing only made up 24 per cent of UK output in 1989. Thus, all three northern regional economies were disproportionately reliant on manufacturing in 1989, and indeed still were in 2004. Real estate and financial services were both lower, as a share of GVA, in the North than they were in the UK as a whole, both in 1989 and 2004. By 2004 these two categories made up almost a third of total GVA on average in the UK, whereas in London they accounted for almost half of total GVA. The UK’s share of public services expanded slightly over the 15-year period but not by quite as much as it did in the North East in particular. See our report *The Public Sector in the North: Driver or intruder?* (Mrinska 2007) for a more detailed look at recent trends in public spending in the North and elsewhere.

We can conclude that the ‘direction of travel’ since 1989 for the northern economies has been the same as for other regions of the UK – manufacturing has declined and services have expanded as a proportion of total output. The main difference between the North and other regions is that the North had a larger manufacturing base in 1989 (and a correspondingly smaller service base), and it still has a larger manufacturing base (and smaller service base) now. Thus the overall decline of the manufacturing sector has hit the North particularly hard compared with most other UK regions.

The next part of this section examines the implications of the structural shifts in the northern industrial base in more detail.

Regional changes in productivity within the industrial sector

Changes in industrial composition for different regions are only part of the story. It is also useful to look at relative productivity within industries to draw out an exact picture of the North’s performance in each sector over recent years.

Figure 1.5 looks at GVA per employee for the northern regions and the other regions of England within four different Standard Industrial Classification (SIC) categories: manufacturing, transport, storage and communication, financial intermediation, and health and social care. We have chosen these industries as a reasonable cross-section of manufacturing, private services and public services, while avoiding cluttering the graph too much. The UK average *within* each industry is taken as 100, and the figures use an average of GVA between 2001 and 2004 to ameliorate the problems of volatility in the data caused by small sample sizes in some regions and industries.

10. The ONS releases figures for GVA broken down by region and industrial sector a year after it releases figures for GVA broken down by region. Hence the most recent data available for Figure 1.4 at the time of writing (autumn 2007) is from 2004 rather than 2005.

Figure 1.4. Sectoral breakdown of GVA in northern regions, London and UK average – cont. next page (with notes)

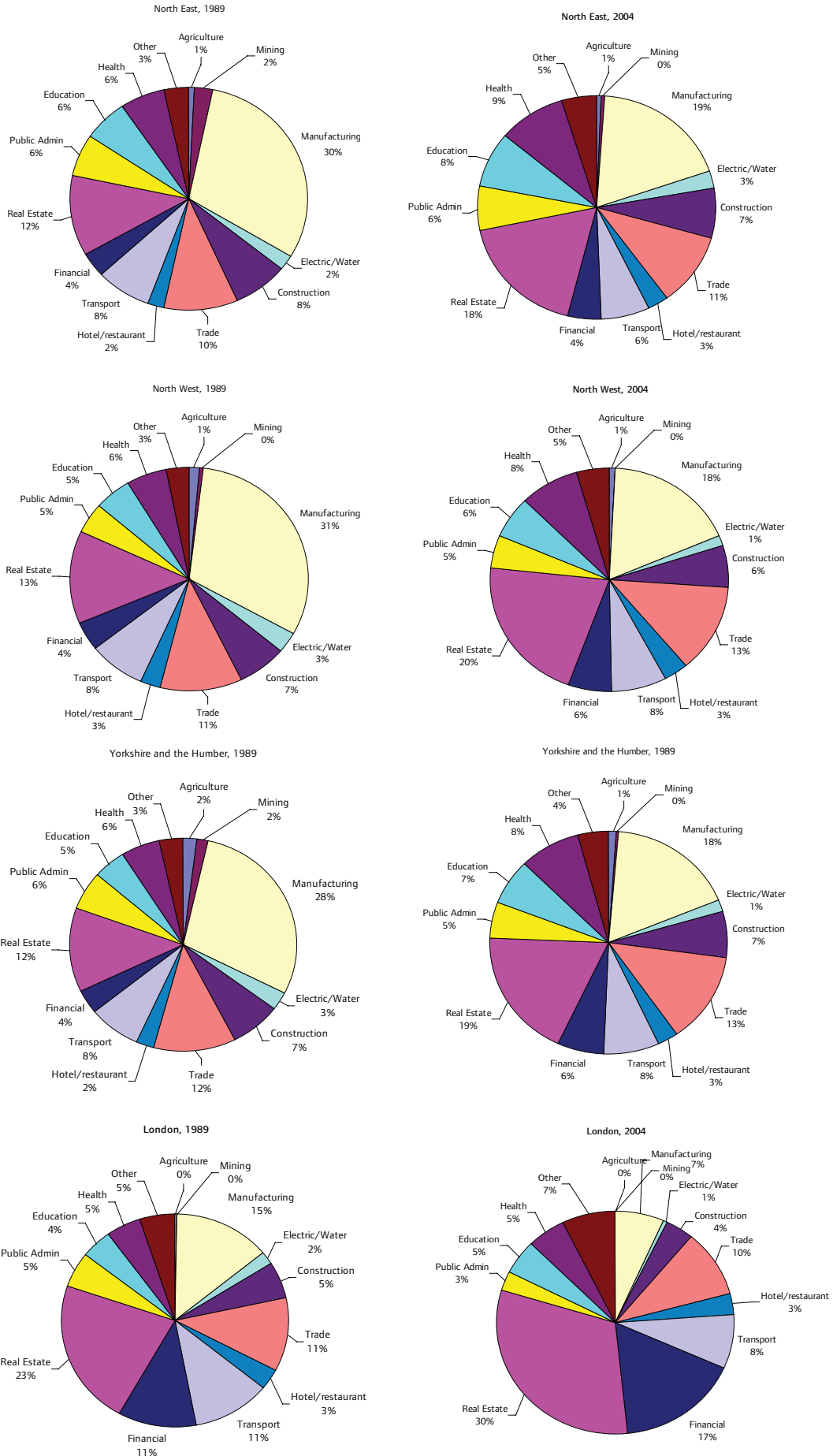
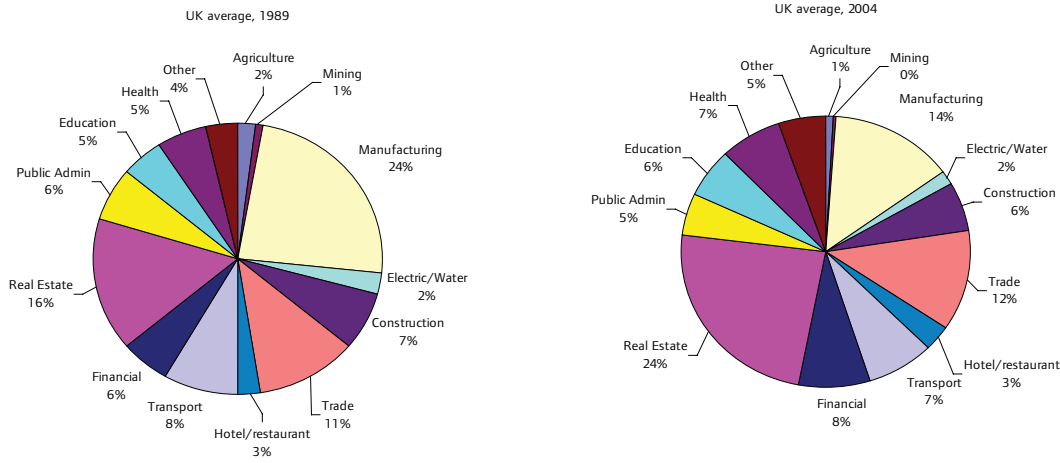


Figure 1.4. Sectoral breakdown of GVA in northern regions, London and UK average – cont.



Data source: ONS GVA data for 2004 broken down by SIC92 industry and NUTS1 region, downloaded from www.statistics.gov.uk/statbase/Product.asp?vlnk=14650 (accessed October 2007)

Notes: Mapping between legend and Standard Industrial Classification (SIC) is as follows:

'Agriculture' = SIC A (agriculture, hunting, forestry and fishing); 'Mining' = SICs B (mining and quarrying of energy producing materials) and C (other mining and quarrying) combined; 'Manufacturing' = SIC D (manufacturing); 'Electric/Water' = SIC E (electricity, gas and water supply); 'Construction' = SIC F (construction); 'Trade' = SIC G (wholesale and retail trade); 'Hotel/Restaurant' = SIC H (hotels and restaurants); 'Transport' = SIC I (transport, storage and communication); 'Financial' = SIC J (financial intermediation); 'Real Estate' = SIC K (real estate, renting and business activities); 'Public Admin' = SIC L (public administration and defence); 'Education' = SIC M (education); 'Health' = SIC N (health and social work); 'Other' = SIC O (other services)

Figure 1.5 shows that the relative pattern of GVA per worker in each of the four featured industries is slightly different, but there are also some similarities between them. In manufacturing, London and the South East of England had GVA per worker well above the English average for 2001–04; the South West and North East were slightly above average. The North West and Yorkshire and the Humber were below average. The lowest GVA per employee in manufacturing was in the West Midlands.

In transport, storage and communication, all three northern regions were below average (as was every region except the South East and the East of England). In financial intermediation, the East of

England had by far the highest GVA per head between 2001 and 2004. London and the South East were also above average. The northern regions were around 15 to 20 per cent below the UK average in this industry. In health and social care, GVA per head is more equal between regions than in any of the other industries featured and all the northern regions are pretty close to the average. London had the highest GVA per head in this industry.

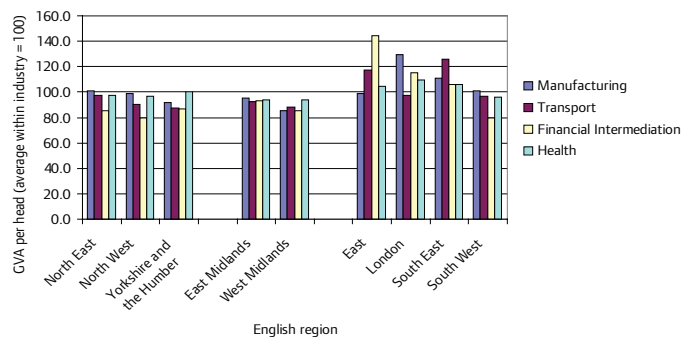
In general, the results in Figure 1.5 back up the broad pattern of regional productivity shown in Figure 1.2 – the Greater South East has higher productivity than other regions in most industries, most of the time.

Regional disparities in productivity and industrial structure

A key question for policymakers is how far the lower levels of GVA in the northern regions reflect the overall pattern of industrial output, and how far they reflect the fact that firms within each industry in the North are simply less productive than their southern counterparts. If firms within each industry are equally productive in each region, and differences in regional GVA per head are caused by industrial composition, then an acceleration of the process of industrial restructuring in the North – a continuing shift from manufacturing to services – would be expected to close the productivity gap between the North and the Greater South East. Conversely, if firms are less productive in the North within each industry, then there would be a productivity gap between the North and South even if the proportion of output accounted for by manufacturing were the same across all regions.

Theoretically, a difference in productivity between two different regions could be due to any combination of *within-industry* and *between-industry* differences in productivity. Table 1.3 examines the

Figure 1.5. GVA per employee relative to UK average in selected regions and industries, 2001-04 average



Source: GVA data: ONS NUTS1 GVA data for 2005, downloaded from www.statistics.gov.uk/statbase/Product.asp?vlnk=14650 (accessed October 2007)

Employment data: ONS Economic and Labour Market Review (previously Economic Trends), Table B.16, various years

Table 1.3. Regional productivity and industrial structure, 2004: decomposition into within-industry and between-industry components

Region	GVA per worker, 2004 (GB=100)	GVA per worker if industrial structure were 'average'	Productivity gap 'between' industries, %	Productivity gap 'within' industries, %
North East	86	88	16.7	83.3
North West	87	89	16.3	83.7
Yorkshire and Humber	90	91	15.0	85.0
East Midlands	95	97	38.1	61.9
West Midlands	89	90	9.8	90.2
East	110	110	2.6	97.4
London	120	114	28.2	71.8
South East	112	111	10.6	89.4
South West	94	98	72.7	27.3
Wales	89	95	56.1	43.9
Scotland	94	95	18.2	81.8

Source: GVA data: ONS NUTS1 and SIC92 GVA data for 2004, downloaded from www.statistics.gov.uk/statbase/Product.asp?vlnk=14650 (accessed October 2007)

Employment data: ONS Economic and Labour Market Review (previously Economic Trends), Table B.16, various years

relative importance of within-industry and between-industry differences in productivity for Britain in 2004. The first column shows actual GVA per worker relative to the average. The second column shows how output per worker would change if the sectoral composition (in terms of employment) of the region were the same as the UK average, and if levels of per-worker productivity within each industry were unchanged in the region. In other words this column eliminates the between-industry differences in productivity, leaving just the within-industry differences. It is then possible to calculate the proportion of the productivity 'gap' between each region and the British average that is accounted for by between-industry and within-industry differences.

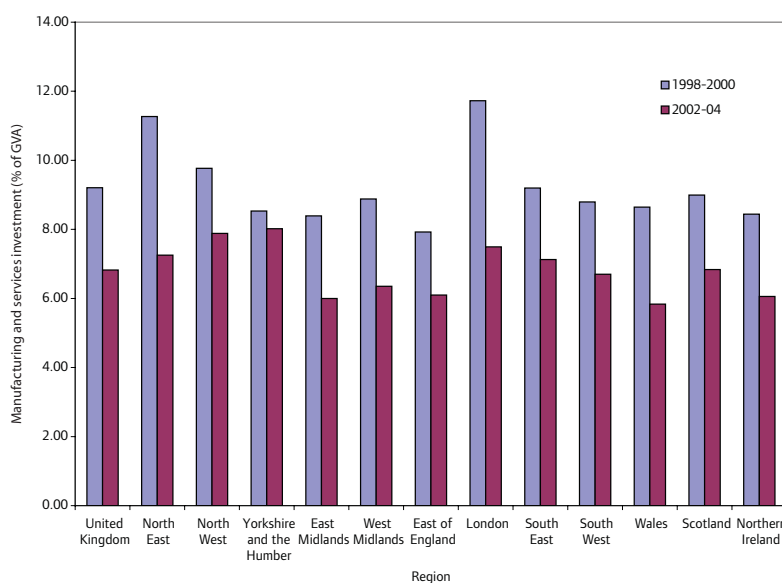
Table 1.3 shows that for most regions, within-industry differences in GVA account for more of the productivity gap than between-industry differences. In the northern regions, only around one-sixth of the productivity gap can be accounted for by between-industry differences. This means that even if the sectoral composition of the northern regions were identical to the UK average, five-sixths of the productivity gap between the north and the UK average (measured as GVA per worker) would remain. Only in the South West and Wales are between-industry differences more important than within-industry differences.

The conclusion to draw from this analysis is that it is important to try to explain why the North is less productive *within* each industry rather than just exploring compositional differences between each region. There are several possible reasons why the North might be less productive. For example, northern firms might be employing workers with lower average levels of skill, or firms might be producing different kinds of goods and services to those in the South, with lower added value on average. A third possibility is that the types of goods and services being produced in the

North and South are the same but the price level is lower in the North. We examine the skill level in the northern labour force, and the price level in the North, later on in this report.

Regional differences in investment

GVA (or output more generally) is a key indicator of economic performance but it is certainly not the only indicator. This section compares regional performance on investment, which is one of the key determinants of economic performance. Figure 1.6 shows regional investment as a proportion of regional GVA, averaged over the two three-year periods from 1998 to 2000 and from 2002 to 2004. Overall, investment fell as a share of GVA in every UK region over these periods. The pattern of regional investment in 1998 to

Figure 1.6. Regional investment as a proportion of GVA, 1998–2004

Source: DTI 2007

2000 was very different to the pattern in 2002 to 2004. In the earlier period, London and the North East had the highest investment-to-GVA ratio of any UK regions, with the North West third highest; Yorkshire and the Humber had below-average investment. In 2002–04, by contrast, Yorkshire and the Humber and the North West had the highest investment of any UK regions as a share of GVA, followed by the North East, then London. This is an encouraging statistic for the northern regions, although as GVA in the northern regions is lower than the UK average, investment per head of the population is still lower in the North than for the UK as a whole.

Regional differences in individual and household prosperity

Next we shift the focus from industrial output and investment to the components of economic prosperity at the individual level – income, earnings and assets. This section also looks at the extent to which consumer prices differ across regions and how this affects household living standards.

Household and individual incomes

Figure 1.7 shows differences in average household incomes across UK regions. The graph is presented as a ‘stacked bar’, enabling us to see the differences in the components of income as well as the differences in the total. London has a much higher average income than any other region, followed by the South East and the East of England. London’s high overall average is driven primarily by high average wages and salaries and self-employment income. Investment income is also relatively high in London on average.

The northern regions, along with Wales, Northern Ireland and Scotland, are the poorest regions in the UK on this measure. The North East has the lowest average income of any region overall, although not the lowest income from wages and salaries (Yorkshire and the Humber and Wales are lower). The North East has the lowest income from self-employment and investments, and the highest average income from benefits of any region apart from Northern Ireland. The North West and Yorkshire and the Humber have higher average income from wages, self-employment,

investments and annuities and pensions than the North East.

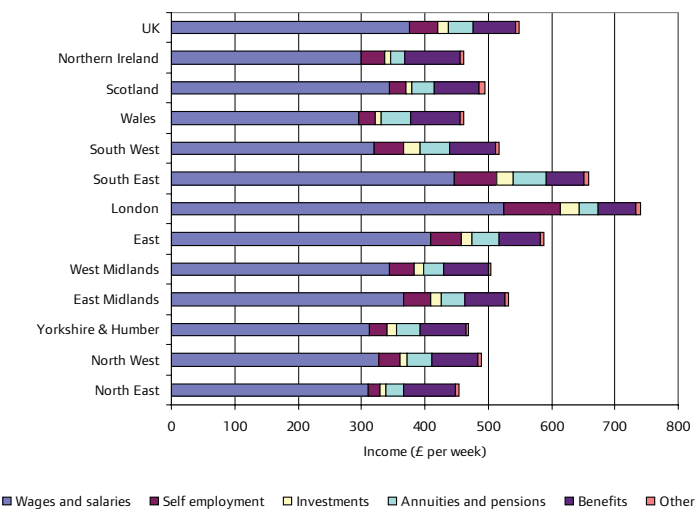
Looking at average incomes is informative in itself, but it is important also to examine the *distribution* of income within each region to obtain a more detailed picture of differences in living standards. Figure 1.8 does this by charting the proportions of households within a number of income brackets for the three northern regions, the UK average, and the South East (a high-income region, used for comparison).

Once again, the analysis shows that the North East is the poorest of the three northern regions. It has the highest proportion of households on incomes of below £100 per week, and more than 35 per cent of households below £250 per week (compared with a UK average of only 25 per cent.) The North West has a higher proportion of households on less than £100 per week than Yorkshire and the Humber, but the latter region has more households on less than £250 per week. At the top end of the distribution, the North East has only 16 per cent of households on more than £750 per week, compared with a UK average of 26 per cent and 32 per cent for the South East. The North West, with 23 per cent of households on more than £750 per week, does slightly better than Yorkshire and the Humber, with 21 per cent.

As an alternative way of illustrating the differences in the income distribution between regions, Figure 1.9 uses data from the Family Resources Survey to show how the distribution of individual incomes differs by region. The figure shows what proportion of individuals in each region have incomes within each quintile (fifth) of the overall income distribution for Great Britain, going from the bottom quintile (on the left hand side) to the top quintile (on the right).

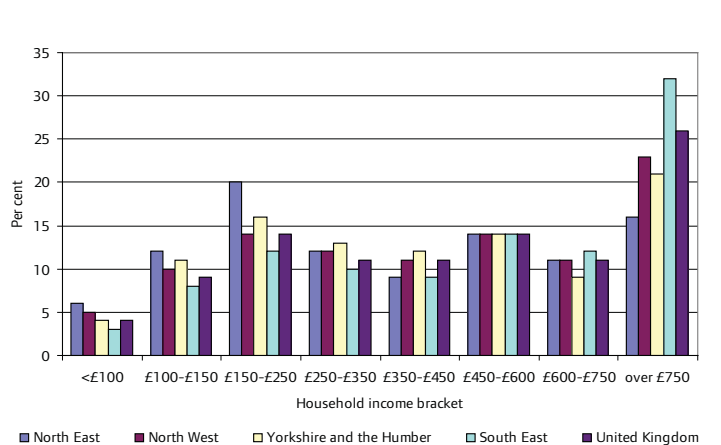
If the distribution of individual incomes were identical across British regions we would expect to find that the proportion of individuals in each quintile was exactly 20 per cent (and this is of course what we do find in the top row, which shows the proportions for Great Britain as a whole). Instead we find that for the three northern regions, the West Midlands, London and Wales, more than 20 per

Figure 1.7. Average household income by source, 2001/02–2003/04



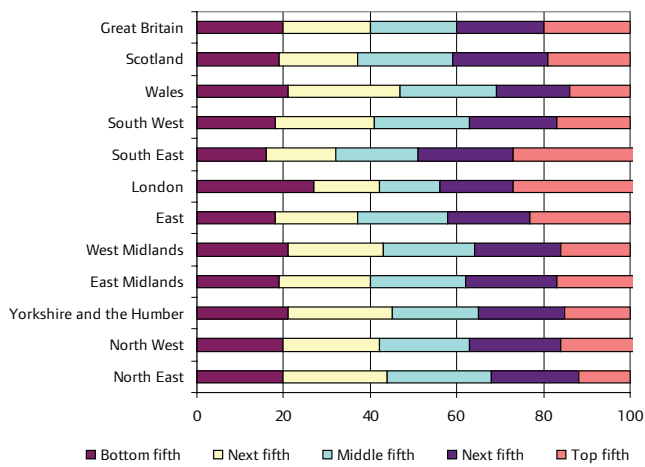
Source: ONS 2006, based on analysis of the ONS’s Expenditure and Food Survey

Figure 1.8. Distribution of household income: the North, South East and UK average, 2001/02–2003/04



Source: ONS 2006, based on analysis of the ONS’s Expenditure and Food Survey

Figure 1.9. Income distribution of individuals by region, 2003/04



Source: ONS 2006, based on analysis of the Department for Work and Pensions' Family Resources Survey using Before Housing Costs (BHC) income measure

cent of individuals are in the bottom quintile of the British income distribution. Thus these regions have a disproportionately large number of people on low incomes. At the top end, the three northern regions, Wales, Scotland, the South West and the two Midlands regions have a disproportionately small number of individuals in the top quintile of incomes for Britain. Conversely, London, the South East and the East have more than 20 per cent of individuals in the top quintile. An interesting difference between London and all the other regions is that London has more than 20 per cent of individuals at *either* end of the income distribution – so, it has more income *polarisation* than any of the other regions.

The Index of Multiple Deprivation (IMD)

Regional and sub-regional variations in levels of deprivation can be assessed using the Index of Multiple Deprivation (IMD) designed by what was the Office of the Deputy Prime Minister (ODPM) in 2004.

As Table 1.4 shows, together the three northern regions have the highest proportion of localities that lie in the 20 per cent most deprived super output areas (SOAs) in England.

At 920, the North West has the greatest absolute number of SOAs in the 10 per cent most deprived and these amount to more than 20 per cent of the total number of SOAs in this category. However, at 38.1 per cent, the North East has the highest share of the SOAs in the 20 per cent most deprived. Moreover, it has only 35 SOAs which are within the least deprived decile. Meanwhile, Yorkshire and the Humber has 17 per cent of total English SOAs in the most deprived decile. As a rule, the most deprived SOAs are located in 'mono-functional towns' where the core industry sector has been in decline for a considerable period of time (for example, Easington, Redcar, Rochdale, Oldham and Rotherham). There are also significant pockets of poverty in the biggest metropolitan areas, such as Liverpool, Manchester, Newcastle, Sunderland, Leeds and Sheffield.

Earnings

Earnings are an important component of economic performance, and the levels of earnings within and between regions will be an important contributor to regional economic disparities. We use individual-level data from the UK Labour Force Survey, the largest regular household survey in the UK, to analyse the relative levels of earnings in different regions of England.

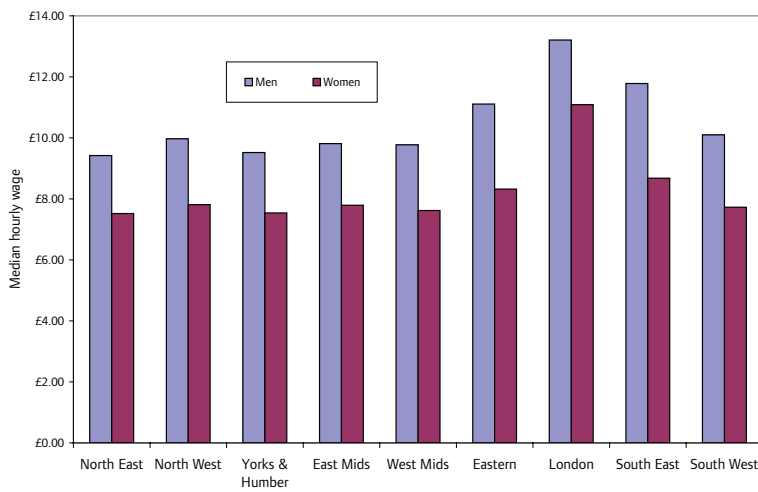
We look first at the relative levels of hourly wages in different English regions in a 'raw' form: that is, without controlling for any differences between regions. Figure 1.10 shows median hourly wages from the Labour Force Survey using data from Spring 2006 to Spring 2007 inclusive, for each English region. We focus on the hourly wage rather than the weekly wage as this makes comparison easier, since we do not have to take into account differences in the hours worked by workers in different regions. However, the fact that many women work part-time still gives rise to an interpretational issue even though we are focusing on the hourly wage, as it is well documented that part-time workers suffer an hourly wage penalty to working part-time compared with workers of similar attributes

Table 1.4: Number of Super Output Areas (SOAs) in the most deprived 20 per cent of SOAs in England, as measured by the IMD, 2004, by region

Region	No. of SOAs in most deprived 20% of SOAs in England	No. of SOAs in each region	Percentage of SOAs in each region falling in most deprived 20% of SOAs in England
North East	631	1,656	38.1
North West	1,461	4,459	32.8
Yorkshire and Humber	976	3,293	29.6
East Midlands	482	2,732	17.6
West Midlands	917	3,482	26.3
Eastern	220	3,550	6.2
London	1,260	4,765	26.4
South East	271	5,319	5.1
South West	278	3,226	8.6
England	6,496	32,482	20

Source: ODPM 2004

Figure 1.10. Median hourly wages by region: Labour Force Survey, 2006–07



Source: authors' analysis of Labour Force Survey data

who work full-time. For men this issue can safely be ignored as only a very small percentage of men work part-time. For women, we present two sets of raw results in Figure 1.10 – for the sub-sample of women working 30 hours or more (which we take as meaning ‘full-time’ work), and for the whole sample.

Figure 1.10 shows that in 2006–07, the lowest median hourly wages for men were in the North East and Yorkshire and the Humber at around £9.80 per hour. Median male wages in the North West were around £10.10 per hour, broadly comparable with the Midlands regions and the South West. Wage levels for the Greater South East were all significantly higher than this, with London having the highest median male wages at over £13 per hour. For full-time women the median wage is between 80p and £1.50 lower than the median male wage (except for the South East, where the gap is much larger – over £2). In general, median wages for all working women including part-time workers are about £1 lower than for part-time women. As for men, the lowest median wages for women are in the North East and Yorkshire and the Humber.

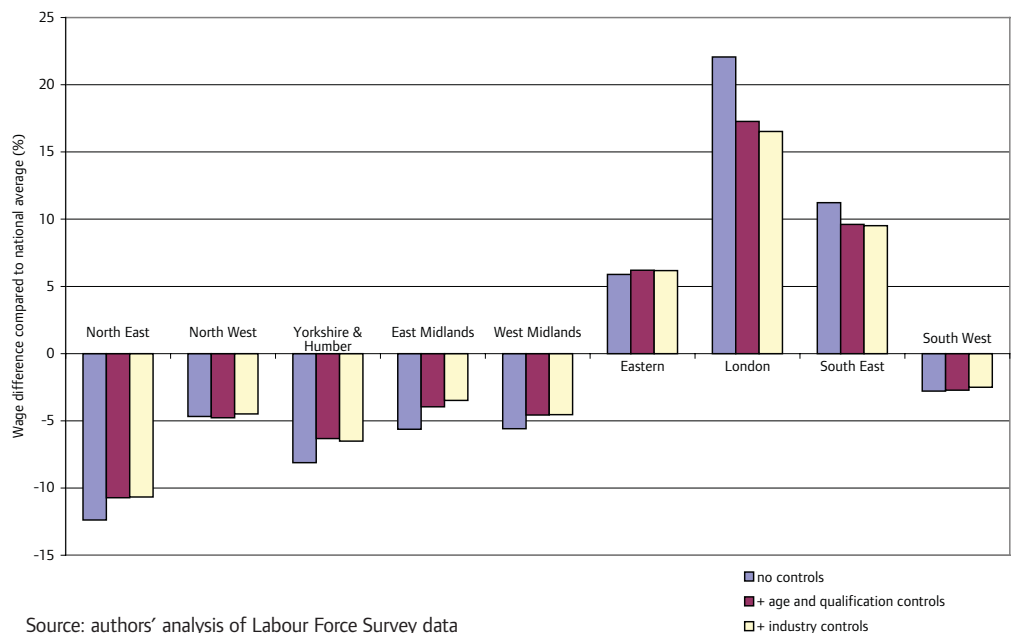
While the raw difference in wages between London and the Greater South East, on the one hand, and the rest of England (including the North) on the other, is interesting, it is important to assess whether these differences in regional levels are the result of variations in underlying characteristics and attributes of workers that affect wages (such as in skill levels or age) or whether the regional

variations in wage levels persist even after controlling for other factors (such as industrial structure). Only if there are disparities after we have controlled for these factors can we conclude that there is a ‘wage gap’ in a meaningful sense.

Figures 1.11 and 1.12 examine the pattern of wage variation within regions, controlling for differences in the characteristics of workers in each region in a regression framework using data from the Labour Force Survey from spring 2004 to spring 2007 inclusive. Both figures show estimated differences in average wages for each region relative to the (unweighted) regional average in the UK. In each case, the blue column gives the extent to which average earnings in the regions of England differ from the average, without controlling for any differences in worker characteristics. The maroon column shows the differences once controls are introduced for age and the highest qualification held by each worker in the sample. In the case of women, we also control for part-time jobs, marital status and the presence or absence of children in the family, as previous research has shown that these factors all tend to be significantly correlated with hourly pay levels, which is not so much the case for men after controlling for other factors. Finally, the yellow column includes controls for the industry (1-digit SIC [Standard Industrial Classification]) in which each worker works. We include this to examine whether differences in wage levels in different regions can be explained to any extent by differences in the composition of employment by industry in each region. Full results from these earnings regressions are given in Appendix 1 of this paper.

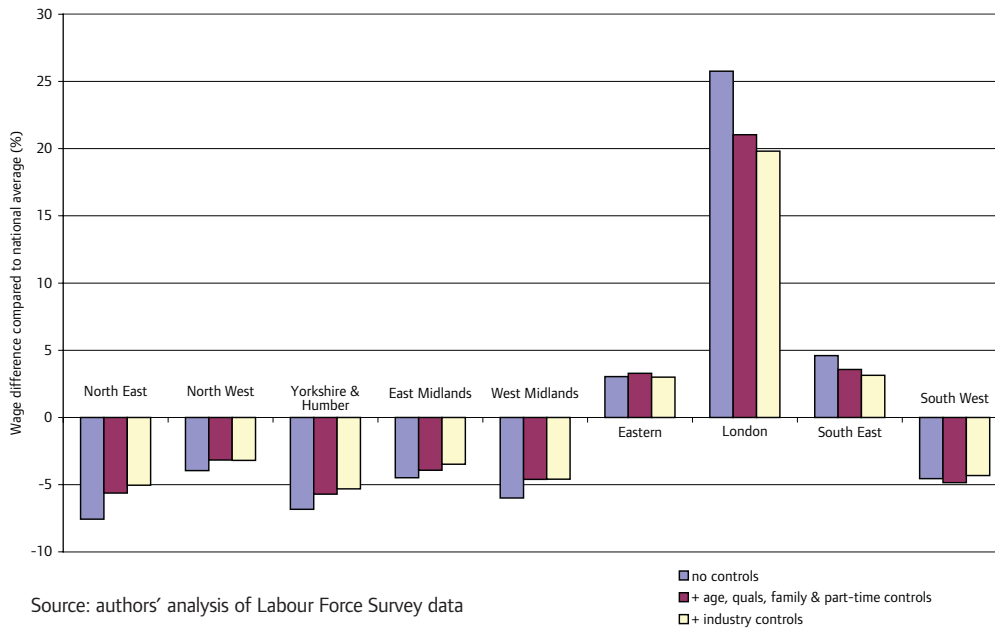
Figure 1.11 demonstrates substantial raw differences in male average earnings across regions, confirming the analysis of median wage figures from Figure 1.10. Three English regions – London, the South East, and the East of England – have average hourly earnings for men which are higher than the England average. Average wages

Figure 1.11. Relative earnings levels in English regions: results from Labour Force Survey analysis – men



Source: authors' analysis of Labour Force Survey data

Figure 1.12. Relative earnings levels in English regions: results from Labour Force Survey analysis – women



for employees living in London are substantially higher than for any other English region – over 20 per cent higher than the average. The North East is the lowest paid region on average (around 12 per cent lower than the national average), followed by Yorkshire and the Humber and the East and West Midlands. Wages in the North West are only 5 per cent below the national average.

How much of these differentials can be accounted for by differences in the age structure and the qualifications held by the workforce in each region? The dark red column of Figure 1.11 shows that regional differentials do decrease when we control for age and qualifications, but the majority of the differences cannot be accounted for in this way. For example, even after these adjustments the North East remains 11 per cent below the English average. Qualifications and age make the biggest difference in London, reducing the regional wage premium from 22 per cent to 17 per cent. Interestingly, including controls for industrial structure makes very little difference – once again most of the wage differentials cannot be explained by differences in observable factors.

Figure 1.12 shows that the pattern of regional differences in wages for women is fairly similar to the pattern that exists for men. The main differences are that average wages for London are even higher for women compared with the national average, and that wages in the East and the South East are closer to the average than for men (although still above the average in each case). In this case, controlling for age, qualifications, family status and part-time jobs reduces the differences between regions in some cases (particularly London and the South East, but also the two Midlands regions, the North East and Yorkshire and the Humber) but hardly at all in the other regions. Inserting additional controls for industry makes very little difference either.

Therefore it would seem that differences in wage levels between regions cannot be explained by underlying differences in the

observable characteristics of workers. This leads to two remaining possibilities. It may be that there are differences in the unobservable (or at least 'harder to observe') characteristics of workers and/or jobs – that is, people in the South are more motivated, more efficient or work in better managed organisations. By their very nature, these sorts of differences would be impossible to measure using datasets like the Labour Force Survey, but they would feed through into productivity differentials. Another possibility is that there are differences in the price level between different regions and that workers in the South need to be paid more than workers in the North to compensate them for these differences. It is to this

possibility that we now turn.

Regional differences in the cost of living

As shown earlier, regional differences in average incomes and earnings are substantial. However one factor that is often overlooked is the extent to which *prices* differ across regions. One of the key deficiencies in the availability of regional data in recent years has been the absence of any regional deflators that could be used to adjust the data to reflect differences in price levels. In his Budget Statement of 2003, the then Chancellor Gordon Brown stated that:

'In future we plan regional price indices showing differences in regional inflation rates ... [and] ... remits for pay review bodies and for public sector workers, including the civil service, will include a stronger local and regional dimension.'
(Brown 2003)

As a result, the Office for National Statistics conducted an exercise during 2004 to estimate the level of prices in different regions of the country. The results from the ONS's survey are set out in Table 1.5. London has, on average, the highest prices, closely followed by the South East, and the North East has the cheapest prices. On this measure, prices in the North East and Yorkshire and the Humber are around 94 per cent of the UK average, while prices in the North West are slightly higher, at 96 per cent of the UK average. A detailed breakdown of the figures (shown in Fenwick *et al* 2005) identifies the highest regional price variation to be in housing costs, with prices in London and the South East almost double those in Northern Ireland and the North East. Conversely, the smallest variation is in food prices. Although the North East has the lowest overall prices, clothing and footwear and fuel and light prices were slightly above the national average.

Table 1.5. Average price level in each region, relative to national average price level (UK=100), 2004

Region	National weights	Regional weights	Geometric mean of national and regional weights
North East	94.2	93.0	93.6
North West	96.9	95.9	96.4
Yorkshire and Humber	94.2	93.5	93.9
East Midlands	97.4	97.0	97.2
West Midlands	97.8	97.4	97.6
East	101.1	100.5	100.8
London	109.7	109.1	109.4
South East	105.3	104.7	105.0
South West	101.3	100.8	101.1
Wales	93.1	92.1	92.6
Scotland	94.5	93.1	93.8
Northern Ireland	95.8	95.3	95.5

Source: Wingfield *et al* 2005

Notes: differences of less than one per cent are not statistically significant. 'National weights' prices the regional cost of the national retail price index (RPI), whereas 'regional weights' prices the regional cost of a regional price basket (and therefore takes into account differences in expenditure patterns between regions). The 'geometric mean' is a hybrid calculation that allows for both some degree of comparability and inter-regional difference in the baskets of goods being purchased.

While regional price indices are still in their infancy and the results here should be seen as indicative only, a comparison between the earnings and income data examined earlier and in Table 1.5 would imply that differences in the cost of living do compensate for some of the disadvantage in income and earnings levels experienced by people in the North. However, this compensation is only partial. For example, in the North East the price level is only around 6 per cent below the UK average but Figure 1.11 shows that controlling for skill levels, average wages for men in the North East are around 10 per cent below the UK average. Similarly, in the other two northern regions, the male 'wage penalty' to living in the region is larger than the 'cost advantage' of lower prices. However for women, the wage differentials are approximately equal to the cost differentials. In any case, it is important to remember that for commodities that are priced nationally or that are not bought locally (for example, goods bought on the internet), or when workers in the North are travelling in other areas of the country, the lower wages paid in the North will still be a disadvantage to them.

The variation in price levels across regions also creates an issue for the regional GVA estimates shown earlier in this section. While the ONS has experimented with regional price indices, there are still no regional *output* deflators available – despite the recommendation of the Allsopp review of 2004 which recommended that they be developed (HM Treasury 2004b). Our consequent use of a national average deflator to control for inflation in output price levels over time may be distorting our results – particularly if regional price levels are moving about relative to each other over time. Unfortunately, due to the lack of availability of regional deflators, this is not something that we can currently address. However, we recommend that the ONS develops and publishes experimental regional output deflators as soon as is practicable, so that this issue can be examined further.

House price differentials

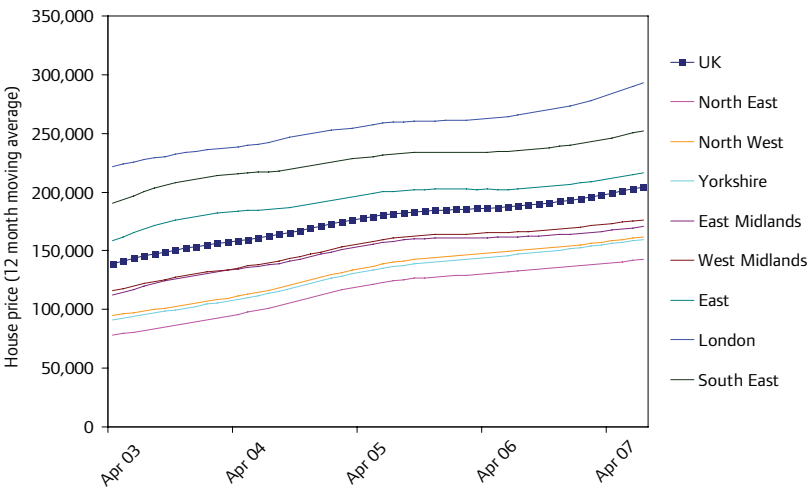
Ideally we would have liked to present an analysis of regional differences in wealth along the lines of the differences in income presented above. However, the ONS does not publish regional breakdowns of the wealth distribution, largely due to data limitations. (We do examine differences in the percentages of households in each region holding different kinds of financial investments in Johnson and Reed 2007, when we are analysing regional differences in attitudes to risk.) Nonetheless, housing wealth is one of the most important components of personal sector wealth. In 2004, the North West and Yorkshire and the Humber had levels of owner occupation very close to the UK average at around 70 per cent. The North East's level of owner occupation was slightly below this, at 65 per cent (ONS 2006).

Figure 1.13 shows trends in average house prices in a selection of English regions using figures from Communities and Local Government (CLG). The figure shows that every region experienced substantial house price increases over the period 2003 to 2007. The northern regions had the lowest house prices of any English regions throughout the period; prices in these regions have increased approximately in line with the UK average. The price differential between the North and the Midlands has decreased slightly. London and the South East have the highest average house prices by some margin. On this measure at least, then, the North is considerably less wealthy on average than the rest of England.

Regional employment patterns

For many, the principal challenge facing the North of England is to increase levels of employment and economic activity among the working-age population. The Government has a clear ambition to achieve full employment – accepted as an employment rate of 80 per cent – in every region (HM Treasury 2000).

Figure 1.13. House price indices for selected English regions and the UK average, 2003–07



Source: ODPM/CLG statistical releases of house prices data, 2003–2007
 Notes: figures calculated using 12-month indexed moving average of house price index, applied to base figures from February 2002 mix-adjusted regional average house prices. Exact calculations are available from the authors on request.

The solutions to the challenge of increasing employment rates are complex. Increasing employment rates in the North is not just a matter of helping claimants of Jobseeker’s Allowance (JSA) into work, because the numbers of those claiming benefits related to sickness and disability far exceed those in receipt of JSA. The Department for Work and Pensions’ 2004 Public Service Agreement (PSA) Objective II declares a commitment to ‘increase the employment rate of disadvantaged groups’ and ‘significantly reduce the difference between the employment rates of the disadvantaged groups and the overall rate’ (HM Treasury 2004c: 37). None of the three northern English regions would hit their full employment aspiration even if every one of their residents claiming JSA were to enter employment tomorrow. This stark fact illustrates the importance of understanding the challenges faced by the disadvantaged groups to which the PSA target draws special attention – disabled people, lone parents, low-skilled and unskilled people, and men and women aged between 50 and state retirement age.

Improving levels of labour market participation among disadvantaged groups has been one of the cornerstones of ippr’s research output. The analysis contained within this section reflects this, and the themes and conclusions have been informed by recent ippr and ippr north publications such as *It’s All About You: Citizen-centred welfare* (Bennett and Cooke 2007), *The Sand Timer: Skills and employment in the North West* (Johnson and Schmucker 2007) and *Towards Full Employment* (Adams 2005).

Figure 1.1 above showed that in early 2007 the working-age employment rate was below the UK average in all three northern regions. The North East had the lowest employment rate of the three regions at approximately 71 per cent, around 3 percentage points below the UK average. Of the English regions, only London has a lower employment rate than the North East. However, within the North – as elsewhere in the UK – the

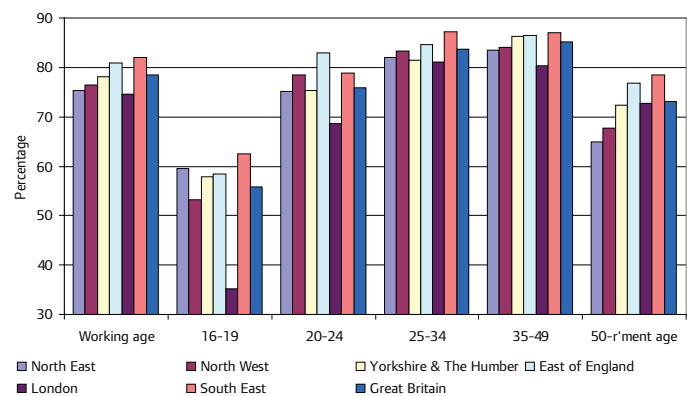
geographic distribution of worklessness is far from uniform. As shown later in this section when we discuss sub-regional economic performance, economic activity rates in the North vary greatly: from 69.2 per cent of the working-age population in Liverpool to 88.4 per cent of the working-age population in Congleton (Annual Population Survey data October 2005–September 2006).

However, while analysing economic activity rates at the scale of local authorities is useful as they provide comparator data, as a functional economic unit they are largely arbitrary. Liverpool’s and Congleton’s performances might be caused by extraneous factors beyond the boundaries of their respective local authorities. Local authority areas are typically part of a broader – and more loosely affiliated – economic geographical region, often classified as travel-to-work-areas (TTWAs). Sustainable employment opportunities need not necessarily be located within the local authority to be effective at increasing the level of economic activity in that area, provided that travel links between vacancies and the disadvantaged area are good (Gordon 1999).

Worklessness by age

Figure 1.14 shows a breakdown of the employment rate in selected English regions by age. Interestingly, employment rates among the 16 to 19 age group are higher for the North East and North West than the Great Britain average. For the age groups between 20 and 49, employment rates in the North East and Yorkshire and the Humber are only slightly below the Great Britain average, while the North West has higher than average employment among 20- to 24-year-olds and around average for 25- to 49-year-olds. However, for people between 50 and state retirement age, all three northern English regions fall below the average for Great Britain, and in the North East and North West combined, less than nine per cent of local authorities have economic activity rates in excess of the British average for people aged 50 and over.

Figure 1.14. Economic activity rates for selected English regions and Great Britain, by age, July 2005–June 2006



Source: ONS Annual Population Survey, available at www.nomisweb.co.uk (accessed July 2007)

The restructuring of the national economy discussed earlier in this paper, and in particular its impact on the northern English regions, is sometimes considered to have particularly disadvantaged those who had been employed in an unskilled industrial occupation for the duration of their working life. These people often lack formal qualifications and transferable skills and so re-employment in the service sectors that have typically replaced the older industrial sectors can be difficult. However, this assessment of the disadvantage faced by the North as a result of industrial restructuring cannot, on its own, completely explain low economic activity among the over-fifties in the North. The jobs in the old industries were typically performed by men; but Appendix 2 shows that women constitute approximately 50 per cent of the Incapacity Benefit claims of those aged between 54 and 59 in the northern regions. Therefore, while addressing the needs of those men who were previously employed in heavy industry is important, it is a fallacy to assume that this is the sole challenge.

Workless benefit claimants

Analysis of workless benefit claimants backs up the central arguments made in the introduction to this section, most importantly that there are far more people claiming benefits related to sickness and disability than there are claiming JSA. Benefits related to sickness and disability typically include Incapacity Benefit (IB), Income Support Disability Premium, and Severe Disablement Allowance (SDA). This data is graphically represented in Figure 1.15. All three northern English regions have a higher proportion of their respective populations claiming benefits related to sickness and disability than the GB average.

The high level of people claiming IB in the North is not simply a consequence of the industrial restructuring that affected the region in the second half of the 20th century. Appendix 2 shows that, after controlling for the later state retirement age that applies to men, 51 per cent of those aged between 45 and retirement age claiming benefits related to sickness and disability in the North are women. Therefore, there are clearly people claiming IB who reached working age after the decline of male-dominated industries such as

coalmining, shipbuilding and heavy manufacturing.

Skill levels in the northern economies

Improvement of skills is recognised as being crucial to the future prosperity of the economy, not just in the North, but in the UK as a whole. In order to maintain its current level of economic performance in the future, the UK will have to improve its skills profile. Skills development plays a dual role within an economy. Skills have been identified as one of the five key productivity drivers (HM Treasury 2004a) and also as an effective way of making those who are currently unemployed more employable (Department for Education and Skills 2005). The skills that drive improvements in productivity might be different to those that improve employability, but they share the same fundamental aim: to improve economic performance. The Leitch Review of Skills (HM Treasury 2006c) concluded that the provision of skills should be further integrated with the needs of employers, and not be dominated by missives from central government.

The skills profile of the northern English regions is represented in Figure 1.16. All three northern English regions have a lower proportion of their working-age population with qualifications at level four and above (North East 23.1 per cent; North West 23.4 per cent; Yorkshire and the Humber 23.6 per cent) than the England average (28.1 per cent). Equally, all three northern English regions have a higher proportion of their working-age population with no qualifications (North East 13.4 per cent; North West 14.1 per cent; Yorkshire and the Humber 14.3 per cent) compared with the England average (12.4 per cent). Once again, the North performs below average on these measures.

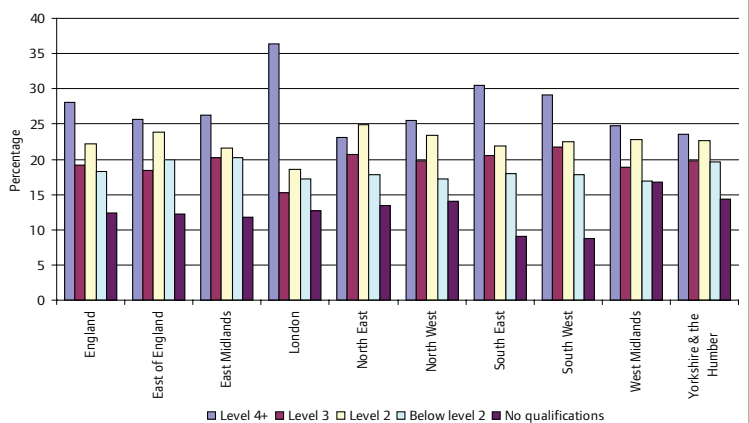
Appendix 3 reflects the importance of qualifications and in particular the impact they have on a person’s employability. In the North East, for example, someone with qualifications at Level 4 or above is more than twice as likely to be employed as someone with no qualifications. The employment rate for those with no qualifications also varies due to the prevailing economic conditions. The rate of employment of those with no qualifications is 18.4

Figure 1.15. Claimants of key benefits in the countries and regions of Great Britain as a percentage of the working-age population, November 2006, by statistical group



Source: DWP Information Directorate: Work and Pensions Longitudinal Study, available at: www.dwp.gov.uk (accessed July 2007)

Figure 1.16. Level of highest qualification held by people of working age, by region, Q4 2006



Source: Department for Education and Skills 2007

percentage points higher in the East of England than it is in the North East. The inference here is that when demand for labour is high, vacancies arise for those without qualifications and employers cannot afford to be so fastidious – although this assumes that the industrial structure in the two regions is at least similar, which is not guaranteed.

In the North East, not a single local authority either employs more than 50 per cent of its residents that have no qualifications or meets the national average employment rate for them; whereas five out of 12 local authorities achieve the national average employment rate of those with level four qualifications and above. This trend – more local authorities exceeding the national benchmark for qualifications above level four than for no qualifications – is echoed, albeit to a lesser extent, in the other two northern regions.

Appendix 3 also highlights the challenges still facing the major cities in the North of England. The Local Education Authority (LEA) areas of Hull, Leeds, Newcastle, Sheffield and Sunderland all have overall employment rates that fall below the average for their two respective regions (which themselves are both below the England average). Of greater concern are the employment rates in Liverpool and Manchester LEAs; at 61.8 per cent and 59.8 per cent respectively, they are over ten percentage points below the North West average, which is itself below the England average. While cities such as these have experienced a renaissance in recent times with increased urban populations (Nathan and Urwin 2006) and investment in physical regeneration, substantial challenges remain and improving employment levels should be at the top of the list. If cities are the engines of growth in the North, we might expect the labour market in these cities to tighten in a similar way as it has in the Greater South East, with an impact on those with no qualifications as outlined above. This does not appear to have happened so far, with less than one in three of those with no qualifications employed in Manchester and Liverpool and less than two in five in Newcastle and Sunderland.

The Organisation for Economic Cooperation and Development's territorial review of Newcastle and the North East (OECD 2006) was more specific on this issue. The review asserted that aspiring to have a workforce qualified to NVQ Level 2 (the equivalent of five GCSEs at Grades A* to C) was not going to maximise the potential of high-level innovations to industry in the North East, should these materialise. The absorptive capacity of the region would only be sufficient to maximise the benefits from innovation if more intermediate-level workers are skilled to Level 3 (A Level qualifications or equivalent) rather than Level 2. Essentially, the review was recommending that a focus on achieving qualifications at Level 3 should replace the current commitment to provide access to training at Level 2. This view was reflected by the Leitch Review of Skills later in 2006 (HM Treasury 2006c).

Sub-regional variations in output, household incomes and deprivation

It is well known that there are significant differences in prosperity within as well as between regions. But while it is important to explore these intra-regional economic disparities, it is also necessary first to identify which data can reliably be used to analyse them. The major problem is that the quality and reliability of GVA data need to be treated with caution at the sub-regional level, and the ONS is still in the process of implementing the recommendations of the Allsopp review of economic data for policymaking (HM Treasury 2004b), which recommended significant improvements in the scope and quality of regional data. Furthermore, the Treasury's report *Productivity in the UK: 4 – the local dimension* concluded that when using GVA per head 'comparisons of economic performance between areas become less precise as the areas under examination become geographically smaller' and suggested that 'it may be preferable to concentrate on other indicators when looking at living standards at a local level – for example, comparisons of household income' (HM Treasury/ODPM 2003).

Output, income and employment at the sub-regional level

Table 1.6 gives estimates of (workplace-based) GVA at sub-regional (NUTS3¹¹) level, together with estimates of percentage growth from 1995 to 2004. The table also includes data on average household income and economic activity¹² rates at the NUTS3 level; the ONS has more confidence in the quality of this data.

Table 1.6 shows that only one NUTS3 area – Cheshire County Council's area – has higher than UK average levels of GVA and disposable income and higher than average economic activity. Halton and Warrington, Greater Manchester South, York and Leeds have high levels of GVA per head and economic activity but lower disposable income per head than the UK average. This is probably because these areas draw in commuters from beyond their boundaries. At the other end of the scale, Wirral has one of the lowest levels of GVA per head in the UK and a relatively low economic activity rate but levels of household income at the UK average. In contrast, East Cumbria and North Yorkshire have relatively high levels of disposable income and employment but low levels of GVA. Finally, some areas have below average GVA per head, disposable income and economic activity – most obviously Sunderland, Liverpool, Blackburn with Darwen and Hull.

In terms of GVA growth, the highest levels of growth over the decade to 2004 were enjoyed by urban areas – Greater Manchester South, Liverpool and Tyneside all grew by more than 30 per cent over this period. Disposable incomes grew fastest in Cheshire, Halton and Warrington, East Merseyside, Barnsley, Doncaster and Rotherham, Calderdale, Kirklees and Wakefield. The lowest rates of GVA growth were to be found in West Cumbria and Hartlepool and Stockton-on-Tees (which actually declined in real terms over the period), Blackburn with Darwen and Greater Manchester North. The lowest growth in disposable income, at less than 16 per cent over 10 years, was Sefton in Merseyside.

11. NUTS is a standardised EU-wide stratification system for geographical disaggregation of areas within countries. NUTS1 is the highest level of aggregation within a country, and corresponds to UK government office regions. NUTS2 and NUTS3 are more disaggregated. There are between two and six NUTS2 areas within every English Government Office Region. NUTS3 area boundaries correspond to groups of local authorities.

12. The economic activity rate differs from the employment rate shown in Figure 2.1 as it includes International Labour Organization-defined unemployed people in the numerator as well as employed people. Hence the economic activity rates for the regions are higher than the corresponding employment rates.

Table 1.6. Sub-regional Gross Value Added per head, disposable income per head, and economic activity

	GVA index, 2004 (UK=100)	GVA growth 1995–2004 (%)	Disposable income index 2005 (UK=100)	Disposable income growth 1995–2005 (%)	Working age economic activity rate, Oct 2005 – Sep 2006
North East	79	16.1	86	29.9	75.7
<i>Tees Valley and Durham</i>	72	5.3	85	29.0	75.5
Hartlepool and Stockton-on-Tees	77	-3.8	85	29.5	75.7
South Teesside	71	11.6	82	30.7	74.4
Darlington	96	15.4	87	31.9	78.8
Durham CC	64	5.0	86	27.1	75.4
<i>Northumberland and Tyne and Wear</i>	85	25.1	86	30.7	75.9
Northumberland	67	8.4	96	34.5	78.8
Tyneside	93	30.5	84	28.8	75.4
Sunderland	83	26.2	79	31.0	74.1
North West	88	18.7	92	32.4	76.6
<i>Cumbria</i>	76	1.4	96	34.5	78.9
West Cumbria	68	-4.6	89	34.9	75.7
East Cumbria	83	6.2	103	33.8	81.9
<i>Cheshire</i>	107	15.2	105	40.6	79.2
Halton and Warrington	115	28.6	95	37.6	78.3
Cheshire CC	103	9.4	110	41.9	79.6
<i>Greater Manchester</i>	93	22.9	89	30.6	76.8
Greater Manchester South	116	37.0	90	30.7	76.7
Greater Manchester North	67	2.1	88	30.7	76.9
<i>Lancashire</i>	83	13.3	88	30.5	77.1
Blackburn with Darwen	79	1.6	75	20.8	71.6
Blackpool	69	9.7	83	24.0	74.7
Lancashire CC	85	15.0	91	32.3	78.0
<i>Merseyside</i>	73	26.3	89	29.9	73.0
East Merseyside	68	28.4	83	38.4	74.0
Liverpool	91	30.7	82	29.8	69.2
Sefton	66	21.6	95	15.7	75.4
Wirral	58	20.1	100	37.3	75.5
Yorkshire and the Humber	87	19.7	92	32.6	77.9
<i>East Riding and North Lincolnshire</i>	83	8.4	90	32.8	78.0
Kingston upon Hull, City of	93	22.2	79	29.5	71.7
East Riding of Yorkshire	71	4.1	101	33.7	81.5
North and North East Lincolnshire	88	2.8	88	32.2	79.4
<i>North Yorkshire</i>	92	20.7	104	28.0	81.8
York	115	24.3	97	25.2	82.4
North Yorkshire CC	85	19.0	106	28.9	81.6
<i>South Yorkshire</i>	76	24.9	88	35.1	75.0
Barnsley, Doncaster and Rotherham	68	24.9	86	35.8	75.3
Sheffield	89	24.9	91	34.0	74.5
<i>West Yorkshire</i>	94	21.2	91	32.6	78.3
Bradford	79	13.1	85	30.2	73.8
Leeds	119	28.8	94	29.3	80.5
Calderdale, Kirklees and Wakefield	81	17.8	91	36.7	78.9

Key: bold = NUTS1 level, italic = NUTS2 level, unformatted = NUTS3 level.

Source: ONS regional GVA release, ONS regional disposable income release (Dec 2006) available from www.statistics.gov.uk/statbase/Product.asp?vlnk=14650 and NOMIS (accessed August 2007)

Notes: GVA is a workplace measure, expressed at 2004 levels, deflated using GVA deflator. Disposable income expressed in 2005 prices, deflated using Consumer Price Index.

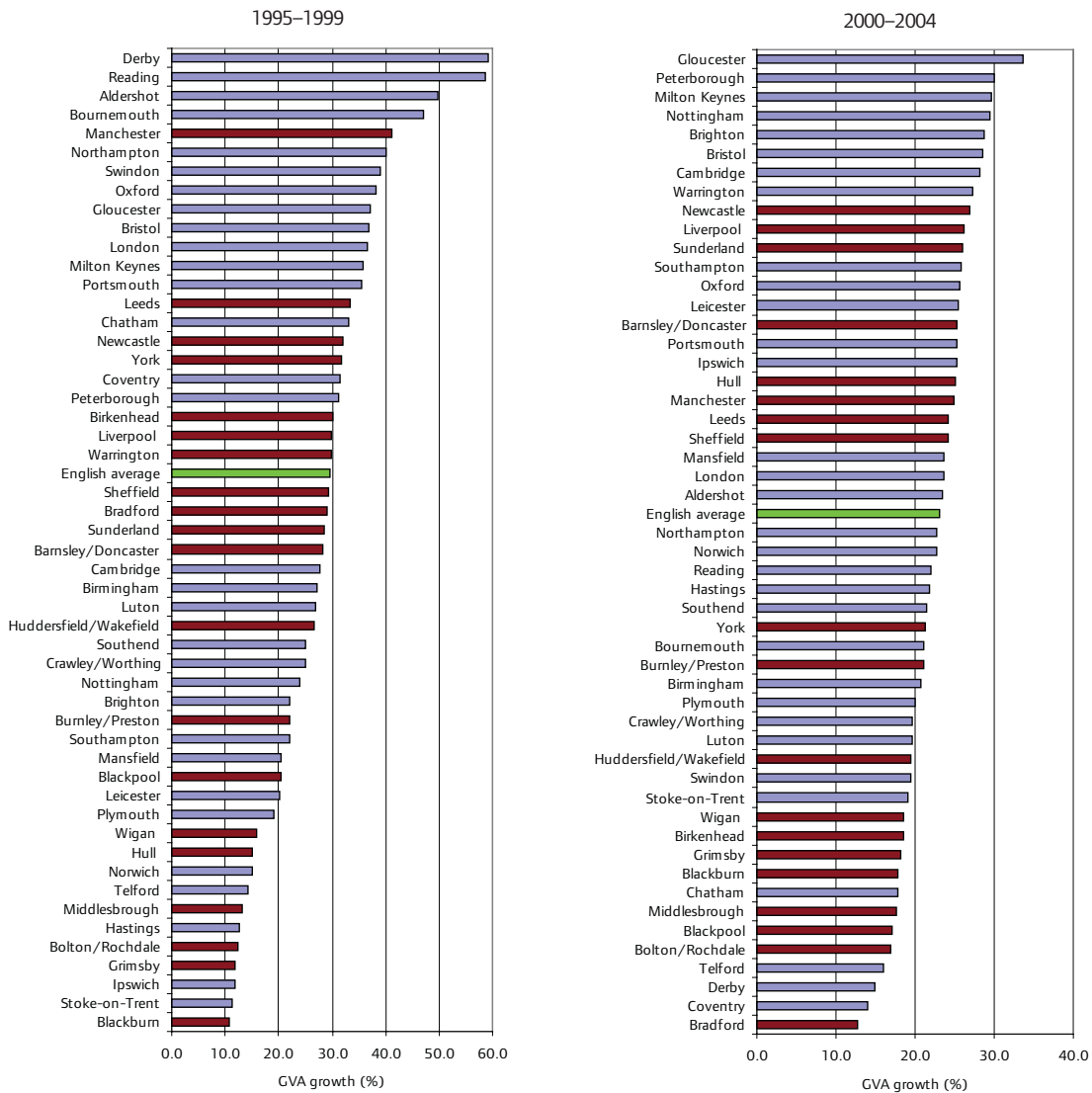
Output growth in urban areas in England

Figure 1.17 complements our analysis of sub-regional growth patterns in the North by comparing output growth in areas that are predominantly urban in the North with the rest of England. The *State of the English Cities* report, published by the Office of the Deputy Prime Minister in 2006, analysed GVA growth in 54 English cities over the period 1995 to 2003 (using NUTS3 areas as an approximation to city travel-to-work-areas¹³). The recent *Sub-National Review of Economic Development and Regeneration* (HM Treasury 2007) updated this analysis to 2004. Figure 1.17 uses the same data and city definitions as these publications but looks at GVA growth over two separate time periods – 1995–1999 and 2000–2004 – rather than just analysing trends over the entire nine-year period.

Figure 1.17 shows that in the 1995–1999 period, only one northern city – Manchester – was in the top ten cities for GVA growth, with four others – Leeds, Newcastle, York and Birkenhead – in the top twenty. In the later period, 2000–2004, three northern cities – Newcastle, Liverpool and Warrington – were in the top ten, with another five in the top twenty. At the other end of the table, five northern cities were in the bottom ten performers for 1995–1999, and six for 2000–2004. This shows that growth performance among the northern cities became more polarised in the later period, with a greater proportion of strongly performing and poorly performing cities.

However, there was a large degree of movement around the table between the two periods. For example, Derby in the East Midlands had the highest GVA growth of any city in the period 1995–99, but

Figure 1.17. GVA per capita growth in 56 English cities



Source: ONS regional GVA release, available at www.statistics.gov.uk/statbase/Product.asp?vlnk=14650 (accessed October 2007)
 Notes: Northern cities are shaded dark red. NUTS3 areas used to approximate travel-to-work areas, using the methodology in ODPM 2006.

13. Although NUTS3 boundaries correspond only roughly to urban travel-to-work areas, the ONS does not publish GVA estimates which correspond more exactly to city or city-region boundaries. The analysis here follows the methodology of ODPM (2006) and HM Treasury (2007) exactly: full details are available from the authors on request.

was the third from bottom performer between 2000 and 2004. Northern cities improving their growth performance substantially relative to other cities between 1995–99 and 2000–04 included Hull, Sunderland and Warrington. Northern cities performing substantially worse relative to others in the later period than they had in the earlier period included Birkenhead and Manchester (although Manchester was still in the top twenty performers in the later period). Overall, northern cities appear to have performed slightly better in the later period than in the earlier one.

2. Wider measures of well-being

Summary of the North's performance on wider indicators

The inclusion of wider indicators of regional performance and well-being in this section is a useful complement to our survey of 'narrow' economic indicators in Section 1. The main points that emerge from this section are:

- The North East and North West were, along with Scotland, the only regions to experience declines in population between 1991 and 2004. Yorkshire and the Humber's population grew over this period but by less than the UK average.
- The performance of the North with respect to the police service and criminal justice system is mixed. All three northern regions had lower than average confidence in the criminal justice system. Residents in the North East had higher than average confidence in their police force but residents in the North West and Yorkshire and the Humber had lower than average confidence.
- On education, the proportion of pupils achieving five or more GCSEs at A* to C including English and Maths was below average in all three northern regions, despite a better than average performance by the North East on GCSE passes as a whole. All three northern regions had lower than average participation in adult learning in recent data.
- Health outcomes are relatively poor in the North. Life expectancy rates are lower, and mortality rates from heart disease and cancer are higher than in any other English regions.
- Local authority performance measured by the Comprehensive Assessment is better than average for county councils, unitary authorities and metropolitan authorities in the North East and the North West, and around average for Yorkshire and the Humber. District council performance is mixed for all three northern regions.
- All three northern regions have a higher than average proportion of National Parks and Areas of Outstanding Natural Beauty.
- River quality in the North East is excellent. For the other two regions it is around average for England.
- The North East is the most 'tranquil' English region. Yorkshire and the North West are also more tranquil than average.

Section 1 shows that overall, if 'well-being' is defined as living in a region

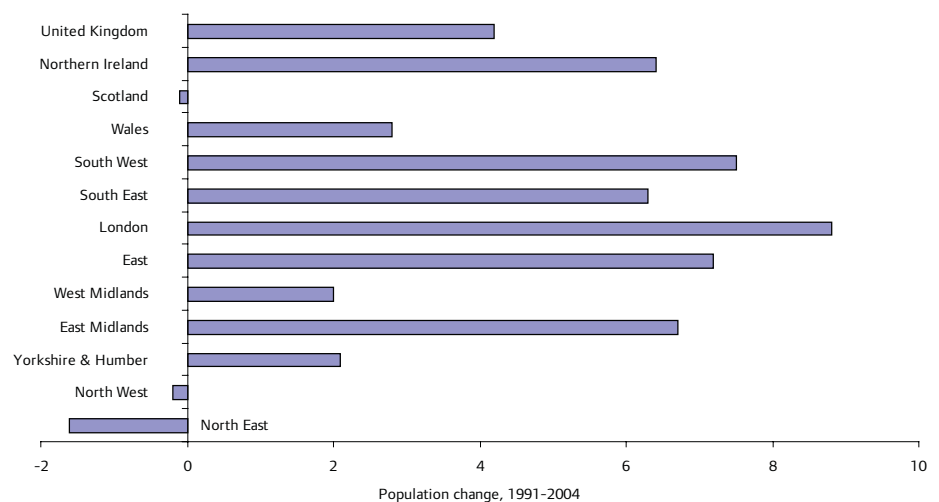
with high output, employment and earnings, the North performs relatively badly compared with the UK average, and especially compared with the Greater South East. However there is much more to well-being than good economic performance. To build up a more complete picture it is imperative that we consider the environment, health, education, criminal justice, and demographic factors. This section adds data on these measures to add to the analysis.

Demographic indicators

The demographic structure of an area – whether a country, region, or smaller local unit – is an important determinant of that area's economic potential and performance (Dixon and Margo 2006). Increases in an area's population can create congestion and localised overcrowding, but on the other hand increases in the working-age population can create demand for goods and services and plug gaps in the skills base required by local businesses. Conversely, although reductions in the overall population tend to ease the pressure on housing and other capital infrastructure, falls in the working age population can exacerbate skills gaps and damage the functioning of local economies. Changes in the age structure of the population can also have effects on economic prosperity. If there is a high proportion of working-age people in a population, the region is more likely to be economically self-sufficient and a net contributor to the public finances (assuming that labour market activity rates are high enough).

Figure 2.1 shows the population change in the UK regions between 1991 and 2004. Along with Scotland, the North East and North West were the only regions to experience a decline in population over this period. The population of Yorkshire and the Humber increased over the period by about 2 per cent, which was less than

Figure 2.1. Population change in UK regions, 1991–2004



Source: Office for National Statistics 2006

the UK average of 4 per cent. The highest population increases occurred in London, the East and the South West.

Differences in the age structure of the population in each region were shown in Figure 1.3. Most UK regions – including the North – have an age structure in which approximately 20 per cent of the population are aged under 16, just under 60 per cent are between 16 and 60, and just over 20 per cent are over 60. The exceptions are London, which has a smaller over-60 population and more working-age people, Northern Ireland, which has a larger proportion of under-16s, and the South West, which has more pensioners than other regions.

Public service outcomes¹⁴

The performance of the key public services – health and social care, the education system, and the police and criminal justice services – has been a key issue of interest and concern to the public over the past decade (Brooks 2007). This section examines the performance of these public services in the North by comparing outcome and quality measures across English regions, and other areas of the UK where comparable statistics are available.

Note, however, that these are, at best, only crude proxies for public service *quality* – how ‘well’ the public service and those working within it are performing. There are so many factors that could affect each of the outcome or satisfaction measures featured in this section that it is impossible to isolate the contribution made by public services in themselves towards reducing crime, or achieving a healthier or better educated society. Nonetheless, the data we summarise here is the best available, so we use it while pointing out its shortcomings.

The police and criminal justice system

Analysis of the number of police per 100,000 civilians shows that London has substantially more police on this measure than any other English region, at around 430 per 100,000 in 2006. The North East and North West had the next biggest number of police per head, at around 300 per 100,000. The figure for Yorkshire and the Humber was slightly below this.

The most recent British Crime Survey (2006) revealed that residents in the North East had some of the highest public confidence in their police force in comparison with other English regions (53 per cent, joint second highest with the South West). The North West and Yorkshire and the Humber had lower than average public confidence in the police at 48 per cent and 49 per cent respectively.

Perceived fear of burglary and violent crime has generally fallen throughout all English regions since 2001. The North East and Yorkshire and the Humber experienced some of the largest reductions in fear of burglary and violent crime during this period. By 2005–06, around 16 per

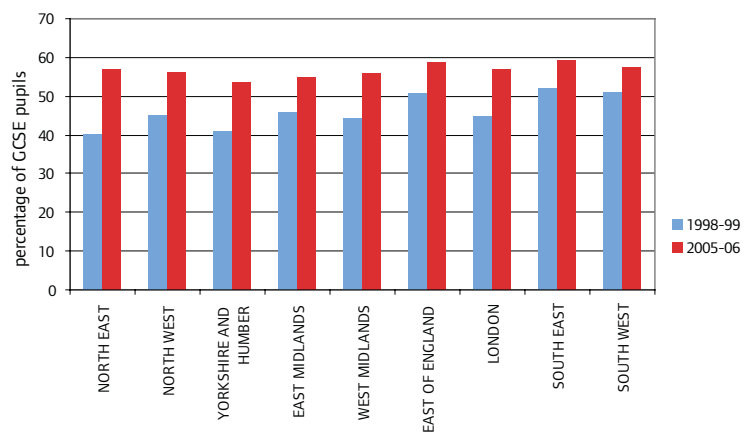
cent of people in the North East and 14 per cent of people in Yorkshire and the Humber feared violent crime – slightly more than the English average. The North West had the highest rate outside London of fear of violent crime, at 20 per cent. However, incidence of reported violent crime actually increased in the North East between 2001–02 and 2005–06, even though the region still possessed the lowest rate of recorded violent crime of any region, with around 500 cases per 10,000 adults. The North West and Yorkshire and the Humber had a rate slightly above the UK average, at around 600 cases.

Figures from the Home Office show that in 2005–06 only 41 per cent of the North East’s population felt confident that the criminal justice system was effective in bringing people to justice. This was the lowest level in England of expressed confidence in the criminal justice system. Yorkshire and the Humber (42 per cent) and the North West (43 per cent) also had lower than average confidence in the criminal justice system.

Education

Figure 2.2 shows the percentage of GCSE pupils in maintained schools attaining five or more passes (grades A* to C) in the English regions in 1998–99 and 2005–06. In 1998–99 the three northern regions had the lowest pass rates of all English regions, but by 2005–06, they had caught up with the English average (and indeed the North East had surpassed it). Pass rates improved in every region over this period but the northern regions demonstrated some of the biggest improvements. However, a tighter definition of ‘good’ GCSE performance focusing on the proportion of pupils who achieved five or more GCSEs at A* to C including English and maths paints the North in a less favourable light. The North East and Yorkshire and the Humber had only 40 per cent of pupils achieving this standard – the poorest results of any English region. The North West did slightly better at 42 per cent but this was still below the English average.

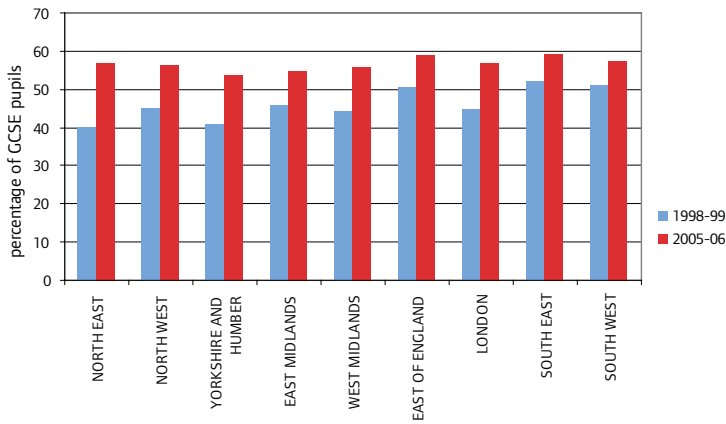
Figure 2.2. Percentage of GCSE pupils in maintained schools attaining five or more GCSE passes (grades A*–C) in English regions, 1998–99 and 2005–06



Source: Regional Co-ordination Unit 2007, Regional Outcome Indicator 9, taken from <http://roi.gov.uk/>, accessed February 2007

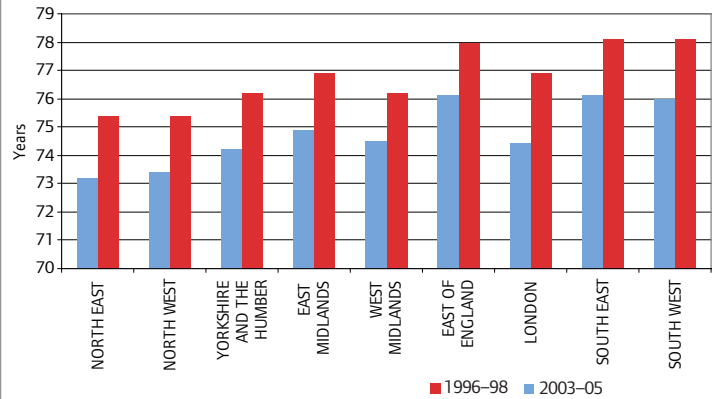
14. This section draws heavily on the statistical briefing paper written for ippr north’s Commission on Public Service Reform in the North East. See Midgley and Stirling 2007.

Figure 2.2. Percentage of GCSE pupils in maintained schools attaining five or more GCSE passes (grades A*-C) in English regions, 1998-99 and 2005-06



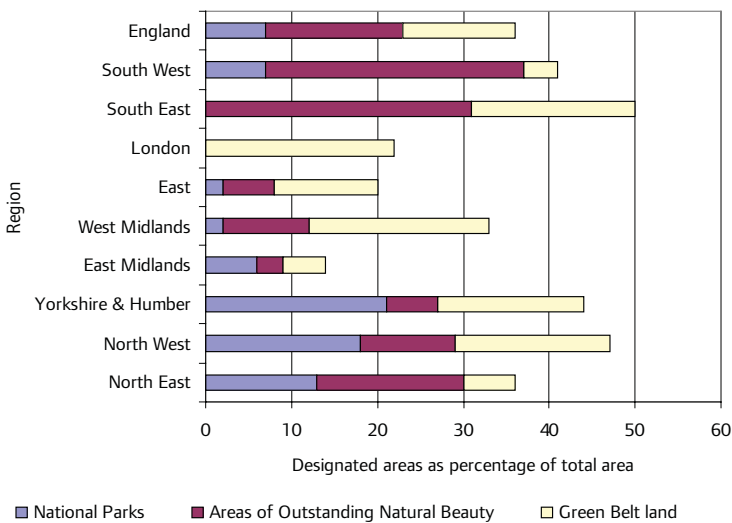
Source: Regional Co-ordination Unit 2007, Regional Outcome Indicator 9, taken from <http://roi.gos.gov.uk/>, accessed February 2007

Figure 2.4. Male life expectancy at birth, by English region, 1996-98 and 2003-05



Source: Regional Co-ordination Unit 2007, Regional Outcome Indicator 11a, taken from <http://roi.gos.gov.uk/>, accessed February 2007

Figure 2.3. All adults (16-69 years) participating in any learning, by English region, 2000-01 and 2004-05



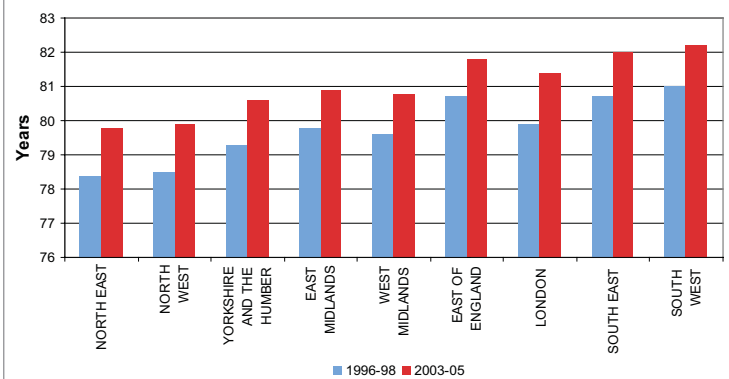
Source: Department for Education and Skills 2006, Qualifications and Participation in Learning at a local level 2005 and Department for Education and Skills (2002) Local Labour Force Survey, available at www.dfes.gov.uk/rsgateway/DB/STA/t000677/Addition5.xls and www.dfes.gov.uk/rsgateway/DB/VOL/v000303/LSCtablesadultparticipation.xls, accessed March 2007

Turning to adult learning in the regions, Figure 2.3 shows that the North East had the lowest proportion of adults participating in adult learning of any English region, in both 2000-01 and 2004-05. The North West and Yorkshire and the Humber were also below average. Adult learning declined in every region over this period.

Health and social care

Figures 2.4 and 2.5 show overall rises in life expectancy at birth between 1996-98 and 2003-05 in all English regions. However, despite the rises, the North East and North West had the lowest life expectancy of all English regions in both time periods. Worryingly, in

Figure 2.5. Female life expectancy at birth, by English region, 1996-98 and 2003-05



Source: Regional Co-ordination Unit (2007) Regional Outcome Indicator 11b, taken from <http://roi.gos.gov.uk/>, accessed February 2007

the North East and North West life expectancy rate equated to nearly three years less for males and two years less for females than the rate in regions that experience the longest life expectancy for both sexes: the East, South East and South West. Yorkshire and the Humber also had below average life expectancy, though not as low as in the other two northern regions.

Mortality rates from coronary heart disease and cancer are also higher in all three regions than in any other English regions, for both men and women. Mortality rates have fallen in all regions over the last ten years, but regional differences persist. There is a consistent pattern in which the North East has the highest mortality rates, followed by the North West, then Yorkshire and the Humber.

Performance of local authorities

The quality of services offered by local authorities – whether unitary authorities, metropolitan authorities, county councils or district councils – is a key aspect of public service performance. Each local

authority is given a Comprehensive Performance Assessment (CPA) at regular intervals by the National Audit Office. The CPA measures performance over a range of indicators including the efficiency of resource use, financial management, the performance of individual services provided by the authority (where appropriate) and overall value for money.

Table 2.1 presents averaged results for unitary authorities, county councils and metropolitan authorities within each region, with the overall average across all authorities of these types at the bottom. The table indicates that authorities in the North East score higher than the English average on almost every criterion – they are only below average on social services and overall value for money. The North West is above average on every criterion except use of resources, value for money and financial management. Yorkshire and the Humber is below average on four of the eight indicators

surveyed – the overall corporate assessment, use of resources, assessment of cultural services provided (where it has the lowest average score of any region) and environmental services. Overall, as far as we can tell from this data, the quality of services provided by unitaries, metropolitan authorities and county councils in the North seems to be relatively strong. Obviously the mix of different kinds of authority within each region and the particular circumstances faced by each authority will differ widely and cannot be taken into consideration by an aggregate statistical exercise such as this, so these results should be viewed as indicative only¹⁵.

Table 2.2 presents CPA indicators for district councils, averaged by region. Here the assessment covers a narrower range of factors. The pattern of results is somewhat different than for county councils. On the overall assessment, the North East and Yorkshire and the Humber perform below average, while the North West is above

Table 2.1. CPA indicators averaged by region: unitary authorities, county councils and metropolitan authorities

	Corporate assessment	Use of resources	Children + young people	Social care (adults)	Environment	Culture	Financial management	Value for money
North East	3.42	3.17	3.00	2.83	3.00	3.08	2.83	2.67
North West	3.00	2.86	2.91	3.09	3.00	3.00	2.64	2.68
Yorkshire and Humber	2.87	2.73	2.87	3.00	2.93	2.27	2.73	2.73
East Midlands	2.67	2.67	2.67	3.00	3.22	3.22	2.78	2.56
West Midlands	2.79	2.93	2.71	2.57	3.14	2.57	2.79	2.64
East	3.20	2.50	2.60	2.70	2.90	3.10	2.30	2.50
London	3.06	3.00	3.06	3.06	2.73	2.30	2.91	2.82
South East	3.11	2.89	2.74	2.78	3.26	2.79	2.84	2.89
South West	2.60	2.73	2.60	2.60	2.87	2.93	2.47	2.53
Overall average, England	2.98	2.87	2.84	2.89	2.97	2.72	2.73	2.70

Source: National Audit Office 2007a

Table 2.2. CPA indicators averaged by region: district councils

Regional averages	Overall assessment	Use of resources	Financial management	Internal control	Value for money
North East	3.38	2.77	2.62	2.77	2.23
North West	3.50	2.54	2.33	2.54	2.50
Yorkshire and Humber	3.43	2.71	2.71	2.29	2.43
East Midlands	3.22	2.58	2.67	2.47	2.39
West Midlands	3.21	2.63	2.63	2.33	2.29
East of England	3.55	2.45	2.39	2.32	2.39
South East	3.87	2.76	2.71	2.60	2.58
South West	3.29	2.40	2.40	2.23	2.31
Overall average, England	3.48	2.59	2.55	2.44	2.42

Source: National Audit Office 2007b

Note: 'overall assessment' converts the performance assessment grading from the National Audit Office into a five-point score as follows: 'excellent' = 5 points, 'good' = 4, 'fair' = 3, 'weak' = 2, 'poor' = 1.

15. Coelho and Watt 2007 argue that the CPA framework is an inappropriate framework for evaluating the efficiency of local authorities, on the basis that there is only a small degree of correlation between CPA scores and their analysis of the efficiency of councils in converting financial resources into socially valued service outputs, controlling for geographical differences in costs, economic deprivation and demographic characteristics. While this is a serious criticism of the CPA data, we have used the data here in the absence of any readily available alternatives.

average. The same pattern holds for the CPA indicator of 'value for money'. But for 'use of resources' and 'financial management' the pattern is reversed: the North West is below average on these indicators (and in fact its average financial management score is the worst of all regions), whereas the North East and Yorkshire and the Humber are above average. Finally, the North East scores better on 'internal control' than any other region, with the North West also doing better than average but Yorkshire and the Humber doing worse than average. In short it is difficult to identify a consistent pattern of performance for northern district councils in comparison to the rest of England using this analysis.

The environment

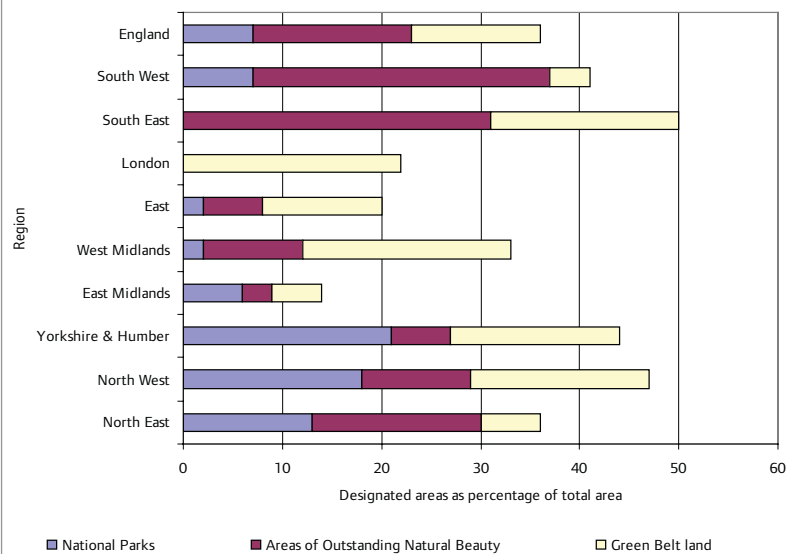
Environmental quality is a key element of well-being, yet it is often ignored in regional comparisons. The ONS's *Regional Trends* publication (ONS 2006) sets out only a limited range of environmental indicators for the English regions¹⁶. In this section we have attempted to supplement the *Regional Trends* analysis with several statistics from other sources. It is impossible to give a complete picture using the limited data available and considering the space limitations in this report. Nonetheless we hope to impart a flavour of how the quality of the environment differs across each region.

Land use

Figure 2.6 shows the percentage of land area in each region designated (in decreasing order of environmental importance) as National Parks, Areas of Outstanding Natural Beauty (AONBs), and Green Belt land. The first of the National Parks, which in the North include the Lake District and the North York Moors, were created by the Access to the Countryside Act 1949. They have their own statutory park authorities, and special legal powers to prevent unsympathetic development. AONBs, such as the Forest of Bowland in the North West, were also created by the 1949 Act, with more designated since, but have more limited statutory restrictions on development and a lower public profile than National Parks. Green Belt areas surround major metropolitan conurbations including Merseyside and Greater Manchester, South and West Yorkshire, and Tyne and Wear, and are meant to constrain urban sprawl (Nathan 2007). Planning Policy Guidance Note 2 (PPG2) sets out guidance for English county councils and local authorities with a general presumption against development in the Green Belt. The Barker Review of Land Use Planning, which reported in late 2006, controversially recommended selective loosening of the Green Belt (Barker 2006).

Figure 2.6 shows that the three northern regions have the highest proportion of land designated as National Park in England. When this is added to the land covered by AONBs, each of the northern regions has well above the average for England in terms of the proportion of land designated as such, trailing only the South West and the South East. Yorkshire and the Humber and the North West

Figure 2.6. Percentage of designated areas by total land area, English regions



Source: ONS 2006

have an above-average proportion of Green Belt land. Altogether, these areas represent a valuable resource for Northern residents' own direct use and as a source of income for the tourist industry.

Quality of river water

Figures 2.7 and 2.8 present data collected by the Environment Agency (EA) on river quality for the English regions. Rivers were surveyed by the EA during 2005 and graded 'good', 'fair', 'poor' or 'bad' according to the biological quality of the river (an indicator of overall 'health' of rivers) and the chemical quality (an indicator of organic pollution in general).

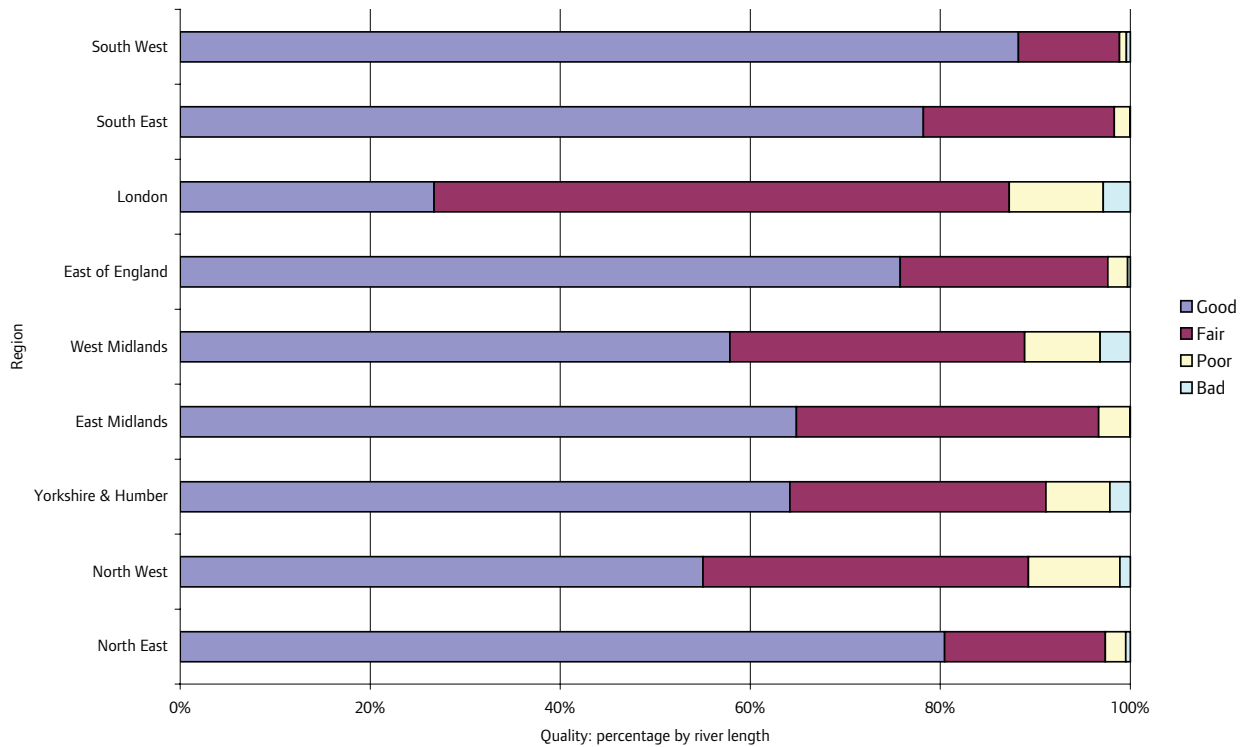
Figure 2.7 suggests that the North East and the South West had the best biological river quality of all English regions in 2005. London had the lowest biological river quality, followed by the East of England. The North West and Yorkshire and the Humber were in between both extremes, roughly comparable with the South East and the two Midlands regions on this measure. Figure 2.8 indicates that the North East had the highest chemical quality of any English region apart from the South West. London was significantly worse than any other region in terms of chemical river pollution. The North West and Yorkshire and the Humber also had below average river quality on this measure. Overall the EA data suggests that the North East has excellent river quality but the picture for the other two northern regions is more mixed.

Tranquillity

As well as the quantitative statistics on land use and river quality outlined above, several qualitative indices exist that cover various aspects of environmental quality. Here we use the *Index of tranquillity*, developed by the Campaign to Protect Rural England

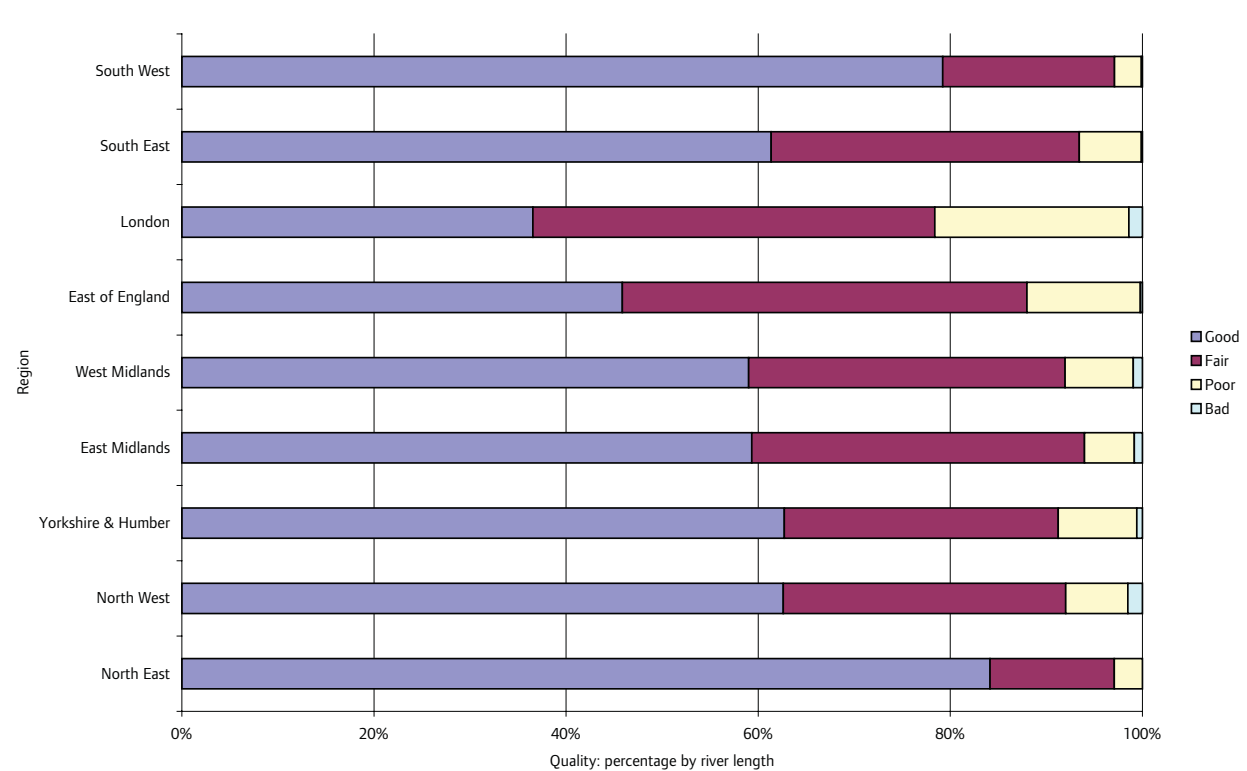
16. Comparison with Scotland, Wales and Northern Ireland is complicated by the fact that entirely different arrangements for land conservation and recycling regulations apply in each member nation of the UK. This was the case even before devolution for Scotland and Wales in the late 1990s, and the differences between England and the other countries have increased since then. Hence we have not attempted to compare environmental indicators for England, Scotland, Wales and Northern Ireland.

Figure 2.7. Biological river quality, by English region, 2005



Source: Environment Agency data presented in Department for Environment, Food and Rural Affairs 2007

Figure 2.8. Chemical river quality, by English region, 2005



Source: Environment Agency data presented in Department for Environment, Food and Rural Affairs 2007

Table 2.3. Tranquillity scores of English regions and counties

Regional ranking			County ranking		
No.	Ranking of regions	Regional score	No.	Top-10 tranquil counties	County score
1	North East	15.3	1	Northumberland	28.62
2	Yorkshire and Humber	4.16	2	Cumbria	20.63
3	South West	1.28	3	North Yorkshire	17.14
4	North West	-1.92	4	Durham	12.05
5	East	-3.27	5	Devon	7.00
6	East Midlands	-4.12	6	Lincolnshire	6.05
7	South East	-9.12	7	East Riding of Yorkshire Unitary Authority	5.92
8	West Midlands	-9.66	8	Norfolk	4.46
9	London	-76.7	9	Shropshire	3.12
-	-	-	10	Wiltshire	3.04

Source: Campaign to Protect Rural England 2005

(CPRE) in the 1990s, as an example. The methodology used to construct the index is based on qualitative data gathered during CPRE's consultations with a wide range of the countryside users (see CPRE 2005 for full details). According to its ranking, the northern regions enjoy the most tranquil environment, as shown in Table 2.3. The most tranquil region in England on this measure is the North East; and one of its counties – Northumberland – is the most tranquil county.

In summary, on the environment, the evidence from public service outcomes does not greatly alter our conclusion from Section 1 that

the North is lagging behind the UK average on many indicators. The evidence from environmental indicators is more promising although the range surveyed here is far from exhaustive. It is also very hard to say to what extent a 'good' environment in the North might make up for a 'bad' performance on most other indicators. This will depend as much on the circumstances and personal preferences of individuals and families living in the North as anything else. Nonetheless, the analysis here shows that studies of regional differences that focus only on narrow economic indicators ignore a wealth of other useful and relevant information that could be used to compare well-being in the North with other regions.

3. The institutional framework for regional economic policy

In this section we look at the way the regional dimension of economic policy is organised and implemented in England. It is important to examine the institutional framework in this background report, as the institutions of regional economic policy have a role to play in most of the policy areas explored in later reports from this project. This section also considers the crucial changes that are expected to occur as a result of the recently published Sub-national Review of Economic Development and Regeneration (HM Treasury 2007a) and the October 2007 Comprehensive Spending Review (HM Treasury 2007b). At this stage we only make a preliminary survey of the effectiveness of the institutional framework – we will revisit the issue of institutional effectiveness in the final report from this project.

The future of regional governance

The Sub-national Review of Economic Development and Regeneration

In the 2006 Budget the Government announced a Sub-national Review of Economic Development and Regeneration (referred to as the Sub-national Review), which it said would ‘identify ahead of the 2007 Comprehensive Spending Review how to further improve the effectiveness and efficiency of existing sub-national structures in England – including governance, incentives and powers’ and will identify options for changes in policy to help meet the Regional Economic Performance PSA target¹⁷ (HM Treasury 2006a: 1). The review was published in July 2007, and proposed radical changes for the territorial governance of the English regions and localities.

The Review considered the optimal geographical levels for governance and decision-making for economic development and regeneration functions and looked at the interface between pan-regional, regional and local institutions. It also looked in detail at the rationalisation of business support schemes that is currently taking place (see Johnson and Reed 2007) and the effectiveness and value for money of programmes designed to tackle spatial deprivation, such as the New Deal for Communities and the Neighbourhood Renewal Fund. The Review also outlines some fundamental institutional changes at the national, regional and local levels.

In this section we start by analysing the existing institutional arrangements underpinning regional economic development policy. We then move on to identify the core changes proposed by the Sub-national Review.

The institutional framework of regional economic policy is determined by a number of key players at the national, supra-regional, regional and sub-regional levels. At the national level, responsibility for regional development and regeneration is shared among three key departments: the Department for Business, Enterprise and Regulatory Reform (DBERR), Communities and Local

Government (CLG) and HM Treasury. Other key departments also play a crucial role in policies determining the successful economic performance and prosperity of the regions. These include the Departments for Work and Pensions (DWP), Transport (DfT), Children, Schools and Families (DCSF), Environment, Food and Rural Affairs (DEFRA), and Innovation, Universities and Skills (DIUS). The regional ministers introduced by the Governance Green Paper (Ministry of Justice 2007) and then further developed in the Sub-national Review will be central to ensuring that the Government has a sufficiently coordinated approach to regional development.

The analysis in this paper is mainly focused on the regional and supra-regional tiers. At the regional level, the key players are the Government Offices in the Regions, the Regional Development Agencies and the Regional Assemblies, though the role of the latter will shortly be diminished and they are due to be completely abolished by 2010 (HM Treasury 2007).

Government Offices in the Regions

Government Offices (GOs) in each of the nine English regions were established by the Conservative government in 1994 as Whitehall’s representative in the regions. The move towards a network of GOs represents ‘de-concentration’ rather than decentralisation of power, as a top-down approach still dominates in the flow of communications between Whitehall and the regions. The GOs represent eleven central government departments and are meant to align national, regional and local priorities in order to improve regional performance and the well-being of citizens and communities. Their responsibilities include policy areas such as regenerating communities, fighting crime, tackling housing needs, improving public health, raising standards in education and skills, tackling countryside issues, and reducing unemployment. They are also responsible for managing some EU Structural Funds.

In 2004–05 the Government Offices managed a budget of around £9 billion on behalf of the sponsor departments.

Regional Development Agencies

Nine English Regional Development Agencies (RDAs) were created in the UK in 1998 following a commitment in Labour’s 1997 election manifesto. The RDAs are non-departmental public bodies (NDPBs) with five statutory purposes, which are:

1. To further economic development and regeneration
2. To promote business efficiency, investment and competitiveness
3. To promote employment
4. To enhance development and application of skills relevant to employment
5. To contribute to sustainable development.

17. The Review will also look at policy options for meeting the neighbourhood renewal PSA target.

Table 3.1. Regional Development Agency spending allocations by region, 2007–08

RDA	Total, 2007–08 (£m)	Per head, 2007–08 (£)
ONE North East	282	110
North West Development Agency	402	59
Yorkshire Forward	310	61
East Midlands Development Agency	179	42
Advantage West Midlands	296	55
East of England Development Agency	139	25
London Development Agency	374	50
South East England Development Agency	166	20
South West of England Development Agency	162	32
TOTAL	2,310	46

Source: HM Treasury 2004c

Table 3.1 shows RDA spending allocations for each region. The northern RDAs are the largest beneficiaries: the North West RDA received the largest contribution in absolute terms, while ONE North East receives by far the largest spending allocation relative to population size. The lowest allocations per head go to the East of England and South East development agencies.

There is an inverse relationship between spending per head on RDAs and the economic performance of a region – which is what we might expect, given that meeting the five statutory objectives set out above is likely to be harder when a region is performing relatively poorly than when it is performing well. However, London bucks the trend somewhat with an above-average allocation per head despite the fact it has a fast-growing economy (although as Figure 1.8 earlier in the report shows it is the most polarised of the English regions in terms of individual incomes).

In 2007–08 most of the spending allocation to the RDAs came from CLG (73 per cent), with 21 per cent coming from the former DTI (now DBERR) and the other 15 per cent from a variety of departments including DEFRA, the former DfES and DCMS (Culture, Media and Sport). Despite the fact that CLG provides the bulk of funding, the RDAs report to the DBERR.

In practice, the main activities of the RDAs comprise:

- Producing and updating the *Regional Economic Strategies* (RES). The latest RES set out plans for economic performance and development of each region through to 2016.
- Providing *business support* schemes. This used to be a function of the Small Business Service (SBS) within the former DTI but was transferred to the RDAs in 2005. We say more about the performance of business support in Johnson and Reed 2007.
- Operating a variety of *grant and investment schemes* to encourage business enterprise and innovation and economic regeneration. Some of these are national schemes administered through the RDAs (including Selective Finance for Investment in England, discussed later in this paper, and the Grant for R&D scheme discussed in Johnson and Reed 2007; others are designed and implemented by the RDAs themselves.

- Helping build *partnerships and networks* of businesses and other economic stakeholders.
- Running ‘image campaigns’ to promote the region as an attractive environment for business investment (for example, One NorthEast’s ‘Passionate People, Passionate Places’ campaign).
- Supporting *educational initiatives*, particularly around entrepreneurship education.
- Administering *EU structural funding* (this is discussed in more detail in a separate section below).
- Liaising with the *Regional Assemblies* which produce Regional Spatial Strategies and provide input into housing and planning policy for each region.

The performance of the RDAs

A straightforward evaluation of the performance of the RDAs is not easy, as they have no precise targets set by central government; instead they set their own in their Regional Economic Strategies and corporate plans. This provides flexibility but also makes it harder to assess the performance of RDAs relative to each other. This challenge might be addressed by the new scrutiny mechanisms proposed by the Sub-national Review (see below).

Over the last two years, the National Audit Office (NAO) has conducted an independent performance assessment (IPA) of all three northern RDAs. The IPA grades the assessed organisation on a number of themes – ambition, prioritisation, capacity, performance management and achievement (which carries double weight). Table 3.1 shows that One NorthEast scored best out of the three RDAs, but all three were performing ‘well’ or ‘excellently’ on all criteria – there were no instances of substandard performance. This is evidence that, within their remit, the RDAs have been performing well. However, a recent OECD review of the North East’s economic performance (OECD 2006) was highly critical of leadership and institutional capacity at the regional level in the North East (as well as leadership at the city and local levels). Obviously that review only covered the North East and said nothing about the other two northern regions. However, given the stature and reputation of the OECD as a source of

Table 3.2. National Audit Office assessments of RDA effectiveness, 2006–07

Assessment theme	Scores (out of 4, except Achievement – out of 8)		
	One NorthEast	North West Development Agency	Yorkshire Forward
Ambition	4	4	4
Prioritisation	3	4	3
Capacity	3	3	4
Performance management	4	3	3
Achievement	8	6	6
Total (out of 24)	22	20	20

Source: National Audit Office 2006a, 2006b, 2007c

independent economic analysis, its criticisms have to be taken seriously¹⁸.

Our analysis of different aspects of regional economic policy that we provide in our other reports, on transport policy, entrepreneurship and innovation and the role of the public sector in the North, informs our overall assessment of northern RDA performance and our recommendations for future economic governance of the North in the concluding report from this project.

Regional Assemblies

Regional Assemblies (RAs) were proposed in eight regions in the 2002 Government White Paper 'Your Region, Your Choice', though their function is now quite different from what was originally planned. (The London Assembly is the only fully elected regional body, established in 2000 as a result of the Greater London Authority Act 1999.) Following a referendum in the North East in 2004 which rejected the creation of an elected Regional Assembly, government plans to create fully-fledged elected councils at the regional level were halted. Instead of an elected body, each region now has a 'surrogate' assembly made up of representatives from local councils, regional business and the voluntary sector.

This decision of compromise was reached in order to create mechanisms to scrutinise the activities of the RDAs, which have no direct lines of accountability to local communities. The Assemblies are also designed to enable different types of partnerships among local governments in order to develop, implement and influence policies beyond their boundaries. Regional Assemblies do play a role in making the voices of local councils and communities heard at the regional level. However, they are quite limited in their scope of responsibilities. Currently, the eight Assemblies' most fundamental task is planning, mainly by developing and facilitating the implementation of the Regional Spatial Strategies (RSS) – formerly known as Regional Planning Guidance.

However, there has been constant debate about how to align and coordinate the two key strategic documents at the regional level – the RES and the RSS – which are prepared by two different organisations. It has frequently been complained that the RDAs and RAs have been using different evidence bases for their strategic planning, resulting in inconsistencies between the two strategies.

The Sub-national Review proposed to eliminate such inconsistencies by tasking RDAs with the preparation of a single regional strategy which will combine the RES and the RSS. Meanwhile, the RAs will be abolished by 2010, and the task of scrutinising the RDAs will be delegated directly to local councils.

The creation of single regional strategies will obviously improve coordination and should lead to a better integration of the spatial planning processes formerly undertaken by the RAs with the growth, regeneration, employment and sustainability agendas with which the RDAs were already tasked – provided that the RDAs can coordinate policy effectively across this broad range of responsibilities. We return to this issue in our conclusions paper.

The Northern Way Growth Strategy: a new focus on city regions

As well as having the same set of regional institutions that exist across England, the three northern regions also have a unique structure that does not exist in any other part of the country – the Northern Way. In 2004 the three northern RDAs collaborated to launch the Northern Way Growth Strategy (Northern Way 2004). This is a 20-year strategy to close the '£30 billion output gap' with the rest of the UK – calculated as what the increase in the North's GVA would be if GVA per head in the northern regions were equal to the average in the other UK regions.

Initially the Growth Strategy focused on ten policy priorities:

1. Increasing employment in the North
2. Increasing innovation by northern businesses
3. Building a more entrepreneurial culture
4. Expanding key clusters of companies around the North to increase the share of global trade captured by the North
5. Investing to meet employer skill needs
6. Preparing a Northern Airports Priorities plan for securing the growth of the North's Airports
7. Improving access to the North's sea ports
8. Investing in better integrated public transport services within and

18. Newcastle City Council certainly took the OECD review's findings seriously; the council commissioned a study by the Centre for Cities and ippr north to produce an independent follow-up assessment of progress made in the year following the review (Newcastle City Council, forthcoming).

between the North's city-regions

9. Creating sustainable communities in the North

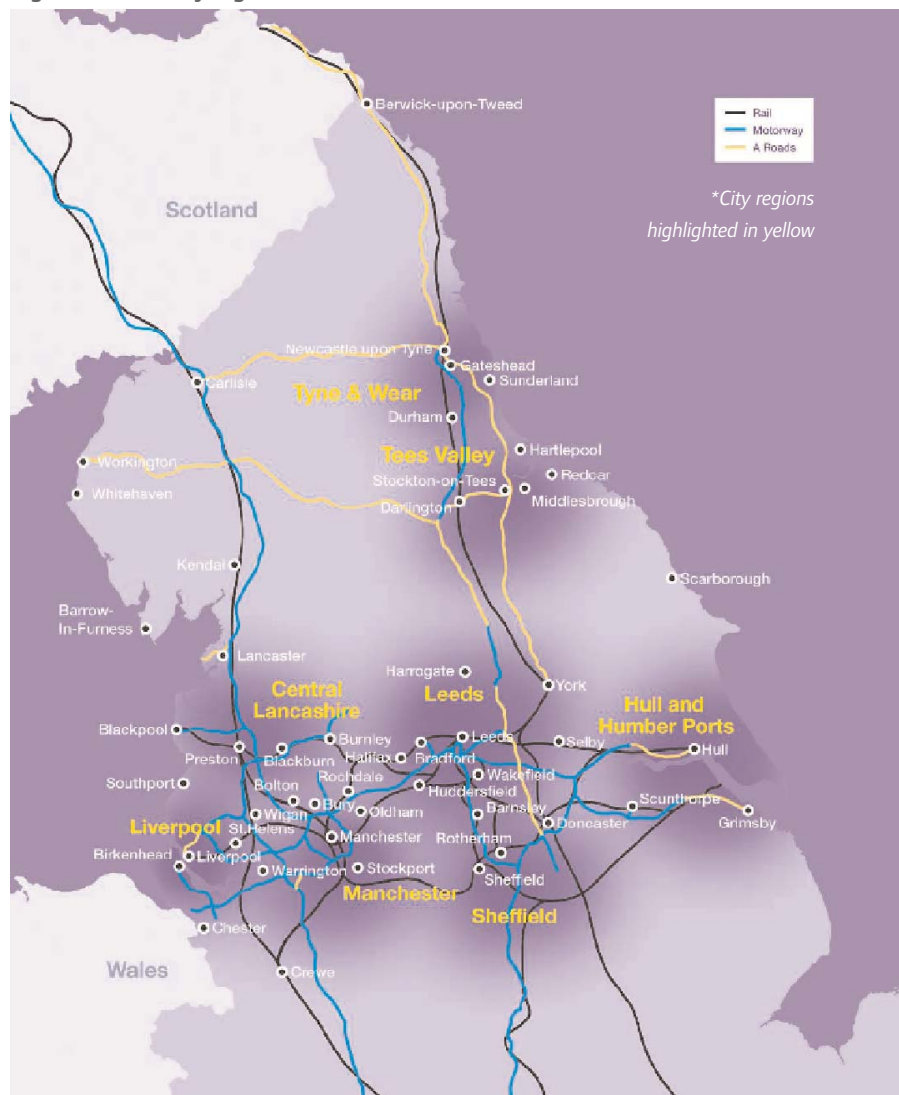
10. Marketing the North to the world.

This is a big list, given that the initial funding for investment – in the form of the Northern Way Growth Fund – amounted to only £100 million. The funding allocated to it in the October 2007 Spending Review is even tighter, at only £45 million in total for 2008–2011. Of course the Northern Way, like the RDAs, was always meant to provide strategic guidance and targeted intervention rather than closing the £30 billion output gap single-handedly. Even so, it was obvious from the outset that resources would be spread very thinly unless the Northern Way's priorities were narrowed and consolidated in some way. This occurred in early 2007 with the publication of a review of the Northern Way's activity (Northern Way 2007). As a result of the review, the Northern Way announced that it would be narrowing its list of priorities to just three:

- *Transport*: identifying the pan-regional or city-regional transport interventions that will deliver the greatest productivity gains over the next 20 to 30 years and working with partners to implement these.
- *Innovation in industry*: working with universities and industry to strengthen the North's research and innovation capacity, increasing collaborative working and facilitating stronger links between research and industry.
- *Private investment*: working more closely with the private sector to lever in more private sector investment, particularly for pan-regional infrastructure projects and housing.

At around the same time that the Northern Way was being formulated, the concept of *city regions* started to take hold within the UK Government as a spatial framework for analysing the main drivers of economic performance. A city region (sometimes also known, perhaps more helpfully to the uninitiated, as a *functional economic city*) is 'the economic footprint of a city – the area over which key economic markets, such as labour markets as measured

Figure 3.1. The city regions of the North*



Source: www.thenorthernway.co.uk

by travel to work areas, housing markets and retail markets, operate' (HM Treasury: 16). As a spatial unit of economic activity and growth, city regions represent a step forward from previous frameworks based on disaggregating the country into regional, city council, local authority or ward level. This is because the economic boundaries of travel-to-work areas, housing, retail and business service markets rarely correspond to administrative boundaries.¹⁹

Under the most commonly-used definition the North contains eight city-regions: Tyne and Wear and Tees Valley in the North East, Central Lancashire, Liverpool/Merseyside and Manchester in the North West and Leeds, Sheffield and the Hull and Humber Ports in the Yorkshire and Humber region. The geographical location of the northern city regions is shown in Figure 3.1, which is taken from the Northern Way's website. As the map shows, there are two 'trans-city-regional' urban concentrations in the North – the two North-

19. HM Treasury's definition of a city region rather glosses over three important qualifications to the city-region concept: (a) neither the labour market, the housing market nor the retail market of a city has any hard and fast boundary outside which no transactions take place; (b) to the extent that labour market, housing and retail boundaries for a city can be defined, they will probably all be different; (c) many markets and networks for economic activity have no obvious boundary, being fairly global in their extent (although an artificial statistical boundary can often be drawn) – for example, innovation, wholesale trade in goods and services, labour market migration, tourism and so on. Nonetheless the city region concept remains useful for analysts.

East city regions near the North–East coast, and the six North Western and Yorkshire and Humber city regions further south, running in a band from the Lancashire and Merseyside coast across to East Yorkshire and Northeast Lincolnshire.

Both the Northern Way Growth Strategy and the recent publication by the Treasury, *The Importance of Cities to Regional Growth* (HM Treasury 2006b), have contended that city regions are ‘key to any effort to accelerate the economic growth of the North’ (Northern Way 2004) and that ‘lifting the economic performance of cities is critical to improving the economic prospects of regions and to tackling disparities within regions’ (HM Treasury 2006b: 63). A report published by the Northern Way in July 2007, *Shaping the North’s Cities for Growth*, underlines this focus on city regions (Northern Way 2007b). Recent work by the Centre for Cities has gone even further, claiming that ‘cities do not follow the national economy – they *are* the national economy’ (Athey *et al* 2007; emphasis in original).

Certainly the majority of the North’s population (around 90 per cent) live in city regions, which also account for most of the North’s economic output (over 90 per cent of GVA). Analysis based on the functional economic boundaries of city regions is clearly more useful than analysis based on economically arbitrary regional borders for examining the spatial aspects of economic policy including transport, labour market and innovation policies, as well as the links between governance and economic growth. However, it is important that we do not ignore the remaining ten per cent of the North’s population who live in cities outside city regions (such as Carlisle), towns, and the large rural areas of the North.

As recent ippr work on rural communities points out: ‘...we have much to do to achieve a progressive, fair and equal society in Britain’s rural areas. Levels of pensioner poverty remain stubbornly high, a lack of access to public services can have disastrous consequences on the most vulnerable, and local communities have little power to address social problems in their midst’ (Midgley 2006: 1). Connectivity between the policies aimed at rural areas on the one hand and city-regions on the other is crucial in order to achieve sustainable regional growth and respond to the challenges of the modern world. Competitiveness is not the only decisive factor; quality of life is increasingly seen to be equally important. We would reject any strategy for economic growth that focused *exclusively* on city regions at the expense of the areas outside them. As Balls *et al* (2006) have pointed out, city regions have a key role to play in improving the North’s economic performance – but as a central part of an inclusive pan-regional approach that focuses on achieving economic growth, environmental sustainability and social inclusion throughout the North as a whole, and not as an alternative to that approach.

The future of regional governance

Both the Sub-national Review of Economic Development and Regeneration (HM Treasury 2007a) and the preceding Green Paper *The Governance of Britain* (Ministry of Justice 2007) outlined the strategic directions for further development of regional governance in the country. Fundamental changes to functions and institutions are planned at the national, regional, sub-regional and local tiers.

The core objective is to strengthen the autonomy of sub-national

authorities to make decisions about territorial priorities and to implement them accordingly. The latest Government thinking also seeks to enhance the accountability of executive but purely ‘administrative’ bodies such as the Regional Development Agencies and Government Offices. The goal is to improve the performance of the regions in a globally competitive and innovative economy and to provide more equal opportunities to people living in different parts of country by devolving authority to the tiers of governance that are geographically closer to citizens.

The Government has committed itself to improving the coordination of the central departmental initiatives in order to enhance regional productivity through the creation of nine *Regional Ministers* (Ministry of Justice 2007). However, it remains to be seen exactly how this new link will be institutionalised in the chain of relations between the GOs, RDAs, local authorities and central departments. The concern is that these regional ministers might become not so much ‘the voice of the people in Whitehall/Westminster’ as ‘the voice of the centre in the regions’. There is also an open question over how effective coordination will be when performed by nine individuals representing the (often competing) interests of nine different regions without a single institutionalised core within government.

Another important innovation in the Green Paper is the creation of parliamentary Regional Select Committees. These are intended to scrutinise the work of the regional executive bodies (the RDAs) which now have sole responsibility for designing and implementing regional strategies. This role is particularly significant in terms of oversight and accountability since, as parliamentary committees, they are one of the few bodies within the regional governance system that contain directly elected representatives. Again, however, the question is whether having nine committees is likely to be more effective than having just one committee representing the various regional positions at the same time. Furthermore, the plan to give approval of the regional strategies to the Secretaries of State for BERR and CLG may strengthen accountability, but there is a risk that strategies may not end up being genuinely ‘regional’ if they need to be cleared first in London.

The accountability of regional institutions is also to be strengthened at the other end of the scale – local authorities will have a direct and decisive voice in approving the regional strategies and scrutinising the performance of the RDAs. On the one hand, this is a necessary substitute for the scrutiny function of the Regional Assemblies, which will be abolished by 2010. However, some kind of forum of local authorities will still be required at the regional level to voice different perspectives and often conflicting interests while agreeing priorities for the entire region. One option would be for the Regional Associations of Local Authorities (for example ANEC, the Association of North East Councils, in the North East) to take on this role.

The Sub-national Review is forthright about the need to introduce sub-regional mechanisms in areas in which a joined-up approach is required, such as transport. Building and managing such partnerships would require considerable effort from local authorities. In addition to Local Area Agreements (LAAs), it is also planned to introduce Multi-Area Agreements (MAAs) to manage sub-regional statutory responsibilities in economic development and transport.

City regions also received greater recognition in the review than they have done previously and their role is likely to be strengthened. England is thus moving closer and closer towards a multi-level territorial governance system which is responsive to the different challenges – in transport, planning, regeneration, skills and so on – that need to be addressed at different spatial levels.

All these institutional innovations should be enhanced by the new budget arrangements, which were announced in the October 2007 Spending Review. However, the public spending settlements for the period 2008 to 2011 are tighter and both the RDAs and the Northern Way will face a decrease in their budgets. Nonetheless, there is great potential to improve the economic performance of the regions and to enhance equality of opportunity for different communities. For this the capacity of the sub-national authorities should be enhanced in two ways: first, in the area of managing new powers – making their own well-informed decisions and implementing them; and second, in managing the new responsibilities that go hand-in-hand with these powers – planning their own (devolved) development budgets, and most importantly, raising money for them. Unless the Government is prepared to allow some degree of fiscal decentralisation to regional and local authorities (which are directly accountable to people) with a clear and uniform set of rules, it is difficult to predict how effective the proposed governance system will be.

Financial instruments of regional policy: European Union and domestic support

EU structural funding

It is important to look not only at national but also European aspects of regional development in this report. In this subsection we consider the impact of the EU's regional policy instruments on regional governance in UK. The continuous support provided to the

English regions over the last 20 years through different community mechanisms and initiatives has been intended to improve their economic performance and social cohesion. Structural funds play a core role in providing this support.

Since the UK's entry into the European Union in 1973, financial support from EU Structural Funds has helped finance major regeneration, infrastructure and cultural projects, as well as critical skills enhancement and urban transport projects in the North and other English regions. Sheffield's Supertram scheme, for example, was partly paid for using EU funding, as was Newcastle's Centre for Life.

However, the period 2007 to 2013 will see a major reduction in the level of EU structural funding to the UK, to less than half of the level for 2000–2006. This reduction is related to the major enlargement of the Union in 2004 and the redirection of socio-economic cohesion instruments to the least developed Central and Eastern European countries, which have much lower levels of socio-economic development. Despite this, the northern regions of England will continue to receive substantial amounts from the EU's Structural Funds (the European Regional Development Fund, the European Social Fund and the Cohesion Fund), at a level well above the national average (as shown in Table 3.3).

The UK's share of structural funding will be reduced from €17.6 billion for the programming period 2000–2006 to €9.4 billion for 2007–2013 (2004 prices, see Table 3.4). Due to changes in the overall objectives of regional assistance and the reduction of eligible territories in the UK, several areas of the North have seen a change in status and cuts in funding. For example, Merseyside and South Yorkshire will no longer have Convergence Objective (previously known as 'Objective 1') status, which in the current programming period is reserved for the neediest areas of the EU-27²⁰. However,

Table 3.3. Allocations* from Structural Funds to UK regions and nations, 2007–2013

Region	Total Structural Funds (€ million)	Allocations per head (€)
North East	545	215
North West	1164	172
Yorkshire and Humber	880	177
East Midlands	458	109
West Midlands	685	130
East of England	303	56
London	597	82
South East	224	28
South West	818	166
England	5675	115
Wales	1971	676
Scotland	731	144
Northern Ireland	419	248
UK total	8796	149

*in 2004 prices

Source: Department for Trade and Industry 2006

20. For full details of the change in EU Objective status within the UK by area, see Marshall and Adams 2006.

Table 3.4. Dynamics of structural funds allocations in UK

Allocations 2000–2006 (€ million, 2004 prices)		Allocations 2007–2013 (€ million, 2004 prices)	
Cohesion Fund		Cohesion Fund	
Objective 1	5,200	Convergence	2,430
		Statistical phasing-out	158
Phasing-out	1,192	Phasing-in	881
Objective 2	5,184	Regional competitiveness and employment	5,336
Objective 3	5,043		
Community initiatives	1,003	European territorial cooperation	640
Total	17,622	Total	9,444

Source: European Commission (Directorate-General for Regional Policy) 2006

these areas will now receive support within the framework of the Competitiveness and Employment Objective, along with all other English regions (though it will be specifically ring-fenced for these two regions).

The UK's new National Strategic Reference Framework for Structural Funds Spending 2007–13 (DTI 2006) establishes three broad priorities, which are in line with the Lisbon Strategy priorities and UK national priorities, aimed at increasing the productivity and competitiveness of the national and regional economies:

- Enterprise and innovation
- Skills and employment
- Environmental and community sustainability.

It is important to note that these priorities also coincide with the priorities of the Regional Economic Strategies, including those of the three northern regions, thus creating a basis for a joined-up approach and co-funding from different budget sources. In total, over the period of 2007–2013 the UK will receive as much as 3 per cent of the total financial allocation of €347.4 billion Structural Funds for all 27 member countries (in current prices).

The EU dramatically changed its priorities for the use of Structural Funds in order to reflect the challenges of the Lisbon Agenda adopted in 2000. The Lisbon Agenda's aim is to make Europe the world's 'most competitive and dynamic knowledge-driven economy'. According to new European Commission regulations, 75 per cent of Structural Funds money must be spent on activities that support the Lisbon Agenda – that is, economic growth and jobs (Commission of the European Communities [CEC] 2005). The European Commission's *Third Cohesion Report* (CEC 2004) also argued that Structural Funds resources were spread too widely and thinly and that a greater focus on a smaller number of smaller areas,

in particular urban areas, would be beneficial. This conclusion is supported by work for the Centre for Cities by Marshall and Adams (2006) who argue that the UK's diminished Structural Funds budget would be best spent on specific projects in city regions that have clearly identified benefits to economic growth – provided that the development of rural areas is also promoted via a parallel policy of transferring resources from Pillar 1 of the Common Agricultural Policy (farm subsidies) to Pillar 2 (broader rural development measures) (Midgley 2006).

Domestic support

The main industrial assistance programme funded by the UK itself, rather than the EU, is Selective Finance for Investment in England (SFIE, formerly Regional Selective Assistance). This is a discretionary grant awarded to support capital expenditure by businesses within 'Assisted Areas' – areas designated as disadvantaged by agreement with the EU, as the policy has to operate within strict EU guidelines on competition and state aid. The scale of this assistance was also reduced as a result of EU enlargement: in 2007–13, 23.9 per cent of the UK population will live in Assisted Areas, compared to 30.9 per cent in 2000–06 (DTI 2006).

The SFIE scheme has evolved from the Regional Selective Assistance scheme introduced in the 1970s, which was mainly used to 'prop up' industry in low-growth areas. Today the scheme is focused on 'high-quality, knowledge-based projects'. The scheme is administered by the RDAs who are tasked with assessing applications for SFI to ensure that grants only go to 'high-quality' projects – for example, where the majority of jobs are at NVQ level 2 or equivalent. Up until recently, SFI was overwhelmingly focused on manufacturing industry but DBERR figures show that by 2005 this was changing, with 27 per cent of the value of grants allocated to service industries – compared with only 10 per cent in 1995.

4. Conclusions and recommendations

Conclusions

On most of the outcomes we have examined (though not all) the North of England lags behind other English regions: this is the overall conclusion that emerges from this 'audit'.

This is true with respect to the key components of economic performance: GVA per head (though the regional gap in performance per filled job or per hour worked is much smaller), investment, employment rates, average incomes, earnings and the distribution of skills among the adult population. Furthermore, the North East seems to perform badly even in relation to the other two northern regions. The key outcome indicators for health and education which we have included reinforce this picture of regional inequality.

For the other aspects of public service performance that we have examined – the police and criminal justice systems, and local authority effectiveness – the picture is much more mixed, with the North performing well on some criteria and badly on others.

As regards the environment, although we have only examined a limited range of measures here, the North East is particularly well placed, with a larger than average percentage of National Park land, high river quality and high levels of 'tranquillity'. The other two northern regions also score better than the English average on most environmental indicators.

Overall, it is clear that the challenge of closing the £30 billion 'output gap' identified by the Northern Way Growth Strategy in 2004 is far from a trivial one, and there are many dimensions to relative underperformance in the North. But at the same time it would be foolish to overlook the strengths and successes of the North as well as the progress that has been made in the last few years (for example, the strong growth of GVA per head over this period).

Our survey of the institutional framework for regional economic policy shows that this has been an area of more or less continuous policy development and change over the last decade. These changes will continue into the 2010s with the abolition of Regional Assemblies and a new wider role for Regional Development Agencies, who will add spatial planning responsibilities to their current economic strategy remit. At the same time, northern England faces a substantial cut in the amount of Structural Funds assistance from the European Union over the next six years. We will make a full assessment of the effectiveness of current regional institutional arrangements, as well as speculating whether the reforms announced in the Sub-national Review and Governance Green Paper are likely to be effective, in the final report from this project.

Recommendations

Because this paper is intended as a background audit of the current situation of the northern economies it makes few policy recommendations. However, we do make one major recommendation regarding the Government's Public Service

Agreement (PSA) target on regional economic performance.

Despite the dramatic reduction in the number of PSAs in the October 2007 Spending Review (down from 110 to 30), the Government remains adamant about the aim 'to improve the economic performance of all English regions and reduce the gap in economic growth rates between regions' (HM Treasury 2007a). This objective was only slightly reformulated in the Spending Review.

However, progress towards this objective will be measured by an extended number of indicators, namely: growth rate of GVA per head, GVA per hour worked as a measure of regional productivity, and, crucially, the working-age employment rate in each region, along with measuring the level of skills in the labour force in each region (to be carried out separately by the Department for Innovation, Universities and Skills). Additionally, the Government will establish an international dimension to its assessment of regional performance by committing itself to developing a regional index of GVA per head in relation to the average level in the 15 pre-2003 EU member states. This is an important step forward, especially given that among the current 27 EU member countries the UK has the biggest gap in economic performance (measured by GVA per head) between the richest and the poorest sub-regional units (Inner London, and West Wales and the Valleys respectively).

There are three key problems with the current regional PSA target:

1. The target only aims for a reduction in the *gap in growth rates* between the 'leading' and 'lagging' regions – not for a reduction in *absolute levels* of GVA between the two sets of regions. It would be perfectly possible for the PSA target to be met if the gap in growth rates between the Greater South East and the rest of the English regions was reduced slightly – even though the Greater South East would still be growing faster than the rest of England. Hence regional disparities could continue to widen even though the target was being met – which means, in our view, that the target is too weak.
2. The 'leading' regions and 'lagging' regions are both taken as a *group*, not individually. This means that as long as the gap in *average* growth rates is reduced, the target is met. But a single 'lagging' region could do exceptionally badly relative to all the others and this underperformance would still not be picked up by the target because *on average*, the lagging regions were reducing the gap with the leading regions.
3. The target measurement was extended to include employment rates and the level of skills in the working age population as well as GVA per head in the 2007 Spending Review. However, it should be extended further to embrace an even wider range of well-being indicators – such as public service outcomes and environmental factors.

Our recommendations for revising the PSA target are as follows:

- The PSA target should be designed to reduce the absolute gap in levels of GVA between regions, not just the gap between growth

rates. This recommendation was first made by ippr in a previous report on regional policy (Adams *et al* 2003) and it is still relevant today.

- The PSA target should apply to individual regions, not groups of regions.
- The economic performance PSA target should be extended to include the social and environmental dimensions of well-being. It should be aimed at closing the regional gap existing on quality-of-life measures beyond the 'narrow' economic indicators.

The Government has already indicated its plans to radically reform the PSA system; the number of PSAs will be reduced dramatically, with each PSA target having one department in charge of its implementation with others contributing. In particular, the newly

created Department for Business, Enterprise and Regulatory Reform is now responsible for the regional economic performance PSA target.

There are also calls for greater localisation of PSAs through intensified dialogue with local and regional authorities. The recently published Sub-national Review of Economic Development and Regeneration proposed a separate regional economic growth objective for each region, which would also be used as the only core criterion for assessing RDA performance. The growth objective will be based on assessing progress against five performance indicators: (1) GVA per hour worked; (2) employment rate; (3) basic, intermediate and high level skills attainment; (4) R&D spend as a proportion of regional GVA; (5) business start-up rate. These innovations are very much in line with our proposals.

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Appendix 1:

Results from LFS Earnings Regressions

These regressions use the Labour Force Survey from Spring 2004 to Spring 2007 inclusive to examine regional earnings patterns, controlling for other factors. Table A1.1 presents the results for men (aged xx to xx) inclusive, and Table A1.2 for women. Moving from

left to right, the three columns in Table A1.1 show the results that correspond to the “no controls”, “+ age and qualification controls” and “+ industry controls” bars in Figure 1.11 respectively, and similarly Table A1.2 shows the results that correspond to Figure 1.12.¹

Variable	Specification:		
	No controls	+ age and qualification controls	+ industry controls
Region:			
North East	-.236	-.203	-.202
North West	-.159	-.143	-.140
Yorkshire and Humb.	-.193	-.159	-.160
East Midlands	-.168	-.136	-.130
West Midlands	-.168	-.142	-.141
East of England	-.053	-.034	-.033
London	.108	.077	.070
South West	-.140	-.123	-.120
Age:			
Age		.137	.117
Age2		-.002	-.002
Age3		.001	.001
Highest qualifications:			
Degree		.566	.517
Other HE		.369	.336
A Level		.218	.196
GCSE		.139	.130
Other quals		.004	.005
Industry (SIC92):			
A,B			-.329
C,D,E			.129
F			.046
G,H			-.166
I			-.029
J,K			.124
L,M,N			-.008
O,P			-.136
Number of observations	30154	30154	30154
R ²	.034	.285	.313

Notes: regressions also include year dummies and constant (not shown). Standard Industrial Classification (SIC92) 1-digit categories are as follows: A: agriculture, hunting, forestry and fishing; B: mining and quarrying of energy producing materials; C: other mining and quarrying; D: manufacturing; E: electricity, gas and water supply; F: construction; G: wholesale and retail trade; H: hotels and restaurants; I: transport, storage and communication; J: financial intermediation; K: real estate, renting and business activities; L: public administration and defence; M: education; N: health and social work; O,P: other services.

1. Note that the coefficients on each region do not correspond to the percentage numbers measured by each bar in Figures 1.11 and 1.12, although the relative pattern of the coefficients and the bars is the same. This is because the South East was used as the base region, whereas Figures 1.11 and 1.12 show the wage levels in each region relative to the English average; therefore, the bars for Figures 1.11 and 1.12 had to be calculated as deviations from the mean coefficient across all nine English regions.

Table A1.2. Earnings regression results from Labour Force Survey, 2004-07: Women

Variable	Specification:		
	No controls	+ age and qualification controls	+ industry controls
Region:			
North East	-.121	-.091	-.082
North West	-.085	-.067	-.063
Yorkshire and Humb.	-.114	-.093	-.084
East Midlands	-.091	-.075	-.066
West Midlands	-.106	-.082	-.077
East of England	-.155	-.003	-.001
London	.212	.174	.167
South West	-.091	-.084	-.074
Age:			
Age		.167	.133
Age2		-.004	-.003
Age3		.003	.002
Highest qualifications:			
Degree		.621	.578
Other HE		.449	.419
A Level		.225	.202
GCSE		.148	.126
Other quals		.050	.043
Industry (SIC92):			
A,B			-.274
C,D,E			.106
F			.042
G,H			-.231
I			.022
J,K			.084
L,M,N			-.072
O,P			-.193
Number of observations	31377	31377	31377
R²	.038	.269	.308

Notes: regressions also include year dummies and constant (not shown). Standard Industrial Classification (SIC92) 1-digit categories are as follows: A: agriculture, hunting, forestry and fishing; B: mining and quarrying of energy producing materials; C: other mining and quarrying; D: manufacturing; E: electricity, gas and water supply; F: construction; G: wholesale and retail trade; H: hotels and restaurants; I: transport, storage and communication; J: financial intermediation; K: real estate, renting and business activities; L: public administration and defence; M: education; N: health and social work; O,P: other services.

Appendix 2

A2.1: Number of claimants receiving benefits relating to sickness and disability in North East England in November 2006

	16-24	25-34	35-44	45-54	55-59	60-64	All working age
Male	8,060	12,560	19,270	24,870	18,730	22,130	105,620
Female	5,980	8,790	16,650	25,510	18,710	-	75,640
Total	14,040	21,350	35,930	50,390	37,440	22,130	181,280

Source: ONS Benefit Claimants – working age client group, available at www.nomisweb.co.uk (accessed 21.6.07)

A2.2: Number of claimants receiving benefits relating to sickness and disability in North West England in November 2006

	16-24	25-34	35-44	45-54	55-59	60-64	All working age
Male	18,540	31,910	53,640	61,940	43,790	51,790	261,610
Female	14,660	23,650	44,400	64,510	46,890	-	194,110
Total	33,200	55,560	98,040	126,450	90,680	51,790	455,720

Source: ONS Benefit Claimants – working age client group, available at www.nomisweb.co.uk (accessed 21.6.07)

A2.3: Number of claimants receiving benefits relating to sickness and disability in Yorkshire & the Humber in November 2006

	16-24	25-34	35-44	45-54	55-59	60-64	All working age
Male	11,850	19,060	29,480	36,240	26,520	31,810	154,960
Female	9,250	14,170	25,960	36,950	27,800	-	114,130
Total	21,100	33,230	55,440	73,190	54,320	31,810	269,090

Source: ONS Benefit Claimants – working age client group, available at www.nomisweb.co.uk (accessed 21.6.07)

Appendix 3

A3.1: Working age employment rates by qualification level and region, 2005

	Overall levels	Employment rate of those with highest qualification at:				
		Level 4+	Level 3	Level 2	Below level 2	No quals
South East	79.2	87.9	80.2	78.7	77.4	56.1
East of England	78.0	88.2	80.9	78.1	75.9	58.2
South West	78.0	86.3	79.0	78.5	75.9	56.7
East Midlands	76.0	89.4	80.2	76.8	74.3	51.0
England	74.7	87.1	78.0	75.4	72.7	48.8
Yorkshire and the Humber	74.2	87.4	77.8	78.2	73.4	46.5
West Midlands	73.5	86.2	78.9	76.0	73.2	48.6
North West	72.7	87.9	78.2	74.4	70.2	45.3
North East	70.6	87.1	78.2	73.0	66.5	39.8
London	69.1	84.9	69.3	65.4	65.8	41.5

Source: Qualifications and participation in learning at a local level, available at www.dfes.gov.uk (accessed 21.6.07)

A3.2: Working age employment rates by qualification level and North East Local Education Authority, 2005

	Overall levels	Employment rate of those with highest qualification at:				
		Level 4+	Level 3	Level 2	Below level 2	No quals
Northumberland	75.5	85.9	78.6	80.4	70.2	44.9
North Tyneside	75.2	90.6	81.0	75.5	70.1	41.3
England	74.7	87.1	78.0	75.4	72.7	48.8
Darlington	74.4	90.9	84.7	75.5	69.6	48.4
Stockton-On-Tees	74.2	90.4	81.9	78.7	65.5	36.9
Gateshead	71.7	88.1	79.1	73.2	67.9	42.6
North East	70.6	87.1	78.2	73.0	66.5	39.8
Sunderland	69.3	85.7	78.0	73.7	65.5	39.8
Redcar And Cleveland	68.9	85.6	78.9	70.3	65.1	40.5
Durham	68.7	87.4	78.4	68.0	64.9	39.6
Newcastle Upon Tyne	67.9	86.3	68.8	72.0	68.2	33.8
South Tyneside	67.8	82.4	80.7	72.6	63.0	29.0
Hartlepool	67.0	84.9	79.2	69.8	59.9	43.3
Middlesbrough	66.5	84.1	77.1	65.9	65.4	43.0

Source: Qualifications and participation in learning at a local level, available at www.dfes.gov.uk (accessed 21.6.07)

A3.3: Working age employment rates by qualification level and North West Local Education Authority, 2005						
	Overall levels	Employment rate of those with highest qualification at:				
		Level 4+	Level 3	Level 2	Below level 2	No quals
Stockport	80.7	93.4	81.8	78.5	77.4	56.0
Warrington	78.1	87.7	81.2	78.2	78.1	57.4
Bury	77.5	85.6	83.6	79.0	76.1	53.0
Cheshire	77.2	87.1	77.7	77.9	71.1	56.6
Cumbria	76.9	86.4	86.5	78.4	70.8	50.8
Trafford	76.0	87.5	76.6	78.1	70.1	44.0
Oldham	75.0	89.7	89.3	81.9	70.5	43.0
Lancashire	74.9	88.1	79.0	74.1	71.7	50.3
England	74.7	87.1	78.0	75.4	72.7	48.8
Wigan	74.1	90.7	79.4	78.9	73.3	44.3
North West	72.7	87.9	78.2	74.4	70.2	45.3
Halton	72.6	85.9	81.9	74.3	70.5	52.7
Sefton	72.3	88.2	73.0	76.7	71.0	42.1
Rochdale	72.3	88.9	79.8	77.1	67.9	46.4
St Helens	72.1	89.8	77.1	74.7	72.7	46.0
Bolton	71.9	85.3	81.5	72.2	71.4	47.8
Tameside	71.9	89.5	79.9	75.0	74.1	42.1
Blackpool	71.3	86.4	73.4	77.3	71.4	50.9
Wirral	71.3	90.5	79.2	67.4	65.3	47.8
Salford	69.9	91.7	78.3	73.3	66.2	43.3
Blackburn with Darwen	68.3	91.4	77.8	69.6	61.5	41.1
Knowsley	67.1	91.9	80.6	72.0	71.4	34.0
Liverpool	61.8	85.4	67.9	67.8	64.4	33.0
Manchester	59.8	83.4	60.7	58.0	59.1	32.8

Source: Qualifications and participation in learning at a local level, available at www.dfes.gov.uk (accessed 21.6.07)

A3.4: Working age employment rates by qualification level and Yorkshire & the Humber Local Education Authority, 2005						
	Overall levels	Employment rate of those with highest qualification at:				
		Level 4+	Level 3	Level 2	Below level 2	No quals
North Yorkshire	81.1	89.6	83.3	85.2	77.4	61.3
York	78.7	90.8	69.6	78.9	76.7	63.1
East Riding Of Yorkshire	77.8	85.9	82.4	80.2	78.7	49.4
Kirklees	76.2	92.1	84.9	76.2	75.3	45.1
North Lincolnshire	76.0	87.9	85.3	78.6	72.0	40.1
Wakefield	75.8	87.1	82.9	76.7	76.1	53.7
England	74.7	87.1	78.0	75.4	72.7	48.8
Rotherham	74.6	86.3	85.6	81.8	74.4	40.3
Calderdale	74.5	88.7	79.0	79.1	74.3	44.0
Yorkshire & the Humber	74.2	87.4	77.8	78.2	73.4	46.5
Leeds	73.8	84.1	72.6	78.4	74.6	46.3
North East Lincolnshire	72.4	89.7	78.5	76.6	69.0	41.6
Doncaster	72.1	89.4	76.0	77.4	74.8	38.6
Sheffield	71.1	87.0	68.5	75.9	70.4	43.6
Barnsley	70.4	90.9	79.9	78.1	65.6	42.7
Bradford	69.8	85.5	77.2	74.0	70.8	40.0
Kingston Upon Hull	66.5	81.4	73.1	73.1	69.0	45.8

Source: Qualifications and participation in learning at a local level, available at www.dfes.gov.uk (accessed 21.6.07)