SOUTH TYNESIDE COUNCIL

ECONOMIC ASSESSMENT

EXECUTIVE SUMMARY

December 2021

HATCH

Introduction

South Tyneside Council (STC) commissioned Hatch Urban Solutions and Winning Moves to undertake an independent economic assessment for South Tyneside. The aim of the study is to provide a comprehensive and robust evidence base on South Tyneside's recent performance and future growth prospects, and analyse its strengths, weaknesses, opportunities and threats. The evidence will help South Tyneside Council to shape the priorities of its Economic Growth service and provide a baseline against which to measure the borough's economic recovery.

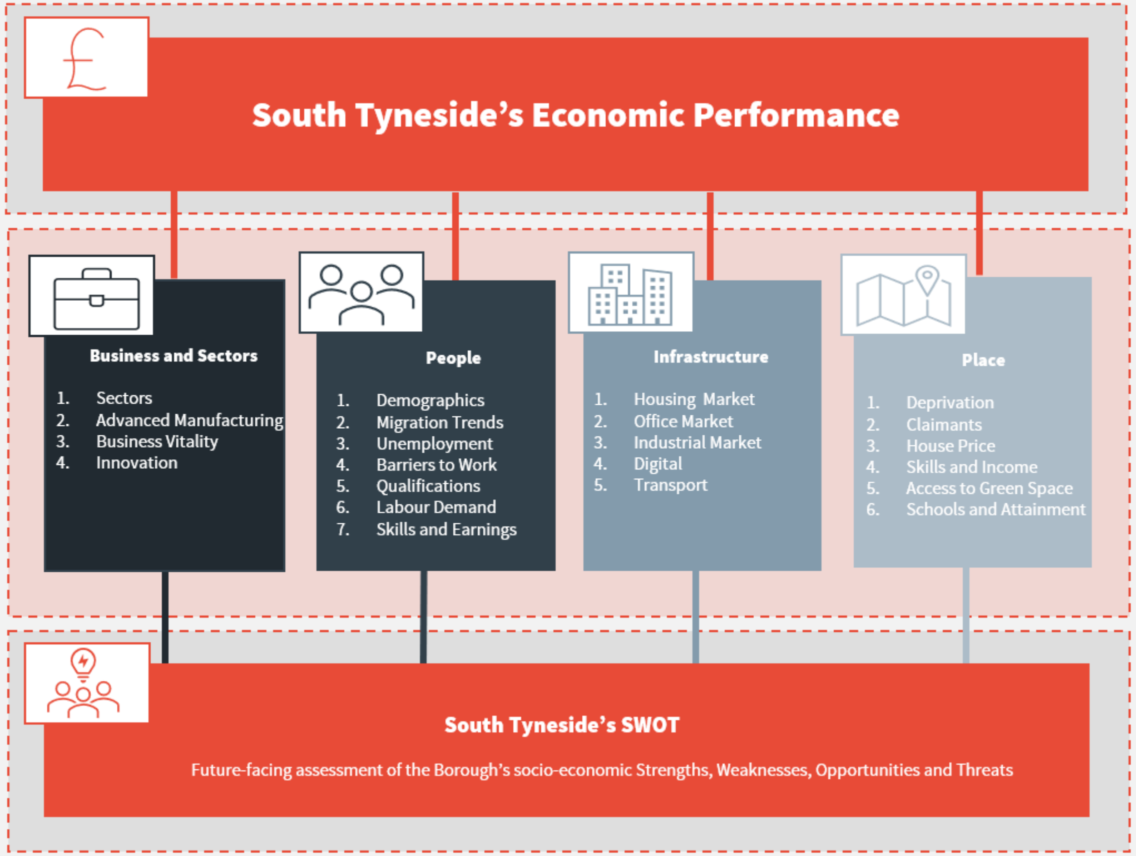
The evidence base assesses long and short-term trends in economic performance, and then analyses the critical issues facing the local economy, focusing on:

+ Business and sectors
+ People, including labour market trends and the demand for and supply of skills
+ Infrastructure, including digital infrastructure, housing, transport and sites and premises.
+ Place, focusing on the local challenges and opportunities in different parts of South Tyneside.

The research has been informed by:

+ analysis of economic, labour market and property datasets
+ an evidence and policy review
+ Interviews with stakeholders
+ A business survey of 400 local businesses

Evidence base structure



Economic Performance

The report finds evidence of numerous economic challenges in South Tyneside:

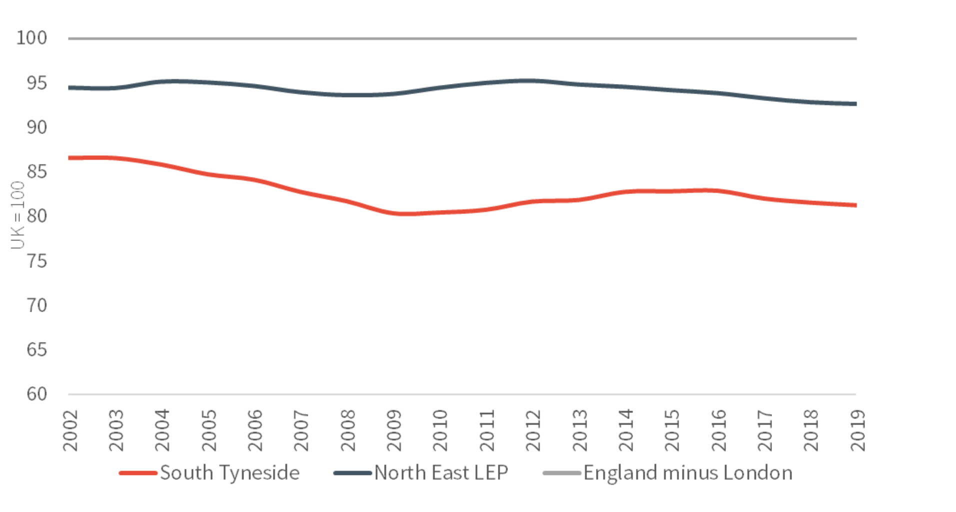
+ **Weak economic growth**: growth in GVA has failed to match the LEP or national average and has been falling since 2014.
+ **Declining productivity**: GVA per filled job has fallen by £1,900 since 2002 compared to a rise of over £3,000 in the sub region and England. As a result the productivity gap between South Tyneside and both the sub region and national average is widening (see Figure 1).
+ **Stagnant jobs growth**: the number of jobs in South Tyneside is at the same level it was in 2000, compared to strong growth in England and the LEP area (see Figure 2).
+ **Dependence on the public sector**: 26% of jobs are in the public sector compared to 22% in the LEP area and 17% in England minus London

The root cause of these challenges has been a decline in the manufacturing sector, which was the bedrock of South Tyneside's economy, and a failure to offset this decline with growth in other high value industries.

Independent economic forecasts from Oxford Economics suggest these trends are set to continue; these point to continued reliance on the public sector for future jobs and GVA growth (particularly health and social care) and weak growth in the private sector. As a result jobs growth is forecast to be flat and economic growth to be well below the UK average. Although these forecasts do not take account of planned investments such as IAMP.

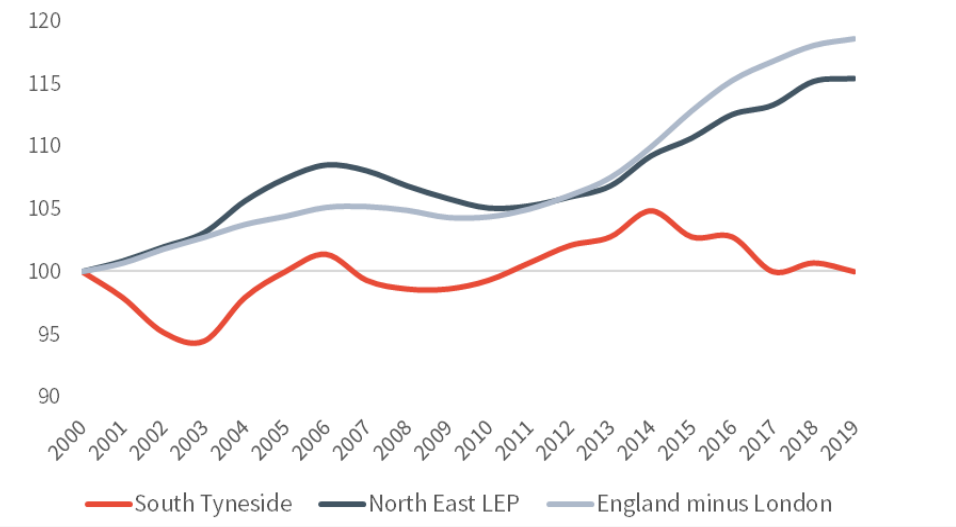
The main positive finding for South Tyneside is that gross disposable household income per capita has increased at a faster rate than the national average, which suggests living standards have improved despite the poor economic performance. This is due in part to fiscal transfers (benefits and other contributions received exceeding taxes and other contributions paid).

Figure 1: GVA per filled job index, 2002-2019 (UK = 100)



Source:
ONS Regional GVA

Figure 2: employment change index, 2000-2019 (2000=100)



Source:
ONS jobs density

Business and Sectors

South Tyneside's main sector strengths are in:

– **Advanced manufacturing**: the sector accounts for 1,600 jobs and has an employment LQ of 1.15, with particular strengths in the automotive supply chain. Maximising the opportunities from IAMP should therefore be a key policy priority.

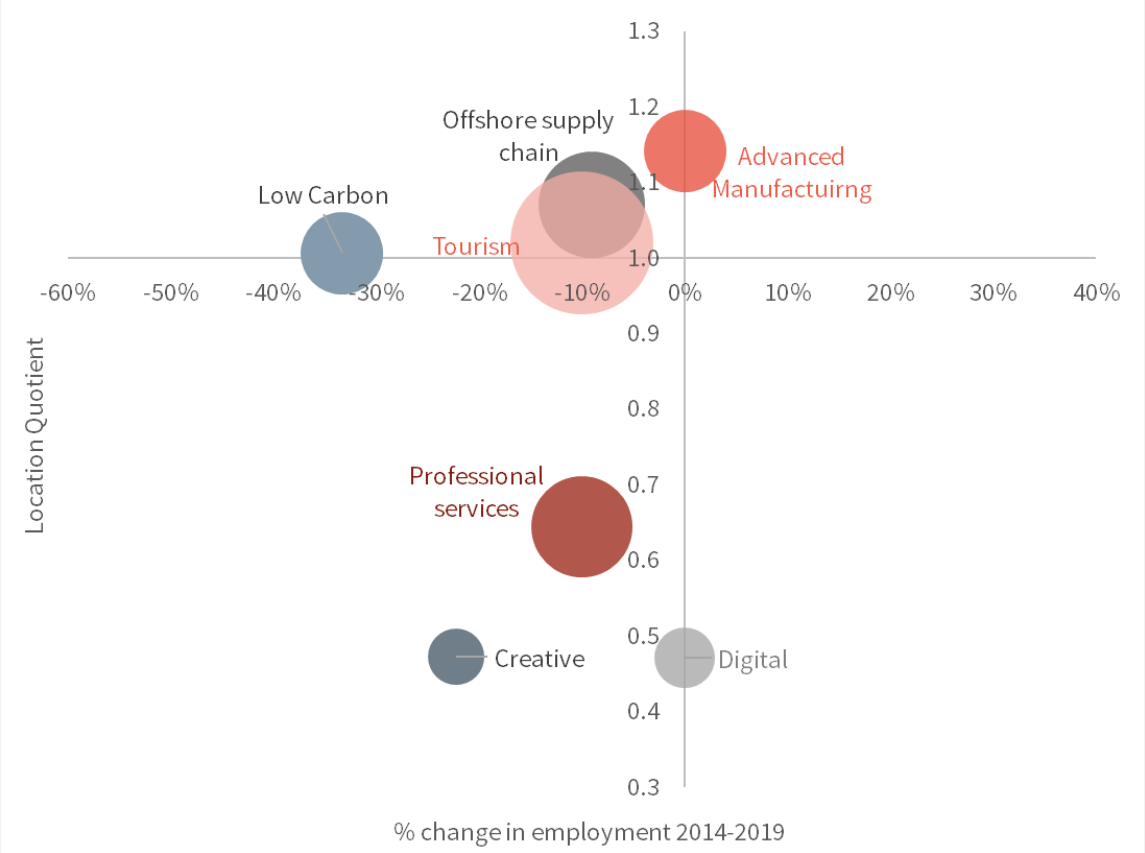
– **Energy and offshore wind supply chain**: up to 3,000 jobs and an LQ of 1.07. This sector also offers significant growth opportunities related to installation of offshore wind farms and planned investments in new heat networks, which all offer opportunities to develop the supply chain in South Tyneside.

– **Tourism**: not yet an established strength of South Tyneside (LQ of 1.0), but there is clear potential to develop this sector by better exploiting the borough's natural assets, including marketing and pivoting towards higher value markets.

These offer the greatest potential for wealth creation and inward investment and should be the main focus of local economic strategies. We believe there is little value in continuing to prioritise other sectors identified in previous strategies, such as digital and professional services.

In addition to this sector specific focus, we find there is a strong case for the council to consider a broader approach to economic development, which supports the foundational economy (including health and social care) and focuses on a wider set of outcomes than GVA and productivity. This is important because of the high proportion of jobs in the foundational economy, which means a narrow sector focus may bring limited benefits for most of South Tyneside's residents. The council is already taking steps in this direction through the proposed roll-out of The Pledge which will ask employers to commit to local spending and recruitment, and other activities to maximise social and environmental benefits.

Figure 3: Sector strengths analysis for specially defined sectors



Source: BRES

People

The evidence suggests South Tyneside faces a number of stark labour market challenges:

+ **Demographic challenges**: South Tyneside's ageing population is increasing demand for labour (through workers leaving the workforce) at the same time as shrinking the available workforce.

+ **International migration**: this has been a vital source of labour supply over the last ten years but is now under threat as a result of stricter migration controls. This will be a particular challenge in those low wage sectors that are dependent on migrant workers such as food manufacturing and hospitality.

+ **High levels of economic inactivity and structural unemployment**: the proportion of people who are economically inactive is at its highest level in ten years. There has been a particularly large fall in economic activity among young people since the Covid pandemic.

When combined these challenges could undermine even modest levels of jobs growth and lead to severe labour shortages in many sectors. Of particular concern is the risk that the Covid pandemic has a long-term scarring effect on the labour market prospects and life chances of young people.

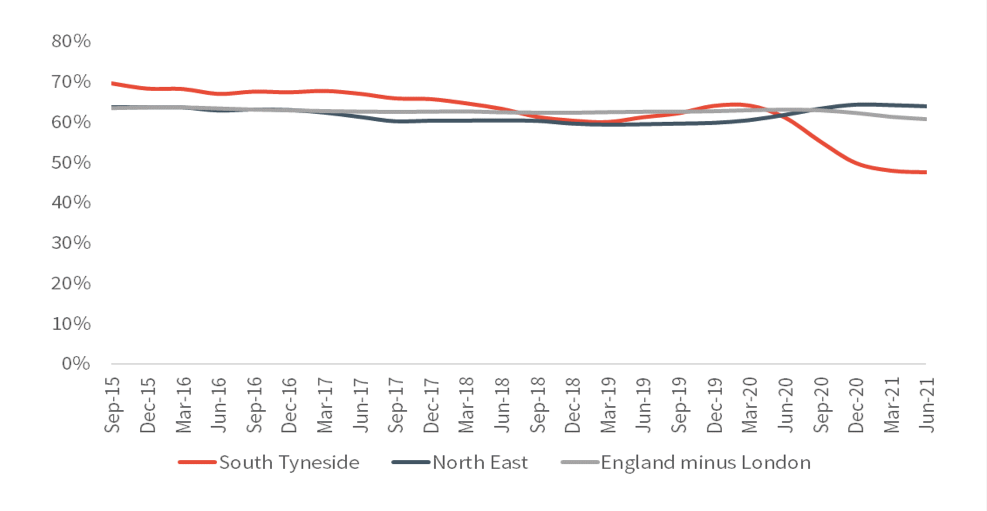
The key skills priorities include:

+ Meeting the high volume skill requirements of large sectors. This particularly relates to health and care but also construction and hospitality.

+ Addressing skill shortages in priority sectors, particularly advanced manufacturing and offshore wind which could act as a barrier to growth.

+ Escaping the low skill equilibrium by stimulating demand for higher level skills. This is very challenging to address but could include supporting businesses to diversify into higher value markets or adopt new ways of working which make greater use of workers skills and offer progression routes for staff.

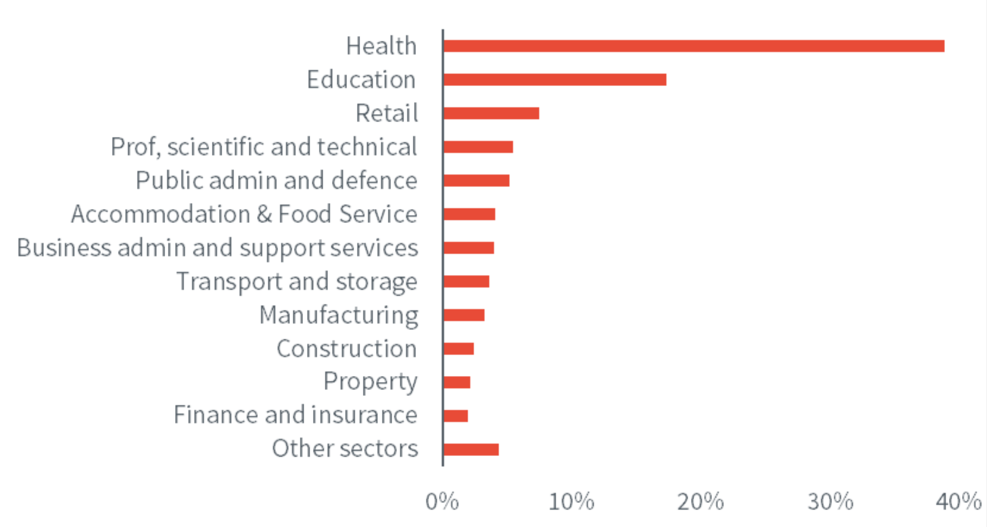
Figure 4: economic activity rates of people aged 16 to 24, 2020-21



Source: Annual Population Survey

Note: based on three quarter moving averages to reduce sampling error

Figure 5: sector profile of job vacancies in South Tyneside, 2016-2020



Source: EMSI

Infrastructure

The main infrastructure priorities for South Tyneside relate to improving access to sites and premises. The lack of new development since the 2008 economic downturn has led to a shortage of available space in the office and industrial market, leading many growing businesses to look outside the borough for new premises.

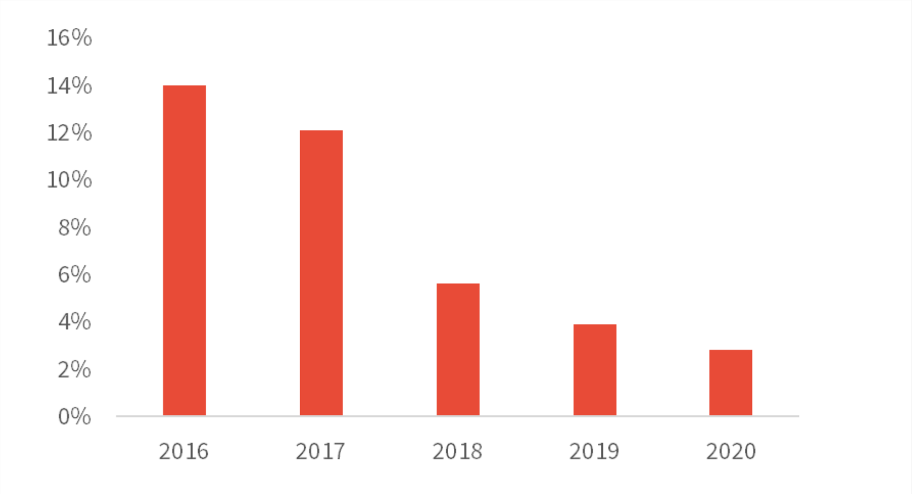
The key priority is identifying new employment sites in the south of the borough with good connections to the A1, which can address the medium term undersupply of industrial sites and premises. This is the area that is best placed to attract inward investment from manufacturers and grow high value industries.

The key transport priorities are already well-recognised by the council. There are ongoing investments to address the key pinch-points on the strategic road network and on other key A roads, which will be vital for improving connectivity to IAMP and the Port of Tyne. The public transport network is generally strong but there is a need to enhance connections between unemployment hotspots and the Nissan/IAMP site.

The availability of housing does not appear to be acting as a barrier to growth. However there may be an important role for housing to play in place based regeneration and attracting skilled migrants to South Tyneside to address future labour market challenges. If the council does pursue this strategy, the main focus should be on increasing the supply of houses rather than flats, and creating high quality developments suitable for families.

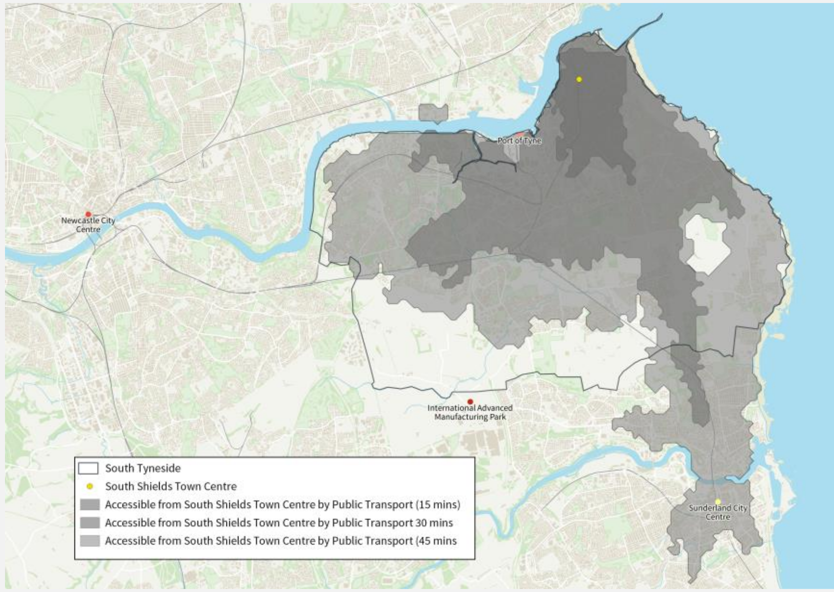
Digital infrastructure is generally good and will meet the vast majority of households and businesses needs for the foreseeable future. Nevertheless there remain a number of gaps in ultrafast coverage including at key employment locations such as Monkton and Boldon Business Parks. The council should aim to ensure that these are addressed through the Project Gigabit programme.

Figure 6: vacancy rates for industrial space, 2016-2020



Source: CoStar

Figure 7: Accessibility of employment centres from South Shields via public transport



Source: Igeolise

Place

South Tyneside's place assets are one of its greatest strengths and competitive advantages. It is seen as a good place to live and visit, with some outstanding natural assets not available elsewhere. This brings potential benefits beyond the tourism sector. Quality of place is vital for attracting skilled workers and entrepreneurs, who increase expenditure in the local economy but who also create wealth and improve long term economic performance. The ambition for South Tyneside should therefore to be the location of choice for the city region's high skilled residents.

However the area faces a number of challenges in achieving this ambition:

+ Regeneration of South Shields town centre, and King Street in particular. There is a need for a radical reduction in retail space and new town centre uses which increase vibrancy.

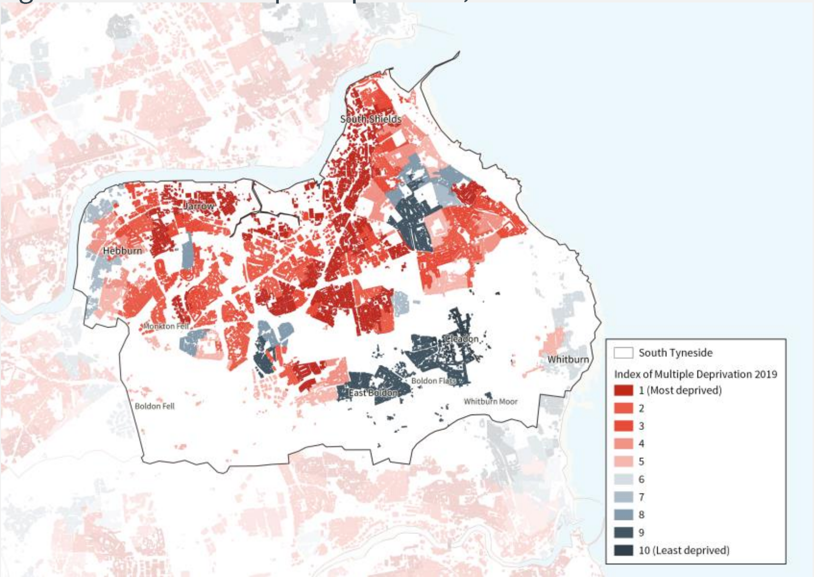
+ Encouraging new investment in the foreshore area which improves its image and makes it a destination for a wider set of markets, including higher spending visitors. Consultees identified a particular need for a high quality hotel and opportunities to build its reputation as a food and drink destination.

+ High quality housing led growth and regeneration schemes such as those in Hebburn and Holborn, particularly targeted at family housing. These attract migrants to the borough and inject new life in to former industrial areas and town centres.

These priorities also need to be balanced against the need to address place based challenges faced by existing communities. The borough contains a number of areas among the most deprived in the country, which face deep structural challenges. It is in these communities where place and people based challenges combine including poor housing, high levels of crime, poor health and worklessness. A high proportion of South Tyneside's inactive and long term unemployed residents live in these areas, meaning there is a need for targeted place based interventions which address the complex challenges and barriers to work faced by these communities.

Figure 8: King Street, South Shields

Figure 9: Index of Multiple Deprivation, 2019



Source: MHCLG

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Strengths

- **Strengths in key growth sectors.** South Tyneside retains specialisms above the national average in a number of sectors with growth potential and high productivity, including advanced manufacturing and offshore wind supply chain.
- **High levels of enterprise:** the business start-up rate is higher then the LEP average, although still below the national average
- **Outstanding natural assets:** particularly the seafront, coastline of beaches which benefits tourism and contributes to quality of life.
- **Attractive place to live:** a number of areas are seen as attractive places to live, particularly for families
- **Good transport and digital infrastructure:** congestion is low, public transport is good and coverage of 4G networks, superfast and ultrafast broadband are all above the national average

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Weaknesses

- **High dependence on the public sector:** a lack of dynamism in the private sector has limited job creation and density and means South Tyneside is highly reliant on the public sector for jobs.
- **Low skills equilibrium:** private sector employment is dominated by low value, low skilled activities which explains a number of areas of underperformance including low productivity and earnings and low levels of innovation.
- **High levels of inactivity and structural unemployment**: this contributes to lower living standards and constrains the supply of labour, which may make it difficult to meet future labour demand.
- **Deprivation in many communities**: high levels of deprivation around South Shields and in a number of other communities leading to poor living standards.
- **Underperforming town centres**: particularly in South Shields, which undermines the attractiveness of the town as a place to live and visit.

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Opportunities

- **IAMP:** planned investment at IAMP which straddles the border of South Tyneside and Sunderland presents a major opportunity to increase the number of high quality jobs in the manufacturing sector and its supply chain.
- **Growth in the energy sector:** there is potential for large scale inward investment at the Port, plus investment in new heat networks. Both of these offer supply chain opportunities.
- **Increase in domestic tourism:** offering potential for further growth in this sector
- **Attracting more high skilled and high income households**: there is an opportunity to exploit South Tyneside's appeal to families leaving the city region's main employment centres by building more family housing and encouraging investment in more aspirational leisure, hospitality and recreation facilities. This could increase expenditure in South Tyneside and lead to higher growth in the long term.

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Threats

- **Ageing population:** this will continue to restrict labour supply and also increase replacement demand, risking future labour shortages.
- **High dependence on international migrants** for growth in the working age population which is at risk because of Brexit.
- **Shortage of sites and premises:** there is an undersupply of both office and industrial premises which is acting as a barrier to growth for many businesses.
- **Skill shortages:** a high level of skill shortage vacancies is a major issue for the manufacturing and construction sectors, and could also limit the growth of the energy sector.
- **Other recruitment challenges:** other sectors are struggling to recruit the workers they need due to the nature of work and low wages, including health and social care and hospitality.

Summary of **recommendations**

Business and sectors

- **Prioritise growth needs of the advanced manufacturing, energy and tourism sectors,** in which South Tyneside has clear strengths and where there are growth opportunities**.**
- **Maximise supply chain opportunities of major investments**, particularly IAMP, heat networks, Equinor and other investments at the Port. The council needs to understand the nature of these opportunities, map the skills and expertise of local businesses and identify support requirements.
- **Use investments as a platform for innovation and accessing new markets:** electrification and heat networks both offer huge growth opportunities. The council needs to ensure that local businesses are at the forefront of this by facilitating collaboration with developers and bodies such as DER-IC.
- **Supporting the foundational economy**: expand on the work done to date on The Pledge to identify opportunities to support the foundational economy, learning from best practice in Wales and Preston.

People

- **Intensive support for disengaged young people**: Work with Jobcentre Plus and third sector organisations to identify the reasons for the fall in participation by young people, and provide additional resources for addressing these barriers.
- **Sector based work academies**: consider the creation of new academies for the health and care, construction and hospitality sectors.
- **Raising awareness of future opportunities**: work with local schools to raise awareness of the opportunities to develop rewarding careers in growth sectors. This should also target the existing workforce and those with transferrable skills.
- **Support for retraining**: provide clear advice and signposting for adults wishing to retrain, taking advantage of new funding opportunities through the National Skills Fund.

Infrastructure

- **Identify new potential employment sites in the south of the borough** with good connections to the A19 to address the medium term shortage of these sites.
- **Identify and service smaller plots suitable for self contained office buildings** which could be sold to owner occupiers and explore opportunities to refurbish underused buildings in town centres to be used as small business centres.
- **identify and promote potential projects that could benefit from funding through NECPIF** when it launches in 2022, particularly industrial projects on the margins of viability.
- **Ensure there are frequent and reliable public transport connections** between South Tyneside's most deprived communities and growth locations such as IAMP.
- **Ensure all business parks and employment locations have access to high speed broadband**, and any gaps are addressed through the Project Gigabit programme.

Place

- **Prioritise the continued regeneration of South Shields town centre,** with the aim of radically reducing the amount of retail space and encouraging new uses which bring vibrancy to King St**.**
- **Encourage new investment in the foreshore area** which improves its image and makes it a destination for a wider set of markets, including higher spending visitors.
- **Identify opportunities for housing led growth and regeneration** around Metro stations to attract more skilled migrants and inject new life in to town centres.