

Executive Summary

1. Public sector intervention to alleviate physical barriers to investment can begin to create the degree of certainty that the private sector crave in today's financial turbulence. However, the former need the freedom, flexibility and capacity to create best value from limited funds, supplementing traditional tools with innovative mechanisms.
2. Central government can enhance the leverage of private finance into the North by fostering indigenous growth, developing cluster activities and nurturing an environment hospitable for innovation.
3. Local authorities can develop their ability to attract investment by both working collaboratively across boundaries and by not reverting to traditional comfort zones, continuing to utilise arms-length, business-facing economic development structures.
4. In order to stimulate housing demand, contemporary models of house building and mortgage provision need to be substituted by a public sector which promotes, extends and pro-actively participates in shared equity and ownership schemes.
5. To maintain regeneration momentum, long-term visions must be maintained and not derailed by the recession. Watering down strategies will not achieve long-term goals and will simply divert attention to the easiest, rather than neediest, projects.
6. Government needs to ensure that investment in key regeneration schemes does not suffer as such place-shaping can significantly improve the northern investment 'offer.' Local authorities must also explore opportunities to directly deliver and fund projects.
7. There is a real need for further investment in transport infrastructure to improve connectivity within and to the North. The accelerated delivery of the Tees Valley Metro project, added to support for developments at Teesport and Durham Tees Valley Airport, can improve economic linkages and support the leverage of further private investment.

Q1 - How is the current financial turbulence likely to affect long-term patterns of investment, the institutions delivering it, and the criteria they are likely to apply?

As a number of recent reports examining the current financial turbulence and looking to the future of economic development have highlighted – such as Parkinson's review for DCLGⁱ and 'Cities Outlook 2009' by Centre for Citiesⁱⁱ – the fragility of the current economic climate is certain to hamper both short and medium-term patterns of investment.

There is clearly a danger that a flight to quality and a flight from risk among the private sector will harm regeneration efforts, particularly in places across the North, a situation that may linger into the longer-term. Therefore, there is a vital need to both maintain a high quality offer for developers and ensure the public sector reduces the perceived level of risk to the private investor. Policy makers have struggled to reconcile the twin goals of maximising the level of financial return at the minimum level of risk – the key driver for capital – while at the same time ensuring the delivery of public policy goals. Public sector intervention to alleviate physical barriers to investment, for example via infrastructure improvement, can create the degree of certainty that investors crave.

The current turbulence is likely to be keenly felt by institutions at the coal face of delivering economic change in the North. For one, Urban Regeneration Companies, and other vehicles mandated to attract inward investment and physically reinvigorate under-performing areas, need to ensure that such investment is focused upon diversifying the local economy, along with expanding indigenous firms and enhancing links with other organisations to improve business start-up rates and entrepreneurship.

Tees Valley Regeneration has experienced recent success in attracting businesses in the engineering design sector supporting the offshore oil and gas industry to the sub-region. Along with renewable energy and professional services, this has served to increase employment and investment into the Tees Valley, as well as beginning to expand and diversify the sub-regional economy. Such a focus upon exploiting new growth areas and natural competitive advantages, steering clear of saturated markets, is especially important in today's climate.

The freeze and squeeze of credit, the constraints placed on financial institutions and fund-raisers and a new found culture of risk-awareness amongst investors will inevitably affect short term investment, not just in the North, but the whole UK economy. The steps outlined in the following responses can go some way towards ensuring that the North can weather the storm and come out stronger on the other side.

Q2 – What actions can Central Government take to enhance future prospects for private investment in the northern regions?

Central government can take a number of actions to enhance the leverage of private finance into the North, including developing cluster activities, providing an environment hospitable for innovation, improving vital transport infrastructure and creating innovative mechanisms to strengthen Northern housing markets. The latter two will be examined in further detail in the subsequent questions.

Firstly, to improve the environment for innovation and technology transfer, the public sector needs to develop, promote and improve specialised business parks and industrial zones. For example, the Tees Valley is actively nurturing high-tech clusters of innovation, such as the Wilton Centre – the growing R&D arm of Wilton International, home to over 50% of the UK's petrochemical industry – and Digital City. The latter, developed by the University of Teesside, Middlesbrough Council and OneNorthEast, is a growing hub of digital innovation and design, with new facilities being built and new companies actively assisted.

Central government investment in innovative development in tradable sectors, is, say the Local Government Association (LGA), *“of maximal benefit to local, regional and national economies because of the minimal risk of displacement.”*ⁱⁱⁱ Renewable energy and low-carbon technology innovation is thriving on the back of the skilled manufacturing base of the Tees Valley. The Work Foundation highlight the importance of manufacturing to the UK economy and the need to *“preserve as much of the industrial base as possible because once it is lost it is near impossible to get back again.”*^{iv}

It is hoped that further public sector investment will bring in private finance as clusters begin to develop into high-tech specialist zones, benefiting from substantial agglomeration benefits and economies of scale. This can help move the Northern economy from one dependent upon traditional sectors, increasingly undercut by growing regional economies outside Europe, to one which is built upon, as the Work Foundation describe, *“‘diverse specialisations’ in knowledge intensive industries.”*^v

A reshaped region, no longer labeled a ‘branch plant’ economy, specialising in high-value manufacturing and cutting-edge service provision will, in turn, encourage further private sector investment both from within and outside the region, raising awareness of localities as key players in given industries. Foreign direct investment into the sub-region is dearly valued by policy makers, such as the RDAs, as a key way to improve productivity, competitiveness and ‘bring up’ existing indigenous firms.

Secondly, investment in infrastructure is equally pressing. As the LGA^{vi} point out, *“targeted investment can stimulate the local economy (in the short term for construction and engineering, as well as in the longer term) and ensure that high-priority employment locations are better placed to recover.”* In addition, the creation of strategic infrastructure advancements can close gaps in terms of housing disparities between regions, as well as, critically in today's climate, reducing the barriers to entry for risk-sensitive developers.

Infrastructure priorities for the Tees Valley include developing Teesport, Durham Tees Valley Airport, the Tees Valley Metro and infrastructure to support the digital, renewable energy and process industries.

Q5 – How can Local Authorities across the North develop an excellent reputation with investors, and secure economic benefit for their areas as a result?

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Q6 – How can the public sector work across boundaries to better meet the needs of investors, across a flexible geography and on a basis that delivers certainty for potential investors?

Local Authorities can develop their ability to attract inward investment by working collaboratively across boundaries and maximising the potential opportunity stemming from the Government's devolution agenda.

Tees Valley Councils are already leading the way when it comes to working in partnership, being one of the first groups in the UK to agree a Multi-Area Agreement with Government and looking to push forward as one of the two Economic Prosperity Boards. As the Spatial Economics Research Centre (SERC) explain, MAAs will be better placed to deal with uneven spatial gains by improving economic linkages between areas.^{vii} The Local Government Minister stressed their importance in "*responding to the economic reality that skills, jobs, housing and inward investment markets ...are not constrained by council boundaries.*"^{viii}

This flexible spatial collaboration springs from a shared history of sub-regional partnership, be this in tourism with Visit Tees Valley, social housing via Tees Valley Housing or regeneration through TVR. The latter body offers the advantages of being a business-facing arms-length vehicle to coordinate the local authority voice and offer solutions for private investors. This added capacity can greatly assist Northern councils to develop excellent reputations with investors.

Support is also critical from a whole range of partner organisations designed to encourage and assist investment. This ranges from the likes of the RDA, Business Link and Job Centre Plus to local colleges and universities, and ensures that business support is coordinated, relevant and realistic. Joint working is at the very heart of better meeting the needs of investors and improving the sub-regional and Northern 'offer.'

Alongside this, the public sector needs to have the freedom, flexibility and capacity to create best value from limited funds. It is critical, especially in today's more volatile funding environment, that traditional tools, reliant upon stable flows of public money, are supplemented by new, innovative mechanisms to improve the ability to attract private investment.

Public agencies should have the ability to utilise their own assets as leverage, especially in regard to physical regeneration schemes. Councils, in particular, cannot be allowed to revert back to type and focus their resources and cultural mindset upon areas such as education, social services and the environment. Instead, they need to persevere and go further; giving powers to innovative arms-length bodies, such as Urban Regeneration and Economic Development Companies, that are business-facing, can-do, delivery organisations. Although this carries an element of risk, such platforms can deliver long-term economic development by increasing the demand for an area and enhancing its investability.

It is clear that central government's focus on city-regions will not subside in the near future. This policy stems from a recognition that patterns of economic geography tend to be sub-regional in nature and that organisations at the correct spatial level can help attract additional investment. The Local Democracy, Economic Development and Construction Bill, places an emphasis upon the role of the local authority, and particularly groups of councils, highlighting their importance as operating at the closest spatial level for economic intervention. The Bill places a statutory economic assessment duty upon Councils, reinforcing the need to recognise local strengths and weaknesses.

Thus it is vital that the Bill is implemented in a way which both ensures closer, more flexible, sub-regional working and gives local government the increased capacity needed to attract investment, generating the economic benefits that result from both.

Q8 – How can the northern regions strengthen their housing markets, responding more effectively to the diverse local needs and opportunities?

One of the most fundamental challenges of the current economic environment is that of ensuring housing markets in the North become stronger, as well as more responsive and flexible. Parkinson's report highlighted that the previous emphasis on property-led regeneration would experience a decline over the long-term. The Work Foundation^{ix} agree that "*physical regeneration is likely to suffer the most*" with city centre regeneration slowing, particularly in deprived areas, increasing spatial polarization.

It seems apparent that the contemporary models of house building and mortgage provision are now redundant. The long-held dominance of the development of city-centre apartments aimed at first time buyers and investors has disappeared, hand-in-hand with the evaporation of finance, high loan-to-value mortgages and a narrowing of access to the market. What is needed are new, innovative ways of stimulating housing demand in the North, while continuing to uphold the quality of schemes that can improve the quality of place.

For example, shared equity and ownership schemes should be rolled out further and need to be utilised on a flexible – and possibly even a bespoke – basis. Government moves to allow councils to build more homes and keep more of the resulting income, alongside promoting shared equity schemes, such as HomeBuy, are steps in the right direction. New Build HomeBuy (where ownership is shared with a housing association or RSL), Social HomeBuy (discounts for existing tenants to buy their home), and Rent to HomeBuy (reduced rent to allow for a period of saving before purchase) are all excellent ideas in today's climate and should be promoted extensively and funded accordingly.

However, government, local authorities and the HCA need to go further and faster, allowing the council stake in shared equity schemes to be used by the buyer as a deposit, thereby improving access for buyers and surety for investors. Shared equity schemes that rely on equity loans, which may be hard to access in today's climate, should be supplemented by councils providing a range of mortgages themselves, alongside increased involvement from the HCA. Although these steps may increase the role for the public sector, it is another example of the need to de-risk opportunities to stoke private sector interest and buy-in.

Today's changing climate also demonstrates the importance of anchoring regeneration schemes around more than simply property alone. In the Tees Valley, major projects, such as Middlehaven in Middlesbrough, Central Park in Darlington and North Shore in Stockton have

used education and skills as their focal point; be this via the creation of new, first-class, modern FE facilities in the very heart of the project or by improving connectivity to HE institutions, utilising the latter's strength as a knowledge transfer platform. This underlines just how crucial it is, as explained in a recent report from the Commons Communities and Local Government Select Committee, that critical regeneration schemes are not abandoned or undermined by the ill-effects of the current climate.^x

Q9 – How can the momentum for regeneration be maintained beyond the current downturn, securing a stronger flow of private investment from a wider range of investors?

To maintain the momentum of regeneration in the North, long-term visions and ambitions must be held on to and public and private partners should not be derailed from this by the affects of the recession. Watering down strategies and plans in order to meet today's need will not achieve long-term goals and, especially in the North East, will not ensure increased private sector investment from a wider range of players.

However difficult the short-term challenges may be, strategic vision from relevant stakeholders is essential. Strategies must maximise the current opportunity to build on local strengths in key sectors and improve local and regional infrastructure. It is this which will ensure the gap between the North and the South East continues to narrow and help alleviate the disparities that exist within the Northern regions.

The role of economic development strategies will naturally have to adapt to today's world, taking on a more partnership stance, especially between groups of Councils, with less emphasis on property-led regeneration. However, there is a danger that the crisis could widen regional inequities as the public sector may gear strategies towards the easiest, rather than neediest, projects. The surety of investment in key schemes through the HCA, particularly those that improve connectivity and provide mixed, sustainable communities, is thus crucial to ensure that place-shaping schemes come to fruition. Without this disparities are bound to worsen.

There is also an opportunity for local authorities to examine the direct delivery and funding of regeneration schemes and projects. Although the outputs of this may be hard to measure over the short to medium term, a direct council role can play an important part in creating short-term jobs, particularly in construction, generating long-term place shaping – ensuring quality is not lost – and ensuring that momentum continues beyond the current downturn.

A strategic regional approach is vital to allow areas to develop their unique areas of comparative advantage. The SNR gives more power to RDAs over spatial planning, developing a Single Regional Strategy. SERC say that *“the merger of regional economic and spatial planning has the potential to lead to improved regional strategies.... focused around resurgent cities.”*^{xi} The Local Government Minister agreed, recognising that: *“We will lose out with serious investment if we don't have clear economic priorities at regional level. And we need such policy in all regions.*

In the '80s and '90s too much was focused on the Greater South East, while the potential and the problems of the North were overlooked."^{xii}

These architectural shifts in the economic development landscape will see the creation of new partnerships as conurbations pool resources and expertise with finance tightening and a desire for new models to deliver projects. The Institute for Public Policy Research North explain that *"strategic partnerships at the regional and sub-regional level have emerged as an important vehicle for taking decisions on economic development."*^{xiii}

These actions will, it is hoped, go some way towards closing the gap between, as well as within, regions. The crisis has also brought opportunities, despite risks that disparities may widen further, and a hope that more devolution to the correct economic level will emerge, giving regions and localities more clout to improve the local delivery of economic development. This, however, does require central government departments to show confidence in the ability of local government and other partners to provide local solutions. HM Treasury, DCLG and DBERR must recognise that flexibility and innovation are paramount to meet new and complex delivery challenges. A step change is needed to create the asymmetric system which is a prerequisite to attracting long-term private sector investment into the North.

In the Tees Valley, the ambition of a fast-growing economy narrowing the gap in GVA with the rest of the UK and, as the Tees Valley City Region Business Case^{xiv} describes, *"developing economic assets, improving urban competitiveness and identifying the potential for new industries,"* rests fundamentally on the input of the private sector. Private investment and involvement is pivotal to improve the capacity and capability of the sub-regional economy to adapt and meet these challenges. The public sector must play a crucial leveraging role, reducing risk for capital investors, in an economic environment that presents both threats and opportunities for the whole of the Northern economy.

Q10 – How can the northern regions secure greater investment in their long-term transport priorities, through the right mix of public and private resources?

A recent CBI report stressed that investment in transport infrastructure was vital for all areas of the UK in order to improve competitiveness and private sector buy-in.^{xv} This is particularly pressing in the North, where connectivity within the area, and links to the South East, clearly need to be improved. Connectivity is vital for spatial economic development, increasing the ability of localities to specialise and feel the benefits of agglomeration. The creation of economic linkages between areas within the North would be beneficial for the whole region.

A key way to achieve this is through the accelerated delivery of the Tees Valley Metro project, a £140m scheme which would utilise existing rail lines on the Darlington to Saltburn loop, as well as introduce new tracks. This would create a rapid transport route linking Tees Valley town centres with outlying estates and ongoing regeneration projects, such as Middlehaven, Central Park and Durham Tees Valley Airport. New stations would, consequently, be created and existing stops upgraded.

All five Tees Valley local authorities have, in principle, committed to the project. With a business case having been submitted to the Department of Transport, the scheme is ready for detailed design planning and, given the go-ahead, could be implemented by 2012. The Metro, therefore, has the potential to unlock existing sites, open up the wider economy and improve labour market mobility and connectivity.

In addition, ensuring the delivery of developments at Durham Tees Valley Airport and Teesport will be vital to aid this quest and improve accessibility to, and within, the North – a key precursor to attract investment. Durham Tees Valley Airport is currently expanding to deal with an anticipated 3 million passengers a year by 2020, while, on the Airport's south side, the 250-acre Skylink International Business Park will offer over 2million sq ft of business space aimed at airport-related logistics and freight companies. TVR is leading this project, in conjunction with Peel Holdings, which will allow companies to access European and world markets.

Likewise, so will the development of the Northern Gateway Container Terminal at Teesport, the UK's third largest port. The £300m terminal, which will enhance trading links to China and offer a more cost effective solution for goods destined for the North, has the potential to ease the burden on the overheated Southern ports of Southampton, Felixstowe and the like.

These concrete, deliverable measures to improve connectivity and accessibility clearly have the ability to improve the Tees Valley economy and its attractiveness as a key destination for private investment. The benefits of which will not just be felt sub-regionally, but can play a role in improving the investability and economic success of the whole of the North as well.

ⁱ DCLG, *'The Credit Crunch & Regeneration: Impact and Implications,'* Jan 2009

ⁱⁱ Centre for Cities, *'Cities Outlook 2009,'* Jan 2009

ⁱⁱⁱ LGA & PACEC, *'From Recession to Recovery: The Local Dimension,'* Nov 2008

^{iv} Work Foundation, *'Manufacturing and the Knowledge Economy,'* Feb 2009

^v Work Foundation, *'How can Cities thrive in the changing economy,'* Oct 2008

^{vi} LGA & PACEC, *'From Recession to Recovery: The Local Dimension,'* Nov 2008

^{vii} Overman, H. and Rice, P., Spatial Economics Research Centre, *'Resurgent Cities and Regional Economic Performance,'* Oct 2008

^{viii} Healey, J., DCLG, *'The Sub-National Review and future economic reform,'* 11 Sept 2008

^{ix} Work Foundation, *'How can Cities thrive in the changing economy,'* Oct 2008

^x House of Commons Communities and Local Government Select Committee, *'Housing and the Credit Crunch,'* Feb 2009

^{xi} Overman, H. and Rice, P., Spatial Economics Research Centre, *'Resurgent Cities and Regional Economic Performance,'* Oct 2008

^{xii} Healey, J., DCLG, *'The Sub-National Review and future economic reform,'* 11 Sept 2008

^{xiii} IPPR North, *'Governing through Partnerships,'* 2008

^{xiv} Tees Valley Joint Strategy Unit, *'Tees Valley City Region: A Business Case for Delivery,'* 2006

^{xv} CBI, *'Time to change gear: Assessing the UK transport networks,'* Feb 2009