

URBACT Case study of cities response to the crisis: NEWCASTLE



Summary

A little over one hundred years ago, Newcastle was considered to be one of the innovation powerhouses of the industrial age. Since then it has suffered successive waves economic restructuring which decimated its manufacturing base and scarred entire generations and neighborhoods with unemployment. However, in the 1990's Newcastle, along with some other traditional UK industrial cities, experienced what has been called an "urban renaissance" and has reinvented itself as a "service city", which is increasingly looking towards science and the knowledge economy.

In this context, its ten point response to the crisis combines a series of emergency measures to defend its firms and people from the worst ravages of the recession while at the same time positioning itself for building both the activities and jobs that it predicts will have emerged by 2030. Of particular interest is the way Newcastle has linked economic, employment and "place-making" measures to shift the city towards an economy based on science, a low carbon economy, health, and creativity.

Context

Newcastle is the administrative capital of the North East region of England (2.5 million inhabitants) located next to the Scottish Border. Newcastle itself has a population of around 250,000 and together with its direct neighbor Gateshead (around 200,000 inhabitants) it forms the economic heart of the Newcastle City Region¹ made up of five municipalities around the Tyne and Wear Valley, with a population of approximately

¹ The OECD carried out a Territorial Review in 2006 which defined the Newcastle City Region as comprising the municipalities Newcastle itself, Gateshead, North Tyneside, South Tyneside and Sunderland. The governance complexity of such an intertwined built up area often makes it difficult to compare data and plans as they often refer to different or overlapping spatial scales. In this case study we will refer to Newcastle City's recovery plan -which takes place within the framework of the strategic plan for both Newcastle and Gateshead - which itself is based on the OECD's Territorial Review for the entire city-region.

1.65 million people. Since 1981 the population of Newcastle and Gateshead has declined by 7.3%, although it started to make a modest recovery after the year 2000, mainly as a result of the growing student population and an influx of migrants².

The economy of the city-region was originally built on the inter-related industries of port activities, shipbuilding, coal mining and exporting, heavy engineering and chemicals. All these sectors underwent a massive restructuring in the second half of the twentieth century, with approximately 100 coalmines closing in the North East between 1950 and 1970³. The long term decline of the interrelated industries put the region in a very weak position during the recessions of the early 1980's and 1990's, when unemployment rates rose to double figures for many years – far higher than during the present recession.

One of the responses over this period was to try to encourage foreign direct investment but many of the firms that arrived were the branch plants of large multinationals attracted primarily by government grants and relatively cheap labour. Many abandoned the area in the search of more subsidies and even cheaper labour in the 1990s. Over the entire period, Newcastle lost a high proportion of its traditional skill base and the city still faces the challenge of restoring its stock of talented human capital and re-growing its indigenous base of innovative local firms. Just before the current recession, the Newcastle region still scored unfavorably compared to the UK average on a number of key indicators such as productivity, employment growth, the percentage of higher educated workers, R+D expenditure and startups⁴.

Yet despite these continuing weaknesses, Newcastle has made huge advances over the last 20 years and now finds itself in a

² NewcastleGateshead 1 Plan. January 2010. The proportion of ethnic minorities in Newcastle is around average and is not mentioned as a significant factor in any of the official documents.

³ See Ideopolis: Knowledge City Region. Newcastle Case Study and <http://thenortheast.fsnet.co.uk/CoalMiningandRailways.htm>

⁴ OECD Territorial Review. Newcastle in the North East United Kingdom. 2006.

considerably stronger position for facing the current crisis than it did in the past. These achievements and “assets” were identified in the OECD Territorial Review of 2006 and form the basis both of NewcastleGatesheads longer term strategy for 2030 and many of the measures in the response to the current crisis. They are:

- **The development of a competitive knowledge base.** There are 4 universities within the Newcastle city region, two of which (Newcastle and Durham) are ranked very highly in research and teaching terms. Public led investment has led to research strengths in fields like ageing and health at Newcastle University’s Institute for Ageing and Health; in stem cell and regenerative medicine at the International Centre for Life; and in energy and the environment, which will be the scientific focus of the Science Central site, a 24-acre development in the heart of Newcastle city centre (the main focus of the URBACT project REDIS).
- **Rich natural and cultural amenities and a high quality of life.** According to an interview carried out for the Work Foundation, Newcastle has “all the assets and attractions of a significant urban area but all the advantages of easy access to astonishing natural assets, national parks, coastlines, world heritage sights⁵. The OECD argues that these assets can provide a base for a variety of tourism, retail and other activities which can provide “entry level” jobs for less skilled people who cannot all access higher technology sectors.
- **Relatively good levels of both internal and external connectivity.** The OECD also finds that that “transport connections (air, rail, road and sea) and the good availability of broadband telecommunications mean that these factors are not impediments to growth”. The challenge is to ensure that Newcastle evolves into a more sustainable “compact” city, with an economically and socially vibrant centre, that is well

integrated with future national and international networks.

How has the crisis affected Newcastle?

The recession really hit the headlines in the city when Northern Rock, the first UK Bank to face liquidity problems and require assistance from the Government, potentially putting all 1,500 jobs in its Newcastle headquarters at risk. In practice, the bank has continued to operate and, although the workforce was reduced, most ex-employees found alternative employment. Since then, a series of other service firms (Newcastle Building Society, Sage) and major manufacturing companies (Nissan, Findus) have also cut jobs, hours or wages. The main sectors affected have been manufacturing and construction as well as financial services.

In the two years up to April 2010 unemployment in the city rose by more than half from 3.3% to 5.2% leading to an extra 3512 people claiming benefits. Low skilled workers and people on part-time and fixed-term contracts have suffered most with these kinds of job losses being heavily concentrated in the most deprived areas. However, there have also been significant job losses among professional workers. In contrast to other cities, older workers have been more affected than the young. These numbers are not expected to fall significantly in the short term.

Reflecting the pressure on household finances, the Council’s Welfare Rights Service saw a 29% increase in its case load in the first part of 2009. Property prices, planning applications and house completions all fell significantly in 2009. The Council estimates that income from capital receipts will be reduced by around 20million pounds over the next 3 years.

Despite these figures, the City’s update on the economic downturn response (April 2010) is cautiously optimistic. In line with the rest of the UK economy, the Chamber of

⁵ Interview quoted from Ideapolis Knowledge City Region. Newcastle Case Study. Work Foundation

Commerce's business barometer showed that sales improved markedly for local firms in the last quarter of 2009 and that orders were far stronger for the first part of 2010. Moreover, the increase in unemployment has been similar to that in the UK as a whole but less than in any other "core" UK city. It is now lower than that in many other major UK cities (Birmingham, Liverpool, Nottingham or Manchester) and considerably less than in many other European cities (Spain, Portugal, Ireland, Greece, etc).

However, at the time of writing this case study another cloud was darkening the horizon. The UK is one of the most centralized countries in Europe and around 75% of local authority finance comes from central government. We have seen that economic development and regeneration in Newcastle have been driven by the public sector which represents around 38% of jobs in the city. After the budget presented by the new Government in June 2010 central government finance for local government is predicted to fall by between 25% and 33%⁶. So it remains to be seen how this rapidly evolving situation will affect the strategies below.

How has Newcastle responded?

In June 2009, Newcastle City Council produced a formal ten point "response to the economic downturn". It says that "despite the economic downturn, the Council remains committed to a strategy that will see further growth and prosperity in the city" and with this aim, Newcastle's response contains a mixture of short term and long term actions "to improve the economy, reduce the social consequences of the economic downturn and to boost housing and regeneration"⁷.

In April 2010, Newcastle produced an update on the economic downturn response,

⁶ Institute of Fiscal Studies. 23rd June 2010.

⁷ Newcastle's Response to the Economic Downturn. June 2009

reviewing progress on all ten measures. This work was recognized by the UK Audit Commission, with Newcastle as one of the only two areas to be awarded a "green flag" for its work on the recession⁸.

To complete the picture, in January 2010, between the first draft of the response and the last update, the newly formed joint city development company, 1NG, published the NewcastleGateshead 1 Plan⁹ - the first joint economic and spatial blue print of what the two cities could become in the next twenty years in the context of the broader city region. This document, which spells out 4 key priorities (big moves) and 10 key steps, provides the rationale and further detail on how some of the more long term measures in the recovery package could be implemented in the future.

Several points stand out in Newcastle's recovery plan:

Firstly, the plan involves an increase in expenditure¹⁰ despite a very difficult financial situation. As has been mentioned, the Council expects a reduced income from capital receipts of around 20 million pounds over the next three years. On top of this, it is keeping council tax rises below the rate of inflation (1.5% in 2010/11) and the increase in central government grants was the second lowest in the UK (1.75% in 2009/10)¹¹. As a result the margin for manoeuvre for extra spending has come from increased borrowing to cover most of the actions to support the economy

⁸ Update on the Economic Downturn Response. Newcastle. April 2010

⁹ NewcastleGateshead 1 Plan. January 2010

¹⁰ Before the budget presented by the new Government, Newcastle's estimated net revenue budget for 2010/ was of just over 270 million pounds – up 1.5% on 2009/10 while estimate capital expenditure was expected to be 265 million pounds – down from nearly 300 million pounds (11% less) according to the Report of the Chief Executive. It has not been possible to obtain an overall estimate of the net increase in expenditure and investment due to the recovery package.

¹¹ Recession and Recovery. UK City Case Studies. Impacts and Responses. Katy Morris. Work Foundation. July 2009. See also "Recession and recovery. How cities can respond and drive the recovery. Neil Lee, Katy Morris and Alexandra Jones. Work Foundation.

(Action1), maintain capital expenditure (A.2) and keep the momentum of regeneration schemes (A.10).

In addition, the city is undertaking a major corporate transformation programme designed to deliver net savings of €150m over the next five years. This is allowing certain services to be maintained. As mentioned, the question is clearly how long this can continue in the face of future cuts.

Newcastle's Ten Point Recovery Plan (see appendix for more detail)

1. Maintaining confidence in the economy, and planning for future growth
2. Large, and increased, capital expenditure programme.
3. Help to small businesses, including rapid payment of invoices.
4. Improved access to procurement contracts.
5. Targeted support to those made redundant, and minimising the social consequences of the downturn.
6. Increased access to employment opportunities at Newcastle City Council.
7. Increased provision of debt and housing advice.
8. Benefits-awareness campaigns for both individuals and companies.
9. Maintaining low council tax.
10. Keeping momentum in regeneration schemes

Secondly, in quantitative terms the largest items of new expenditure are on capital investment on the three measures mentioned above (A1, A2 and A10). All three measures have both long term and short term effects on local businesses and employment. We will see in the next section, that Newcastle is exploring very interesting methods of reconciling short term pressures with long term needs with these actions.

Thirdly, actions 3 and 4 (Help to small businesses and improved access to procurement) are aimed primarily at easing the immediate shortfall faced by local business in terms of credit and markets as well as providing advice. Although smaller there are also some aspects of these actions which could be interesting to other cities.

Fourthly, actions 5 and 6 are aimed primarily at the labour market, where the Newcastle Gateshead 1 Plan also has some interesting long term approaches.

Finally, Action 8 (Increased provision of debt and housing advice) tries to soften some of the worst social impacts of the crisis by promoting the take up of certain rights and providing more resources for integrated advice services. We will not deal with these measures as they do not involve the same level of structural change as the previous ones

What aspects of Newcastle's response could be useful for other cities?

1. How to maintain "the confidence in the economy and plan for future growth" (via capital expenditure and regeneration)

One of the most interesting aspects of the long term strategic vision contained in NewcastleGateshead 1 Plan is the way in which it combines spatial planning and regeneration with the promotion of a more sustainable urban economy. The OECD Territorial Review recommended that the city region should "reinvent its specialization" based on a "greater utilization of the regions assets: its universities and its natural and cultural assets". This taken up in the regional plan in the form of a series of measures to promote clusters of high productivity sectors based around the regions existing strengths.

However, rather than just following a standard list of cluster support measures, with no regards to their spatial

consequences, the plan's economic measures form an integral part of a spatial vision for creating a more sustainable compact city-region with a vibrant centre. This is done through the promotion of a network (an arc) of knowledge hubs in the centre of the city "places where the key industries of the future will collocate and grow, and where teaching, research, specialist services and businesses of all sizes will come together". Key sites include: Science central (low carbon and sustainable industries); Northern Design Centre (Digital Media); the Campus for Ageing and Vitality (ageing and health); the International Centre for Life (stem cells and regenerative medicine).

In this context, Action 1 of the Recovery Plan (planning for future growth), Action 2 (Capital expenditure) and Action 10 (Keeping momentum in regeneration) have a number of features of interest for other cities.

- Firstly, there is a clear commitment in the Recovery Plan to prioritize those regeneration projects which will have a strategic influence on the city-region's long term future. This includes 5 million pounds for the first phase of the Science City (brewery) site and the securement of 14.1 million pounds of Single Programme funding for economic regeneration projects such as the creation of a cluster of environmental technology industries along the North Bank of the Tyne.
- Secondly, and in parallel, the Council is exploring a range of investment and financial engineering tools which increase its ability to maintain its 260m investment programme (2009/10) in the face of severe funding restrictions. For example, as one of the major stakeholders in the "Science City partnership" the Council is bidding for the site to become part of an Accelerated Development Zone pilot for tax incremental funding. This financial tool, which is new in the UK, would allow municipalities to borrow money to purchase sites on the basis of estimated future tax revenues.

An investment fund of 25 million has also been agreed in principle for the Council for the purchase of further strategic sites.

The Council is also continuing to discuss with the lenders opportunities to expand affordable mortgage finance to residents and is exploring options for "rent now buy later" homes that would allow houses to be built immediately and rented out until the housing market picks up and the occupier can afford a mortgage.

- Thirdly, the Council is taking advantage of lower interest rates and lower property prices to invest in strategic opportunities. The main example is the purchase of the Northern Rock Tower with a 21 million pounds loan. The building is now fully let. One of the major occupiers is EAGA, the UK's leading provider of residential energy efficiency solutions. The project as a whole is expected to retain 2,000 jobs in Newcastle including 500 new jobs in EAGAs expansion activities. The Council has also agreed in principle to create a new company with EAGA that would bid for work from other public sector organizations.

In general, the Council is investing in site remediation, preparation and infrastructure so that sites are ready when the upturn comes. It is also negotiating with developers on a case by case basis and exploring methods of maintaining the level of investment by, for example, excepting lower levels of cash receipts in the early years, reviewing the tenure balance of specific sites to front load schemes with an accepted level of social rented housing which can draw down further grants and so on.

2. How to ensure that businesses emerge in a “winning¹²” position after the crisis?

There seems to be a general consensus that one of the main blockages faced by the Newcastle city region lies not so much in the supply of high quality (mainly publicly funded) research but in the “absorptive capacity” of its local firms (this is the main issue dealt with by the RUN UP URBACT network). NewcastleGateshead 1 Plan recommends dealing with this problem head-on by focusing attention on a cohort of up to 200 key private sector firms, identified on the basis of export orientation, growth potential and ownership (mostly the larger firms but also micro businesses and SMEs).

The aim is to ensure that the different agencies and departments concerned with economic development work in partnership with this group of firms to design programmes for “workforce skills, productivity, innovation, design, the low carbon economy and internationalization”¹³. This closer partnership with key local businesses could, therefore, become the basis for business support (this section) as well as a more proactive approach to training and skills (next section).

The Plan proposes a double barreled approach which combines “specialization on certain high productivity knowledge based firms balanced by support for a more diversified group of jobs rich industries”. They argue that “specialization drives wealth creation and builds sustainable competitive advantage; diversity makes cities more resilient and less vulnerable to economic shocks.”¹⁴ One lesson from the previous boom seems to be that - simply waiting for growth to “trickle down” from high growth sectors to the rest of the economy - is not enough.

In this context, Newcastle’s recovery package contains an interesting range of measures to

¹² “Business Winning” is one of the ten key steps in NewcastleGateshead 1 Plan.

¹³ The “Top 200” form a central component of key steps 2, 3 5 and 6 of the NewcastleGateshead 1 Plan.

¹⁴ NewcastleGateshead 1 Plan. P26.

alleviate the worst impacts of the recession on businesses

Action 3 on Help to Business in the Recovery Plan contains three main measures:

- The launching of a 3.6 million pound enterprise support package to supplement the work of the existing business support provider, Business link. From the second half of 2009 until the end of 2010 the new programme will raise the awareness of entrepreneurship, increase business start-ups and generally provide help to normal and social economy businesses.
- Newcastle Council has also commissioned Business and Enterprise NorthEast to run a loan fund to provide access to finance for viable businesses which have not been able to obtain credit from banks.
- Finally, the Council is trying to reduce the liquidity problems of SMEs by reducing the delay in paying invoices to 10 days.

Action 4 on Improved Access to Public Sector Contracts also contains a range of measures to ensure that local SMEs can compete on an equal basis for public sector work as other companies. These include wider publicity (internet portal), the production of a guide, requiring at least one local tender, more streamlined procedures and documentation, breaking down the size of contracts and regional procurement events.

These measures can help local firms to access new markets and find alternative sources of credit but it would also help if these emergency measures were better integrated with the longer term goals of working with firms to put them in a more robust position in the future.

3. How to move from a low skilled to a high skilled equilibrium?

In a recent report, the OECD argued that before the recession “while strong job growth helped economies to prosper, this disguised an inherent problem in the large-scale creation of weakly productive jobs.....providing relatively low salaries which

created a section of society which could be classed as the working poor.” During the recovery, they recommend that “it is not just enough to invest in the supply of skills. Employers also need to address the organization of their workplaces so that they better harness the skills of their workers and create more sustainable employment opportunities in the future”¹⁵

As before, the NewcastleGateshead 1 Plan addresses this challenge directly by posing the question of whether the city finds itself in a “low skilled equilibrium” where the majority of employers compete on the basis lower-cost less skilled worker and where there is little point in upgrading skills because there is not sufficient demand for them. Their answer is that there is indeed an above average proportion of routine and elementary occupations, adding that “Tyneside as a whole has some of the most acute income disparities of any UK city and the recession is having a disproportionate impact on unskilled and manual workers”. As we have seen 3,500 more people have become employed in Newcastle city since the start of the recession.

However, they add that just before the onset of the crisis there was unfilled demand for labour in managerial, professional, sales and customer services and health care occupations. The local labour market and education system was not able to supply, attract or retain these skills in sufficient numbers.

The NewcastleGateshead 1 Plan proposes a series of long term measures to deal with both ends of the labour market. They argue that “the growth of the knowledge economy will create jobs for a new generation of technicians and skilled workers, and by attracting visitors and boosting the income base we will stimulate tourism and other sectors which will provide valuable entry level jobs.” Of course, one of the central challenges facing cities in future years will be whether “entry” means for life, or whether, in reality, there is some progression between the two types of job. URBACT’s REDIS network is exploring how the knowledge economy can be socially as well as physically integrated into the city.

¹⁵ Putting in place Jobs which last. OECD 2009

Two complementary actions stand out in the strategic plan:

Firstly, they propose to treat workforce development as an integral part of each of the “top 200” company’s plans for innovation and internationalization, and on this basis, they will encourage better links between firms, schools and colleges. Secondly, they will form a “LOAN” (linking opportunity and need) response team which will design and deliver recruitment and training schemes linked to major regeneration projects. On the supply side of labour, they propose an intense package of work with schools to reduce the numbers leaving with no qualifications, comprehensive “wrap-around” employability support to ease the transition from school to work, and actions with universities and colleges to both attract and retain high quality students.

Turning to Newcastle’s recovery package itself, Action 3 provides “targeted support to those made redundant” with the aim of “minimizing the social consequences of the downturn”.

There are four main actions on the *supply side*:

- The creation of three new Resource Centres that work with the Employment Service (Job Centre Plus) and other key agencies such as the Primary Care Trust, Universities and Newcastle College to provide additional support to residents made redundant in the downturn. Support includes job search techniques, skills assessment, debt advice, access to other services and mental health advices. In the first three quarters of operations these centres saw 510 clients of which over a fifth found work and a further 18% entered training or volunteering.
- City participation in public sector “Response Groups” to coordinate public sector support where there are major redundancies
- Continued intensive support for those furthest from the labour market by Newcastle Futures

There are also several actions to provide a temporary boost to the *demand for labour*:

- In partnership with other public sector agencies and the public sector, the “Future Jobs Programme” makes 6 month subsidized jobs available for young people and those excluded from the labour market by the recession. Newcastle Council itself will create 450 placements by March 2011
- The Council has signed a Local Employment Partnership with Job centre plus for improving access to its own 17,000 jobs (preinterview upskilling + a guaranteed job interview + feed back if unsuccessful and post recruitment training and support if successful). The council has also increased the size of its own apprenticeship programme. (These last measures fall under Action 6 for increasing access to employment opportunities at Newcastle City Council).

Key points from Newcastle’s experience.

The prioritization of long term investments which combine strategic economic development goals with forward looking “place making”

- The use of innovative financial tools and procedures for increasing the margin for manoeuvre for dealing with the recession
- Taking advantage of low property prices and interest rates to position the city for a more sustainable recovery
- Close cooperation between the municipality and key local firms to ensure that innovation, business and labour market policies are based on real business needs and potential
- A multifaceted strategy towards the labour market with actions directed at both the supply and demand for labour and both high tech and “entry level” jobs.
- The use of resource centres and “response teams” for coordinating public responses to crises and linking problems to opportunities.

Appendix: Key Actions in Newcastle's response to the crisis

Measure	Main elements
1. Maintaining confidence in the economy, and planning for future growth	<p>Purchase of Northern Rock Tower (ex HQ) Let to EAGA Residential Energy Solutions Joint venture with EAGA 2000 jobs retained.. 25m fund for purchase of more strategic sites 14.1 million pounds Single Programme Funding for regeneration projects including cluster of environmental technology projects on N Bank of Tyne 28 million pounds (SPF) invested in 1st phase Science City Adult service work on transforming social care mainly for the elderly Pool of energy efficient cars</p>
2. Large, and increased, capital expenditure programme	<p>Maintain 260 million pounds capital programme 2009-10 Extra 21m spending next 3 years from borrowing Provision for financing further 8.3 million pounds in 2010/11 + 250 jobs expected</p>
3. Help to small businesses, including rapid payment of invoices	<p>Reduction of time for paying invoices to SMEs to 10 days 3.6 million pounds enterprise support package Business and Enterprise North East to provide loan fund for small businesses rejected by banks</p>
4. Improved access to procurement contracts.	<p>Portal, breaking down contracts, local quotes, guide</p>
5. Targeted support to those made redundant, and minimising the social consequences of the downturn	<p>3 new resource centres for people made redundant Newcastle's Futures Partnerships to provide support for 5000 LT unemployed over 2 yrs. About half back to work Adult Learning Centre Courses Use Future Jobs Programme to create 450 placements by March 2011 Newcastle futures supports 1163 people furthest from LM Public sector response groups in case of redundancies.</p>
6. Increased access to employment opportunities at Newcastle City Council	<p>Partnership with Jobs Centre Plus for better access to council jobs Increase in apprenticeships from 57 to 123 Supported Employment Strategy for ill or disabled.</p>
7. Increased provision of debt and housing advice.	<p>All clients at risk of homelessness to see expert debt management advisor within 3 days Protocol and training to find alternatives to evictions</p>
8. Benefits-awareness campaigns for both individuals and companies	<p>Campaigns to increase take up by businesses, residents, children's services, etc</p>
9. Maintaining low council tax.	<p>Council tax rises kept to 2.8% through efficiency savings Project for creating Accelerated Development Zones allowing council borrowing on basis of future rates.</p>
10. Keeping momentum in regeneration schemes	<p>Front loading schemes with social housing to draw down grant Deferring capital receipts from developers Working with lenders to increase affordable mortgages</p>

Specialist housing for homeless Rent now buy later options Investing in site preparation ready for upturn

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URBACT II

URBACT is a European exchange and learning programme promoting sustainable urban development.

It enables cities to work together to develop solutions to major urban challenges, reaffirming the key role they play in facing increasingly complex societal challenges. It helps them to develop pragmatic solutions that are new and sustainable, and that integrate economic, social and environmental dimensions. It enables cities to share good practices and lessons learned with all professionals involved in urban policy throughout Europe. URBACT is 255 cities, 29 countries, and 5,000 active participants

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