

Prosperity Scrutiny Committee

Wednesday 18th April 2011

Performance Report Quarter 3 (October to December 2011)

Report of the Chief Executive

1.0 Purpose of the report

The purpose of this report is to provide Prosperity Scrutiny Committee with a performance update for the period October to December 2011 and set out the direction of travel for the Council's Corporate Performance Framework in light of recent national government changes for performance reporting.

2.0 Background

Performance reports provided to Scrutiny Committee prior to March 2011 were based on performance indicators from the previous government's national indicator list, with a particular focus on those prioritised within the Local Area Agreement. In October 2010 the Coalition Government announced the deletion of the National Indicator set and also announced that from April 2011 there would no longer be a requirement for council's to produce an LAA. Both announcements signalled a move towards self regulation and improvement with more flexibility to report against local priorities using a set of locally determined measures.

For 2011/12 and beyond, the Council's aim is that performance reporting should be focused on the key priorities for the People, Place and Economy of Sunderland. This new approach will be reflected in the performance reports and evolve and develop over 2011/12. Performance reports may include former national performance indicators reported to scrutiny committee adopted into the local performance framework for 2011 – 2012 (and those that continue to provide performance reporting relevant to the key issues and priorities for Sunderland will continue be part of the reporting framework for 2012 – 2013).

In addition as part of the Council's annual planning arrangements, consideration is also being given to identifying new localised performance measures which will also be needed to support a robust performance framework tailored to local needs. These will be reported to the relevant scrutiny committee as appropriate and some of these new measures will be reported in 2011/12, where information is available and adds value to the review of performance. Members should also be aware there are also some former national indicators that are no longer available and have therefore been removed from the performance framework.

Within the former national indicator set there was a very small basket of indicators that related to economy and prosperity. The last performance report presented to Prosperity scrutiny committee highlighted to members that in developing a localised performance framework for Sunderland, the Economic

Masterplan provides the key local target outcomes and that future performance reports would be structured around these.

Attached at Appendix 1 is an extract of the basket of indicators that the Council has identified within the self-regulation performance framework for 2011-2012 that demonstrate progress against priorities that fall within the remit of this committee.

3.0 Context

This performance report is provided within the context of an uncertain economic situation globally, nationally and locally. UK economic growth has been very slight over the last year, with Gross Domestic Product growth of just 0.7%.

The Office for National Statistics recently confirmed that the UK economy shrank by 0.3% in the final quarter of 2011. Consequently forecasters are speculating about whether we are likely to see a further quarter of negative growth in this first quarter of 2012, thereby technically placing the UK back in recession.

The Office for Budgetary Responsibility (an independent body set up by Government to give an assessment of public finances and the economy), is currently predicting that the UK will avoid this and achieve positive growth in first quarter of 2012. However, this has recently been called into question again by commentators after disappointing retail sales figures were reported for February, demonstrating both the uncertainty and the fragile nature of any growth that is taking place.

What is certain is that unemployment remains high UK wide, and households still appear to be struggling from below inflation pay rises and high costs for commodities such as petrol. Within the UK the North East, which appeared to be outperforming others in early 2011, is now seeing unemployment grow much faster than the UK average. A recent report by Institute for Public Policy Research also suggests that economic recovery might be slowest in the North East.

However, exports from the North East grew to a record high in 2011 boosted by further growth at Nissan and in the chemical industry, according to figures released by UK Trade & investment. Sunderland has also seen a number of recent positive announcements, including that the new Nissan compact car will be developed in the city. The region also has continuing investment from the Regional Growth Fund and Growing Places Fund which have the potential to stimulate further economic growth.

4.0 Performance

The Economic Masterplan for Sunderland sets down the key outcomes needed for the city to promote the city's economy and prosperity. These are:

- More wealth creation

- More businesses making more money
- Higher employment particularly in target sectors
- More jobs in the city centre
- More people with high level qualifications
- Higher earnings of residents of the City
- Fewer people on out of work benefits

Outlined below is the latest available data in relation to each of these outcomes.

4.1 More wealth creation

A measure of wealth creation is Gross Value Added – GVA. Put simply, GVA is the value of goods and services produced by an area, sector or producer minus the cost of the raw materials and other inputs used to produce them. At the Sunderland level figures are mainly composed of the income made by employees (earnings) and the businesses (profits/surplus) as a result of production.

Data published in December 2011, relating to 2009 shows Sunderland's overall GVA in 2009 was £4,639m. This is the most recent figure available.

Factors that contribute to the gaps in productivity identified above include the size of the working age population compared to that of children and the elderly, the proportion of working age people economically active, average labour productivity (per hour worked) and hours worked per job.

GVA growth is a headline measure which reflects overall progress on economic development. Clearly these figures are several years behind and consequently do not reflect where the city is currently. The figure is complex and is affected by a number of factors, so it is difficult to predict what changes will have occurred since the onset of recession, but it can be assumed that in line with the UK economy, Sunderland's GVA will have declined somewhat following the trend of increasing unemployment, reduced Government spending, and reduced retail sales.

Key activities in recent months to support increased wealth creation include:

- The council continues to progress a number of significant investments including the new Wear Crossing, the Software Centre and the Vaux site.
- The council also continues to support potential investors to locate in the city. Between April 2011 and December 2011 the city received over 200 investment enquiries and awarded a substantial number of grants to businesses who made the decision to locate in Sunderland.

4.2 More businesses making more money

The Office for National Statistics produced Business Demography 2010 which provides statistics for active businesses; ones starting up (births) and closing down (deaths). The table below shows these figures for Sunderland compared with the UK.

Year	Active Businesses		Business Births		Business Deaths	
	Sunderland	UK	Sunderland	UK	Sunderland	UK
2008	5,785	2,325,770	620	267,445	645	222,560
2010	5,490	2,300,355	475	235,145	785	297,395

Figures for the number of active businesses in Sunderland declined by 5% over the two years 2008 to 2010, whilst the national figure only declined by 1%. Businesses starting up (births) in Sunderland also declined more steeply – by 23% compared to the national 12%. However, businesses closing down (deaths) did not increase as much in Sunderland, at 22%, as nationally at 34%. The decline in business births in Sunderland is a more significant factor than business deaths, in relation to the overall fall in the number of active businesses.

Members may wish to note that information about businesses were previously provided through a different data set (covering only VAT registered businesses) under the former national indicator set. The Business Demography figures also include enterprises that are solely PAYE (Pay as you earn) tax based, which were predominantly excluded from the older figures.

Key activities in recent months to support business growth includes:

- The Council continues to work with the University and organisations such as the North East Business Innovation Centre to support enterprise, through, for example, the Enterprise programme, business incubation and supporting Knowledge Transfer Partnerships.
- The Council continues to seek to provide appropriate property and facilities to support business development in the city.
- The contract for the construction of the Washington Managed Workspace has been let and this will be built on Turbine Business Park.

4.3 Higher employment particularly in target sectors

The percentage of working age people in employment in Sunderland for the quarter ended June 2011 was 63.2%. This has fallen since June 2009 when it had been 68.7%. In Sunderland the fall in employment over the two years to June 2011 was 5.5%. This was higher than the fall in the North East, of 1.7%; and higher than the national fall of 1.2%.

The Economic Masterplan (2010) identified key target sectors for which there is potential for business development / growth in Sunderland. The target sectors are: low carbon, offshore wind (engineering), software & digital, creative, and health and wellbeing.

The council is exploring the development of a new local performance measure to be included in the performance framework for 2012/13. This would measure growth in the target sectors.

Key activities in recent months to support higher employment in target sectors include:

- Progress continues with schemes such as the BT Broadband Infrastructure, the Enterprise Zone and the IBM Cloud, all of which will improve the infrastructure and incentives for business in the region. In particular the Enterprise Zone is targeted towards supporting industries in the low carbon sector and will offer businesses incentives to locate within the zone.
- Nissan has recently signed a Memorandum of Understanding with Gateshead College to create a Zero Carbon Centre for Excellence to help develop battery technology in the region. Gateshead College has been awarded a Regional Growth Fund (RGF) grant to develop the centre of Excellence in the Sunderland Enterprise Zone.
- The Software Centre is due to open and will provide accommodation for a number of software companies.
- The first stage of developing a Creative Industries Strategy has been completed with the presentation of the mapping exercise to identify what creative businesses there are currently, the barriers that exist to further development, and to provide a basis on which to identify those sub-sectors that could be supported in the future to fulfil the aims of the Economic Masterplan.

4.4 More jobs in the city centre

The Economic Masterplan highlighted that “City centres are recognised as important drivers of city economies. They provide not only a concentration of business, retail, leisure and institutional activity but are often the best locations for knowledge businesses, advanced business services and tourism.”

Aim 3 of the Masterplan is to improve Sunderland city centre’s performance as an economic ‘motor’ for the city and wider region.

In 2008 there were 21,164 people employed in the city centre (including the self employed). The most recent figures, for 2010, show that figure falling back somewhat to 19,212. Despite that reduction, the city centre's share of all Sunderland employment rose from 16.9% in 2008 to 17.1% in 2010.

The development of the city centre into an economic driver for the city requires the development of key sites including Vaux and Farringdon Row, to provide office jobs. At the current time the market for office development is weak but it is anticipated that development will come forward once the market improves. In the meantime the Council is making sure that preparations continue so development can be progressed as soon as possible once the market improves.

Activities mentioned above such as the new Wear Crossing, the Software Centre and work on the Vaux site support this outcome. The council’s continuing work to improve the city centre environment and do what it can to

support retailers and businesses in this difficult economic time. As part of this approach the Council has appointed a Retail Officer to support the sector.

4.5 More people with high level qualifications

The Economic Masterplan (2010) explained that “The city’s future depends on educated, enterprising and ambitious people with the skills to contribute to the city’s economy and the region’s labour market.” It also highlights that “Despite the creation of new jobs in the city in recent decades, Sunderland still suffers from high unemployment and a low skills base. Sunderland has a high percentage of people qualified to NVQ level 1 and 2 and fewer qualified to NVQ level 3 and 4 – with the latter more likely to earn higher wages. Many of the better paid jobs that do exist in Sunderland are taken by people who commute in from surrounding areas.”

The latest available data relates to the period Jan to Dec 2010. This shows 23.0% of the population are educated to NVQ level 4 which is an improvement of 2.1% against the previous year’s 20.9%. This continues a steady and constant improvement from 2004.

The table below shows the progress made in Sunderland in closing the gap in educational qualifications with the rest of Great Britain. In NVQ2 the gap in 2004 was 6% but by 2010 this has been reduced to 2.3%. In NVQ3 the gap was reduced from 10.2% to 4.5% and in NVQ4 the gap reduced from 10.7% to 8.3%.

People qualified to NVQ standard or equivalent

Year	NVQ2 and above			NVQ3 and above			NVQ4 and above		
	S’land	S’land (%)	GB (%)	S’land	S’land (%)	GB (%)	S’land	S’land (%)	GB (%)
2004	99,500	56.1	62.1	65,000	36.6	46.8	27,300	15.4	26.1
2005	104,300	58.7	62.9	67,300	37.9	47.1	29,400	16.5	26.5
2006	103,500	58.3	63.6	67,700	38.2	47.9	34,400	19.4	27.4
2007	115,000	64.8	64.2	77,200	43.5	48.4	39,000	22.0	28.5
2008	111,900	60.9	63.9	78,600	42.8	48.2	36,800	20.0	28.6
2009	113,800	61.9	65.4	78,400	42.6	49.3	38,400	20.9	29.9
2010	120,200	65.0	67.3	86,100	46.5	51.0	42,600	23.0	31.3

Members may wish to note that these figures are from the Office for National Statistics annual population survey, but are not comparable with those in the former National Indicators NI 163 to 165 that were previously reported to scrutiny. Although those used the same survey as a source; they covered a different age range as the retirement ages have changed; and they also apportioned "Other qualifications" differently.

During the period of time covered by the figures above, there has been substantial government investment, both capital and revenue, in education and learning across Great Britain. Schools have benefited from huge capital investment through the Building Schools for the Future (BSF) programme. It was also a period of expansion for colleges, who along with schools, benefited

from both capital and revenue investment through the 14-19 Reforms of the previous government. National Skills Academies were introduced and the period also saw a significant expansion for universities. However, the financial conditions in which higher establishments are operating has changed and this may impact on future performance.

In Sunderland, GCSE results have improved enormously over the past 10 years and generally 16-19 performance is improving. From GCSE to Level 3 Sunderland residents have demonstrated an increase in achievement. A new Academies model was introduced in the city and the city has benefited from strong strategic leadership in relation to learning and skills. The city has also benefited from a range of national programmes such as Skills for Life and Train to Gain, which along with all of the aforementioned, have had a cumulative impact in Sunderland in closing the gap in educational qualifications with the rest of Great Britain.

Building on these developments a Skills Strategy is being developed by a group of partners involved in business, enterprise and skills delivery, particularly the council, the University, Sunderland College and private training providers.

4.6 Higher earnings of residents of the City of Sunderland Council

The Economic Masterplan pointed out that “it is vital that more people are helped back into work and into better paid jobs.”

The earnings of Sunderland residents shows an increase of £6.30 in the average weekly pay in Sunderland in 2011 when compared to 2010 figures, taking the average wage to £422.70. This is lower than the North East region at £448.50 and lower than the national average at 498.30. The £6.30 increase in Sunderland, however, was higher than the regional increase of £5.10 and the UK figure of £0.20.

However, looking at the hourly rate for workers residing in Sunderland; that increased to £11.15; but still remains significantly lower than the national figure (£12.77) and slightly lower than that of the region (£11.41).

The weekly wage increase in Sunderland equates to less than a 2% increase, which, with the CPI measure of inflation running at around 5% over the last year, still equates to a reduction in spending power. Increased personal taxation will, in some cases, have also reduced take-home pay.

4.7 Fewer people on out of work benefits

The Economic Masterplan stated that “As part of getting people into employment we will: work with employers and jobseekers to match the right people with the right jobs; tackle issues that inhibit people from working; support people once they have a job; and encourage enterprise at a neighbourhood level.”

Citywide, the percentage of people receiving key out of work benefits increased from 17.2% in quarter 2 (July to September 2011) to 17.4% in quarter 3 (October to December 2011), this however, was a decline on the figures for the same period last year (October to December 2010) when figures were at 17.7%.

The latest available figures for the number of people claiming out of work benefits in the worst performing neighbourhoods were released in December 2011. These show a small and consistent decline in each quarter from Q4 2009 (32.1%) to the latest quarter Q2 2011 at 30.4% – a total decline of 1.7%.

Over the next few years Welfare Reform will bring about changes to out of work benefits particularly in relation to those claiming incapacity benefits and employment and support allowance (ESA). The reforms are likely to bring about a shift for some from long term benefits to Job Seekers Allowance and some coming off benefits altogether thereby impacting on the overall number of claimants of out of work benefits. Under new legislation, by March 2014 all current claimants of incapacity benefits will be re-assessed and subsequently fall into one of the following three groups. The three groups and the anticipated impact on figures are outlined below:-

Support Group – Those who are deemed to have sufficiently serious health problems or disabilities and receive unconditional support. Individuals who fall into this category will see minimal change to their benefits, with some receiving a slight increase. National guidance indicates that approximately 30% of current incapacity benefit claimants are expected to fall into this group.

Work-related activity group (WRAG) – All claimants in this group will be required to attend work-focused interviews, and expected to engage in activity to prepare them for work. The underpinning assumption is that ESA for this group should only be a temporary benefit, pending the claimants return to work. National guidance indicates that approximately 40% or 5,421 of current IB claimants will move into the WRAG.

Fit for work – Those who fail to qualify for ESA and are therefore deemed as 'fit to work'. National guidance indicates that approximately 30% or 4,066 of current IB claimants, will be assessed as able to work.

Of those fit for work, national guidance estimates that approximately 50% will move on to Job Seekers Allowance, 20% onto another benefit and 30% per cent will move off benefits altogether.

Despite the national economic climate, the city continues to create jobs. In recent months the following jobs have been announced:

- Nissan has announced that they will be developing their new compact car in the city generating around 1600 jobs including in the supply chain.
- A French manufacturer has taken over the TWR Washington plant which it is anticipated will create 130 jobs in the city

- The new Lear factory at Rainton Bridge is expected to bring 300 jobs to the city.
- Unipres UK in Washington will take on 316 new staff after its successful Regional Growth Fund bid.
- Aerial lift maker Tanfield is to recruit around 50 staff at its Washington factory within months

Other key activities in recent months to help people get work include:

- There is a significant amount of work being undertaken to understand community resilience in Sunderland, and the impact of welfare reform, which areas will be hardest hit, and what actions the Council and its partners can take to mitigate the effects.
- Whilst the Work Programme has taken over support to individuals into employment, the Council continues to provide business start up support and advice.

5 **Future performance reporting**

Future performance reports will continue to monitor performance improvement against the key outcomes for prosperity as set out in the Economic Masterplan. These outcomes, however, represent the longer term economic aspirations for the city against the backdrop of a changing economy. Performance improvements are expected to be achieved over the 15 year period covered by the Economic Masterplan. Accordingly the performance measures for the key outcome areas are either not available or not expected to be updated on a quarterly basis with most as annual indicators or less frequent e.g. every two years.

To supplement the annual performance data against the key outcomes future quarterly performance reports will focus on performance against key actions and activities that will contribute to achieving the key outcomes. Sunderland City Council will work with partners through the Economic Leadership Board to improve performance against the key outcomes through the delivery of the Economic Masterplan. Below sets out the five aims of the Economic Masterplan and the approach to proposed outcomes and key performance indicators that will be used to measure progress against these aims.

- **Aim 1 A new kind of university city** – Performance measures for this aim will look at the role of the education institutions (schools, college, University) in developing the skill base within the city as well as the development of entrepreneurship in relation to new businesses and innovation.
- **Aim 2 A national hub of the low carbon economy** – Performance measures for this aim will measure the extent of low carbon business development as well as Sunderland as a low carbon place.
- **Aim 3 A prosperous and well-connected waterfront city** – Performance measures for this aim will measure the extent to which the city centre is developing a stronger economic and employment role for the city.

- **Aim 4 An inclusive city economy for all ages** – This aim particularly focuses on measuring participation in the economy for specific groups and improvements in the physical environment of the city to increase its attractiveness.
- **Aim 5 A one city approach to economic leadership** – This is the overarching aim to develop overall prosperity and so its performance measures are those for the Economic Masterplan as a whole (see 4.0 above).

4. Recommendation

That the committee considers the continued good progress made by the council and the Sunderland Partnership and those areas requiring further development to ensure that performance is actively managed.

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