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## **North-south divide is beginning to close**

The first compelling evidence that the north-south divide that has marred British economic life for a generation is beginning to close is published today.

The UK Competitiveness Index, an annual measure of the competitiveness of UK regions and locations that has been running since 2000, for the first time shows London, the south east, and the eastern England region all registering a fall in their competitiveness since last year. By contrast, the other nine regions of the UK have all witnessed significant boosts to their competitiveness between 2005 and 2006.

And in a striking turn-around, the traditionally *least* competitive regions of Northern Ireland, Yorkshire, Wales and the north east have made the biggest improvements. Northern Ireland tops the list of regions that have increased their competitiveness (4.4% up on the 2005 index score), followed by Yorkshire (4.2%), Wales and the north east (both up 3.7%) and Scotland (3.4%).

The 'big three' regions of London, the south east and the eastern region remain the only regions performing above the average level of UK competitiveness. Scotland is the only upward mover in terms of overall competitiveness ranking – moving up to sixth most competitive region. This represents a notable turnaround in Scottish economic performance: in 1997, Scotland ranked at number 4, but fell to eighth place in 2004-2005. Meanwhile, the west midlands and north west region have both fallen one place.

However, while there has been little change in overall rank order, the most pronounced gains in relative regional competitiveness all come from outside the big three – the first sign that the trend towards regional economic divergence is being turned round. London's competitiveness has fallen consistently since the 1997 index.

The 2006 index shows the competitive and operating environment in many lagging regions has improved markedly.

Dr Robert Huggins, who devised and compiled the UK Competitiveness Index, said: 'For as long as most of us can remember, the story of the UK's economic performance has been a tale of two nations – the go-ahead London and south east region and the north and west of the country stuck in the doldrums of post-industrial blight. This year's UK Competitiveness Index represents the first signs that a new chapter is about to be written.

'It is a hugely positive development that the government's devolution and regional development policies may at last be bearing fruit. Whilst there may be more that policymakers can do to devolve power – for example to cities and city regions – the signs are that, with patience, strategic development through devolved institutions and regional development agencies is starting to make a difference. Targeted regional investment appears to reduce unemployment and lift regional competitiveness.'

London, however, remains an economic powerhouse. Out of the top 25 most competitive localities, 23 are in London and the south east; the exceptions are St Albans (18<sup>th</sup> place) and Watford (21<sup>st</sup> place), both in the eastern region.

The Competitiveness Index is published jointly by Robert Huggins Associates, a research organisation, and The Work Foundation for the first time this year. It was devised by Dr Robert Huggins, senior lecturer in enterprise at Sheffield University's Management School, and has been tracking data since 1997 and produced annually since 2000.

The index is a more sophisticated and subtle instrument for measuring competitiveness than standard measures such as gross domestic product per head. It blends 'input factors', such as research and development expenditure, business start-up rates and proportion of working age population with a degree; 'output factors', such as exports per head of the population, productivity (output per hour worked), and employment rates; and 'outcome factors', such as gross weekly pay\*.

The 2006 index shows the competitive and operating environment in many lagging regions has improved markedly. For example, the level of innovation in the north east of England (as reflected in trade mark and design applications) is now second only to

London. Investment by businesses in research and development – a key indicator of future innovation - has jumped by 134% in the north east, 54% in Wales, 16% in Yorkshire and the Humber region, and 15% in the south west.

As a result of such improvements, annual growth rates of gross value added per capita of the least competitive regions are now nearer the national average and the gap between regions is no longer widening.

Nevertheless, the big three maintain a significant advantage over other regions. For example, in 2004 (the last year for which figures are available), London's output per hour worked (productivity) was 118.8% of the national average against Northern Ireland's 81.9%.

Traditionally high unemployment areas have also registered positive trends. The biggest falls in unemployment have occurred in Northern Ireland, the north east and Scotland. Relatively marginal increases in unemployment were seen in London, the north west, Wales and eastern England. However, falls in unemployment have not always been matched by growth in employment - suggesting that growing numbers of individuals are no longer counted as employed or unemployed. Part of the explanation may be increased participation in education. Most regions saw growth in the proportion of their population with NVQs.

The index finds that the substantial gains made by the least competitive regions have not come at the expense of the leading regions. The United Kingdom as a whole is ranked 17<sup>th</sup> in global national rankings in both 2004 and 2006 – suggesting the national competitiveness position is being maintained.

Yet major problems persist. The index shows regional business start-ups have seen a fall in all regions. Furthermore, there are simply not enough businesses for many regions to establish sustainable competitive economies. Elsewhere, the South West region has seen a substantial fall in gross weekly pay. Only London and the south east have pay rates above the UK average, reflecting both their strong economies and the high proportion of UK output accounted for by the two regions. Despite its high level of competitiveness, pay in the east of England is below the UK average.

And in a potentially troubling hint for future economic scenario planners, the regions with the highest numbers of 'knowledge based businesses'\*\* (London, south east

England and the eastern region) all saw a fall in the proportion of those businesses between 2003 and 2004. In the case of London, this drop was significant – from 26.9% to 24.6%. This has resulted in a fall of knowledge-based businesses in the UK economy as a whole from 21.2% to 20.6%.

More positively, every region, with the exception of the eastern region, increased its investment in higher education – seen as a major driver of future competitiveness and innovation. Scotland, London, the north east region, Yorkshire and Wales (in that order) are the top five regional investors in higher education.

Ian Brinkley, director of The Work Foundation's knowledge economy programme, said: 'Overall, there are very positive signs here that the gap in regional economic performance is starting to close and regional policy decisions are beginning to pay dividends. Yet a little caution is needed because the index reflects only one year's data.'

'The fall in knowledge based businesses is admittedly counter-intuitive: this is the first time the index has registered a fall in knowledge organisations. One theory could be the coming together of a number of factors in the 2003-4 period [the last available data]– the hangover from the dotcom boom, the consolidation of organisations, and difficulties in the financial service sector. Evidence from other sources continues to show that city-regions with the highest proportions of knowledge based business tend, over the long term, to do best.'

### **Notes to editors**

1. Press copies of the UK Competitiveness Index are available from The Work Foundation. Non-press who wish to purchase a copy should go to [www.hugginsassociates.com](http://www.hugginsassociates.com) and follow the link. The report costs £50 for a pdf version and £60 for a hard copy. Copies of the data used to compile the report are available for an additional £30.
2. Press releases focussing on each of the 12 regions are available.
3. The UK Competitiveness Index also includes data on localities. The most competitive are the London boroughs; the five least competitive are Easington (north east), Blaunau Gwent (Wales), Tyneside (north east), Caerphilly (Wales), and Hartlepool (north east).
4. Media inquiries to Stephen Overell, 0207 004 7224/07966 252724.
5. Robert Huggins and Ian Brinkley are available for interview.
6. \* The UK Competitiveness Index uses a composite indicator made up of the following data: Input factors (R&D expenditure, economic activity rates, business start-up rates per 1000 inhabitants, number of businesses per 1000 inhabitants, GCSE results (5 or more grades A to C), proportion of working age population with an NVQ level 4 or higher; Output factors (gross value added per head, exports per head, imports per head, proportion of exporting companies, productivity, employment rates); Outcome factors (gross weekly pay, unemployment rates).

7. \*\* The OECD definition of 'knowledge based businesses' includes the following:  
pharmaceuticals, office machinery and computers, aerospace, precision instruments,  
electrical and electronic engineering, telecommunications, financial services,  
computer and related activities, R&D, creative industries and business services.
  8. The Work Foundation is an independent research organisation and consultancy.
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