



north east combined authority

**Economic Development and Regeneration Advisory Board**

Tuesday 24th July 2018

[www.northeastca.gov.uk](http://www.northeastca.gov.uk)

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## PRESENTATIONS DELIVERED AT THE MEETING

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**To All Members**

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# North East Fund



Supported by the European Regional Development Fund

**EDRAB - Durham**

**24<sup>th</sup> July 2018**

# The story so far

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- The North East 'JEREMIE' Fund (Finance for Business North East) has now invested some £160m across the NELEP and TVCA geographies;
- Jointly financed through grant from ERDF and a loan from the European Investment Bank (EIB);
- Over 900 businesses have received investment;
- Well over £65m has been returned to the EIB and the balance of the loan should be re-paid by Q4;
- The programme will then begin to generate legacy returns to fund future access to finance activities;
- Hoping total legacy return will be £80m+
- Programme invested from March 2010 through to December 2016

# The story so far

- The launch of a successor programme was delayed for over two years:-
  - Work began in late 2014
  - Initially a NELEP-TVLEP collaboration
  - EU Commission had changed the guidelines – thus creating a challenge for continued delivery through existing structures
  - In 2015, TVLEP opted to join the BBB's Northern Powerhouse Fund
  - 2016 referendum created further uncertainty
  - Triggering of A50 (March 2017) and subsequent GE compounded problems
- Advantages versus NPIF (£30m+ additional cash PLUS locally-based fund managers)
- EIB approved loan in December and new Fund finally went live in April

# The North East Fund Limited

- £120m of capital
- Delivery vehicle (The North East Fund Limited) is ultimately owned by seven Local Authority members;
- However, TNEFL enjoys operational independence and full autonomy in terms of investment decision-making;
- Considerable continuity with earlier programme but with ‘fresh blood’ too (new NXDs and two new fund management firms)
- Four fund management firms:-
  - North Star Ventures
  - NEL
  - Maven Capital Partners
  - Mercia / Enterprise
- All will have permanent teams based in the North East

# The North East Fund Limited

## Ambitious targets

- Investing over six years (£60m ERDF & £60m EIB)
- A proportion is 'ring-fenced' for Co. Durham under EU rules
- Private leverage will be in excess of £1 for £1
- 600 business will receive funding (equity, mezzanine and loans)
- A further 1200 will receive non-financial support (information, mentoring, diagnosis and brokerage) – NEW METRICS
- Generating legacy of *circa* £80m over long-term for re-use in Region (critical given loss of access to EIB and ring-fenced regional funding post-March 2019)

# The North East Fund Limited

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- North East Venture Fund (*Mercia Fund Managers*)
  - Can invest up to £1m in pre-starts, start-ups and scale-ups
  - High growth potential - *mainly equity* with mezzanine and loans
- North East Innovation Fund (*North Star Ventures*)
  - Can invest up to £500k – focus on disruptive technologies and scale-ups
  - *Mainly equity* but debt and mezzanine where appropriate to SME needs
- North East Growth Capital Fund (*NEL*)
  - Focus on established North East businesses looking to grow
  - All eligible sectors – strong management teams
  - Typically using *debt and mezzanine* loans



# The North East Fund Limited

- The North East Development Capital Fund (*Maven Capital Partners*)
  - Invests £400k - £2m – normally debt or mezzanine loans
  - Established companies with ambitious growth plans
  - Targeting Region's core service and manufacturing sectors
- The Small Loan Fund (*NEL*)
  - £10-50k loans (unsecured typically)
  - Commercially sound businesses and propositions
  - Filling the funding gap left by the banks
  - Disproportionate impact in more disadvantaged communities

# Key principals

- These are commercial funds not grant schemes
- The EIB will want its money back!
- We have structured multiple funds with overlapping target markets to ensure that most SMEs & entrepreneurs have a real choice
- We are covering the 'waterfront' from high tech start-ups and University spin-outs to established engineering companies and service businesses
- There are some excluded sectors but 95%+ of the Region's SMEs will be eligible

# Challenges in achieving our objectives

- Geography – how do we ensure that there are high levels of awareness of the programme in every LA area?
- Fund managers have targets for increasing volume of applications from each LA area
- Diversity objectives
- Eligibility rules may disadvantage some sectors?
- How do we build on each LA Area's existing strengths?
- How do we improve the interface between our fund managers and the LA Economic Development Teams?

# Progress so far

- Launch events in each LA Area
- Highly successful in terms of generating leads for the fund managers
- Excellent media coverage
- Backed up by social media campaign
- Two new 'Engagement Officers' about to be signed up
  - Each will be assigned local authority areas on which to focus
  - Building relationships and networks / working with LA Economic Development teams
- One on one discussions with LA teams now planned
- Fund managers have appointed dedicated staff to spread the word

# Progress so far

- £2.5m already invested into 12 SMEs
- Anticipating a further £6m in Q3 – into 30 SMEs
- Investments already made in six of the seven LA areas
- All will have received investment into local SMEs by 30/9
- Significant private sector leverage already attracted into these businesses

# Contact us

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# Leaving the European Union

A review of evidence about opportunities, challenges and risks to the North east economy and its key sectors with recommendations for action

## NE Brexit Group



North East England  
Chamber of Commerce



The  
manufacturers'  
organisation

**TUC**  
Changing the world  
of work for good.



North East  
Local Enterprise Partnership

**neca**  
north east combined authority

**fsb**  
Experts In Business



**northumbria**  
UNIVERSITY NEWCASTLE

 **Durham**  
University



**University of  
Sunderland**

**aoc**  
ASSOCIATION  
OF COLLEGES



**VONNE**  
voluntary organisations' network north east

# North East Brexit Group

Brings together economic partners cross sector to identify and communicate:

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- potential opportunities and impact areas for the region
- how UK policy should reflect the economic structure, ambitions and conditions of the North East
- support needs of businesses and employees, and respond
- interventions to support the regional economy



# Work Programme to date

- Key Messages and influencing activities
- Migration Advisory Group response
- Sector impact study
- Future funding – Shared Prosperity Fund and beyond (*upcoming - 2018*)
- Formal and informal linkages (*upcoming - 2018*)

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## Brexit

### The North East's key messages

#### The North East is open for business

- The North East remains committed to the ambitious growth targets within our Strategic Economic Plan
- Our plans include a strong focus on attracting, retaining and supporting inward investment and skilled migrants
- During Brexit negotiations, the economic interests of the North East should be clearly considered; the region must not be disadvantaged through any new immigration or trade arrangements.

#### We need a strong ongoing relationship with the European Union (EU)

- Exports are a major part of the North East economy and an unusually high proportion need to continue to enjoy frictionless, barrier-free, trade in key sectors – including auto vehicle manufacturing, pharmaceuticals, energy and oil and gas, and digital services, financial services, higher education and health care.
- The North East has been successful in attracting inward investment over many years; we need continued success of existing foreign-owned companies and secure future flows of inward investment.
- The North East needs a continued free flow of skilled individuals to allow the region's full workforce needs to be met, while EU nationals currently living in the region must continue to be able to work in the region.
- Universities and researchers must be able to collaborate productively with EU partners and there must be no barriers to the recruitment of EU students.

#### Post-Brexit, the UK must develop new policies that

- Provide the long-term public-sector investment needed to deliver the North East's priority jobs. The UK Shared Prosperity Fund – and other economic development, rural, research and innovation funds – need to provide resources at least comparable to current levels. This should include ERDF and ESF funding
- Support our businesses to take advantage of new opportunities and increase international trade and beyond
- Support our residents to gain the skills they need to fulfil their potential and meet the needs of the economy and employment sectors
- Provide businesses with effective access to finance and other support that enables them to grow and scale up
- Protect workers' rights, so that they do not fall behind those across the rest of Europe
- Protect our unique natural assets whilst enabling our rural and coastal communities to thrive



# Economy and sector report: Approach

An extensive literature review of national and regional reports and ongoing discussions with economic partners from across the North East LEP area.

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The report summarises national and regional level evidence on:

- Academic modelling of the overall impact on Brexit on NE economy
- Issues and impact for key North East sectors and sectors with high NE concentrations
- Actions that can be implemented nationally or regionally post-Brexit to support or strengthen delivery of the Strategic Economic Plan

# Economy and sector report: Key findings

## Immediate and longer term impacts of Brexit:

- Uplift in trade volumes for some businesses benefits of short term devaluation of sterling but overall trade has moved into a negative position
- Investment or contracting decisions already taken e.g. digital and transport sectors affected by investment directed to Europe rather than NE
- Decisions to be taken on a risk management basis. Scenario planning is difficult for many businesses, complexity of information is challenging to make contingency plans
- Decisions which will flow from the final outcome and implementation phase

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# Economy and sector report: Impact Modelling (4 studies)

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Lower levels of economic activity in the North East – in some cases over a sustained period

- Causality linked to decline in trade volumes and links to demand for labour

% change in regional GVA impact estimates from status quo relative to underlying output

Region	Single market (%)	Free trade (%)	No deal (%)
East Midlands	-1.8	-5	-8.5
Eastern	-1.8	-5	-8
London	-1	-2	-3.5
<b>North East</b>	<b>-3</b>	<b>-11</b>	<b>-16</b>
North West	-2.5	-8	-12
South East	-1.5	-4.5	-7.5
West Midlands	-2.5	-8	-13
Yorkshire and Humber	-1.5	-5	-7
Northern Ireland	-2.5	-8	-12
Scotland	-2.5	-6	-9
Wales	-1.5	-5.5	-9.5
UK	-2	-5	-8

House of Commons Exiting the European Union Committee, (2018) EU Exit Analysis Cross Whitehall Briefing <http://www.parliament.uk/documents/commons-committees/Exiting-the-European-Union/17-19/Cross-Whitehall-briefing-EU-Exit-Analysis-Cross-Whitehall-Briefing.pdf>

# Economy and sector report: Modelling (4 studies) cont.

- Likely to experience a particular impact resulting from a high level of trade with EU in manufacturing (automotive and pharmaceutical sectors)
- Further impacts in areas with concentrations of knowledge intensive services - Newcastle, North Tyneside and Gateshead
- Key outcome of negotiations to retain an open trading regime and access to the single market
- Transition period has some effect but of declining utility over time

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# Economy and sector report: Sector impacts

	Impact area	Trade	Investment	Human resources	Regulatory framework	EU funding	Supply chain growth
North East sectors	Digital						
	Automotive						
	Pharmaceutical						
	Wider manufacturing						
	Health and social care						
	Energy, utilities and water						
	Financial, professional and business services						
	Transport and logistics						
	Education						
	Rural						
	Culture and tourism						

the sector needs support to deal with challenges in a particular area    
 this information was provided but not a priority for support  
 business opportunities that with support could come into fruition    
 No comment made

# Economy and sector report: Sector impacts

The focus is on key opportunity areas, enablers and those generating high levels of employment or international engagement

Current regulatory framework is a competitive advantage and needs to be maintained – pharmaceuticals, automotive, aviation, transport and logistics, rural and food, financial services

Page 21 Maintaining an open trade and investment environment to ensure limited disruption to supply chains, innovation engagement and competition – all sectors

Key importance of access to highly skilled labour – all sectors

Some sectors concerned about loss of access to EU programmes – research programmes, rural development and environmental schemes

# Economy and sector report: Next steps

Need for strong business communications to provide clear and consistent advice and messages on Brexit:

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- National level communications campaign – timely and accurate advice and information, through Growth Hubs and wider business support network. Cover a range of issues including trading regimes, contractual and regulatory changes, human resources activities
- Resolution of the migration position for European workers, students and other nationals whose residential or employment position may change



# Economy and sector report: Coverage since June 4

Print media: 4 extended pieces in regional press  
Number of mentions in stakeholder communications

62 Parliamentary recipients;  
Ministers, Select Committee, MP's and MEP's



## Social Media

- LEP website: 199 views at 20 June
- Twitter: 3,713 impressions and 39 engagements
- Linked In: 488 impressions and 11 engagements

# Brexit Group: Next steps

Completion of current work programme, ongoing engagement and analysis and progress into delivery

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Developing recommendations for action

- Business communications
- Supply chain initiative through the Growth Hub
  - Linkages with EU institutions and projects
- LEP will consider Brexit effects in SEP update process cross programme
  - Others?